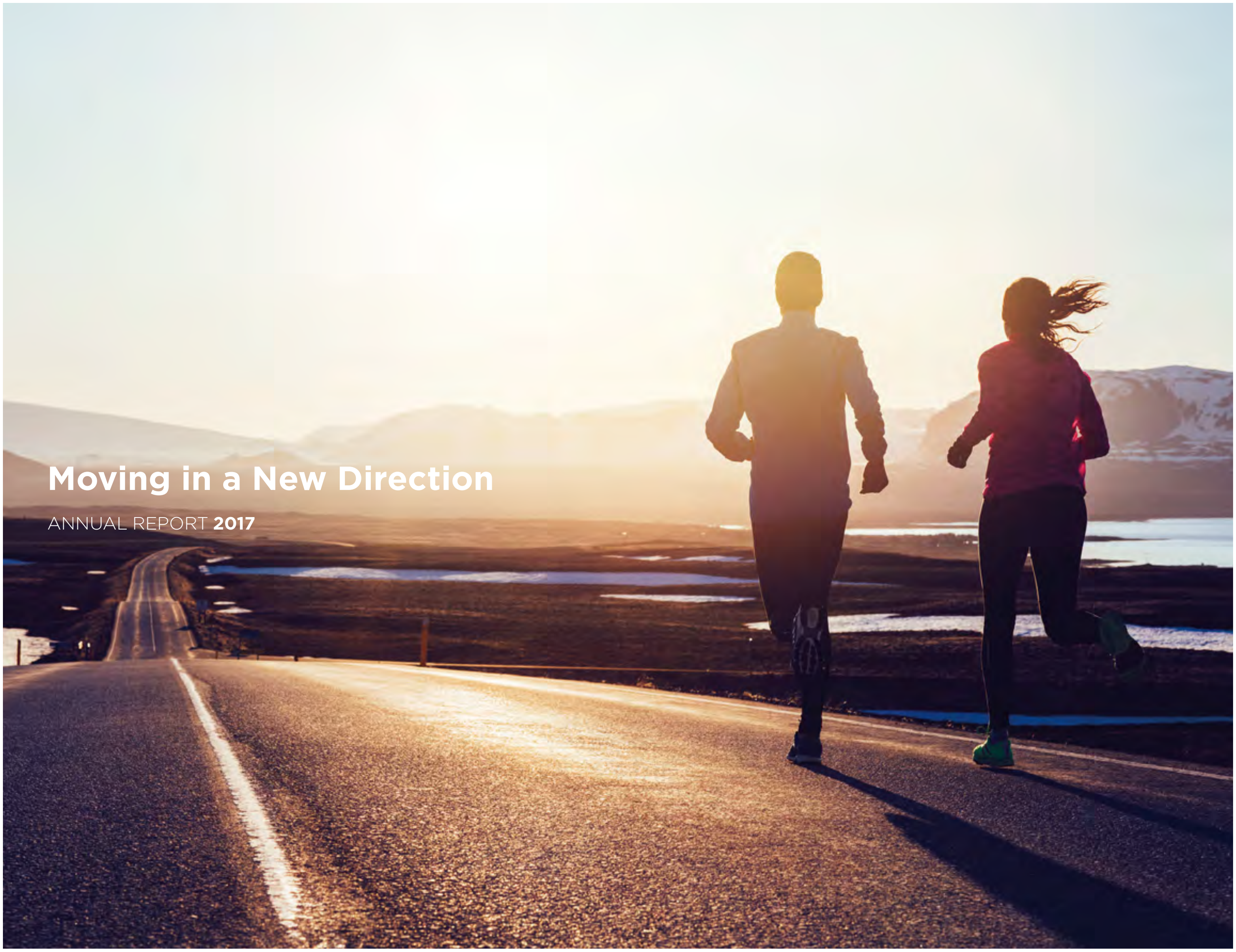


TSUMURA & CO.

Corporate Philosophy

The Best of Nature and Science

Corporate Mission

To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine

Tsumura's Business

Tsumura's core business is the manufacture and sale of prescription Kampo products. As a leading company in the field of Kampo medicine, Tsumura aims to achieve sustainable growth and build its corporate value through the provision of a stable supply of high-quality Kampo products.

Glossary

Kampo Medicine
Kampo medicine is the medicine traditionally practiced in Japan, based on ancient Chinese medicine.

Crude Drugs
Crude drugs are the main raw materials for Kampo products and primarily indicate the portion of plants and minerals used for medicinal purposes.

Western Medicine
Originating with the practice of medicine in Greece, Western medicine is used as the counterpart to Eastern medicine.

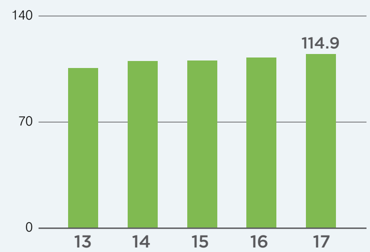
Kampo Business
A business model including not only the production and sale of Kampo products, but also encompassing the cultivation, processing, and storage of crude drugs.

Kampo Medicines
Kampo medicines are used in the practice of Kampo medicine, including Kampo products.

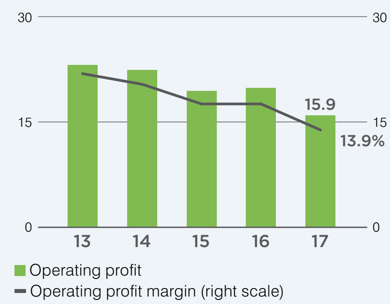
"Drug Fostering" Program
The "drug fostering" program is a program that aims to build a body of scientific evidence on the efficacy of Kampo products.

Financial Summary

Net Sales



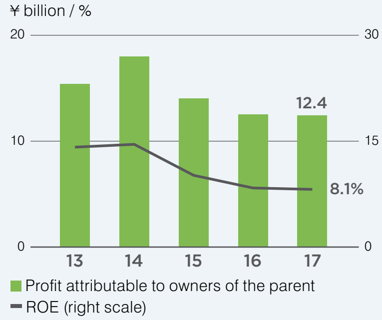
Operating Profit / Operating Profit Margin



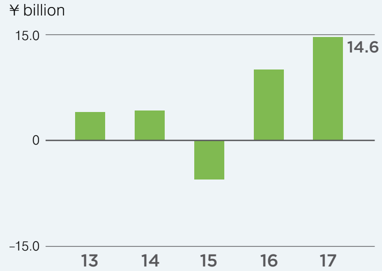
Earnings per Share

¥179.46

Profit Attributable to Owners of the Parent / ROE



Free Cash Flow



Total Shareholder Return

75.9%

Contents

Products

Kampo products are therapeutic formulations created based on the principles of Kampo medicine, a traditional form of Japanese medicine. The Kampo medical tradition was codified through accounts of treatments conducted over the course of its long history, with some Kampo formulations being established as long as 1,800 years ago.

While certain Kampo medicines entail boiling and drinking crude drugs, most of the prescription Kampo products used in Japan today are powdered extracts, the active ingredients of which have been extracted from crude drugs and processed into powders.

The fundamental treatment method of Western medicine is to directly address and remove the cause of the illness. Conversely, Kampo medicine entails examining the patient as a whole, as opposed to just focusing on the illness, to provide a means of stimulating their natural healing power and resistance and bringing their entire body into balance. In addition, Western drugs almost always contain only one ingredient made from chemical compounds. A single drug is thus administered for a single symptom or disorder. In contrast, Kampo medicines are often composed of crude drugs containing a mixture of ingredients. For this reason, one formulation can demonstrate positive results for multiple symptoms.

Raw Materials

The raw materials for Kampo medicines are crude drugs derived mainly from plants. Crude drugs contain multiple active ingredients, which are extracted for use in Kampo medicines.

Rather than extracting a single active ingredient from one type of crude drug, Kampo medicines are made by combining at least two and sometimes up to 10 crude drugs. As such, Kampo medicines can contain multiple active ingredients.

The roots of Kampo medicine can be traced to China, and the compositions of several Kampo medicines can be found in ancient Chinese medical documents. For this reason, many of the raw material crude drugs for making Kampo formulations used in Japan are imported from China even today. As the ingredients contained in crude drugs can vary based on their type or where they are grown, crude drugs that have not been grown in specific locations may not be suited to the production of Kampo products.

Currently, Tsumura procures approximately 80% of the raw material crude drugs it uses from China, 15% from Japan, and 5% from Laos, among other countries. Regardless of the producing region, we record and store data on every stage of the production of crude drugs, from the cultivation of raw material crude drugs to processing, logistics, storage, and other processes. Based on Tsumura's rigorous standards, we work to maintain management systems that track raw material crude drugs throughout all processes beginning with cultivation and to secure a stable supply.

Customers

Pharmaceutical manufacturers sell their products directly to pharmaceutical wholesalers. However, sales activities are targeted at the medical institutions that use these products, and this is a fact that is true for both Kampo formulations and Western drugs. The reason for this situation is that, although the Japanese medical field is primarily based around Western medicine, there is no differentiation between Western medicine and Kampo medicine in the licensing system for physicians. Accordingly, there are those physicians who prescribe both Western drugs and Kampo medicines.

Roughly 70% of Tsumura's sales come from the general practitioner and clinic market, which consists of relatively small, community-rooted medical institutions. Sales activities targeting these institutions are primarily tailored toward increasing the number of Kampo formulations that they utilize in their practice.

The remaining 30% or so of sales are made to university hospitals and designated hospitals for clinical training. The level of interest in Kampo medicine and the proficiency at utilizing Kampo formulations can vary among the physicians and physicians-in-training at such institutions. To address this disparity, we hold Kampo training sessions for physicians-in-training working at university hospitals and designated hospitals for clinical training to provide them with the latest scientific evidence on Kampo products.

Market

The overall domestic prescription product market has displayed a compound annual growth rate of 2.8%* over the past decade in the midst of the rise in medical care expenses in Japan driven by the rapid aging of society. Over the same period, the compound annual growth rate for the prescription Kampo product market has been 4.3%,* exceeding the growth rate for the overall market.

The strong growth of the prescription Kampo product market can be attributed in part to the increased number of Kampo prescriptions in the Company's three important domains of geriatric health, cancer (supportive care), and women's health, a trend accompanying the recent rise in demand for pharmaceuticals. Other contributors include the progress in our efforts to establish scientific evidence regarding Kampo formulations and the acceleration of our promotional activities.

Tsumura is the only listed company in Japan that is a dedicated manufacturer of prescription Kampo products, and we boast a share of approximately 80%* of sales in the domestic Kampo product market. We are therefore a leader in providing prescription Kampo products, which supply modern medicine with a form of value that is completely different from that offered by Western drugs. By meeting the needs of the medical field and of patients, we will create new treatment domains for Kampo products and thereby further the growth and development of the market.

Seven Reasons Why Kampo Medicine Is Still Relevant Today

01

Establishment of Scientific Evidence

In recent years, the effectiveness of Kampo medicines has been documented in numerous clinical trials and prominent medical journals.

Tsumura began working to establish scientific evidence for its products in 2005. In particular, we have identified a total of 10 formulations for which we aim to form a body of evidence. These include the five “drug fostering” program formulations, which have been demonstrating special efficacy for certain diseases in fields where medical treatment needs are high and that are difficult to treat with Western drugs. The other formulations are the five “growing” formulations that we aim to have listed in medical treatment guidelines by establishing scientific evidence in fields where treatment satisfaction and contributions from medicine are low.

02

Prescriptions of Kampo Products by Domestic Physicians

According to a 2011 survey by the Japan Kampo Medicines Manufacturers Association, 89% of Japan’s physicians had prescribed Kampo products to their patients. Reasons for prescribing Kampo products include their efficacy in treating ailments for which Western drugs are not effective, requests by patients, and academic reports on scientific evidence related to these products. In fact, the ability for a physician to combine Western medicine and Kampo medicine in order to treat patients by calling upon the strengths of both could be said to be a characteristic of Japanese medicine.

03

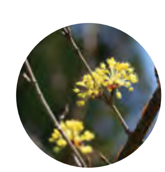
Coverage under the Japanese National Health Insurance Plan

Currently, 148 prescription Kampo products are covered under the Japanese National Health Insurance (NHI) plan, and these products are becoming an indispensable part of medical services in Japan in a similar manner to Western drugs. All of the 129 Kampo formulations made by Tsumura are covered under the NHI plan and are thus subject to the establishment of set official prices and consequently the price revisions that are instituted once every two years, in principle.

04

Spread of Kampo Medicine Education at Educational Institutions

Of the 80 medical colleges and university medical departments located throughout Japan, only 24 offered courses on Kampo medicine in 1997. However, the Ministry of Education, Culture, Sports, Science and Technology included Kampo medicine in the model core curriculum for medical education in 2001, causing education on this subject to spread, and all medical education institutions in Japan had Kampo medicine courses in 2004 as a result. Today, almost all medical universities require students to take eight Kampo medicine courses in order to graduate. In addition, Kampo outpatient clinics have been set up at 79 universities, giving students the opportunity to study Kampo medicine in a clinical setting.



05

Prescriptions for Geriatric Health Purposes

The symptoms felt by senior citizens can vary greatly on an individual basis due to the decline of their body functions or the effects of their having numerous ailments. Kampo medicine entails issuing prescriptions based on the constitution and condition of individual patients, and a single Kampo formulation can have several benefits. For this reason, Kampo products have been recognized as ideal for the geriatric health field, and it can thus be expected that the market will grow given the recent rapid aging of Japanese society.

06

Contributions to Women's Health

Kampo medicine has long been used to treat illnesses and other ailments that are unique to women, and Kampo products are widely known for their effectiveness in recovering hormonal and autonomic nerve balances. In addition, a characteristic of Kampo medicine is how it can be used to treat ailments that cause patients to feel very real symptoms, despite Western medicine being unable to identify the cause. General malaise is one such ailment.

As women become increasingly involved in the workforce, the number of women suffering from various stress-related ailments is rising. It is therefore likely that there will be a greater range of cases in which Kampo medicine can exhibit its effectiveness going forward.

07

Rise in Prescriptions for Supportive Care for Cancer

There has recently been an increased emphasis on the quality of life of cancer patients and on their connections with society. The fundamental approach of Kampo medicine is to take a comprehensive perspective that goes beyond simply alleviating body pains to improve the overall physical and mental balance of patients and enhance their vitality. As such, medical practitioners and patients alike have high expectations for the ability of Kampo medicine to support the physical and mental condition of cancer patients.

Recently, we have seen a rising trend toward Kampo products being used in conjunction with Western medicine-based cancer treatments to alleviate the side effects of anticancer drugs and provide supportive care.




To Our Stakeholders

Tsumura will pursue long-term improvements in corporate value through innovation in the form of new initiatives for ensuring the continuity and growth of its Kampo and crude drug businesses.

One year has passed since we kicked off the current medium-term management plan. Although net sales were up year on year in fiscal 2017, the figure achieved still fell slightly short of our target, and I cannot deny the regrettable nature of this fact. Operating profit exceeded our target by more than 10%, but was still down year on year. As such, Tsumura is still in the process of getting on the path toward growth.

Conversely, by having all divisions of the Company take part in the formulation of the medium-term management plan, we stimulated steady changes in the mind-set of employees toward the accomplishment of the plan's targets. In addition, by advancing ongoing corporate governance reforms and creating social and environmental value through raw material crude drug cultivation and procurement, we are enhancing our management capital, which is indispensable to the improvement of corporate value. Out of consideration for these positive developments, and having defined "creating new value through innovations in Kampo" as the theme of the medium-term management plan, I am exercising speed in leading the Company to move us forward toward the accomplishment of our long-term business vision, Vision for 2021.

In fiscal 2017, we conducted the acquisition of treasury shares as a way of expressing our confidence in the future growth of our business. Our basic policy of improving corporate value through business growth remains unchanged. However, we felt that Tsumura's underlying corporate value was not properly reflected in the Company's stock price, which formed the basis for our decision to acquire treasury shares at this time. In cases such as this, we will adopt a flexible stance toward treasury share acquisitions based on consideration of the capital structure that we have deemed ideal.

Quest to Overcome Three External Factors

There are three major external factors impeding our efforts to get Tsumura on the path toward growth. These are National Health Insurance, or NHI, price revisions; rising prices for crude drugs; and yen depreciation. As Tsumura is not engaged in drug discovery, performance is heavily impacted by the reductions to selling prices that generally follow the revisions to official NHI prices that are conducted around once every two years. In fiscal 2017, the Company produced 9,789 tons of extract granules for pharmaceutical applications and used 12,495 tons of raw material crude drugs. Roughly 80% of these articles are imported, meaning that rising crude drug prices and yen depreciation can significantly increase the cost of sales.

Looking to overcome the impacts of these three external factors, we have been advancing cost management measures since the period of the previous medium-term management plan. Specific measures have included expanding the area of Cultivated Land under Own Management*1 and boosting production efficiency through capital investment. However, these measures require topline sales growth in order to be truly effective. Newly introduced manufacturing equipment, for example, contributes to improved efficiency through increased production volumes. Accordingly, performance benefits can only be realized when we achieve growth alongside profitability improvements.

*1 Farms for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs based on which it can set procurement prices. Not only limited to farms directly operated by the Tsumura Group, these farms also include those operated by contracted farmers and agricultural associations.

Fiscal 2017 Business Results

¥ million / %

			Vs. Planned		YoY	
	Plan	FY2017	Amount	Difference	Amount	Change
Net sales	115,400	114,954	–445	–0.4%	2,328	2.1%
Operating profit	14,500	15,983	1,483	10.2%	–3,842	–19.4%
Profit attributable to owners of the parent	10,700	12,488	1,788	16.7%	–68	–0.5%
Operating profit margin	12.6%	13.9%		+1.3 pts		–3.7 pts

Departure from Comfort Zone to Achieve Further Growth

Tsumura has a share of more than 80% of the prescription Kampo product market. Accordingly, achieving topline growth will require us to grow the market itself. The domestic Kampo product market continues to grow steadily, but I am convinced that there is still substantial room for growth in this market. In fact, the growth measures we have been advancing under the medium-term management are aimed at departing from the comfort zone represented by our traditional initiatives in order to unlock the latent potential of the market.

One of these growth measures is to expand the range of formulations for which we will seek to establish scientific evidence. Accordingly, we have identified five “growing” formulations.*2 We will work to establish scientific evidence for these formulations alongside the five “drug fostering” program formulations*3 that display benefits with regard to the three important domains of the medium-term management plan—namely, those of geriatric health; cancer, supportive care in particular; and women’s health. In these three domains, Tsumura is benefiting from various government-spearheaded medical measures for promoting the use of Kampo medicine. We therefore feel it is incredibly likely that Kampo products will be included in medical treatment guidelines so long as we are able to establish the necessary evidence. The inclusion of Kampo products in these guidelines will help cement these products as a viable treatment option, which, in turn, will drive the growth of the Kampo product market.

Another growth measure is to enhance sales flexibility. On April 1, 2017, we split up the sales areas of branch offices to increase the total number of sales areas throughout Japan from the prior 12 to 21 and then transferred authority for sales measures to branch managers. The aim of this move was to allow for the deployment of activities by medical representatives that prioritize more flexible, area-based marketing approaches. These approaches will utilize the knowledge and information held by medical representatives and branches in relation to the medical practitioners in their specific area. At the same time, at the head office, we consolidated marketing strategy-related functions into a single organization and began stepping up coordination with sales divisions as well as with the R&D responsible for establishing evidence; previously, coordination of this nature was hard to carry out. We have therefore created a framework that ensures highly viable information can be rapidly supplied to sales offices.

*2 Program for establishing a body of scientific evidence for five formulations targeting diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and for which Kampo products have demonstrated special efficacy

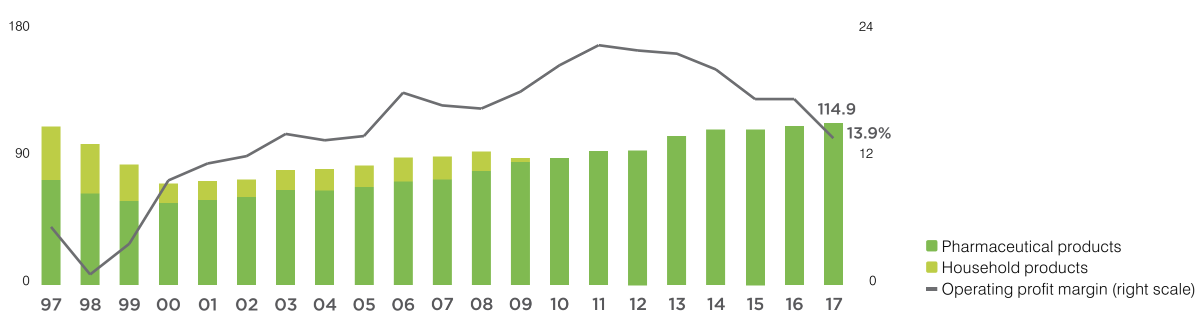
*3 New strategic formulations defined to stand alongside the five “drug fostering” program formulations as growth drivers that we aim to have listed in medical treatment guidelines by establishing scientific evidence in fields where treatment satisfaction and contribution from medicine are low

Business Model Encompassing the Kampo Value Chain

As the Tsumura Group’s growth is directly linked to the growth of the Kampo product market, the Company’s corporate value is similarly linked to the development and spread of Kampo medicine. There can be no doubt that the Kampo product market will grow when the government, medical practitioners, patients, and society as a whole come to recognize Kampo medicine as an indispensable part of medicine in

Net Sales / Operating Profit Margin

¥ billion / %



Japan and when prescription Kampo products become widely acknowledged as a viable treatment option. Tsumura's business model is not limited to the narrow definition of business activities, which in the case of the Company would include manufacturing Kampo formulations and conducting sales activities targeting medical practitioners. Rather, our business model encompasses the management of farms for cultivating raw material crude drugs for making Kampo formulations, the development of cultivation technology, the creation of plant technologies to boost the efficiency of Kampo formulation production, the holding of Kampo medicine seminars for medical field representatives, and a myriad of other activities. We refer to these activities for improving the overall value of Kampo medicine as the "Kampo value chain," and we have adopted this business model out of consideration for the link between the growth of the Kampo product market and Tsumura's growth and increased corporate value.

This business model was established in response to a management crisis that the Company faced roughly two decades ago. In light of this crisis, we chose to return to the point of origin for our management, by which I mean providing Kampo formulations into the future. The reconstructed business model has the continuation of Kampo medicine and its 1,400-year history as its foundation and the pursuit of innovation, specifically by establishing scientific evidence on the efficacy of Kampo formulations, as its driving force for creating corporate value.

Development of Operations in China from a Long-Term Perspective

Tsumura China Inc. was established in December 2016 to oversee operations in China. Our efforts to make a business consisting of the manufacture and sale of traditional Chinese medicine compound granules*4 and Chinese crude drug pieces through this company can be seen as one form of the innovation sought by the medium-term management plan. However, we do not anticipate that our operations in China will begin generating earnings during the period of the plan. Instead, our first step in these operations will be to contribute to the health of the people of China as a display of our appreciation toward the country producing the crude drugs that are crucial to our Kampo and crude drug businesses.

At the same time, we will prioritize strengthening our network of people involved in the crude drug field, a network that is founded on mutual trust. Through these efforts, we look to create value on a long-term timeline that is suited to our business.

*4 Powdered extracts that are used in the preparation of traditional Chinese medicines and made by extracting a single crude drug from crude drug pieces for decoction

Corporate Value Created through Continuation and Innovation

As I mentioned a little earlier, we are implementing ongoing corporate governance reforms. After receiving approval at the General Meeting of Shareholders held in June 2017, we transitioned to the Company with Audit and Supervisory Committee system described in the Companies Act of Japan. Under this new system, the position of Audit & Supervisory Board member will be replaced by a new type of director that participates in decision-making at meetings of the Board of Directors. In conjunction with this change in system, authority for business execution will delegated to the Executive Committee, which is membered by executive officers. We expect that these measures will allow for swifter business execution while also enabling the Board of Directors to devote even more time to discussing management directives from a long-term perspective.

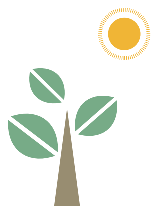
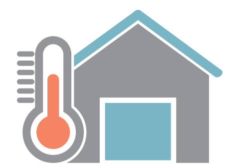
The new growth measures set forth by the medium-term management plan embody our commitment to creating value by relentlessly pursuing innovation and never becoming complacent. It is our mission to ensure that Kampo products continue to be prescribed going forward and to raise the value of prescription Kampo products through ongoing innovation to achieve this goal. Fulfilling this mission is also how we will live up to the expectations of our shareholders and investors. I hope we can look forward to your support as we tackle the challenges to come.

August 2017

Terukazu Kato

President and Representative Director

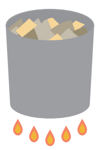
The Kampo Value Chain and Tsumura's Business Model

	CULTIVATION AND PROCUREMENT	QUALITY INSPECTION	STORAGE
Kampo Value Chain	 Cultivates and procures crude drugs for Kampo products in China, Japan, and Laos, among other countries	 Conducts inspections to ensure raw material crude drugs meet Tsumura's standards for ingredient concentration and for residual agricultural chemicals, heavy metals, microorganisms, and other contaminants	 Stores raw material crude drugs at 15°C or lower and 60% or lower humidity
Tsumura's Way of Creating Value	• Realize stable procurement through contracts with crude drug farmers and crude drug production associations • **Create employment opportunities and invigorate communities in crude drug producing areas** • Procure crude drugs with consistently high levels of quality by applying internal standards and reinforcing the crude drug traceability system • Control crude drug procurement costs by expanding Cultivated Land under Own Management • Reduce cultivation costs by utilizing selective breeding and developing and introducing artificial cultivation and large-scale cultivation techniques • **Preservation of environments and biodiversity in crude drug producing areas**		• Expand range of large-scale storage and production facilities that are compatible with the production of various crude drug varieties and stockpile raw material crude drugs • **Guarantee stable supply of Kampo products**

Note: Green text represents items related to social or environmental concerns.

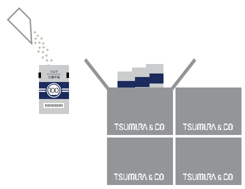
The Kampo value chain encompasses all processes necessary for delivering Kampo products to patients. This chain begins with the cultivation and procurement of the crude drugs that serve as the raw materials for making Kampo formulations and then moves on to include quality management, manufacturing, distribution, and information collection and provision. Also included in the chain are the R&D activities through which scientific evidence related to the efficacy and safety of Kampo formulations is established. Tsumura's business model is characterized by its being grounded on the Kampo value chain. Through this model, we focus on creating value via consolidation and integrated management of business activities in different areas ranging from the cultivation of raw materials, primarily botanical crude drugs, to pharmaceutical product manufacturing, research, and education.

POWDERED EXTRACT MANUFACTURING



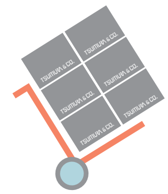
Extracts and concentrates active ingredients from raw material crude drugs and dries the concentrate into a powdered extract

MANUFACTURING



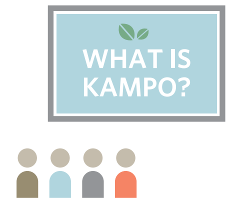
Mixes the powdered extract with lactose, granulates it, fills it into packets, and packages it

SALES



Makes sales to pharmaceutical wholesalers using a similar method to that for Western drugs in Japan

EDUCATION AND POPULARIZATION



Disseminates information to medical institutions, holds seminars for the general public, and sponsors portal websites to popularize Kampo products and educate people about them

- Accumulate manufacturing technologies and expertise in relation to stable production of high-quality Kampo formulations
- Automate production facilities to enable production of various crude drug varieties and reduce labor requirements
- **Contribute to reductions in CO_2 emissions and establishment of recycling-oriented society through energy and water conservation and waste recycling**

- Establish scientific evidence and develop comprehensive evidence sets to prove efficacy and safety of Kampo formulations within framework of Western medicine
- Utilize scientific evidence in marketing activities
- **Expand treatment options and improve patient treatment satisfaction and quality of life by merging Kampo medicine with Western medicine**
- Collaborate with research and educational institutions to entrench understanding of Kampo medicine
- **Provide learning opportunities for developing a deeper understanding of Kampo medicine and Kampo formulations**

The innovation that determines the continuity of our business model is also linked to the Kampo value chain, specifically arising from the enhancement of this chain. Our efforts to expand Cultivated Land under Own Management and establish scientific evidence related to Kampo formulations, both of which are driving the creation of value, are examples of innovation born out of our attempts to address rising crude drug prices or the need to improve R&D efficiency.

We also recognize that the social and environmental value created along the Kampo value chain is intrinsically linked to improvements in non-financial capital, namely, human capital, social and relationship capital, and natural capital. Such improvements will be crucial to Tsumura's ongoing growth, meaning that this social and environmental value contributes to the continuity of the Company's business model.

Strategies for Pursuing Ongoing Growth

The six-year medium-term management plan that began in fiscal 2017 identifies three strategic challenges: expansion and stable growth in the Kampo medicines market, continued reinforcement of profitability and maximization of cash flow, and challenge of new businesses in China. Going forward, Tsumura will seek to take advantage of the opportunities brought about by market changes while increasing its ability to address the weaknesses and threats these changes create in order to further augment its strengths.

SWOT Analysis of Tsumura

STRENGTHS (S)	WEAKNESSES (W)
1. Business model based on establishment and enhancement of Kampo value chain **2.** Expertise in manufacturing Kampo formulations with consistently high quality **3.** Scientific evidence and network enabling the establishment and utilization of evidence	**4.** Restrictions on crude drug procurement **5.** No development of new drugs
OPPORTUNITIES (O)	**THREATS (T)**
6. Growing demand for Kampo products in recognition of economic benefits of treatments merging Kampo medicine with Western medicine amid rapid population aging in Japan, Kampo use for supportive care for cancer, and spread of acknowledgement of sex differences in medicine **7.** Increase in physicians with interest in and understanding of Kampo medicine	**8.** Rising crude drug prices **9.** Foreign exchange rate fluctuations (yen depreciation, in particular) **10.** NHI drug price revisions

Strategic Challenge 1

Expansion and Stable Growth in the Kampo Medicines Market

We are now witnessing a prime opportunity to expand the Kampo product market in Japan. Tsumura is committed to exploiting this opportunity to achieve stable business growth.

Factors with the potential to contribute to the expansion of the Kampo product market include changes in the structure of disease and in treatment needs. The rapid aging of the Japanese population* is resulting in an increasingly quick rise in the number of individuals suffering from dementia, cancer, and other illnesses for which risk rates rise with age. This situation is becoming an ever more pressing social issue. There is also growing demand for treatment of illnesses that are unique to women, specifically those resulting from hormonal and autonomic nerve imbalances. Kampo medicine has traditionally been based on the concept of personalized medicine. This characteristic of Kampo medicine makes it ideal for providing care for senior citizens, for contributing to the treatment of cancer through supportive care and care for alleviating symptoms, and for catering to sex differences in medicine No.6.

At the same time, there have been changes in how physicians perceive Kampo medicine. As scientific evidence has been accumulated on the efficacy, treatment mechanisms, and safety of Kampo formulations, even those physicians who have been skeptical about Kampo medicine are now taking an interest in and expressing their hopes regarding Kampo medicine and formulations No.7.

Aiming to tackle strategic challenge 1—expansion and stable growth in the Kampo medicines market—we have defined priority areas in which our efforts can link these changes to the expansion of the Kampo product market. We are accelerating the establishment of scientific evidence and implementing precisely targeted marketing activities accordingly.

* According to the digest version of the fiscal 2016 edition of Annual Report on the Aging Society released by the Cabinet Office, 26.7% of Japan's population was over the age of 65 in October 2015, the highest level in the world.

Strategic Challenge **2**

Continued Reinforcement of Profitability and Maximization of Cash Flow

In order for Tsumura to get back on the track toward achieving medium-term revenue growth, it must tackle the challenge of cutting costs and improving profitability to an extent that counteracts or exceeds the impacts of rising costs and falling selling prices.

Tsumura procures roughly 80% of its raw material crude drugs from China. In this country, there is robust demand for traditional Chinese medicines, which are made from the same type of crude drugs used in Kampo formulations, and we therefore do not expect crude drug prices to decrease to any significant degree over the medium-to-long term No.8. In addition, procurement costs of imported crude drugs are heavily influenced by fluctuations in foreign exchange rates No.9. Nevertheless, difficulty would be faced in terms of quality, ingredient composition, production costs, and other factors if the Company were to attempt to procure the majority of its crude drugs from within Japan or from overseas countries other than China No.4. Although there is a need to gradually increase procurement volumes of crude drugs in conjunction with projected growth in Kampo formulation demand, it takes time to cultivate crude drugs, which are grown agriculturally or in the wild. In fact, in growing certain crude drugs, we must consider a time frame of around a decade.

Furthermore, Tsumura does not conduct new drug development No.5, and all of its existing 129 pharmaceutical Kampo products are covered under the National Health Insurance (NHI) plan. The selling prices of these products are thus subject to an ongoing decrease, albeit a relatively small decrease, as a result of NHI drug price revisions No.10.

To overcome strategic challenge 2—continued reinforcement of profitability and maximization of cash flow—Tsumura will continue efforts to secure a wide range of reliable crude drug supply sources while also introducing new production technologies at factories and taking steps to optimize its supply chain.

Strategic Challenge **3**

Challenge of New Businesses in China

We are not just tackling the challenge of developing new businesses in China to create short-term earnings opportunities. Rather, this undertaking is aimed at co-creating value together with our stakeholders.

Tsumura has maintained a policy of conducting direct crude drug procurement transactions with producers after both parties have committed to procurement volumes and prices via contracts. Adopting this approach, we have taken part in improving the quality of the crude drugs produced from the cultivation phase, building trusting relationships with these stakeholders through this process. At the same time, SHENZHEN TSUMURA MEDICINE CO., LTD., a subsidiary responsible for procurement activities in China, has built an organization to which management can be entrusted by training and promoting local hires. The effectiveness of our efforts to date is evidenced by stakeholder requests for us to supply high-quality products based on Tsumura's guidelines within China.

The Group has started up a new business in China out of its desire to contribute to the health of people in this country, which has provided it with crude drugs for more than 40 years. The goal of this business, however, is not purely social contribution. We aim to co-create value together with stakeholders through this business and to thereby strengthen and expand the crude drug procurement network that supports our Kampo value chain, with our ultimate goal being the establishment of foundations for long-term growth. Tsumura will continue to explore new markets in search of new earnings opportunities over the long term.

Crude Drug Procurement and Quality Inspections

Tsumura grows through the steady expansion of the Kampo product market. As such, the ability to continuously procure high-quality crude drugs is a management task of extreme importance in ensuring that we can respond to future growth in demand. We are also faced with the urgent issue of developing an ability to control procurement prices in the wake of the recent rise in crude drug prices, which is having a material impact on profits. To overcome these issues, Tsumura is deploying measures centered on the expansion of Cultivated Land under Own Management.*

Value Cultivated by Tsumura

- Continuous procurement of high-quality crude drugs
- Creation of employment opportunities and invigoration of communities in crude drug producing areas
- Protection of environments in which crude drugs are grown, whether agriculturally or in the wild

Measures for Addressing Strategic Challenges Described in the Medium-Term Management Plan

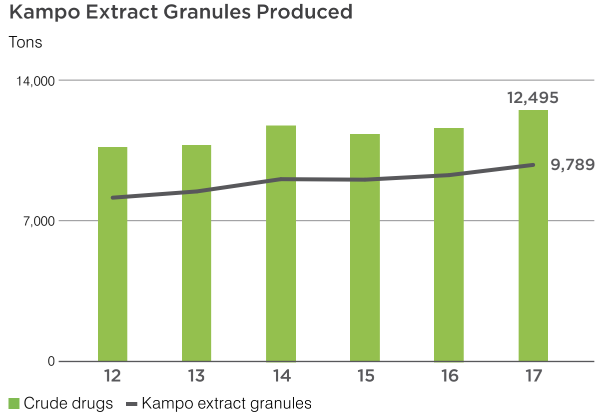
- Expansion of Cultivated Land under Own Management*
- Ongoing safety measures and quality inspections
- Thorough adherence to the TSUMURA Good Agricultural and Collection Practice (GACP) for crude drugs and reinforcement of crude drug traceability system
- Forging of stronger relationships with crude drug suppliers

* Cultivated Land under Own Management refers to farms with a cultivation area above a defined amount for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs based on which it can set crude drug procurement prices. Not only limited to farms directly operated by the Tsumura Group, these farms also include collaborative cultivation in China and contracted cultivation in Japan.

Reliable Crude Drug Procurement Based on Contracts

Tsumura does not procure crude drugs by purchasing them from the market. Rather, we adopt an approach of concluding contracts with crude drug farmers and crude drug production associations, which has enabled us to form a procurement network stretching throughout China and Japan. In addition to having both parties commit to procurement volumes and prices, these contracts enable us to assure quality by requiring crude drug production processes to adhere to production standards documents that stipulate the permissible cultivation methods and agricultural chemicals, among other factors, based on the TSUMURA Good Agricultural and Collection Practice (GACP) for crude drugs.

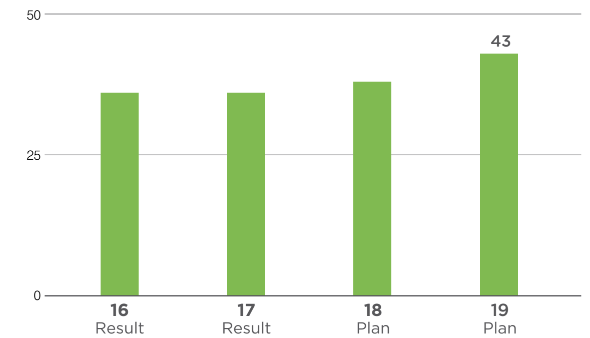
Amount of Crude Drugs Used and Kampo Extract Granules Produced



Expansion of Cultivated Land under Own Management

The expansion of Cultivated Land under Own Management is a measure of crucial importance in ensuring reliable crude drug procurement and controlling procurement costs. In fiscal 2017, crude drugs procured from Cultivated Land under Own Management accounted for 36% of the total amount of raw material crude drugs procured during that year. We aim to increase this figure to 38% in fiscal 2018 and then to 50% in fiscal 2022.

Cultivated Land under Own Management

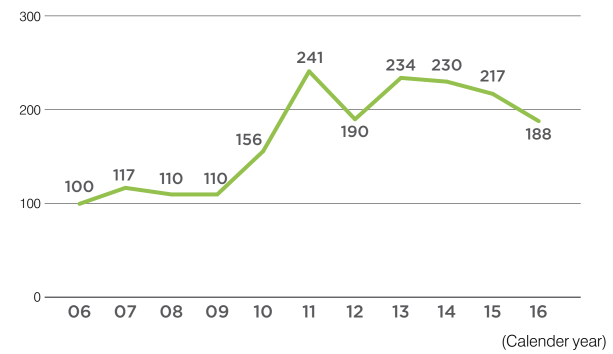


Crude Drug Prices

The overall price of all crude drugs purchased in China with local currency in fiscal 2017 was slightly lower than initially anticipated. This outcome can be attributed largely to ginseng, a relatively expensive and frequently used crude drug, as its price dipped to roughly 50% of its peak level. Falling purchase prices combined with yen appreciation will help limit costs in the short term. However, there can be no doubt that crude drug demand in China will grow over the long term, necessitating that we continue working to secure reliable supplies of crude drugs.

Overall Procurement Price of Crude Drugs Produced in China

Representation of weighted average of actual prices from producing region to affiliated company when 2006 price is set at 100



TSUMURA Good Agricultural and Collection Practice (GACP) for Crude Drugs

The Tsumura Crude Drug Production Management Standards (TSUMURA Good Agricultural and Collection Practice (GACP) for crude drugs) have been implemented to further solidify the Company's crude drug safety and quality assurance system.

TSUMURA Good Agricultural and Collection Practice (GACP) for crude drugs include adhering to guidelines for these practices, utilizing documents pertaining to crude drug production standards, maintaining a traceability system for crude drugs, conducting training and audits, and bestowing certifications.

Tsumura's traceability system for crude drugs records and stores data on every stage crude drugs go through in the producing regions and at crude drug processing facilities, including cultivation, processing, logistics, storage, and other processes. We also track information on the manufacturing and distribution of finished Kampo formulations. Accordingly, this traceability system allows for information on all processes, from those in the producing regions to those at medical institutions, to be tracked and viewed.

Tsumura will continue to implement its good agricultural and collection practice for crude drugs in order to reinforce its crude drug safety and quality assurance system and guarantee the safety and reliability of its crude drugs.

Crude drug cultivation in Hokkaido, Japan

We have forged trust-based relationships with producers in China over the course of 40 years, which will aid us in securing stable supplies of crude drugs and in expanding procurement volumes in the future.

Tsumura's medium-term management plan puts forth the goal of raising the portion of total raw material crude drugs procured from Cultivated Land under Own Management to 50% by fiscal 2022. We are expanding Cultivated Land under Own Management in both China, Japan, and Laos accordingly. The contracts we conclude with operators of such land are beneficial to the Company as well as to farmers and production organizations as they allow them to accurately project future sales volumes and prices. Even if the market prices of crude drugs should take a dip, these producers can still sell their products to the Company based on the conditions of their contract, providing stability in their earnings while also making it easier for them to plan investments in facilities and equipment. By maintaining such mutually beneficial business relationships over the course of many years, we have forged trust-based relationships with farmers and production organizations, which have supported us in securing stable supplies of crude drugs.

Ginseng is among the more price-volatile crude drugs. We are currently developing agricultural cultivation techniques for use with this crude drug. Ginseng can take around five years to cultivate, making it difficult to increase procurement volumes. On top of this, ginseng is often cultivated at the sites of forests that have been thinned or cleared, adding an environmental preservation component to this quandary. The Company is therefore advancing joint research with the Institute of Chinese Materia Medica of the China Academy of Chinese Medical Sciences regarding ginseng cultivation and the ongoing use of ginseng cultivation sites with the aim of developing techniques for cultivating ginseng. Already, considerable success has been had with regard to the development of cultivation techniques. We expect these techniques to come to be able to cultivate volumes of ginseng that are worthwhile given the costs they entail within the next several years.

Koin Toda
Executive Officer
Head of Botanical Raw Materials Division

Shin Nakamura
President
LAO TSUMURA CO., LTD.

Cultivation of Cinnamon in Laos

"LAO TSUMURA strives to be an organization specializing in the production of cinnamon as well as a model company in Laos."

We began cultivating cinnamon, one of the raw material crude drugs used by Tsumura, in Laos in 2006. In the past, it has been difficult to track production and processing histories for cinnamon when procuring this crude drug in Southeast Asia. However, the start of full-fledged production in Laos contributed to the reinforcement of our traceability system in this region. Another large step forward came with the establishment of LAO TSUMURA CO., LTD., in 2010. Although our operations in this country began with only 150 hectares of Cultivated Land under Own Management, we now have approximately 700 hectares, enabling us to produce dozens of tons of cinnamon each year.

Tsumura has been developing its operations in Laos based on a long-term timetable. Today, our cinnamon trees have to be as tall as eight meters after being cultivated from seedlings over the course of a decade. As of December 31, 2016, we were fostering a total of 51 locally hired employees, who represented more than 60% of all managers at LAO TSUMURA. Moreover, this company helped construct a building for a junior high school and has made donations based on local requests. These contributions have helped develop infrastructure in the area, leading to an increase in the local population. By creating employment and contributing to the community, LAO TSUMURA has developed a strong reputation among its peers.

Crude drug cultivation in Laos

Manufacturing

Dedicated to the manufacture of prescription Kampo products, Tsumura's business model knows no peers. We have thus been able to develop highly unique production equipment by accumulating technologies and insight related to manufacturing and quality management within the Company. The six-year medium-term management plan launched in fiscal 2017 calls for investments totaling approximately ¥55.0 billion to be conducted in increasing our production capacity and efficiency over the plan's period.

Value Cultivated by Tsumura

- Reliably high-quality Kampo formulations
- Accumulated technological expertise enabling production of multiple varieties of products
- Highly unique storage facilities, production lines, and equipment optimized for Kampo products

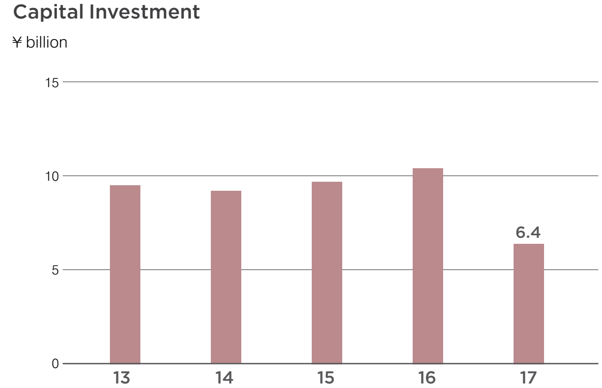
Measures for Addressing Strategic Challenges Described in the Medium-Term Management Plan

- Introduction of new labor-saving technologies

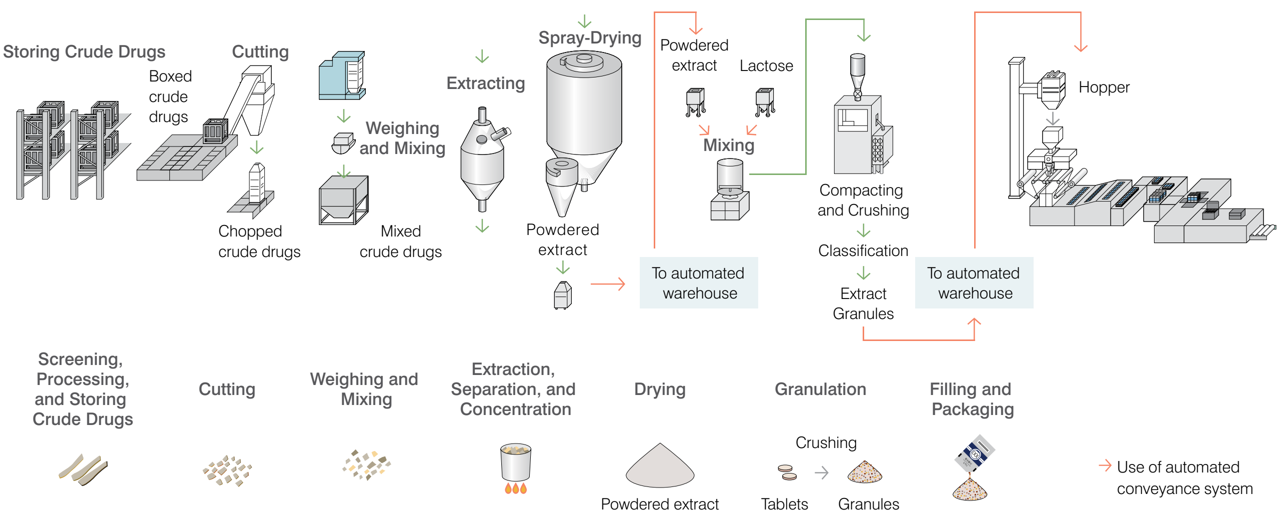
Capital Investment

Under the medium-term management plan, Tsumura will seek to establish a production system capable of responding to projected growth in demand. As one facet of these efforts, we commenced operations of the new granulation and packaging facilities at the Shizuoka Plant in September 2016. Constructed through an investment of approximately ¥13.0 billion, these facilities use state-of-the-art robots for conveyance within the plant and for production lines. Going forward, we will systematically increase the number of production lines at these facilities with the aim of doubling production levels from fiscal 2016 by fiscal 2019.

Capital Investment



Typical Production Flow for Kampo Products



Capital Investment Plan

Phased capital investment in accordance with sales

First-Stage Medium-Term Management Plan (FY2013–FY2016) / New Plan (FY2017–FY2018 and after)

		Capital investment project	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 and after
Production related	Shizuoka Plant	New granulation and packaging facilities, etc.					September	
		New crude drug warehouse		May				
		SD line related						★
	Ibaraki Plant	New granulation facility		February		February		
		New standard-based facilities, etc.						★
	STP (Shanghai)	SD facility		September				
	Production, other	Development / maintenance / renewal						
Crude drug related	Ishioka	Ishioka Center reconstruction		January				
	STM (Shenzhen)	Warehouse	March					
	Yubari	YUBARI TSUMURA buildings				September		
	Crude drugs, etc.							

★ Scheduled start-up of operations

Scientific Evidence and Marketing

Tsumura provides medical practitioners with the latest scientific evidence and other information on its Kampo formulations through its marketing activities. In addition to supplying evidence to physicians, Tsumura's medical representatives (MRs) plan and hold Kampo medicine seminars for physicians and support education on Kampo medicine at medical schools and universities. Through these efforts, MRs work to cultivate understanding with regard to the concept of Kampo medicine itself.

Value Cultivated by Tsumura

- Scientific evidence on the efficacy and safety of Kampo formulations
- Provision of opportunities for medical practitioners to learn about Kampo medicine
- Increased treatment options for physicians and patients

Measures for Addressing Strategic Challenges Described in the Medium-Term Management Plan

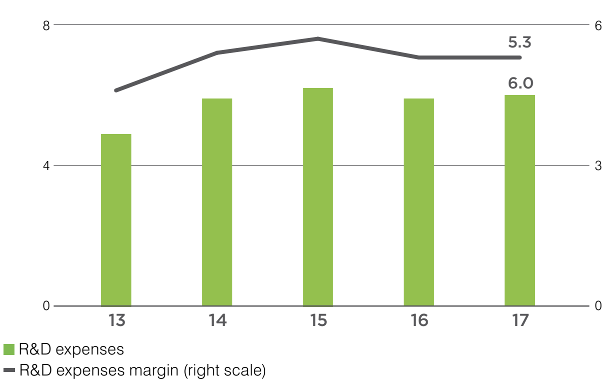
- Expansion of scientific evidence collections for the five "drug fostering" program formulations
- Establishment of scientific evidence on the five "growing" formulations
- Increased coordination between scientific evidence and MR activities
- Development of TU-100 in the United States

Establishment of Scientific Evidence

Since 2004, Tsumura has been advancing its research activities based on a policy of concentrating on the establishment of scientific evidence for its Kampo formulations. This policy was deployed as a result of our recognition of the fact that, if Kampo formulations are to become a trusted treatment option in the Japan of today, it will be necessary for these formulations to be understood through the framework of Western medicine. As a product of these efforts, theses on such scientific evidence published in domestic and overseas academic journals have been contributing to a noted change in the perception of medical practitioners with regard to Kampo formulations and Kampo medicine as a whole.

R&D Expenses / R&D Expenses Margin

¥ billion / %



By aligning management policies with the ambitions of those on the front lines of operations, we will accelerate marketing and sales activities and boost the efficiency of MR activities.

In April 2017, Tsumura underwent a change to its organizational structure that was aimed at enabling it to more easily tackle the strategic challenge of achieving expansion and stable growth in the Kampo medicines market defined in the medium-term management plan.

This organizational reform has three specific goals. The first is allowing for area-based marketing activities tailored to the characteristics of specific regions. To this end, we increased the number of branches from 12 to 21, thereby breaking up sales areas, and then transferred authority for sales measures to branch managers. The sales measures and formulations that should be focused on, for example, in Tokyo, which is characterized by a high concentration of university hospitals and other large-scale hospitals, differ from rural regions, where medical care is primarily provided by community-rooted private-practice physicians. Accordingly, I believe that more flexible sales activities can be conducted by enabling branch managers, who are the most versed on the characteristics of their area, to draft and implement sales measures and decide management resource allocations at their own discretion.

The second goal of the reform is to strengthen marketing strategy planning functions by consolidating Companywide marketing strategy proposal functions within the Kampo Scientific Strategies Division. Previously, the marketing strategies developed by sales divisions were not always compatible with those formulated by product research divisions. This goal was chosen out of recognition of this fact. With these new consolidated functions, the Kampo Scientific Strategies Division will be able to provide comprehensive sales support for everything from forming sales policies based on the Companywide policies put forth in the medium-term management plan to providing product information and training to frontline MRs.

The third goal is to accelerate basic and clinical research, which is why we established the Kampo Research and Development Division. This new division integrates previously separate basic research and clinical research organizations. Its duties will thus entail a focus on establishing scientific evidence related to the five "drug fostering" program formulations and the five "growing" formulations while collaborating with external research institutions.

Susumu Adachi
Executive Officer
Head of Corporate Planning Department

Our Progress

Overview of the Five “Drug Fostering” Program Formulations and the Five “Growing” Formulations

	Product name	Expected efficacy	Significance to program
“Drug fostering” program formulations	TJ-100 (Daikenchuto)	This formulation improves abdominal bloating from illness, such as postoperative ileus (intestinal paralysis). Because it has been proven to stimulate or regulate enterokinesis and to increase intestinal blood flow, it is expected to also have application in treating patients with disorders thought to be caused by reduced intestinal blood flow.	Establishing scientific evidence of efficacy of prescription Kampo products in the surgical field
	TJ-43 (Rikkunshito)	This formulation alleviates upper abdominal indefinite complaints arising from functional dyspepsia (FD), gastro-esophageal reflux disease (GERD), and others. Besides helping gastric emptying, it has been reported that TJ-43 (Rikkunshito) improves stomach content retention and helps stimulate the appetite. It is drawing considerable attention for its multiple mechanisms of action (MOA) in sharp contrast to Western drugs.	Elucidating special characteristics of multiple ingredient–based Kampo medicines and correlation to MOA
	TJ-54 (Yokukansan)	This formulation improves behavioral and psychological symptoms of dementia, such as delusions, hallucinations, anxiety, insomnia, and other disorders.	Researching the medical and economic contribution of Kampo medicines to medicine and medical treatment in an aged society
	TJ-107 (Goshajinkigan)	This formulation alleviates neurotoxicity (numbness) adverse reactions of anticancer drugs and other treatments used in chemotherapy.	Establishing a body of scientific evidence on the efficacy of Kampo medicines in oncology and other advanced medical treatment fields
	TJ-14 (Hangeshashinto)	This formulation mitigates mucosal damage (diarrhea and oral inflammation) resulting from anticancer drugs and other causes.	Establishing a body of scientific evidence on the efficacy of Kampo medicines in oncology and other advanced medical treatment fields
“Growing” formulations	TJ-41 (Hochuekkito)	This formulation can help reverse declines in immune functions to increase post-illness stamina.	
	TJ-68 (Shakuyakukanzoto)	This formulation alleviates pain caused by muscle convulsions through an antiallodynic effect.	
	TJ-29 (Bakumondoto)	This formulation alleviates respiratory issues with no discernable cause through antitussive, expectoration, and bronchodilation effects.	
	TJ-24 (Kamishoyosan)	This formulation alleviates menopausal disorders and related symptoms.	
	TJ-17 (Goreisan)	This formulation treats swelling with irrigation effects.	

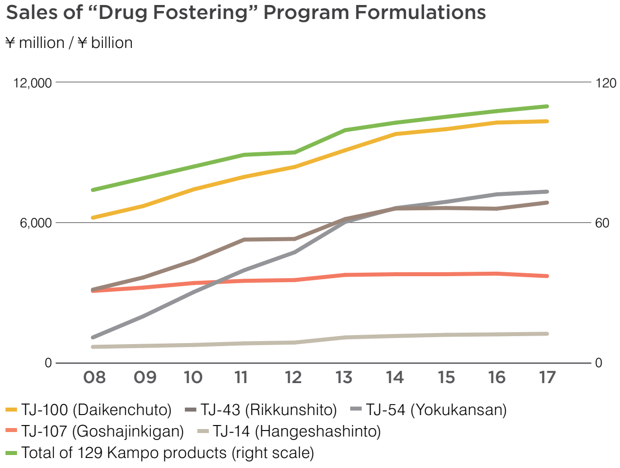
Marketing Activities Utilizing Scientific Evidence

Tsumura has defined three important domains—geriatric health, cancer, and women’s health—where medical treatment needs are high and diseases are difficult to treat with Western drugs, but Kampo products have demonstrated special efficacy for treating these diseases. We aim to develop scientific evidence on the efficacy and safety of Kampo formulations targeting diseases in these fields.

The Company’s marketing activities are prefaced on the provision of this evidence to physicians. We have a particular focus on physicians at university hospitals, designated hospitals for clinical training, and other large-scale medical institutions. By providing such physicians with the latest evidence, we are cultivating understanding and interest with regard to Kampo formulations.

Sales of the five “drug fostering” program formulations have slowed slightly in recent years. However, we have been working to re-accelerate growth based on a new marketing strategy introduced in 2016. Under this strategy, we have been concentrating our resources on marketing activities utilizing new evidence, primarily in fields such as the digestive system and cancer.

Sales of “Drug Fostering” Program Formulations



Our expansion of the range of formulations for which scientific evidence will be established is meant to provide physicians hoping to prescribe Kampo formulations with more opportunities to make the decision to do so.

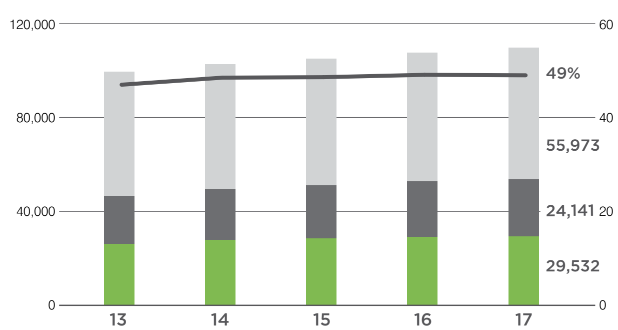
It is crucial for us to create evidence that will allow us to converse with medical practitioners in the "common language" of Western medicine if we hope to make society recognize Kampo formulations as a potential treatment option. We are currently making progress in developing collections of evidence with regard to the five "drug fostering" program formulations and in establishing scientific evidence for the five "growing" formulations.

However, the creation of evidence has not necessarily had a direct impact on sales growth. For example, Rikkunshito, which is anticipated to display efficacy with regard to gastrointestinal disorders, ailments with low treatment satisfaction, is only being prescribed to a small portion of patients. This situation is proof that, in addition to establishing evidence, we need to develop frameworks that link the accumulated evidence to increased prescriptions.

It is for this reason that we aim to have our Kampo formulations listed in treatment guidelines. The guidelines for major diseases or those diseases that are difficult to treat contain information based on some sort of evidence. To physicians, this evidence itself functions as a guide on how to treat a particular disease. Of course, we would prefer for Kampo formulations to be prescribed based on diagnoses using Kampo medicine principles. However, it is clear that we must first make it known to both physicians and patients that Kampo formulations boast efficacy backed by evidence.

Sales Contribution of the Five "Drug Fostering" Program Formulations and the Five "Growing" Formulations

¥ million / %



Akihito Konda
General Manager
Kampo Scientific Strategies Division

Our Progress

Establishment of Scientific Evidence

Product name	Product name	Meta-analysis	RCT	Action mechanisms	Adverse drug reaction frequency surveys	ADME	Data of medical economics	Listing in medical treatment guidelines
"Drug fostering" program formulations	**TJ-100 (Daikenchuto)**	Paper submitted	25	✓✓✓	✓✓✓	✓✓✓	✓✓✓	Pediatric chronic functional constipation disease, systemic sclerosis
	TJ-54 (Yokukansan)	2	14	✓✓✓	✓✓✓	✓✓✓	✓	Dementing illnesses, use of psychotropic drugs for BPSD for primary care physicians
	TJ-43 (Rikkunshito)	—	18	✓✓✓	Ongoing	✓✓✓	—	Functional gastrointestinal disease, the diagnosis and treatment of psychosomatic diseases, GERD, others
	TJ-107 (Goshajinkigan)	—	14	✓	—	✓✓	—	Benign prostatic hyperplasia, overactive bladder syndrome, the pharmacologic management of neuropathic pain
	TJ-14 (Hangeshashinto)	—	5	✓✓	—	—	—	—
"Growing" formulations	**TJ-41 (Hochuekkito)**	—	9	✓✓	—	—	—	Female lower urinary tract symptoms
	TJ-68 (Shakuyakukanzoto)	—	9	✓	✓✓	✓✓✓		Amyotrophic lateral sclerosis
	TJ-29 (Bakumondoto)	—	5	—	—	—	—	Cough, EBM practice guidelines for asthma
	TJ-24 (Kamishoyosan)		4	—	—	—	—	Diseases in obstetrics and gynecology, the treatment and diagnosis of psychosomatic disorders
	TJ-17 (Goreisan)	—	2	—	—	—	✓✓✓	Chronic headache

"Drug Fostering" Program Formulations and "Growing" Formulations

Tsumura is in the process of creating complete evidence collections for the five "drug fostering" program formulations for which it has been developing evidence since 2004. These collections encompass clinical evidence-based medicine; action mechanisms; adverse drug reaction frequency surveys; absorption, distribution, metabolism, and excretion; and medical economics data. At the same time, we are enhancing the information contained in the package inserts that are constructed in accordance with the Act on Securing Quality, Efficacy and Safety of Pharmaceuticals, Medical Devices, Regenerative and Cellular Therapy Products, Gene Therapy Products, and Cosmetics. For the five "growing" formulations, we are focused on establishing scientific evidence for use in deploying product strategies aimed at achieving the listing of these formulations in medical treatment guidelines.

Operations in China

The medium-term management plan launched in 2016 defined tackling the challenge of new businesses in China as one of its strategic challenges. To facilitate efforts on this front, Tsumura China Inc. was established in December 2016 to function as our China headquarters overseeing the entirety of our existing operations in China, which include crude drug procurement and production of the powdered extracts that serve as the raw materials for making Kampo formulations.

Value Cultivated by Tsumura

- Contributions to the health of the Chinese people through research and development and production of high-quality, safe, and competitive traditional Chinese medicine compound granules and production and sales of crude drug pieces for decoction

Measures for Addressing Strategic Challenges Described in the Medium-Term Management Plan

- Manufacturing and sales of traditional Chinese medicine compound granules at SPH TSUMURA PHARMACEUTICALS CO., LTD.
- Procurement, processing, and sales of raw material crude drugs and sales of crude drug pieces for decoction operations through collaboration with China Medico Co., Ltd.
- Ongoing augmentation of crude drug procurement and processing networks

Traditional Chinese Medicine Compound Granule Operations

In July 2016, the Company took a stride forward in its efforts to enter into the traditional Chinese medicine compound granule business in China with the establishment of SPH TSUMURA PHARMACEUTICALS, a joint venture with Shanghai Traditional Chinese Medicine Co., Ltd., a subsidiary of traditional Chinese medicine giant Shanghai Pharmaceuticals Holding Co., Ltd. Traditional Chinese medicine compound granules are powdered extracts that are used in the preparation of Chinese medicines and made by extracting a single crude drug from crude drug pieces for decoction. Even limiting the scope to those commonly found in circulation, there exist more than 400 varieties of such granules. As of June, 2017, SPH TSUMURA PHARMACEUTICALS had been making progress in researching standards for granule production processes, quality, and safety and had also begun preparing to construct a factory.

Chen Junli
Chairman
SPH TSUMURA PHARMACEUTICALS CO., LTD.

Anticipation for Tsumura and Its Traditional Chinese Medicine Compound Granule Business

We want to cultivate a unique corporate culture at SPH TSUMURA PHARMACEUTICALS by merging the strengths of its Japanese and Chinese parent companies.

Traditional Chinese medicines are generally administered by boiling and then consuming crude drug pieces for decoction. However, traditional Chinese medicine compound granules are increasingly being used due to their ease of transport, use, and storage. The scale of the market for crude drug pieces for decoction is currently around 180.0 billion yuan (approximately US$26.5 billion), while the scale of the market for traditional Chinese medicine compound granules is less than one-tenth this size. Although this market is niche, we feel it has great potential to grow.

SPH TSUMURA PHARMACEUTICALS aims to establish a unique market position as a traditional Chinese medicine company known for its product quality and brand image. The superior manufacturing technologies and quality management expertise of Tsumura and the unrivaled brand image and sales channels held by Shanghai Traditional Chinese Medicine in the Chinese market will be powerful tools for bringing us closer to this goal. Tsumura has more than 30 years of experience in managing the quality of raw material crude drugs in China, based on which it operates a crude drug production system that complies with the TSUMURA Good Agricultural and Collection Practice (GACP) guidelines. It is thus capable of stringently managing quality throughout the various processes spanning from crude drug procurement to the completion of finished products. Shanghai Pharmaceuticals Holding Co., Ltd., meanwhile, boasts annual sales of around 120.0 billion yuan (approximately US$17.7 billion) as well as a sales network covering 20,000 medical institutions in 20 provinces and strong ties with medical institutions and academic organizations in specialized fields across China.

Leveraging the strengths of both of its parent companies, SPH TSUMURA PHARMACEUTICALS will seek to contribute to the health of the Chinese people by supplying competitive traditional Chinese medicine compound granules while differentiating its brand based on safety and quality.

Frequently Asked Questions

Tsumura places a high priority on communicating with shareholders and other investors and strives to carry out information disclosure that will dispel as much as possible their concerns about the Company and its operations. This FAQ section provides answers to the most commonly asked questions from shareholders and other investors received through our investor relations (IR) activities.

Q.

How does the Company prioritize the allocation of cash flows?

A.

The Company prioritizes the allocation of cash flows to business investments for facilitating ongoing growth and improving corporate value. Our basic policy on shareholder returns is to issue stable dividend payments, and we will also flexibly consider the possibility of acquiring treasury shares when a beneficial opportunity arises.

Tsumura views returning profits to shareholders as an important management task. It therefore adopts a policy of issuing stable dividends based on considerations of medium-to-long-term income projections and cash flows while also pursuing improved corporate value through the ongoing development of its Kampo and crude drug businesses. We conducted capital investments totaling ¥39,056 million over the four-year period of the previous medium-term management plan. Through these investments, we completed the construction of a new manufacturing facility at the Shizuoka Plant and otherwise introduced new manufacturing systems, thereby establishing the foundations needed for improving productivity. Emphasizing the importance of stable dividends, we also issued dividend payments amounting to ¥17,774 million over the plan's period.

Capital investments of this nature must be conducted in conjunction with rises in the demand for Kampo products. At the same time, however, there is a need to invest in the ongoing development and growth of Tsumura's businesses in order to keep in step with research and development requirements and combat the adverse impacts of higher crude drug prices and unfavorable foreign exchange rates.

The treasury share acquisition conducted during fiscal 2017 was decided based on the beneficial conditions that were present at the time. Specifically, the stock price of the Company remained consistently at a low level in comparison with its corporate value and free cash flow reached a record high for the past five years. In addition, we viewed the acquisition as an opportunity to send a message from senior management with regard to the progress of the new medium-term management plan that kicked off in April 2016. It is Tsumura's policy to adopt a flexible stance with regard to treasury share acquisitions, which may be conducted should the Company's vision for the ideal capital structure change or be found to have not been met. Such acquisitions will be considered while pursuing improved corporate value through investments in the ongoing development of Tsumura's Kampo and crude drug businesses.

Q.

How is the development of TU-100 progressing in the United States and what is the Company's outlook for this project?

A.

All early-stage Phase II clinical trials are slated for completion in fiscal 2018. Future development policies and schedules will be decided in fiscal 2019.

Tsumura is pushing ahead with the development of TU-100 (Daikenchuto) with the aim of launching this product in the United States going forward. Currently, one endpoint search clinical trial (early-stage Phase II clinical trial) is underway. This trial is due to conclude in fiscal 2018. Future development policies and schedules will be decided in fiscal 2019, one of which will be the decision regarding whether or not to continue with clinical trials.

Frequently Asked Questions

Development of TU-100 (Daikenchuto) in the United States

		Previous medium-term management plan				New medium-term management plan		
		FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019 and after
Quality control		Through meetings with FDA, agree on quality evaluation methods using biological assessments and HPLC-FP				• Agree on quality control systems • Establish database for crude drug quality		
Efficacy and safety	IBS		Endpoint search clinical trials (IBS patients) Fiscal 2014–Fiscal 2017 PII (early stage)					Plan to decide on direction and schedule for late stage of PII and after in fiscal 2019 upon finishing and analyzing all of the early stages of PII for IBS, POI, and Crohn's disease
	POI			Endpoint search clinical trials (patients with laparoscopic colectomy) **Scheduled to be completed in fiscal 2018** PII (early stage)				
	Crohn's disease	Responder trials (patients with Crohn's disease) Fiscal 2012–Fiscal 2015 PII (early stage)						
	Safety, etc.	Adverse drug reactions*1	ADME*2					

*1 Submit results of surveys on the frequency of adverse drug reaction manifestations to the FDA
*2 Submit clinical pharmacokinetic results on healthy U.S. citizens to the FDA

IBS: Irritable bowel syndrome, POI: Postoperative ileus

However, it cannot be denied that resolving the issues faced in developing a botanical medicine for the U.S. market is requiring more time than had initially been anticipated. Nevertheless, we have succeeded in formulating a method for evaluating the quality of TU-100 from a scientific perspective, and the development of TU-100 is thus contributing to the establishment of scientific evidence in Japan.

Q.

From the perspective of businesses in China, what are Tsumura's thoughts on business risks and risk management?

A.

Our businesses in China represent a new undertaking while also presenting an opportunity to mitigate risks related to the stable procurement of crude drugs, which are among the most pressing risks faced by the Company.

SPH TSUMURA PHARMACEUTICALS CO., LTD., is a joint venture with Shanghai Traditional Chinese Medicine Co., Ltd., a crude drug supplier with which the Company has forged bonds of trust for more than 15 years since relations started in 2001. This company was established to advance Tsumura's businesses in China. Through its efforts in China, Tsumura is sharing its sense of value with regard to the stable procurement of high-quality crude drugs and consequently the provision of high-quality Kampo formulations, and is also forming relationships with business partners boasting strong positions in the Chinese market. We view these accomplishments as effective risk management provisions in our Chinese businesses. The acquisition of a site for a factory for producing traditional Chinese medicine compound granules in the area surrounding Shanghai is currently being examined. However, the Company does not anticipate any investments of a scale that will impact performance to be conducted leading up to fiscal 2022, the final year of the current medium-term management plan.

The greatest risks currently faced by the Company are related to the fact that approximately 80% of the crude drugs used as raw materials for producing Kampo formulations are imported from China and the fact that, as crude drugs are either grown agriculturally or in the wild, the ability to procure this resource is easily influenced by such factors as weather and natural disasters. By developing businesses in China, we aim to strengthen our partnerships with the suppliers that are integral to our procurement of crude drugs, which will help mitigate such procurement risks.

Risk Factors

The following are major risks related to the Group's business that may exert a significant influence on investors' judgments. The information below contains forward-looking statements, which are based on the judgment of the Company as of June 29, 2017.

(1) Medical systems

In the pharmaceutical industry, changes to medical care systems exert a major influence on the pharmaceutical market. Depending on the direction of change, a negative effect on the industry as a whole and on the performance of the Tsumura Group could result.

(2) Competition

In Japan, we have long maintained a dominant position in the field of prescription Kampo products, which is the mainstay source of earnings for the Group. However, if a major domestic or foreign pharmaceutical company entered the Kampo medicines market, competition would intensify further, and the Group's performance could suffer as a result.

(3) Product supply

Approximately 80% of the crude drugs that constitute the main ingredients of Tsumura's Kampo formulations are imported from China, and some processes in the production of Kampo products are commissioned to joint venture companies situated in China. Because most of the crude drugs grow in the wild, we are researching the cultivation of major crude drugs to prepare for the future. However, in the event of unforeseeable changes in legal regulations or political or economic conditions, it could become difficult to secure or import sufficient quantities. In addition, bad weather, natural disasters, or destabilizations of social conditions resulting from wars or other causes could create instability in demand, supply, or other distribution-related circumstances for raw materials procured domestically and internationally for the manufacture of products. Such occurrences could result in hikes in the market prices of raw materials or scarcity of their supply, which would have a negative impact on the supply of products. Likewise, while we have incorporated earthquake-resistant features in construction and conduct regular inspections of production equipment and facilities within Japan, we cannot completely guarantee that the functioning of our facilities will not be hampered or lost in the event of a massive earthquake, fire, power outage, or other disaster.

The Group's social standing or performance could be negatively affected should the supply of products be interrupted or delayed due to any of the circumstances described above.

(4) Product safety and adverse reactions

In the manufacturing of the Group's products, we strictly adhere to the quality control standards of the countries and regions in which we operate as well as to our own original standards for crude drugs. However, we cannot completely guarantee that there will not be a defect or safety problem, including undetected pesticide residue on a crude drug used in a Kampo product. In addition, should consumers experience unexpected adverse reactions from a pharmaceutical product marketed by the Tsumura Group, the existing methods of use may be restricted, and a loss of confidence in the Group and its pharmaceutical products may result in a drop in the dispensation of our medicines or in patients' refusal to take them.

The Tsumura Group's performance may suffer if a situation such as those described above results in a decline in sales volume, demand for large amounts of damage compensation, or a large-scale recall, among other possibilities.

(5) Research and Development

In the interest of future growth and better corporate performance, the Tsumura Group conducts R&D activities related to new products and new technologies both in Japan and abroad. However, we cannot guarantee that all of these activities will be successful. The Group's performance could suffer if for some reason R&D activities were canceled or delayed or if costs increased significantly.

(6) International business

The Tsumura Group engages in manufacturing and sales activities in China, South Korea, and other foreign countries and regions. Because of this involvement in international business, it is possible for the Group to be negatively affected by unforeseeable changes in legal regulations or in political, economic, or other conditions.

(7) Financial condition

The Group's performance and financial condition could be negatively affected by such developments as a sharp decline in its stock price or an increase in retirement liabilities arising from a drop in the discount rate.

(8) Intellectual property

We cannot guarantee the full protection of the intellectual property owned by the Group in relation to Kampo products. The Group's performance may be negatively affected if there were leakage of such information that led to a decline in competitiveness.

(9) Exchange rate fluctuations

The Group imports from China most of the crude drugs used in the Kampo products that it markets. Therefore, sharp movements in exchange rates could impact negatively on the Group's business results and financial position.

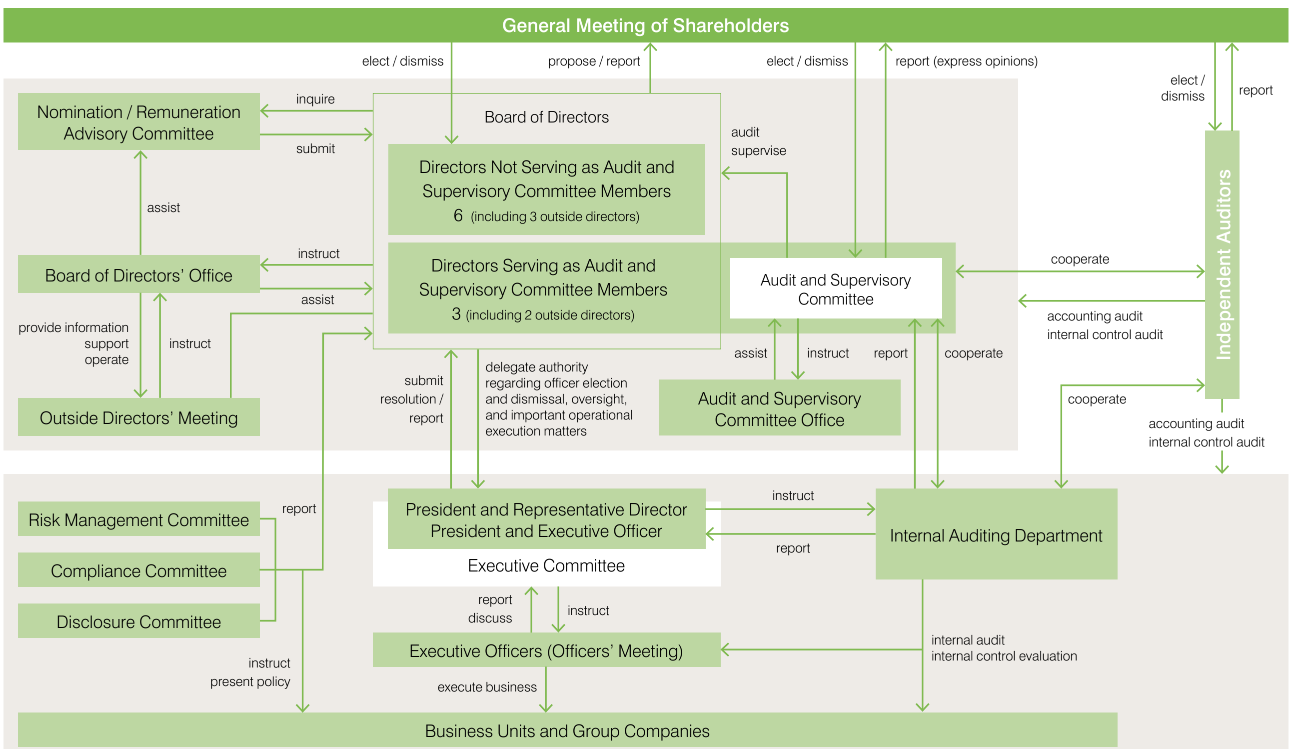
Corporate Governance

Basic Policy

It is Tsumura's basic policy to implement continuous improvements to corporate governance in order to realize ongoing growth and medium-to-long-term increases in corporate value based on the Company's corporate philosophy of "The Best of Nature and Science."

After receiving approval at the Ordinary General Meeting of Shareholders held in June 2017, Tsumura transitioned from the Company with Company Auditor(s) system described in the Companies Act of Japan to the Company with Audit and Supervisory Committee system. This move will contribute to the reinforcement of the oversight and monitoring functions of the Board of Directors and to improved management soundness and transparency. In addition, the new system will establish a greater separation of the Board of Directors from the operational execution function and thereby help expedite operational decision making.

Corporate Governance Structure



Overview of Corporate Governance System

Board of Directors

As management's top decision-making body, the Board of Directors, which is composed of a majority of outside directors, makes decisions required by law and the articles of incorporation and about other important matters regarding Tsumura's business while overseeing the execution of duties by directors.

Number of directors: 9 (including 5 outside directors)

Audit and Supervisory Committee

The Audit and Supervisory Committee is membered by three directors, two of whom are outside directors and one of whom is a full-time member. This individual is well versed in circumstances within the Company, as is needed to utilize its internal control systems. Directors who serve as members of the Audit and Supervisory Committee attend meetings of the Executive Committee and other important meetings in order to provide appropriate oversight for management. The Audit and Supervisory Committee is also tasked with investigating the state of operations and assets, monitoring the establishment and implementation of internal control systems, and verifying these systems to ensure that the execution of duties by directors is both adequate and legally compliant.

Audit and Supervisory Committee members: Kimikazu Okouchi (director, full-time member), Kiyomi Haneishi (outside director), and Mitsutoshi Matsushita (outside director)

Nomination/Remuneration Advisory Committee

The Nomination/Remuneration Advisory Committee is a voluntarily established advisory body to the Board of Directors. The committee is composed of a majority of outside directors who have also been designated as independent directors as stipulated by the Tokyo Stock Exchange. These outside directors provide advice on matters related to the nomination and compensation of directors and executive officers based on inquiries by the Board of Directors and also submit reports on these subjects. Suggestions are made to the Board of Directors as necessary.

Outside Directors' Meeting

The Outside Directors' Meeting is a forum for the provision of information necessary for functional management and the sharing of information on recognized issues and other matters by outside directors.

Number of members of Outside Directors' Meeting: 5

Executive Committee

The Executive Committee, comprising directors (excluding outside directors), executive officers at the level of managing executive officer or above, and the executive officers responsible for the Accounting Department and the Personnel department, is responsible for deliberating and deciding important items related to operational execution with regard to general management.

Number of members of the Executive Committee: 5

Corporate Governance Activities in Fiscal 2017

Item	Details
Corporate structure	Company with Audit & Supervisory Board Members under Japanese law*
Annual number of Board of Directors' meetings	19 times
Board of Directors' meetings attended by outside directors	Mr. Shigeru Sugimoto 18 times / Mr. Kenichi Matsui 18 times / Ms. Yayoi Masuda 18 times
Annual number of Audit & Supervisory Board meetings	23 times
Audit & Supervisory Board meetings attended by outside Audit & Supervisory Board members	Ms. Kuniko Ouchi 23 times Ms. Kiyomi Haneishi 23 times
Board of Directors' meetings attended by outside Audit & Supervisory Board members	Ms. Kuniko Ouchi 19 times Ms. Kiyomi Haneishi 19 times
Standards for determination of independence of outside directors and outside Audit & Supervisory Board members	Contained in the Notice of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, available through the following link http://www.tsumura.co.jp/english/ir/meeting/general/pdf/internet_081.pdf
Audit corporation	PricewaterhouseCoopers Aarata LLC
Audit corporation compensation	¥45 million

* Upon receiving approval at the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, TSUMURA transitioned from the Company with Company Auditor(s) system to the Company with Audit and Supervisory Committee system.

Director and Audit & Supervisory Board Member Compensation in Fiscal 2017

Category	Total compensation (¥ in millions)	Breakdown of total compensation		Number of officers compensated
		Basic	Stock options	
Directors (excluding outside directors)	184	165	19	3
Outside directors	27	27	—	3
Total	211	192	19	6
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	46	46	—	2
Outside Audit & Supervisory Board members	14	14	—	2
Total	61	61	—	4

Notes:
1. The figures above are based on the compensation systems approved at the 80th Ordinary General Meeting of Shareholders held on June 29, 2016. This system differs from the current system, which is described in subsequent pages.
2. Figures for compensation of directors do not include employee salaries paid to directors who also serve as employees of the Company.
3. Based on a resolution of the 70th Ordinary General Meeting of Shareholders held on June 29, 2006, the upper limit for compensation for directors (basic compensation) is ¥50 million per month (not including employee salaries).
4. Figures for stock compensation represent the amount of related expenses recorded in fiscal 2017.
5. Based on a resolution of the 69th Ordinary General Meeting of Shareholders held on June 29, 2005, the upper limit for compensation for Audit & Supervisory Board members (basic compensation) is ¥6 million per month.

Corporate Governance

Directors

(Standing, from left) Kimikazu Okochi, Kiyomi Haneishi, Mitsutoshi Matsushita, Terukazu Kato, Yasunori Fuji, Shigeru Sugimoto, Kenichi Matsui,

(Seated, from left) Toru Sugita, Yayoi Masuda

Name
Position
Year appointed
Number of Company shares owned
(As reported in Fiscal 2017 Financial Report)

Terukazu Kato

President and Representative Director
President and Executive Officer

2011
14,700 shares

Appointed president and representative director and president and executive officer of the Company in June 2015. Served as director of the Company and head of the Corporate Communications Department from June 2011 through June 2012 and as president and representative director of the Company from June 2012 through June 2015. Joined the Company in 1986.

Toru Sugita

Director
Senior Managing Executive Officer

2007
17,800 shares

Appointed director and senior managing executive officer of the Company in June 2015. Following appointment as director of the Company and head of the Production Division in June 2007, appointed managing director and senior managing director of the Company in June 2010 and June 2014, respectively. Joined the Company in 1980.

Yasunori Fuji

Director
Senior Executive Officer

2011
20,600 shares

Appointed director and senior executive officer of the Company and head of the Compliance Control Department in June 2015. Following appointment as advisor in 2008, appointed director of the Company and head of the CSR Advancement Department in June 2011 and head of the Internal Control Department in April 2013. Joined The Mitsubishi Bank, Ltd. (now The Bank of Tokyo-Mitsubishi UFJ, Ltd.), in 1979.

Shigeru Sugimoto

Director (Outside Director)

2012
3,200 shares

Has served as outside director of the Company since June 2012 and supervisory officer of Hulic Reit, Inc., since November 2013. In addition, has served as representative of Sakura Horwath & Co. since July 1988 and as representative of Sakura Horwath LLC (now Sakura Horwath Audit Corporation) since December 1995. Registered as certified public accountant in 1989.

Kenichi Matsui

Director (Outside Director)

2015
1,300 shares

Appointed outside director of the Company in June 2015. Has served as outside director of The Mie Bank, Ltd., since June 2014. After joining Idemitsu Kosan Co., Ltd., in 1972, appointed managing director of that company in June 2005 and served as executive vice president, representative director from June 2010.

Yayoi Masuda

Director (Outside Director)

2015
600 shares

Appointed outside director of the Company in June 2015. Has served as president and representative director of Yayoi Japan Co., Ltd., since February 2012. After joining Ricoh Co., Ltd., in 1979, has served in various leadership roles specializing in the field of human resources. Such roles include general manager of the OD & HRD at Levi Strauss Japan KK, director of the Global Leadership Planning and Development at Levi Strauss & Co., (the United States), talent director of Asia Pacific Division at Levi Strauss & Co., director at the Human Resources Division at Levi Strauss Japan KK, and head of Human Resources at the Asia Pacific Region at Nike, Inc.

Kimikazu Okochi

Director
Audit and Supervisory Committee Member (Full-Time)

2017
0 shares

Appointed director of the Company in June 2017. Following appointment as head of the Accounting Department in April 2010 and later director of the Company and head of the Accounting Department, appointed general manager of the Audit & Supervisory Board Office in April 2017. Joined the Company in 1981.

Kiyomi Haneishi

Director (Outside Director)
Audit and Supervisory Committee Member

2017
600 shares

Appointed outside director of the Company in June 2017. Has served as president of the Kiyomi Haneishi Certified Public Accountancy (currently Kiyomi Haneishi Certified Public Accountant and Tax Account Firm) since September 2013 and as outside director of MAXVALU CHUBU CO., LTD., since May 2016. After joining Ohta Showa Ernst and Young (now Ernst & Young Tax Co.) in 1993, moved to Sakura Horwath & Co. in 1997. After registering as certified public accountant in 2000, joined Asahi Auditing Co., Ltd. (now KPMG AZSA LLC), that same year. Served at KPMG AZSA LLC from 2009 through 2012. Served as outside Audit & Supervisory Board member of the Company from June 2015 to June 2017.

Mitsutoshi Matsushita

Director (Outside Director)
Audit and Supervisory Committee Member

2017
0 shares

Appointed outside director of the Company in June 2017. Has served as outside Audit & Supervisory Board member of Pacific Systems Corporation since June 2016. After registering as lawyer in April 1997, joined Kajitani Law Offices.

Message from an Outside Director

Management Tasks for Tsumura and Progress of the Medium-Term Management Plan

I was appointed as a director of Tsumura in June 2015, which was right when the Company was engaged in discussions regarding the medium-term management plan that would be started in April 2016. In this plan, operating profit was projected to decline each year leading up to fiscal 2019, a fact that initially gave me some concern with regard to the Company's responsibilities toward investors. However, through ongoing discussions among members of the Board of Directors and executive officers, I grew to understand the type of time frames that were appropriate for viewing Tsumura's management and the Kampo business. I thereby came to realize that a period of around three years was appropriate for the implementation of the plan-do-check-act cycle.

In the draft of the medium-term management plan decided upon by the Board of Directors, the first three years of the plan's six-year period were designated as a period for advancing reforms. The latter three years were designated as a time for transforming the results of such reforms into earnings to drive growth. In fiscal 2017, performance was generally in line with the targets for numerical indicators and department-specific key performance indicators. However, looking forward to the milestones that will need to be passed to complete the scheduled reforms in fiscal 2019, there still remain several important management tasks to be addressed in fiscal 2018. Accordingly, I currently see a need to step up the pace of management activities during this fiscal year.

Corporate Governance Reforms

In June 2017, Tsumura reformed its corporate governance system by transitioning from the prior Company with Company Auditor(s) system to the Company with Audit and Supervisory Committee system, both of which are described by the Companies Act of Japan. This move effectively reinforced the oversight and monitoring functions of the Board of Directors. In practical terms, the change will allow the Board of Directors to delegate authority to executive officers with regard to certain deliberations and decisions that were previously required to be conducted by the Board under the Companies Act, a change that will contribute to increased management efficiency and speed. At the same time, this change will allow the Board of Directors to devote more time to discussing medium-to-long-term management tasks and business strategies.

The transition to this new system was not merely a formulaic affair. Quite the contrary, this was the latest in a line of governance reforms that included the revision of the composition of the Board of Directors in June 2015 and the introduction of a performance-linked stock compensation plan in June 2016. We evaluated these reforms and identified their results, which led to the decision that the Company with Audit and Supervisory Committee system would provide the ideal framework for creating even higher corporate value in the future.

Evaluations of Board of Directors' Effectiveness Contributing to Governance Reforms

The evaluations of the Board of Directors' effectiveness conducted in 2015 and 2016 proved to be valuable tools in advancing discussions on corporate governance reforms.

The evaluations were conducted through written questionnaires compiled by the Board of Directors' Office, a support organization for the Board of Directors. Each director and Audit & Supervisory Board member filled out a questionnaire, and the results were aggregated by the Board of Directors' Office and then discussed at meetings of the Board of Directors. Questionnaires contained a total of roughly 40 questions formulated based on the astute observations of the staff of the Board of Directors' Office. The first questionnaire, conducted in 2015, asked respondents to choose from four levels of responses, whereas the second questionnaire, in 2016, only provided two levels of responses, primarily to identify in what areas measures were sufficient and in what areas improvements were needed. This format made it exceptionally clear what issues currently need to be addressed with regard to the Board of Directors. One example of an issue identified would be how the large number of reports received at each meeting meant that a substantial amount of time was consumed by listening to explanations. This situation warranted improvements by reducing the number of agenda items and simplifying explanations. In addition, questions on the range of duties delegated to executive officers and frameworks for ensuring adequate supervisory and monitoring functions were also posed, with an eye to the aforementioned governance system reform. We spent a great deal of time discussing such matters.

For the 2017 evaluation, given the transition to the Company with Audit and Supervisory Committee system, I suspect that questions will focus on the proceedings and other matters related to the operation of the new Board of Directors. Looking forward, I plan to raise discussions on such issues as succession plans as well as the necessity of third-party evaluations and how such evaluations should be implemented.

Contributions Based on Corporate Management Experience

I was a director at Idemitsu Kosan Co., Ltd., an oil company, for nine years, and I took part in helping this company become listed on the stock exchange. Accordingly, I have insight into corporate management and how to communicate with capital markets. When I joined Tsumura as a director, however, I was unfamiliar with the field of pharmaceuticals, even more so with regard to Kampo formulations. Regardless, if asked if this was an issue, I would say that it was not. At first, oil and Kampo formulations may seem like completely different businesses, but similarities do exist, specifically in how both businesses entail managing the value chain from a big-picture perspective and creating value through this value chain. I have experience identifying risk factors across the value chain. As such, this experience and my position could prove viable as an outside perspective in enabling me to provide a viewpoint that runs contrary to the internal perspective, which may be inclined to ignore factors that it does not want to see.

Another similarity between Kampo companies and oil companies is that they are both charged with an important responsibility to provide, at a fair price, a product that is indispensable to society. Fulfilling this responsibility requires sustainable growth, and sustainable growth requires a compatible management philosophy and for this philosophy to be exercised. It is my belief that exercising a management philosophy means cultivating highly ambitious employees. This view is identical to the idea of "management that is rooted in basic principles" preached by Tsumura. It was the realization of the shared vision that made Tsumura resonate with me as a company and that caused me to feel a strong desire to contribute to its growth.

Methods of Determining Compensation for Directors and Executive Officers

Directors (Excluding Directors Serving as Audit and Supervisory Committee Members)

The Company's basic policy is to pay an amount of compensation to directors (excluding directors serving as Audit and Supervisory Committee members) that will contribute to their motivation to pursue the sustained growth of the Company through the improvement of performance and increased corporate value. Compensation standards and the types of compensation paid were selected to ensure an appropriate level of compensation given the roles, duties, and rank of each director. We strive to increase objectivity in establishing compensation standards by utilizing survey data from third-party specialists and considering the compensation levels of industry peers as well as the salary levels of Tsumura employees. In addition, the Nomination/Remuneration Advisory Committee was established on June 29, 2017, to improve the transparency and impartiality of decisions related to compensation by involving outside directors who have been designated as independent directors, as stipulated by the Tokyo Stock Exchange, and incorporating their input.

The types of director (excluding directors serving as Audit and Supervisory Committee members) compensation paid are as follows.

1. Monetary basic compensation is paid as an annual sum of no more than ¥600 million,*[1] and the amount paid to each director is decided on an individual basis. For the representative and other directors with operational execution authority, basic compensation is determined based on standards that account for roles, duties, and rank, and a portion of this compensation is adjusted to reflect the Company's business results and the degree of accomplishment of performance goals set for each director in the respective fiscal year. Outside directors and other directors without operational execution authority receive a fixed amount of basic compensation based on their roles in supervising operational execution.
2. The Company has introduced a performance-linked stock compensation plan with the aim of enhancing awareness among directors toward contributing to the sustained growth of the Company through the improvement of its medium-to-long-term performance in accordance with the medium-term management plan and to increased corporate value.

The stock compensation plan covers the three-year period ending fiscal 2019. At the end of this period, the Company will issue a number of common shares of Company stock to individual directors that is calculated using the following formulas based on the extent to which the Company's fiscal 2019 targets for consolidated net sales, operating profit, and return on equity are met.

(1) This plan is available to directors, excluding directors serving as Audit and Supervisory Committee members and non-operating directors, as well as to executive officers with whom the Company has concluded delegation agreements.

(2) The upper limit for the number of stocks issued will be 60,000 shares*[2] for this period.

(3) Common shares of the Company's stock will be allocated to applicable individuals through the issuance of stocks by the Company or disposal of treasury shares. The individuals applicable for such allocations and the number of shares to be allocated will be determined by the Board of Directors after the period of the plan. The applicable individuals will then receive monetary compensation claims, which are to be used to acquire common shares of the Company's stock at the time of the Company's issuance of shares or disposal of treasury shares. The upper limit for the total amount of monetary compensation claims granted to applicable individuals based on the plan will be set at ¥300 million for the period of the plan.*[2]

Calculation Formulas

Reference deliverable shares

= Amount determined according to compensation criteria based on roles, duties, and rank of individual directors / Reference share price* × 3 (fiscal years)

* Reference share price = Closing price for ordinary transactions of common shares of Company stock on March 31, 2016

Number of shares to be issued to individual directors

= Reference deliverable shares × (Sum of (Achievement ratios for numerical targets* × Applicable numerical target allocation ratio))

* "Achievement ratios for fiscal 2019 numerical targets" is determined depending on the achieved degree, within the range of 0% to 120%, with the level corresponding to the numerical target set at 100%. The applicable targets for fiscal 2019 are consolidated net sales of ¥120.0 billion, operating profit of ¥14.0 billion, and return on equity of 6%.

For details on the performance-linked stock compensation plan, please refer to the related news release and the Notice of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, available through the following links:
http://www.tsumura.co.jp/english/newsrelease/2016/pdf/20160603.pdf
http://www.tsumura.co.jp/english/ir/meeting/general/pdf/internet_081.pdf

Directors Serving as Audit and Supervisory Committee Members

Based on the roles and duties of directors serving as Audit and Supervisory Committee members, only fixed basic compensation is paid to these directors. This compensation is paid as an annual sum of no more than ¥72 million, and is decided for each individual director serving as an Audit and Supervisory Committee member through deliberation among these directors.

1 Based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017; includes outside directors but excludes employee salaries paid to directors who also serve as employees of the Company
2 Based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017

Other Management Systems

Item	Details
Compliance	• The Company has established a compliance promotion system through which it advances ongoing educational and other activities based on the Tsumura Compliance Program, which consists of the Tsumura Code of Conduct, the Compliance Committee, the Company's compliance promotion system, and the Tsumura Group Hotline.
	• The Tsumura Group Hotline has been established as an internal whistle-blowing system for employees in Japan that can be used to make consultations or reports on compliance issues. Individual whistle-blowing systems have been established at each overseas Group company.
	• The Company has formulated the Tsumura Code of Practice (the "Tsumura Code") to ensure that its corporate activities are always conducted in a highly ethical and transparent manner and to earn the trust of society. The Tsumura Code Committee, which was established based on the Tsumura Code, is responsible for managing, administering, and thoroughly instilling the code.
Internal Controls	• The Internal Auditing Department, an internal audit organization under the direct jurisdiction of the president, is responsible for conducting internal audits of all Tsumura Group companies in order to maintain an understanding of how they are managed and implement improvements.
	• The Company has established basic policies and plans and implemented internal controls that it uses to ensure the appropriateness of financial reports.
	• The Company adheres to relevant laws and to the Basic Rule of Information Management with regard to the management of documents related to the execution of duties by directors and other information by recording and storing such documents and information in physical or electronic mediums. The General Affairs Department has been positioned as the main division of information management and is responsible for maintaining an understanding of the status of internal systems and training programs and issuing regular reports to the Board of Directors.
Risk Management	• The Risk Management Committee has been established as an organization for promoting comprehensive internal risk management. In addition, the Company has developed the necessary risk management system as well as the Risk Management Rules and other internal regulations and manuals. If an emergency situation occurs that threatens to have a serious impact on business operations, an emergency crisis management office will be set up to implement measures to resolve the crisis.
	• The Company has established the Information Security Management Regulations and the Regulations for Handling Specified Personal Information based on its Basic Information Management Regulations. In accordance with these regulations, the Company practices strict management of confidential information and seeks to ensure that personal information is properly protected. Training and other educational activities are held to promote and entrench awareness regarding the importance of proper information management and how such information should be handled.
Others	• The Affiliate Management Rules contain provisions for decisions regarding important management matters as well as reports to the Company aimed at ensuring appropriate operations at Group companies, which exercise these provisions in an appropriate and timely manner. The Company also holds Affiliate Business Reporting Forums that provide opportunities for officers from Group companies to issue business reports to officers from the Company.
	• The Company requires that all directors (excluding directors serving as Audit and Supervisory Committee members) and employees of the Company as well as all directors, auditors, and employees of Group companies or individuals who have received reports from any of these parties promptly report any applicable matters to the Audit and Supervisory Committee. Applicable matters include those legally required to be reported, matters with the potential to seriously impact the entire Company, matters related to internal audits, reports and details of reports through the internal whistle-blowing system (the Tsumura Group Hotline), and matters on which reports have been requested by the Audit and Supervisory Committee.

Eleven-Year Selected ESG Data

TSUMURA & CO. and subsidiaries

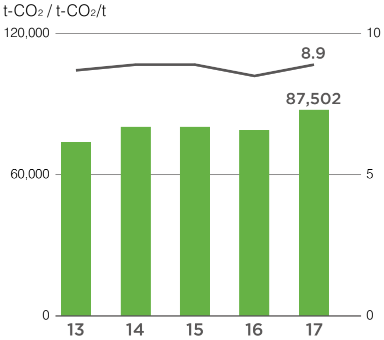
	Unit	2007	2008	2009
Environment*1				
(Years ended March 31)				
Energy consumption	TJ	936	1,176	1,160
Energy consumption per unit of production	GJ/t	185.3	212.9	182.6
Greenhouse gas emissions	t-CO_2	46,600	62,900	63,400
Greenhouse gas emissions per unit of production	t-CO_2/t	9.2	11.4	10.0
Water consumption	Thousands of tons	978	1,595	1,601
Volume of discharged water	Thousands of tons	894	1,466	1,455
Water consumption per unit of production	t/t	194	289	252
Social				
(Years ended March 31)				
Number of Kampo medicine seminars for physicians	Times	329	317	286
Number of participants of Kampo medicine seminars for physicians	People	5,354	5,454	5,683
(As of end of March, each year)				
Number of employees	People	2,750	2,773	2,631
Number of managers*2	People	–	–	–
Number of female managers*2	People	–	–	–
Governance				
(As of end of June, each year)				
Internal directors (Men)	People	9	8	8
Outside directors designated as independent directors (Men)	People	0	0	0
Outside directors designated as independent directors (Women)	People	0	0	0
Internal director (Audit & Supervisory Committee members)*3	People	2	2	2
Independent outside director (Audit & Supervisory Committee members) (Men)*3	People	1	1	1
Independent outside director (Audit & Supervisory Committee members) (Women)*3	People	1	1	1
(Years ended March 31)				
Outside directors' rate of attendance at Board of Directors' meetings	%	78.9	–	–
Outside Audit & Supervisory Board members' rate of attendance at Audit & Supervisory Board meetings*3	%	91.7	100.0	100.0
Outside Audit & Supervisory Board members' rate of attendance at Board of Directors' meetings*3	%	97.4	100.0	100.0

*1 Figures for items under the "Environment" category from 2007 are for TSUMURA & CO. (non-consolidated). Figures from 2008 and onward include data from Group companies (LOGITEM TSUMURA CO., LTD.; SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.; SHENZHEN TSUMURA MEDICINE CO., LTD.; LAO TSUMURA CO., LTD. (from 2014); and YUBARI TSUMURA CO., LTD. (from 2012)).

*2 Figures represent the total of figures from TSUMURA & CO.; SHENZHEN TSUMURA MEDICINE CO., LTD.; and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. Figures from TSUMURA & CO. include senior managers. Figures from SHENZHEN TSUMURA MEDICINE CO., LTD., and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., are as of December 31 of the preceding year.

Greenhouse Gas Emissions / Greenhouse Gas Emissions per Unit of Production

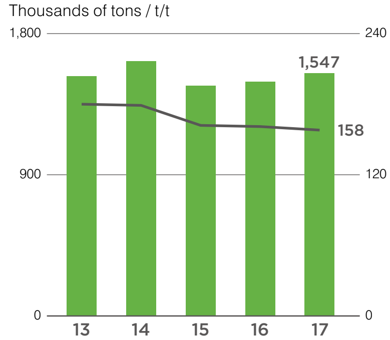
t-CO_2 / t-CO_2/t



■ Greenhouse gas emissions
━ Greenhouse gas emissions per unit of production (right scale)

Water Consumption / Water Consumption per Unit of Production

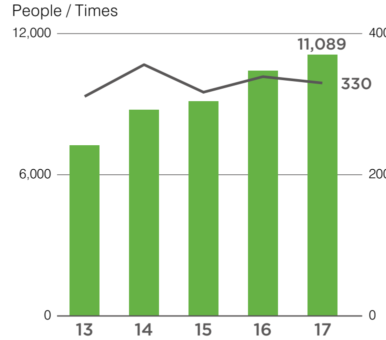
Thousands of tons / t/t



■ Water consumption
━ Water consumption per unit of production (right scale)

Kampo Medicine Seminars for Physicians

People / Times

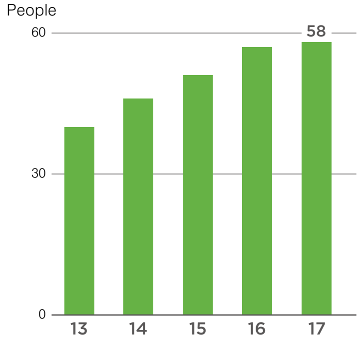


■ Number of participants
━ Number of seminars (right scale)

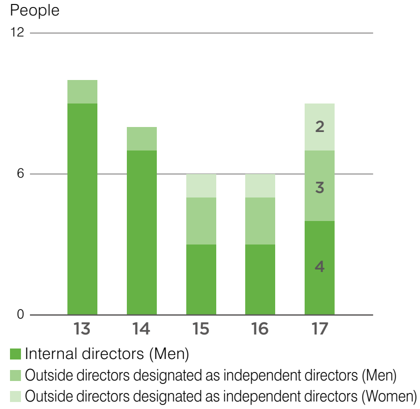
	2010	2011	2012	2013	2014	2015	2016	2017
	1,257	1,269	1,357	1,343	1,473	1,395	1,428	**1,580**
	183.8	179.5	166.2	158.5	162.2	154.1	153.9	**161.4**
	65,900	65,885	69,707	73,820	80,414	80,404	78,948	**87,502**
	9.6	9.3	8.5	8.7	8.9	8.9	8.5	**8.9**
	1,728	1,379	1,565	1,528	1,622	1,466	1,492	**1,547**
	1,483	1,132	1,274	1,228	1,353	1,312	1,304	**1,339**
	253	195	192	180	179	162	161	**158**
	269	249	265	311	356	317	339	**330**
	5,261	5,099	5,473	7,257	8,758	9,115	10,411	**11,089**
	2,702	2,717	2,784	2,831	2,898	3,335	3,242	**3,331**
	–	–	–	834	873	843	828	**825**
	–	–	–	40	46	51	57	**58**
	8	9	9	9	7	3	3	**3**
	0	0	1	1	1	2	2	**2**
	0	0	0	0	0	1	1	**1**
	2	2	2	2	2	2	2	**1**
	1	1	1	1	1	0	0	**1**
	1	1	1	1	1	2	2	**1**
	–	–	–	100.0	100.0	100.0	98.2	**94.7**
	100.0	98.1	98.2	100.0	100.0	96.0	100.0	**100.0**
	97.5	97.2	100.0	100.0	100.0	93.0	100.0	**100.0**

*3 The position of Audit & Supervisory Board member was replaced with the position of Audit and Supervisory Committee member after receiving approval at the 81st Ordinary General Meeting of Shareholders held in June 2017.

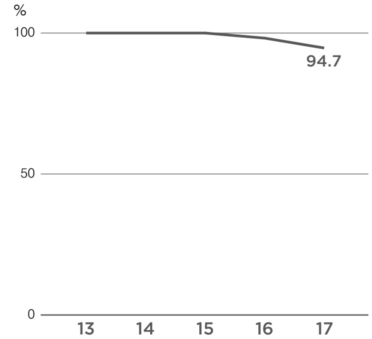
Number of Female Managers*2



Composition of the Board of Directors



Outside Directors' Rate of Attendance at Board of Directors' Meetings



Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries
Years ended March 31

¥ in millions	2007	2008	2009
For the year			
Net sales	¥ 91,227	¥ 94,799	¥ 90,016
Cost of sales*	29,438	31,609	29,028
Gross profit	61,788	63,190	60,987
Selling, general and administrative expenses	46,282	47,369	44,504
Operating profit	15,505	15,820	16,483
Profit before income taxes	21,261	14,605	17,940
Profit attributable to owners of parent	13,152	9,139	10,777
At year-end			
Inventories	¥ 17,073	¥ 19,651	¥ 19,810
Property, plant and equipment, net	41,289	40,251	38,754
Long-term liabilities	21,400	14,440	8,970
Total liabilities	73,760	62,734	52,855
Total net assets	69,618	72,411	73,968
Total assets	143,378	135,146	126,824
Other selected data			
Capital expenditures for property, plant and equipment	¥ 3,906	¥ 3,124	¥ 5,479
R&D expenses	4,829	4,368	3,958
Depreciation	2,777	3,396	3,298
Free cash flow	23,521	1,309	7,293
Cash flows from operating activities	12,687	5,358	10,634
Cash flows from investing activities	10,834	(4,049)	(3,341)
Cash flows from financing activities	(13,071)	(7,419)	(6,354)
Cash and cash equivalents, end of year	19,812	13,718	14,596
Per share data (yen)			
Profit attributable to owners of the parent	¥ 186.43	¥ 129.57	¥ 152.80
Dividends	17.00	23.00	34.00
Net assets	970.50	1,015.46	1,037.76
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	67.7%	66.7%	67.8%
Selling, general and administrative expenses	50.7	50.0	49.4
Operating profit	17.0	16.7	18.3
Profit before income taxes	23.3	15.4	19.9
Profit attributable to owners of the parent	14.4	9.6	12.0
ROE	21.3	13.0	14.9
ROA	11.1	11.4	12.6
Current ratio	133.7	142.3	157.2

* Including credit (debit) for allowance for sales returns

2010	2011	2012	2013	2014	2015	2016	2017
¥ 90,933	¥ 94,778	¥ 95,450	¥ 105,638	¥ 110,057	¥ 110,438	¥ 112,625	**¥ 114,954**
28,518	29,435	29,944	35,927	38,787	41,859	45,055	**49,454**
62,414	65,342	65,505	69,711	71,269	68,578	67,569	**65,499**
43,475	43,789	44,271	46,586	48,808	49,087	47,743	**49,516**
18,938	21,553	21,233	23,124	22,461	19,491	19,826	**15,983**
18,710	21,058	22,448	24,062	28,118	20,078	18,898	**17,184**
10,704	12,945	13,431	15,373	18,050	14,075	12,557	**12,488**
¥ 22,335	¥ 22,057	¥ 30,570	¥ 35,565	¥ 43,424	¥ 50,716	¥ 52,348	**¥ 52,138**
40,857	42,154	44,869	50,657	57,148	60,624	62,822	**64,686**
8,773	8,587	8,093	9,448	9,126	23,339	23,063	**32,727**
50,944	50,394	49,633	51,929	54,305	64,706	66,765	**64,611**
83,752	91,154	102,240	118,537	133,318	150,947	155,702	**157,397**
134,697	141,549	151,874	170,466	187,623	215,654	222,468	**222,008**
¥ 5,237	¥ 5,264	¥ 6,425	¥ 9,328	¥ 8,991	¥ 8,428	¥ 9,638	**¥ 6,438**
3,770	4,123	4,565	4,904	5,949	6,252	5,968	**6,087**
3,225	3,453	3,850	4,049	4,871	5,387	5,059	**5,629**
5,864	5,232	1,972	3,988	4,214	(5,691)	10,109	**14,614**
12,019	12,047	7,314	12,011	5,908	4,992	17,570	**21,065**
(6,155)	(6,815)	(5,342)	(8,022)	(1,694)	(10,683)	(7,461)	**(6,451)**
(5,085)	(3,355)	(5,272)	(4,275)	(4,575)	10,408	(4,608)	**(9,572)**
15,318	17,198	13,906	13,762	14,418	19,343	25,128	**29,901**
¥ 151.77	¥ 183.55	¥ 190.45	¥ 217.98	¥ 255.94	¥ 199.58	¥ 178.06	**¥ 179.46**
46.00	58.00	60.00	62.00	64.00	64.00	64.00	**64.00**
1,175.04	1,274.06	1,430.94	1,658.88	1,860.14	2,103.04	2,169.13	**2,250.34**
68.6%	68.9%	68.6%	66.0%	64.8%	62.1%	60.0%	**57.0%**
47.8	46.2	46.4	44.1	44.3	44.4	42.4	**43.1**
20.8	22.7	22.2	21.9	20.4	17.6	17.6	**13.9**
20.6	22.2	23.5	22.8	25.5	18.2	16.8	**14.9**
11.8	13.7	14.1	14.6	16.4	12.7	11.1	**10.9**
13.7	15.0	14.1	14.1	14.5	10.1	8.3	**8.1**
14.5	15.6	14.5	14.3	12.5	9.7	9.1	**7.2**
173.8	189.1	207.8	222.5	240.6	310.6	305.9	**422.4**

Review of Operations for Fiscal 2017

OPERATING ENVIRONMENT FOR KAMPO PRODUCTS

Growth of Prescription Kampo Product Market*1

In fiscal 2017, the scale of the domestic prescription product market was ¥10,430.8 billion on a monetary basis, and the scale of the prescription Kampo product segment of this market was ¥148.1 billion. Looking at the 10-year period from March 31, 2008, to March 31, 2017, the compound annual growth rate for the prescription Kampo product market was 4.3%, representing strong growth that exceeded the rate of 2.8% seen for the overall domestic prescription product market during the same period.

Drug Prices

In Japan, the official prices of all prescription pharmaceuticals covered by the Japanese National Health Insurance (NHI) plan are revised once every two years, in principle, to reflect market prices. The most recent revision took place in April 2016. All 129 prescription Kampo products provided by Tsumura are covered under the NHI plan, and the April 2016 price revision resulted in a 3.0% decrease in the official prices of these products on average.

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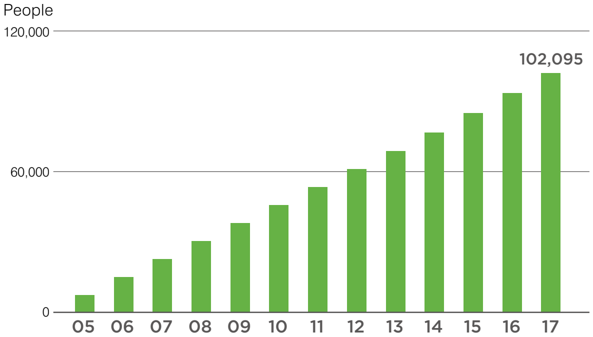
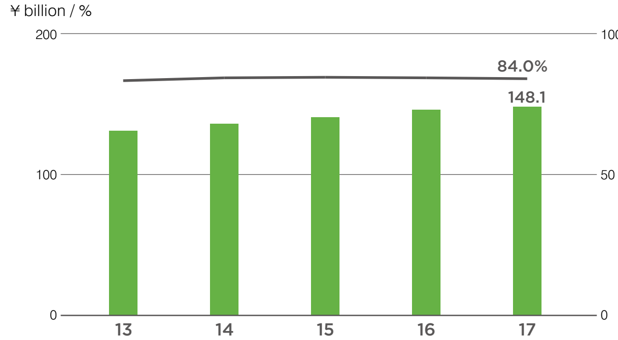
Cumulative Total of Medical Students Passing the National Examination for Medical Practitioners*



* In 2004, Kampo medicine education was implemented at all medical colleges and universities in Japan. The numbers are the cumulative total since 2005.

Japanese Market Size for Prescription Kampo Products*



* NHI listed price
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Price Revisions of the NHI Drug Price List

% change

	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016
Tsumura Kampo medicines	–8.6	–3.4	–3.6	–2.8	–4.2	–3.3	–4.5	–3.8	–3	–3
All pharmaceuticals	–9.7	–7.0	–6.3	–4.2	–6.7	–5.2	–5.75	–6.00	–5.64	–5.57

Note: The price revision figures for 2014 do not include the effect of the consumption tax hike.

Use of Prescription Kampo Products by Physicians

Kampo products are widely used in the healthcare workplace in Japan today. As of February 2017, more than 100,000 medical students have passed the Japanese national examination for medical practitioners since 2005, the year following the implementation of Kampo medicine education at all of the 80 medical colleges and university medical departments nationwide. According to a recent survey by the Ministry of Health, Labour and Welfare,*2 as of December 2014, the number of registered medical practitioners was 311,205, and it is estimated that one in three of these practitioners has received Kampo medicine education. In addition to providing support for Kampo education at medical education institutions, we are encouraging increased use of prescription Kampo products by providing information and training opportunities for newly graduated and practicing physicians.

*2 *Survey of Physicians, Dentists and Pharmacists 2014*, the Ministry of Health, Labour and Welfare, 2014

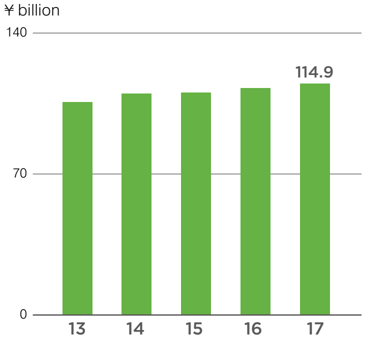
INCOME STATEMENT

Overview of Results

¥ in millions, except ratios	2016	2017
Net sales	¥112,625	**¥114,954**
Gross profit	67,569	**65,499**
Gross profit margin	60.0%	**57.0%**
Operating profit	¥ 19,826	**¥ 15,983**
Operating profit margin	17.6%	**13.9%**
Ordinary profit	¥ 19,494	**¥ 16,399**
Profit attributable to owners of the parent	¥ 12,557	**¥ 12,488**

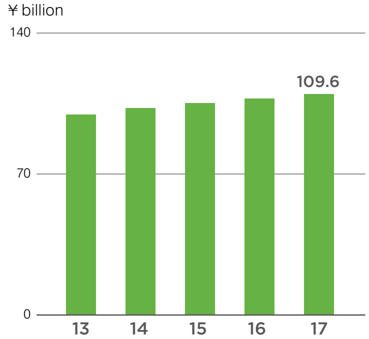
Net Sales

¥ billion



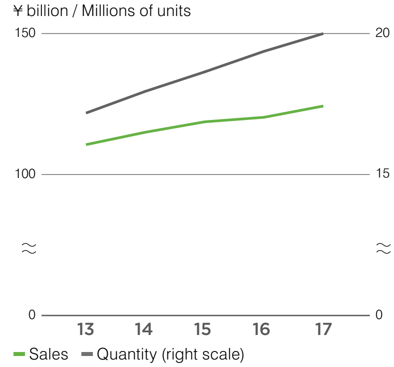
Sales of Prescription Kampo Products

¥ billion



Sales and Quantity of Tsumura Prescription Kampo Products*

¥ billion / Millions of units



* Sales and quantity from pharmaceutical wholesalers to medical institutions

Top 10 Kampo Products by Sales Amount

¥ million

	Product name	Main effectively treatable disorders	FY2016	FY2017	Difference	YoY change
1	TJ-100 (Daikenchuto)	Abdominal pain, abdominal flatulence	10,273	10,328	55	0.5%
2	TJ-54 (Yokukansan)	Neurosis, insomnia, etc.	7,215	7,330	115	1.6%
3	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness, anorexia, etc.	6,968	6,947	–21	–0.3%
4	TJ-43 (Rikkunshito)	Gastritis, maldigestion, anorexia, etc.	6,604	6,863	259	3.9%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms, etc.	4,688	4,853	165	3.5%
6	TJ-29 (Bakumondoto)	Coughing, bronchitis, bronchial asthma	4,494	4,511	16	0.4%
7	TJ-24 (Kamishoyosan)	Oversensitivity to cold, menstrual irregularity, climacteric disturbance	4,465	4,465	0	0.0%
8	TJ-107 (Goshajinkigan)	Leg pain, low back pain, numbness, dysuria, etc.	3,838	3,733	–105	–2.7%
9	TJ-114 (Saireito)	Swelling (edema), acute gastroenteritis, etc.	3,351	3,399	47	1.4%
10	TJ-17 (Goreisan)	Edema, diarrhea, headache, heat stroke, etc.	3,082	3,363	280	9.1%
—	TJ-14 (Hangeshashinto)	Stomatitis, fermentative diarrhea, neurotic gastritis, etc.	1,250	1,276	25	2.0%
Total sales of 129 prescription Kampo products			107,599	109,647	2,048	1.9%

Net Sales

In fiscal 2017, consolidated net sales increased 2.1% year on year, to ¥114,954 million. Although sales were impacted by the April 2016 NHI price revision, a 4.5% year-on-year increase was seen in sales volumes,*3 which grew smoothly to more than 20 million units and thus contributed to higher net sales.

The number of Kampo formulations for which sales showed year-on-year increases rose to 95. As a result, total sales of Tsumura's 129 prescription Kampo products edged up 1.9% year on year, to ¥109,647 million. Of this, sales of the five "drug fostering" program formulations increased 1.2%, to ¥29,532 million, and sales of the five "growing" formulations increased 1.9%, to ¥24,141 million.

On March 31, 2017, the total scale of the prescription Kampo product market on a monetary basis was ¥148.1 billion, and the Company's share of this market was 84.0%.*4

*3 Figures refer to sales of prescription Kampo products by pharmaceutical wholesalers to medical institutions. Net sales are calculated based on shipments from Tsumura to pharmaceutical wholesalers.

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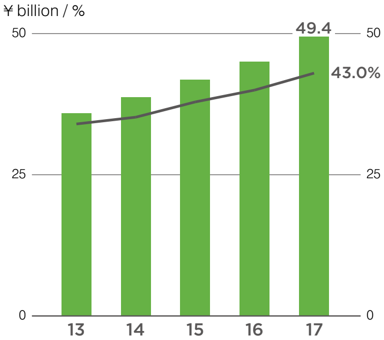
Cost of Sales

Cost of sales rose 9.8% year on year, to ¥49,457 million. Although we were successful in lowering processing costs through increased productivity, we could not offset the impacts of the NHI drug price revisions and the increase in raw material crude drug costs, which was primarily a result of foreign exchange rate movements. As a result, the cost of sales ratio rose 3.0 percentage points year on year, to 43.0%.

Cost of Sales / Cost of Sales Ratio

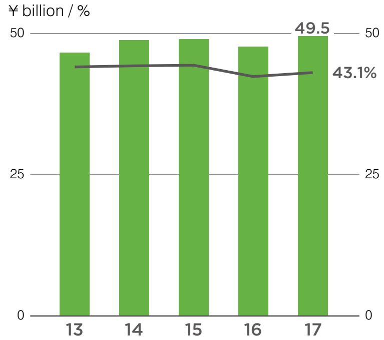
¥ billion / %



Cost of sales — Cost of sales ratio (right scale)

SG&A Expenses / SG&A Expenses Margin

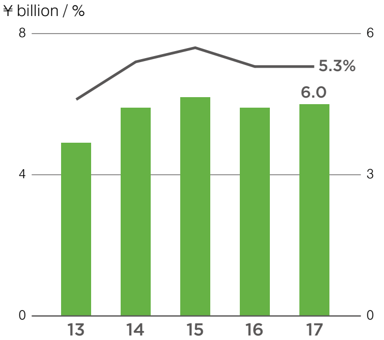
¥ billion / %



SG&A expenses
SG&A expenses margin (right scale)

R&D Expenses / R&D Expenses Margin

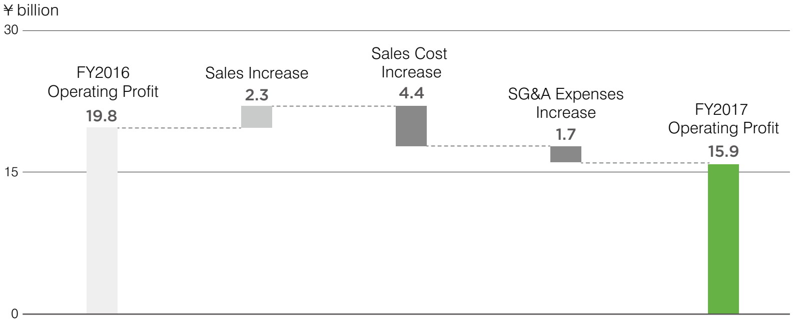
¥ billion / %



R&D expenses
R&D expenses margin (right scale)

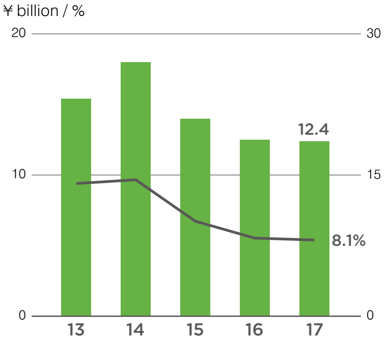
Factors in Increase / Decrease of Operating Profit

¥ billion



Profit Attributable to Owners of the Parent / ROE

¥ billion / %



Profit attributable to owners of the parent
ROE (right scale)

Selling, General and Administrative (SG&A) Expenses

Selling, general and administrative (SG&A) expenses increased 3.7% year on year, to ¥49,516 million, and the SG&A expenses margin rose 0.7 percentage point, to 43.1%. Among major expenses, personnel expenses were up 2.4%, to ¥29,535 million; sales promotion expenses climbed 2.5%, to ¥3,920 million; sales rebates rose 1.7%, to ¥9,519 million; and advertising costs grew 31.8%, to ¥710 million. In addition, R&D expenses increased 2.0%, to ¥6,087 million, representing 5.3% of net sales, the same level as in the previous fiscal year.

Major Expenses

¥ in millions	2016	2017
Personnel expenses	¥28,845	**¥29,535**
Sales promotion expenses	3,823	**3,920**
Advertising costs	539	**710**
R&D expenses	5,968	**6,087**

Operating Profit

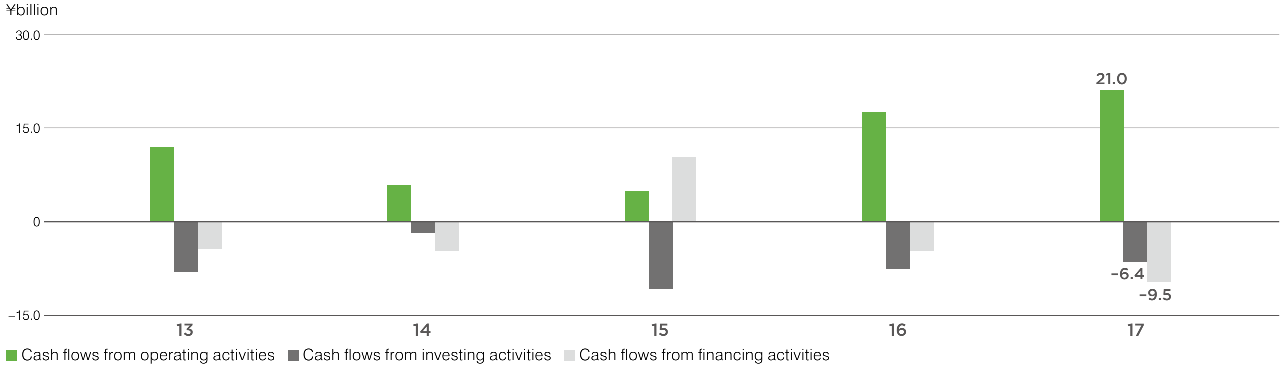
Operating profit decreased 19.4% year on year, to ¥15,983 million, while the operating profit margin declined 3.7 percentage points, to 13.9%.

Ordinary Profit

Ordinary profit was down 15.9%, to ¥16,399 million, while foreign exchange loss decreased to ¥381 million from ¥975 million in the previous fiscal year.

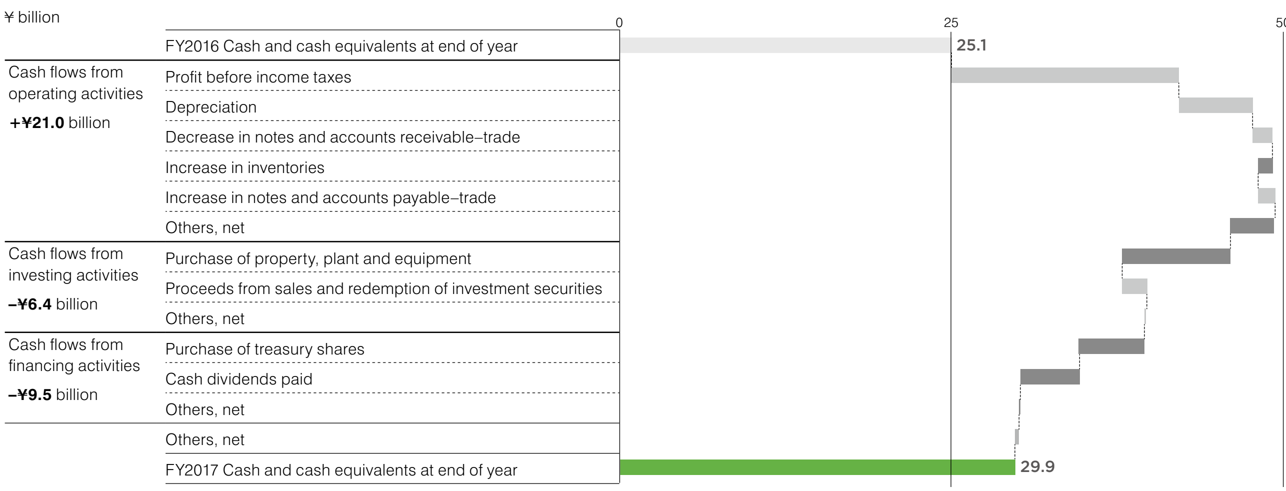
Cash Flows

¥billion



Factors in Increase / Decrease of Cash

¥ billion



Profit Attributable to Owners of the Parent

Profit attributable to owners of the parent declined 0.5% year on year, to ¥12,488 million. This decline was less than the decrease in operating profit as gain on sales of investment securities of ¥873 million was recorded under extraordinary income while the impacts of impairment losses recorded in the previous fiscal year disappeared. In addition, profit attributable to owners of the parent per share increased slightly to ¥179.46, compared with ¥178.06 per share in the previous fiscal year, as a result of treasury share acquisitions conducted in fiscal 2017.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Cash Flow Data

¥ in millions	2016	2017
Cash flows from operating activities	¥17,570	**¥21,065**
Cash flows from investing activities	(7,461)	**(6,451)**
Cash flows from financing activities	(4,608)	**(9,572)**

Net cash provided by operating activities amounted to ¥21,065 million, up ¥3,495 million year on year. This increase was a result of a decrease in receivables and a decrease in inventories, which outweighed the impacts of lower profit before income taxes and higher income taxes paid.

Net cash used in investing activities amounted to ¥6,451 million, down ¥1,010 million year on year. This decrease in net outflow was a result of proceeds from sales and redemption of short-term and long-term investment securities, which compensated for the decline in proceeds from sales of property, plant and equipment.

Net cash used in financing activities amounted to ¥9,572 million, up ¥4,963 million year on year. Major cash outflows included purchase of treasury shares.

As a result, the balance of cash and cash equivalents at the end of the fiscal year under review was ¥29,901 million, an increase that comprised a ¥4,453 million net increase in cash and cash equivalents as well as a ¥290 million increase in cash and cash equivalents from newly consolidated subsidiary and a ¥28 million increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries.

Balance Sheet

Balance Sheet Data

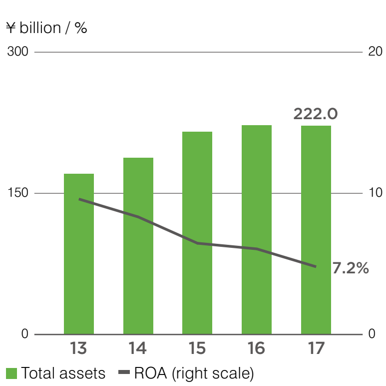
¥ in millions	2016	2017
Total assets	¥222,468	**¥222,008**
Total liabilities	66,765	**64,611**
Interest-bearing debt	37,048	**37,088**
Total net assets	155,702	**157,397**

Note: Interest-bearing debt includes lease obligations.

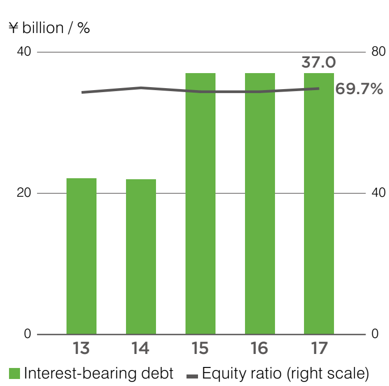
Assets

On March 31, 2017, current assets stood at ¥134,679 million, up ¥1,010 million from a year earlier. The increases in cash and deposits and work in process counteracted the decreases in raw materials and supplies and notes and

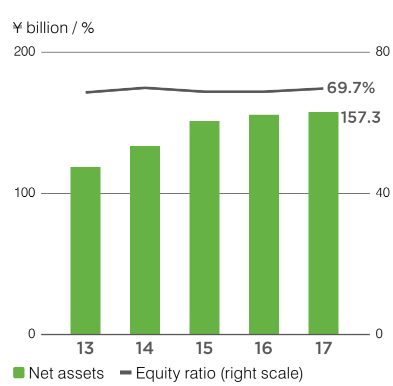
Total Assets / ROA



Interest-Bearing Debt / Equity Ratio



Net Assets / Equity Ratio



accounts receivable–trade. Meanwhile, non-current assets decreased ¥1,469 million, coming to ¥87,329 million on March 31, 2017. Property, plant and equipment increased in conjunction with capital investments while investments and other assets declined following the sale of investment securities.

As a result of the above, total assets amounted to ¥222,008 million, a decrease of ¥459 million from the previous fiscal year-end.

Liabilities

Current liabilities declined ¥11,818 million compared with the previous fiscal year-end, to ¥31,883 million, reflecting a decrease in short-term loans payable. Meanwhile, non-current liabilities increased ¥9,664 million, to ¥32,727 million, due to a rise in long-term loans payable, less current portion. Interest-bearing debt increased ¥40 million, to ¥37,088 million.

Consequently, total liabilities at the end of the fiscal year under review decreased ¥2,153 million from the previous fiscal year-end, to ¥64,611 million.

Net Assets

Total net assets amounted to ¥157,397 million at the fiscal year-end, climbing ¥1,694 million from a year earlier. Retained earnings were higher while treasury share acquisitions were conducted.

NON-FINANCIAL CAPITAL

Human Capital

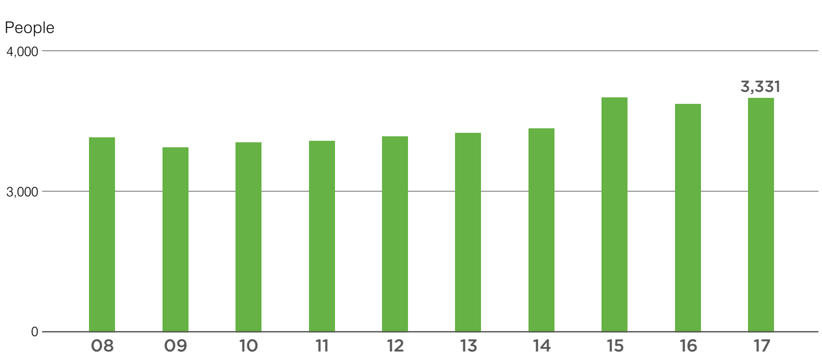
Tsumura views human capital as one of the most important forms of non-financial capital. Based on this belief, we have defined three elements of our Vision for 2021 long-term business vision: (1) The “Kampo” Company, (2) The “People” Company, and (3) The “Global Niche” Company.

On March 31, 2017, the Company had 3,331 employees on a consolidated basis, 804 of whom were employees of overseas Group companies. To achieve our vision of making Tsumura “The ‘People’ Company,” we provide various training programs to employees working at domestic bases while giving employees at overseas bases the opportunity to undergo training in Japan. Furthermore, we believe that the diversity of human resources energizes the organization and thus serves as a driving force behind growth. Accordingly, we seek to foster diversity by promoting female employees to management roles and selecting officers and managers at overseas Group companies from among locally hired staff.

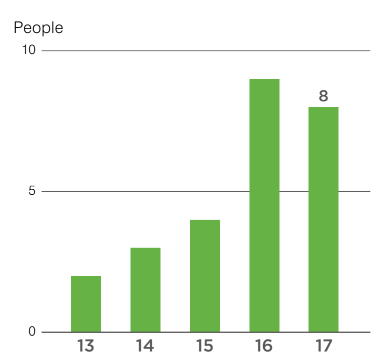
Social and Relationship Capital

It goes without saying that Tsumura’s business is prefaced on the trust of the medical practitioners and patients who use its Kampo products. Moreover, the Company’s

Number of Employees



Number of Foreign Executive Officers of the Group



business model only works because of our relationships with various stakeholders on each link of the Kampo value chain. For example, the production and procurement of crude drugs are supported by trust-based business relationships with production companies and crude drug production associations in China and Japan as well as with the producers who are members of these associations. Similarly, given that scientific evidence is crucial to increasing Kampo prescriptions, our partners in advancing fundamental and clinical research—research and educational institutions and our network of medical practitioners—are indispensable.

Natural Capital

The raw materials for Kampo medicines are crude drugs derived mainly from plants. In fiscal 2017, the total amount of raw material crude drugs used was 12,495 tons, rising 876 tons from the previous fiscal year in reflection of higher Kampo product sales volumes. Seeking to ensure a sustainable supply of crude drugs in light of projected growth in Kampo product demand, Tsumura strives to preserve the biodiversity of crude drug production regions while also protecting and nurturing crude drugs that are grown in the wild and advancing research on their cultivation.

FINANCIAL AND DIVIDEND POLICY

Key Financial Indicators

%	2016	2017
ROE	8.3%	8.1%
ROA	9.1	7.2
Equity ratio	68.8	69.7
Debt-to-equity ratio (times)	0.24	0.24
Dividend payout ratio	35.9	35.7
Total payout ratio	35.9	75.9

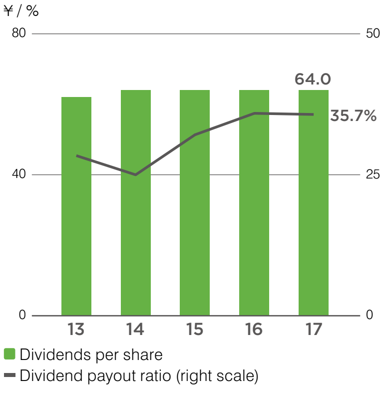
Financial Indicators

Emphasizing shareholder value, Tsumura's management has positioned return on equity (ROE) as a key performance indicator. In fiscal 2017, profit attributable to owners of the parent decreased and—following the increase in retained earnings—shareholders' equity rose. As a result, ROE declined 0.2 percentage point year on year, to 8.1%. Return on assets (ROA) decreased 1.9 percentage points, to 7.2%. The equity ratio rose 0.9 percentage point year on year, to 69.7%, while the debt-to-equity ratio was unchanged year on year at 0.24 times.

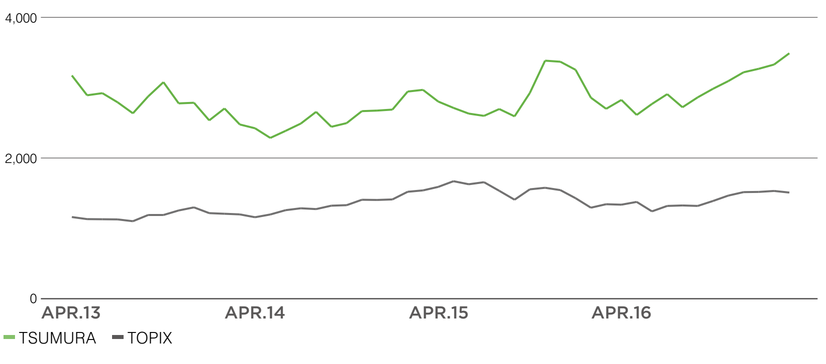
Shareholder Returns

Tsumura's basic policy on shareholder returns is to pursue increased corporate value through business investments and growth strategies for furthering the ongoing development of Kampo medicine. At the same time, Tsumura places importance on returning profits to shareholders. For that reason, the Company's policy is to issue stable dividend

Dividends per Share / Dividend Payout Ratio



Stock Price



payments after taking into consideration medium-to-long-term earnings levels and cash flow trends. Based on this policy, Tsumura paid a total annual dividend of ¥64.0 per share in fiscal 2017, the same as in fiscal 2016, and the consolidated dividend payout ratio was 35.7%.

In addition, the Company conducted the acquisition of treasury shares during fiscal 2017. Accordingly, the total payout ratio (total dividend payments and treasury share acquisition amounts divided by profit attributable to owners of the parent) was 75.9%. It is Tsumura's policy to adopt a flexible stance with regard to treasury share acquisitions, which may be conducted based on a comprehensive evaluation of factors, including the market trend outlook and the capital structure that has been deemed ideal.

It was in fiscal 2005 that Tsumura began promoting "drug fostering" program formulations, a measure that remains a core pillar of growth strategies today. Setting fiscal 2005 as the base year, the total shareholder return (share price appreciation plus dividends) for the period from March 31, 2005, to March 31, 2017, was 145.6%* and the compound annual growth rate for the same period was 7.8%.*

¥	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Stock price (As of end of March each year)	1,653	3,100	2,775	2,485	2,550	2,715	2,610	2,391	3,475	2,480	2,971	2,702	3,490
Total annual dividend (Years ended March 31)	14.0	14.0	17.0	23.0	34.0	46.0	58.0	60.0	62.0	64.0	64.0	64.0	64.0

* The total annual dividend in fiscal 2005 was not included in the calculation of the total shareholder return and the compound annual growth rate above.

Performance Forecasts for Fiscal 2018

In fiscal 2018, net sales are forecast to increase 5.0% year on year, to ¥120,700 million, as a result of ongoing growth in prescription Kampo product sales. In addition, operating profit is projected to rise 10.1%, to ¥17,600 million; ordinary profit is slated to increase 10.4%, to ¥18,100 million; and profit attributable to owners of the parent is set to grow 1.7%, to ¥12,700 million. The amount of capital investment in fiscal 2018 is expected to be ¥15,100 million, roughly 2.3 times higher than in fiscal 2017, primarily due to the construction of a new manufacturing facility at the Ibaraki Plant.

Performance Forecasts

¥ in millions, except ratios	2018	YoY(%)
Net sales	¥120,700	5
Operating profit	17,600	10.1
Operating profit margin	14.6%	0.7 pt.
Ordinary profit	18,100	10.4
Profit attributable to owners of the parent	12,700	1.7

Consolidated Balance Sheets

TSUMURA & CO. and consolidated subsidiaries
March 31, 2017 and 2016

	¥ in millions		US$ in thousands (Note 2)
Assets	2016	2017	2017
Current assets			
Cash and deposits	¥ 25,150	¥ 29,931	$ 266,788
Notes and accounts receivable–trade	41,875	40,347	359,630
Merchandise and finished goods	8,438	8,122	72,395
Work in process	12,428	14,547	129,663
Raw materials and supplies	31,482	29,467	262,652
Deferred tax assets	1,271	1,325	11,810
Other	13,026	10,941	97,522
Allowance for doubtful accounts	(4)	(4)	(35)
Total current assets	133,668	134,679	1,200,454
Non-current assets			
Property, plant and equipment			
Buildings and structures (Note 3 (d))	56,226	64,429	574,284
Machinery, equipment and vehicles (Note 3 (d))	42,421	47,920	427,132
Tools, furniture and fixtures (Note 3 (d))	9,652	10,139	90,373
Land (Note 3 (a))	9,009	9,052	80,684
Construction in progress	12,815	3,880	34,584
Other	239	308	2,745
Accumulated depreciation	(67,542)	(71,044)	(633,247)
Total property, plant and equipment	62,822	64,686	576,575
Intangible assets	226	266	2,370
Investments and other assets			
Investment securities (Note 3 (b))	20,119	17,530	156,252
Net defined benefit asset	122	1,058	9,430
Deferred tax assets	32	43	383
Other (Note 3 (b))	5,478	3,743	33,363
Allowance for doubtful accounts	(2)	(0)	(0)
Total investment and other assets	25,750	22,376	199,447
Total non-current assets	88,799	87,329	778,402
Total assets	¥222,468	¥222,008	$1,978,857

Liabilities	¥ in millions 2016	2017	US$ in thousands (Note 2) 2017
Current liabilities			
Notes and accounts payable–trade	¥ 5,652	¥ 6,696	$ 59,684
Short-term loans payable	21,957	12,581	112,140
Accounts payable–other	4,927	6,020	53,658
Income taxes payable	2,838	1,901	16,944
Provision for sales returns	16	13	115
Other	8,310	4,670	41,625
Total current liabilities	43,702	31,883	284,187
Non-current liabilities			
Long-term loans payable	15,000	24,376	217,274
Deferred tax liabilities	1,202	1,733	15,447
Deferred tax liabilities for land revaluation (Note 3 (a))	1,339	1,179	10,508
Net defined benefit liability	66	84	748
Other	5,454	5,353	47,713
Total non-current liabilities	23,063	32,727	291,710
Total liabilities	66,765	64,611	575,906
Net assets			
Shareholders' equity			
Capital stock	19,487	19,487	173,696
Capital surplus	1,940	1,940	17,292
Retained earnings	122,047	129,937	1,158,187
Treasury shares	(392)	(5,393)	(48,070)
Total shareholders' equity	143,084	145,972	1,301,114
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	3,835	3,845	34,272
Deferred gains or losses on hedges	479	925	8,244
Revaluation reserve for land (Note 3 (a))	2,513	2,673	23,825
Foreign currency translation adjustment	3,549	1,470	13,102
Remeasurements of defined benefit plans	(485)	(102)	(909)
Total accumulated other comprehensive income	9,891	8,811	78,536
Non-controlling interests	2,726	2,613	23,290
Total net assets	155,702	157,397	1,402,950
Total liabilities and net assets	¥222,468	¥222,008	$1,978,857

See notes to consolidated financial statements.

Consolidated Statements of Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	¥ in millions		US$ in thousands (Note 2)
	2016	2017	2017
Net sales	¥112,625	¥114,954	$1,024,636
Cost of sales (Note 4 (a))	45,048	49,457	440,832
Gross profit before provision for sales returns	67,577	65,496	583,795
Provision for sales returns	7	–	–
Reversal of provision for sales returns	–	3	26
Gross profit	67,569	65,499	583,822
Selling, general and administrative expenses (Notes 4 (b) and (c))	47,743	49,516	441,358
Operating profit	19,826	15,983	142,463
Non-operating income			
Interest income	97	64	570
Dividend income	363	385	3,431
Share of profit of entities accounted for using equity method	8	31	276
Other	396	481	4,287
Total non-operating income	866	962	8,574
Non-operating expenses			
Interest expenses	182	144	1,283
Foreign exchange losses	975	381	3,396
Other	41	20	178
Total non-operating expenses	1,198	546	4,866
Ordinary profit	19,494	16,399	146,171
Extraordinary income			
Gain on sales of non-current assets (Note 4 (d))	0	3	26
Gain on sales of investment securities	0	873	7,781
Total extraordinary income	0	876	7,808
Extraordinary losses			
Loss on sales of non-current assets (Note 4 (e))	0	43	383
Loss on retirement of non-current assets (Note 4 (f))	31	40	356
Impairment loss (Note 4 (g))	563	–	–
Loss on disaster (Note 4 (h))	–	7	62
Total extraordinary losses	595	92	820
Profit before income taxes	18,898	17,184	153,168
Income taxes–current	5,949	4,342	38,702
Income taxes–deferred	123	103	918
Total income taxes	6,072	4,446	39,629
Profit	12,825	12,738	113,539
Profit attributable to non-controlling interests	268	249	2,219
Profit attributable to owners of parent	¥ 12,557	¥ 12,488	$ 111,311

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	¥ in millions		US$ in thousands (Note 2)
	2016	2017	2017
Profit	¥12,825	¥12,738	$113,539
Other comprehensive income			
Valuation difference on available-for-sale securities	1,402	9	80
Deferred gains or losses on hedges	(3,079)	445	3,966
Revaluation reserve for land	382	159	1,417
Foreign currency translation adjustment	(753)	(2,342)	(20,875)
Remeasurements of defined benefit plans, net of tax	(1,119)	383	3,413
Share of other comprehensive income (loss) of entities accounted for using equity method	(29)	(49)	(436)
Total other comprehensive income (loss) (Note 5)	(3,196)	(1,393)	(12,416)
Comprehensive income	¥ 9,629	¥11,344	$101,114
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥ 9,485	¥11,408	$101,684
Comprehensive income attributable to non-controlling interests	144	(64)	(570)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

¥ in millions

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2016	¥19,487	¥1,940	¥122,047	¥ (392)	¥143,084
Changes of items during period					
Dividends of surplus			(4,476)		(4,476)
Profit attributable to owners of parent			12,488		12,488
Change of scope of consolidation			(150)		(150)
Increase by merger			27		27
Purchase of treasury shares				(5,001)	(5,001)
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	7,889	(5,001)	2,888
Balance at March 31, 2017	¥19,487	¥1,940	¥129,937	¥(5,393)	¥145,972

¥ in millions

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	¥3,835	¥479	¥2,513	¥3,549	¥(485)	¥ 9,891	¥2,726	¥155,702
Changes of items during period								
Dividends of surplus								(4,476)
Profit attributable to owners of parent								12,488
Change of scope of consolidation								(150)
Increase by merger								27
Purchase of treasury shares								(5,001)
Net changes of items other than shareholders' equity	9	445	159	(2,078)	383	(1,080)	(113)	(1,193)
Total changes of items during period	9	445	159	(2,078)	383	(1,080)	(113)	1,694
Balance at March 31, 2017	¥3,845	¥925	¥2,673	¥1,470	¥(102)	¥ 8,811	¥2,613	¥157,397

US$ in thousands (Note 2)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2016	$173,696	$17,292	$1,087,859	$ (3,494)	$1,275,372
Changes of items during period					
Dividends of surplus			(39,896)		(39,896)
Profit attributable to owners of parent			111,311		111,311
Change of scope of consolidation			(1,337)		(1,337)
Increase by merger			240		240
Purchase of treasury shares				(44,576)	(44,576)
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	70,318	(44,576)	25,742
Balance at March 31, 2017	$173,696	$17,292	$1,158,187	$(48,070)	$1,301,114

US$ in thousands (Note 2)

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2016	$34,183	$4,269	$22,399	$ 31,633	$(4,323)	$88,162	$24,298	$1,387,842
Changes of items during period								
Dividends of surplus								(39,896)
Profit attributable to owners of parent								111,311
Change of scope of consolidation								(1,337)
Increase by merger								240
Purchase of treasury shares								(44,576)
Net changes of items other than shareholders' equity	80	3,966	1,417	(18,522)	3,413	(9,626)	(1,007)	(10,633)
Total changes of items during period	80	3,966	1,417	(18,522)	3,413	(9,626)	(1,007)	15,099
Balance at March 31, 2017	$34,272	$8,244	$23,825	$ 13,102	$ (909)	$78,536	$23,290	$1,402,950

See notes to consolidated financial statements.

¥ in millions

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2015	¥19,487	¥1,940	¥114,313	¥(389)	¥135,351
Changes of items during period					
Dividends of surplus			(4,513)		(4,513)
Profit attributable to owners of parent			12,557		12,557
Reversal of revaluation reserve for land			(309)		(309)
Purchase of treasury shares				(2)	(2)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	7,734	(2)	7,732
Balance at March 31, 2016	¥19,487	¥1,940	¥122,047	¥(392)	¥143,084

¥ in millions

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	¥2,432	¥ 3,559	¥2,130	¥4,207	¥ 633	¥12,964	¥2,631	¥150,947
Changes of items during period								
Dividends of surplus								(4,513)
Profit attributable to owners of parent								12,557
Reversal of revaluation reserve for land								(309)
Purchase of treasury shares								(2)
Net changes of items other than shareholders' equity	1,402	(3,079)	382	(658)	(1,119)	(3,072)	94	(2,977)
Total changes of items during period	1,402	(3,079)	382	(658)	(1,119)	(3,072)	94	4,754
Balance at March 31, 2016	¥3,835	¥ 479	¥2,513	¥3,549	¥ (485)	¥ 9,891	¥2,726	¥155,702

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2016

	¥ in millions		US$ in thousands (Note 2)
	2016	2017	2017
Cash flows from operating activities			
Profit before income taxes	¥18,898	¥17,184	$153,168
Depreciation	5,059	5,629	50,173
Impairment loss	563	–	–
Increase (decrease) in allowance for doubtful accounts	0	(2)	(17)
Interest and dividend income	(461)	(449)	(4,002)
Interest expenses	182	144	1,283
Share of (profit) loss of entities accounted for using equity method	(8)	(31)	(276)
Loss (gain) on sales and retirement of property, plant and equipment	25	82	730
Decrease (increase) in notes and accounts receivable–trade	215	1,465	13,058
Decrease (increase) in inventories	(2,440)	(1,123)	(10,009)
Increase (decrease) in notes and accounts payable–trade	390	1,255	11,186
Loss (gain) on sales of short-term and long-term investment securities	(0)	(873)	(7,781)
Decrease (increase) in net defined benefit asset	(510)	(281)	(2,504)
Increase (decrease) in net defined benefit liability	(100)	(89)	(793)
Other	(693)	3,272	29,164
Subtotal	21,120	26,182	233,371
Interest and dividend income received	486	470	4,189
Interest expenses paid	(182)	(142)	(1,265)
Income taxes paid	(3,854)	(5,444)	(48,524)
Cash flows from operating activities	17,570	21,065	187,761
Cash flows from investing activities			
Purchase of property, plant and equipment	(7,675)	(8,211)	(73,188)
Proceeds from sales of property, plant and equipment	1,200	29	258
Purchase of intangible assets	(60)	(88)	(784)
Purchase of short-term and long-term investment securities	(10)	(18)	(160)
Proceeds from sales and redemption of short-term and long-term investment securities	8	1,874	16,703
Payments for investments in capital of subsidiaries and affiliates	–	(238)	(2,121)
Payments of loans receivable	(934)	(3)	(26)
Collection of loans receivable	5	4	35
Payments into time deposits	(34)	(34)	(303)
Proceeds from withdrawal of time deposits	48	36	320
Other	(10)	197	1,755
Cash flows from investing activities	(7,461)	(6,451)	(57,500)
Cash flows from financing activities			
Purchase of treasury shares	(2)	(5,001)	(44,576)
Cash dividends paid	(4,515)	(4,478)	(39,914)
Dividends paid to non-controlling interests	(54)	(49)	(436)
Other	(36)	(43)	(383)
Cash flows from financing activities	(4,608)	(9,572)	(85,319)
Effect of exchange rate change on cash and cash equivalents	285	(588)	(5,241)
Net increase (decrease) in cash and cash equivalents	5,784	4,453	39,691
Cash and cash equivalents at beginning of period	19,343	25,128	223,977
Increase in cash and cash equivalents from newly consolidated subsidiary	–	290	2,584
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	–	28	249
Cash and cash equivalents at end of period (Note 7)	¥25,128	¥29,901	$266,521

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

TSUMURA & CO. and consolidated subsidiaries
March 31, 2017 and 2016

1 Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of TSUMURA & CO. (the "Company") and its consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan (the "FIEA").

As permitted by the FIEA, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

(b) Consolidation

(1) Scope of consolidation

1). Number of consolidated subsidiaries:
Five (of which, three companies are located overseas) for the year ended March 31, 2017.

Names of consolidated subsidiaries:

- LOGITEM TSUMURA CO., LTD.
- TSUMURA USA, INC.
- SHENZHEN TSUMURA MEDICINE CO., LTD.
- SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.
- YUBARI TSUMURA CO., LTD.

Effective from the year ended March 31, 2017, the Company included YUBARI TSUMURA CO., LTD., which was previously a non-consolidated subsidiary, in the scope of consolidation since it is no longer insignificant to the Company's consolidated financial statements.

2). Name of major non-consolidated subsidiaries:

- LAO TSUMURA CO., LTD., and two other companies

3). Reason for excluding non-consolidated subsidiaries from the scope of consolidation

The Company excluded these three non-consolidated subsidiaries from the scope of consolidation since each of them is small in size and its assets, sales, and profit (for the holding interest) and retained earnings (for the holding interest) are insignificant to the Company's consolidated financial statements.

(2) Equity method

1). Number of affiliates accounted for using the equity method: one

- SICHUAN CHUANCUN TRADITIONAL CHINESE MEDICINES CO., LTD.

2). Name of major non-consolidated companies and affiliates not accounted for using the equity method

- LAO TSUMURA CO., LTD. and three other companies

3). Reason for excluding non-consolidated subsidiaries and affiliates from the scope of equity method accounting

The Company excluded the four non-consolidated subsidiaries and affiliates from the scope of equity method accounting since each of them is small in size and its assets, sales, and profit (for the holding interest) and retained earnings (for the holding interest) are insignificant to the Company's consolidated financial statements, and the impact is insignificant as a whole.

4). Special notes to application of equity method accounting

When the fiscal year-end of a company accounted for using the equity method is not consistent to that of the Company, the financial statements of the company as of its own balance sheet date is used.

(c) Fiscal year-end of consolidated subsidiaries

Of consolidated subsidiaries, SHENZHEN TSUMURA MEDICINE CO., LTD., SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. and TSUMURA USA, INC., have fiscal years ending on December 31. Their financial statements as of December 31 are used for consolidation. The Company makes necessary adjustments on consolidation if there are any significant transactions during the intervening period.

(d) Accounting policies

(1) Basis and method to measure significant assets

1). Securities

Available-for-sale securities

With readily determinable market value

Stated at fair value based on market quotes as of the balance sheet date.

Any changes in unrealized holding gain or loss are included in net assets. The cost of securities sold is principally computed based on the moving average method.

Without readily determinable market value

Stated at cost determined by the moving-average method.

2). Inventories

Stated at the lower of cost determined principally by the average-cost method or net selling value.

3). Derivatives

Stated at fair value.

(2) Depreciation methods of significant depreciable assets

1). Property, plant and equipment, excluding leased assets

Straight-line method

The estimated useful lives of the major depreciable assets are as follows:

Buildings and structures	3 to 65 years
Machinery, equipment and vehicles	3 to 8 years

2). Intangible assets, excluding leased assets
Straight-line method

Cost of software purchased for internal use is amortized by the straight-line method over the internal useful life of five years.

3). Leased assets
Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated under the straight-line method over the lease term with no residual value.

(3) Basis of significant provisions
1). Allowance for doubtful accounts
The Group provides allowances for uncollectable notes and accounts receivable–trade at the amounts calculated based on past experience and the amounts estimated specifically on each doubtful receivable from a customer with financial difficulty.

2). Provision for sales returns
Provision for sales returns is provided for estimated losses on sales returns subsequent to the balance sheet date.

(4) Accounting treatment of retirement benefits
1). Method of attributing expected benefits
The benefit formula method is used as the method of attributing expected benefits to the current period in calculating retirement benefit obligations.

2). Treatment of actuarial gain or loss and prior service costs
Actuarial gain or loss is amortized and expensed using the straight-line method over 10 years, which is within the estimated average of remaining service years of employees, from the following year in which the gain or loss is recognized.

Prior service costs are amortized and expensed using the straight-line method over 10 years, which is within the estimated average of remaining service years of employees.

3). Application of simplified method for small-sized enterprises
The Company's consolidated subsidiaries use the simplified method in calculating net defined benefit liability and retirement benefit expenses. Under this method, the payment amount to be required at the year-end for voluntary termination is deemed as retirement benefit obligations.

(5) Translation of foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates in effect at the consolidated balance sheet date, and the resulting exchange gains and losses are recognized in profit or loss.

Assets, liabilities, profit, and loss of overseas consolidated subsidiaries and affiliates are translated into yen at the spot rates as of the balance sheet date. Foreign exchange gains and losses arising from the translation are credited or charged to foreign currency translation adjustment and non-controlling interests under net assets.

(6) Significant hedge accounting
1). Hedge accounting method
The Company primarily applies deferral hedge accounting.
As for forward exchange contracts, the Company applies the allocation method if requirements are met.

2). Hedging instruments and hedged items
Hedging instruments – forward exchange contracts
Hedged items – forecast transactions denominated in foreign currencies

3). Hedge policy
As a policy, the Company hedges the foreign currency fluctuation risk in accordance with the internal policies and procedures.

4). Method of evaluating hedge effectiveness
The Company omits the evaluation of hedge effectiveness since the allocation method is applied for all hedging transactions.

(7) Cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from acquisition date that are readily convertible and with minimum risk of price fluctuations.

(8) Other significant matters for the preparation of the consolidated financial statements
1). Accounting for consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid by the Group on the purchases of goods and services that are not deductible under the consumption tax law are expensed as incurred.

2). Consolidated taxation system
The Company has applied the consolidated taxation system.

(e) Changes in presentation
The amount of electronically recorded obligations, which was previously included in "Other" under "Current liabilities," has been included in "Notes and accounts payable–trade" as of March 31, 2017. The reclassification was made to the consolidated financial statements as of March 31, 2016, to conform to the current presentation.

As a result, "Notes and accounts payable – trade" of ¥3,157 million and "Other" of ¥10,804 million under "Current liabilities" as of March 31, 2016, have changed to ¥5,652 million in "Notes and other accounts payable" and ¥8,310 million in "Other," respectively.

(f) Implementation guidance on recoverability of deferred tax assets
Effective from the year ended March 31, 2017, the Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

2 Basis of Translation

The consolidated financial statements presented herein are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥112.19=US$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2017. This translation should not be construed as a representation that the amounts shown could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

3 Notes to the Consolidated Balance Sheets

(a) Land revaluation

The Group revalued land used for business activities in accordance with the Act on Revaluation of Land (Act No. 34, dated March 31, 1998) and the Act on Partial Revision of the Act on Revaluation of Land" (Act No. 19 dated March 31, 2001). Revaluation reserve for land, net of related deferred taxes, has been presented as a component of net assets.

- Method of revaluation

The Company applies the method to make reasonable adjustments to the value determined by the property tax value as prescribed in Paragraph 2, item 3 of the Order for Enforcement of the Act on Revaluation of Land (Act No. 119, dated March 31, 1998, hereinafter, "Ordinance No.119") and the professional appraisal value as prescribed in Paragraph 2, item 5 of Ordinance No. 119.

- Date of revaluation–March 31, 2002.

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Difference between fair value of land at the year end and carrying value after the revaluation	¥(2,572)	¥(2,537)	$(22,613)

(b) Investments in non-consolidated subsidiaries and affiliates are as follows:

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Investments and other assets:			
Investment securities (stocks)	¥1,619	¥ 10	$ 89
Investments in capital	1,025	1,217	10,847

(c) Guarantee obligations

The Company guarantees bank loans made by companies other than consolidated subsidiaries.

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Tianjin China Medico Technology Co., Ltd.	¥–	¥1,920	$17,113
China Medico Corporation	–	1,080	9,626
Total	¥–	¥3,000	$26,740

(d) Reduction entry

Reduction entry is an accounting treatment to defer taxation, which has an effect to reduce tax burden for the year when a company acquires property, plant and equipment with proceeds such as subsidies by recording loss to lower the acquisition cost. Among property, plant and equipment acquired in previous years, amount of reduction entry due to national subsidies was ¥225 million, which is deducted from acquisition costs of relevant assets and excluded from the amount on the balance sheet. The breakdown is buildings and structures of ¥134 million, machinery, equipment and vehicles of ¥89 million, and tools, furniture and fixtures of ¥1 million.

4 Notes to the Consolidated Statements of Income

(a) Inventories at the balance sheet date are stated at the lower of cost or net selling value. Loss on valuation of inventories included in cost of sales for the years ended March 31, 2017, and 2016 are as follows:

	¥ in millions	US$ in thousands
2016	2017	2017
¥796	¥127	$1,132

(b) Major expenses included in selling, general and administrative expenses are as follows:

		¥ in millions	US$ in thousands
For the years ended March 31,	2016	2017	2017
Sales promotion expenses	¥ 3,823	¥ 3,920	$ 34,940
Sales rebates	9,363	9,519	84,847
Salaries and allowances	16,974	17,280	154,024
Research and development expenses	5,968	6,087	54,256
Retirement benefit expenses	972	1,246	11,106
Provision of allowance for doubtful accounts	0	0	0

(c) Research and development expenses included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2017, and 2016 are as follows:

	¥ in millions	US$ in thousands
2016	2017	2017
¥5,968	¥6,087	$54,256

(d) The breakdown of gain on sales of non-current assets is as follows:

		¥ in millions	US$ in thousands
For the years ended March 31,	2016	2017	2017
Machinery, equipment and vehicles	¥0	¥3	$26
Tools, furniture and fixtures	0	0	0

(e) The breakdown of loss on sales of non-current assets is as follows:

		¥ in millions	US$ in thousands
For the years ended March 31,	2016	2017	2017
Buildings and structures	¥0	¥ –	$ –
Machinery, equipment and vehicles	0	25	222
Land	–	18	160

(f) The breakdown of loss on retirement of non-current assets is as follows:

		¥ in millions	US$ in thousands
For the years ended March 31,	2016	2017	2017
Buildings and structures	¥16	¥16	$142
Machinery, equipment and vehicles	12	19	169
Tools, furniture and fixtures	2	4	35

(g) Impairment losses

The Group recognizes impairment losses on the following asset groups.

Assets used for business are grouped on the basis of business segments, considering the characteristics of the products and similarity of markets. Idle assets and assets to be disposed of are grouped individually.

For the year ended March 31, 2017

Not applicable.

For the year ended March 31, 2016

Location	Use	Description
Inashiki-gun, Ibaraki, Japan	Accommodation facilities for employees	Buildings and land, etc.

The Company concluded that it was necessary to close down accommodation facilities for employees after comprehensively considering employees' needs and maintenance costs, etc., and their carrying values have been reduced to their recoverable amounts and the difference recognized in extraordinary losses as impairment loss.

For the year ended March 31, 2016, the Company recognized impairment loss of ¥563 million, which consisted of ¥72 million for land and ¥491 million for buildings and structures.

The recoverable amount of the buildings and land, etc., was measured at the net selling price and its value in use. The net selling price is based on an appraisal value estimated by a real estate appraiser. Discount rates are not taken into account since the remaining usage period of the assets is short and the impact is immaterial.

(h) Loss on disaster

For the year ended March 31, 2017

Loss on disaster consisted of a ¥5 million ($44 thousand) loss on product damage incurred from the Kumamoto Earthquake and a ¥2 million ($17 thousand) loss from typhoon damage in Hokkaido.

For the year ended March 31, 2016

Not applicable.

5 Notes to the Statements of Comprehensive Income

Reclassifications and adjustments and income tax effects attributable to other comprehensive income (loss) for the years ended March 31, 2017, and 2016, are as follows:

	¥ in millions		US$ in thousands
For the years ended March 31,	2016	2017	2017
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 1,960	¥ 877	$ 7,817
Reclassifications and adjustments	(9)	(873)	(7,781)
Before income tax effects	1,950	4	35
Income tax effects	(547)	5	44
Valuation difference on available-for-sale securities	¥ 1,402	¥ 9	$80
Deferred gains or losses on hedges:			
Amount arising during the year	¥(4,599)	¥ 641	$ 5,713
Income tax effects	1,520	(196)	(1,747)
Deferred gains or losses on hedges	¥(3,079)	¥ 445	$ 3,966
Revaluation reserve for land:			
Amount arising during the year	¥ 309	¥ –	$ –
Income tax effects	73	159	1,417
Revaluation reserve for land	¥ 382	¥ 159	$ 1,417
Foreign currency translation adjustment:			
Amount arising during the year	¥ (753)	¥(2,342)	$(20,875)
Foreign currency translation adjustment	¥ (753)	¥(2,342)	$(20,875)
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year	¥(1,610)	¥ 256	$ 2,281
Reclassifications and adjustments	(2)	295	2,629
Before income tax effects	(1,613)	552	4,920
Income tax effects	494	(169)	(1,506)
Remeasurements of defined benefit plans, net of tax	¥(1,119)	¥ 383	$ 3,413
Share of other comprehensive income (loss) of entities accounted for using equity method			
Amount arising during the year	¥ (29)	¥ (49)	$ (436)
Share of other comprehensive income (loss) of entities accounted for using equity method	(29)	(49)	(436)
Total other comprehensive income (loss)	¥(3,196)	¥(1,393)	$(12,416)

6 Notes to Consolidated Statements of Changes in Equity

For the year ended March 31, 2017

(a) Type and number of issued shares

Thousands of shares

Type	Beginning of the year	Increase	Decrease	End of the year
Common stock	70,771	–	–	70,771

(b) Type and number of treasury shares

Thousands of shares

Type	Beginning of the year	Increase	Decrease	End of the year
Common stock	247	1,741	–	1,989

Reason for changes in number of shares:

The major breakdown of increase is as follows:

Increase due to acquisition of treasury shares by resolution of the Board of Directors' meeting	1,741 thousand shares
Increase due to purchase of shares less than one unit	0 thousand shares

(c) Subscription rights to shares

Not applicable.

(d) Dividends

(1) Dividends paid

Resolution	Type of share	Total amount of dividends (¥ in millions)	Dividends per share (¥)	Total amount of dividends (US$ in thousands)	Dividends per share (US$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	¥2,256	¥32.00	$20,108	$0.28	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 9, 2016	Common stock	2,219	32.00	19,778	0.28	September 30, 2016	December 5, 2016

(2) Dividends whose effective date is subsequent to March 31, 2017

Resolution	Type of share	Source of dividends	Total amount of dividends (¥ in millions)	Dividends per share (¥)	Total amount of dividends (US$ in thousands)	Dividends per share (US$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2017	Common stock	Retained earnings	¥2,201	¥32.00	$19,618	$0.28	March 31, 2017	June 30, 2017

For the year ended March 31, 2016

(a) Type and number of issued shares

Type	Beginning of the year	Increase	Decrease	End of the year
	Thousands of shares			
Common stock	70,771	–	–	70,771

(b) Type and number of treasury shares

Type	Beginning of the year	Increase	Decrease	End of the year
	Thousands of shares			
Common stock	246	0	–	247

Reason for changes in number of shares:

The major breakdown of increase is as follows:

Increase due to purchase of shares less than one unit 0 thousand shares

(c) Subscription rights to shares

Not applicable.

(d) Dividends

(1) Dividends paid

Resolution	Type of share	Total amount of dividends (¥ in millions)	Dividends per share (¥)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2015	Common stock	¥2,256	¥32.00	March 31, 2015	June 29, 2015
Board of Directors' meeting held on November 5, 2015	Common stock	2,256	32.00	September 30, 2015	December 4, 2015

(2) Dividends whose effective date is subsequent to March 31, 2016

Resolution	Type of share	Source of dividends	Total amount of dividends (¥ in millions)	Dividends per share (¥)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	Retained earnings	¥2,256	¥32.00	March 31, 2016	June 30, 2016

7 Notes to Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows at March 31, 2017, and 2016 to the accounts and amounts on the accompanying balance sheets is summarized as follows:

	¥ in millions		US$ in thousands
As of March 31,	2016	**2017**	**2017**
Cash and deposits	¥25,150	**¥29,931**	**$266,788**
Less: Time deposits with a maturity in excess of three months	(22)	**(30)**	**(267)**
Cash and cash equivalents	¥25,128	**¥29,901**	**$266,521**

8 Leases

LESSEE

(a) Finance leases

Finance lease transactions that do not transfer ownership

1). Details of leased assets

Leased assets consist of forklifts in factories.

2). Depreciation method of leased assets

Depreciation method is stated in Note 1. "Summary of Significant Accounting Policies, (d) Accounting policies, (2) Depreciation method of significant depreciable assets, 3) Leased assets."

(b) Operating leases

Future minimum lease payments for non-cancellable operating leases

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Within one year	¥54	¥ 57	$508
Over one year	16	47	418
Total	¥70	¥105	$935

9 Financial Instruments

(a) Status of financial instruments

(1) Policy on financial instruments

The Group finances necessary funds through bank loans, considering capital investments for the pharmaceutical production and selling business. Temporary excess funds are invested in highly secure financial assets.

Derivative transactions are only utilized to hedge the following risks, and it is the Group's policy not to enter into derivative transactions for speculative purposes.

(2) Overview and risks of financial instruments and the Group's risk management policy

Operating receivables such as notes and accounts receivable - trade are exposed to credit risk. The Group monitors the due date and balance by each customer in accordance with internal rules and ask for deposits to secure receivables depending on the customer's credit conditions.

Investment securities mainly consist of stocks of companies with business relationships and are exposed to market fluctuation risk. The market value of the investment securities is regularly reported to the officer responsible for accounting and finance.

Operating payables such as notes and accounts payable–trade are due within one year. Some of the operating payables relating to imports of raw materials are denominated in foreign currencies and are therefore exposed to foreign currency fluctuation risk. The Group utilizes forward exchange contracts to hedge the risk.

Short-term loans payable is used to finance operating capital and are exposed to interest rate fluctuation risk.

Long-term loans payable is mainly used to finance capital investment, and interest rate fluctuation risk is mitigated by using fixed interest rate borrowings in large part.

Accounts payable–other and income taxes payable are each due within one year.

The Group utilizes derivative financial instruments such as forward exchange contracts and non-deliverable forward (NDF) to hedge the foreign currency fluctuation risk of forecasted transactions denominated in foreign currencies. Please refer to Note 1. "Summary of Significant Accounting Policies, (6) Significant hedge accounting" for hedging instruments, hedged items, hedge policy, and method of evaluating hedge effectiveness.

Derivative transactions are executed and monitored based on internal rules where the authorization policy is prescribed. The Group only enters into derivative transactions with highly rated financial institutions to mitigate credit risk.

Operating payables and loans are exposed to liquidity risk.

The Group manages the risk by preparing the cash management plans monthly.

(3) Supplemental explanation regarding fair value of financial instruments

The contract amounts and other information regarding derivative transactions described in Note 10. "Derivatives" do not indicate market risk related to derivative transactions.

(b) Fair value of financial instruments

The following table summarizes carrying value reported on the consolidated balance sheets, fair value, and their differences. The financial instruments whose fair value is extremely difficult to determine are not included in the table. Please see "2. The carrying value of financial instruments whose fair value is extremely difficult to determine" on page 66.

As of March 31, 2017

	¥ in millions			US$ in thousands		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥29,931	¥29,931	¥ –	$266,788	$266,788	$ –
(2) Notes and accounts receivable–trade	40,347	40,347	–	359,630	359,630	–
(3) Investment securities Available-for-sale securities	17,423	17,423	–	155,299	155,299	–
Total assets	¥87,701	¥87,701	¥ –	$781,718	$781,718	$ –
(1) Notes and accounts payable–trade	¥ 6,696	¥ 6,696	¥ –	$ 59,684	$ 59,684	$ –
(2) Short-term loans payable	12,581	12,581	–	112,140	112,140	–
(3) Accounts payable–other	6,020	6,020	–	53,658	53,658	–
(4) Income taxes payable	1,901	1,901	–	16,944	16,944	–
(5) Long-term loans payable	24,376	24,326	(49)	217,274	216,828	(436)
Total liabilities	¥51,575	¥51,526	¥(49)	$459,711	$459,274	$(436)
Derivative transactions *1	¥ 1,335	¥ 1,335	¥ –	$ 11,899	$ 11,899	$ –

*1 A receivable or payable arisen from derivative transactions is shown in net. Net payable is shown in parentheses.

As of March 31, 2016

	¥ in millions		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥25,150	¥25,150	¥ –
(2) Notes and accounts receivable–trade	41,875	41,875	–
(3) Investment securities Available-for-sale securities	18,409	18,409	–
Total assets	¥85,435	¥85,435	¥ –
(1) Notes and accounts payable–trade	¥ 5,652	¥ 5,652	¥ –
(2) Short-term loans payable	21,957	21,957	–
(3) Accounts payable–other	4,927	4,927	–
(4) Income taxes payable	2,838	2,838	–
(5) Long-term loans payable	15,000	15,031	31
Total liabilities	¥50,375	¥50,405	31
Derivative transactions *1	¥ 693	¥ 693	¥ –

*1 A receivable or payable arisen from derivative transactions is shown in net. Net payable is shown in parentheses.

Notes:

1. Fair value measurement of financial instruments and matters regarding securities and derivatives

Assets

(1) Cash and deposits and (2) Notes and accounts receivable–trade

The carrying value is deemed as the fair value since these items are scheduled to be settled in a short period of time.

(3) Investment securities

The fair value of stocks is based on the quoted market prices. The fair value of bonds is based on the price provided by the counterparty financial institutions. Please refer to Note 10. “Investment Securities” for information regarding securities by holding purposes.

Liabilities

(1) Notes and accounts payable–trade, (2) Short-term loans payable, (3) Accounts payable–other and (4) Income taxes payable

The carrying value is deemed as the fair value since these items are scheduled to be settled in a short period of time.

(5) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total of principal and interest using an assumed interest rate applicable to a similar type of new borrowings.

Derivative transactions

Please refer to Note 11. “Derivatives.”

2. The carrying value of financial instruments whose fair value is extremely difficult to determine

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Unlisted stocks	¥1,709	¥107	$953

It is extremely difficult to determine the fair value of the above unlisted stocks since no market quote is available. Thus, these amounts are not included in "(3) Investment securities" above.

3. The redemption schedule of monetary assets and securities with maturity dates
As of March 31, 2017

¥ in millions	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	¥29,910	¥–	¥–	¥–
Notes and accounts receivable–trade	40,347	–	–	–
Total	¥70,258	¥–	¥–	¥–

US$ in thousands	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	$266,601	$–	$–	$–
Notes and accounts receivable–trade	359,630	–	–	–
Total	$626,241	$–	$–	$–

As of March 31, 2016

¥ in millions	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	¥25,132	¥–	¥–	¥–
Notes and accounts receivable–trade	41,875	–	–	–
Total	¥67,007	¥–	¥–	¥–

4. The aggregate annual maturities of lease obligations and other interest-bearing debt subsequent to the fiscal year-end
As of March 31, 2017

¥ in millions	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥12,581	¥ –	¥ –	¥ –	¥ –	¥ –
Long-term loans payable	–	15,000	–	–	9,376	–
Lease obligations	34	25	23	19	13	14
Total	¥12,615	¥15,025	¥23	¥19	¥9,389	¥14

US$ in thousands	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	$112,140	$ –	$ –	$ –	$ –	$ –
Long-term loans payable	–	133,701	–	–	83,572	–
Lease obligations	303	222	205	169	115	124
Total	$112,443	$133,924	$205	$169	$83,688	$124

As of March 31, 2016

¥ in millions	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥21,957	¥ –	¥ –	¥ –	¥–	¥–
Long-term loans payable	–	–	15,000	–	–	–
Lease obligations	31	21	14	12	8	2
Total	¥21,988	¥21	¥15,014	¥12	¥8	¥2

10 Investment Securities

(a) Available-for-sale securities

As of March 31, 2017

	¥ in millions			US$ in thousands		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost						
Stocks	¥17,264	¥11,817	¥5,446	$153,881	$105,330	$48,542
Subtotal	¥17,264	¥11,817	¥5,446	$153,881	$105,330	$48,542
Securities with book value not exceeding their acquisition cost						
Stocks	¥ 158	¥ 169	¥ (11)	$ 1,408	$ 1,506	$ (98)
Subtotal	¥ 158	¥ 169	¥ (11)	$ 1,408	$ 1,506	$ (98)
Total	¥17,423	¥11,987	¥5,435	$155,299	$106,845	$48,444

(Note) Unlisted stock with carrying value of ¥97 million (US$864 thousand) is not included in the table above since it is extremely difficult to determine the fair value due to no market quotes.

As of March 31, 2016

	¥ in millions		
	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost			
Stocks	¥17,901	¥12,325	¥5,575
Subtotal	¥17,901	¥12,325	¥5,575
Securities with book value not exceeding their acquisition cost			
Stocks	¥ 507	¥ 652	¥ (144)
Subtotal	¥ 507	¥ 652	¥ (144)
Total	¥18,409	¥12,978	¥5,431

(Note) Unlisted stock with carrying value of ¥90 million is not included in the table above since it is extremely difficult to determine the fair value due to no market quotes.

(b) Available-for-sale securities sold during the year

For the year ended March 31, 2017

	¥ in millions			US$ in thousands		
	Proceeds from sales	Gain on sale	Loss on sale	Proceeds from sales	Gain on sale	Loss on sale
Stocks	¥1,874	¥873	¥–	$16,703	$7,781	$–
Total	¥1,874	¥873	¥–	$16,703	$7,781	$–

For the year ended March 31, 2016

	¥ in millions		
	Proceeds from sales	Gain on sale	Loss on sale
Stocks	¥18	¥9	¥–
Total	¥18	¥9	¥–

11 Derivatives

(a) Derivatives transactions for which hedge accounting has not been applied

Not applicable.

(b) Derivatives transactions for which hedge accounting has been applied

Currency-related

As of March 31, 2017

Hedge accounting method	Transaction	Hedged items	¥ in millions Contract amount	 Contract amount over one year	 Fair value	US$ in thousands Contract amount	 Contract amount over one year	 Fair value
Allocation method	Forward exchange contracts Buy-USD	Forecast transactions denominated in foreign currencies	¥17,270	¥5,104	¥1,402	$153,935	$45,494	$12,496
	Buy-CNY		12,219	4,843	(12)	108,913	43,167	(106)
	Non-deliverable forward contracts (NDF) Buy-CNY		4,917	–	(54)	43,827	–	(481)
Total			¥34,407	¥9,947	¥1,335	$306,685	$88,662	$11,899

Fair value is based on quotes obtained from counterparty financial institutions.

As of March 31, 2016

Hedge accounting method	Transaction	Hedged items	¥ in millions Contract amount	 Contract amount over one year	 Fair value
Allocation method	Forward exchange contracts Buy-USD	Forecast transactions denominated in foreign currencies	¥18,058	¥2,709	¥663
	Buy-CNY		11,436	3,894	30
Total			¥29,495	¥6,603	¥693

Fair value is based on quotes obtained from counterparty financial institutions.

12 Employees' Retirement Benefits

(a) Outline of the retirement benefit plans adopted by the Company

The Company adopts a combination plan of a funded and unfunded defined benefit plan, defined contribution plan, and employees' pension fund plan (multi-employer pension plan).

The Company maintains a cash-balance plan, which is a contract-type corporate pension plan, as a defined benefit corporate pension plan (funded). Under this plan, a hypothetical individual account balance corresponding to each participant's funded amount and the basis of the pension amount is established. An earned interest credit based on market interest rate trends and a point allocation, which is determined by the number of service years and employee rank multiplied by a unit value of point, are accumulated in this hypothetical individual account balance.

Under the lump-sum payment plan (unfunded), employees who terminate their employment are entitled to lump-sum benefits based on their length of service and level of compensation at the time of the termination.

The Company's consolidated subsidiaries maintain a defined benefit corporate pension plan, defined contribution corporate pension plan, and employees' pension fund plan (multi-employer pension plan). For the defined benefit corporate pension plan, the Company's consolidated subsidiaries use the simplified method for the calculation of net defined benefit liability and retirement benefit expenses.

In addition, the Group may pay meritorious service awards to employees in excess of the prescribed formula.

The employees' pension fund, in which the Group participates, is a multi-employer type. Since it is difficult to reasonably calculate companies' portion of the plan assets corresponding to its contributions, the contributions to the plan assets are recorded as retirement benefit expenses.

(b) Defined benefit plan

(1) The changes in retirement benefit obligations for the years ended March 31, 2017, and 2016 are as follows:

For the year ended March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Balance beginning of year	¥14,369	¥15,653	$139,522
Service cost	780	873	7,781
Interest cost	212	61	543
Actuarial gain or loss	1,400	(70)	(623)
Benefit paid	(1,113)	(586)	(5,223)
Other	4	10	89
Balance at end of year	¥15,653	¥15,942	$142,098

(2) The changes in plan assets for the years ended March 31, 2017, and 2016 are as follows:

For the year ended March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Balance at beginning of year	¥15,428	¥15,709	$140,021
Expected return on plan assets	534	543	4,840
Actuarial gain or loss	(209)	186	1,657
Employer's contribution	1,053	1,056	9,412
Benefit paid	(1,103)	(583)	(5,196)
Other	6	4	35
Balance at end of year	¥15,709	¥16,917	$150,788

(3) The reconciliation between the year-end balances of retirement benefit obligations and plan assets and the amounts of asset and liability related to retirement benefits on the consolidated balance sheets as of March 31, 2017, and 2016 are as follows:

For the year ended March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Funded retirement benefit obligations	¥ 15,620	¥ 15,892	$ 141,652
Plan assets	(15,709)	(16,917)	(150,788)
	(89)	(1,024)	(9,127)
Unfunded retirement benefit obligations	33	50	445
Net liability (asset) on the consolidated balance sheet	(55)	(974)	(8,681)
Net defined benefit liability	66	84	748
Net defined benefit asset	(122)	(1,058)	(9,430)
Net liability (asset) on the consolidated balance sheet	¥ (55)	¥ (974)	$ (8,681)

(4) The components of retirement benefit expenses for the years ended March 31, 2017, and 2016 are as follows:

For the year ended March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Service cost	¥780	¥ 873	$ 7,781
Interest cost on benefit obligation	212	61	543
Expected return on plan assets	(534)	(543)	(4,840)
Amortization of actuarial gain or loss	(5)	289	2,575
Amortization of prior service cost	2	6	53
Other	17	22	196
Retirement benefit expenses	¥473	¥ 708	$ 6,310

(5) The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income for the years ended March 31, 2017, and 2016 are as follows:

For the years ended March 31,	2016	2017	2017
		¥ in millions	US$ in thousands
Prior service cost	¥ 2	¥ 6	$ 53
Actuarial gain or loss	(1,616)	546	4,866
Total	¥(1,613)	¥552	$4,920

(6) The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income as of March 31, 2017 and 2016, are as follows:

For the years ended March 31,	2016	2017	2017
		¥ in millions	US$ in thousands
Unrecognized prior service cost	¥ 12	¥ 6	$ 53
Unrecognized actuarial gain or loss	665	118	1,051
Total	¥677	¥125	$1,114

(7) The components of plan assets as of March 31, 2017 and 2016, are as follows:

1). The components of plan assets

For the years ended March 31,	2016	2017
Bonds	36%	29%
Stocks	29%	33%
General accounts	35%	35%
Other	0%	3%
Total	100%	100%

2). Determination of expected long-term rate of return on plan assets

The expected long-term rate of return on plan assets is determined considering the allocation of assets and the long-term rates of return, which are expected currently and in the future, from the various components of the plan assets.

(8) The assumptions used for the years ended March 31, 2017, and 2016 are as follows:

For the years ended March 31,	2016	2017
Discount rate	0.4%	0.4%
Expected long-term rate of return on plan assets	3.5%	3.5%

(Note) Expected future salary increase rates are not presented since retirement benefit obligations are calculated without taking into account the estimated future accumulated points according to the benefit formula method.

(9) Simplified method

The plan for which the simplified method is applied are not separately disclosed but included in the above tables due to their immateriality.

(c) Defined contribution plan

The required contributions to the defined contribution plan (including the multi-employer pension plan accounted for in the same way as the defined contribution plan) are ¥932 million (US$8,307 thousand) and ¥967 million for the years ended March 31, 2017, and 2016 respectively.

The following summarizes the multi-employer pension plan for which the required contributions are recorded as retirement benefit expenses:

(1) The overall funding status as of March 31, 2017, and 2016 is as follows:

As of March 31,	2016	2017	2017
		¥ in millions	US$ in thousands
Plan assets	¥571,380	¥531,916	$4,741,206
Total of actuarial obligation and minimum actuarial reserve	561,736	538,160	4,796,862
Difference	¥ 9,644	¥ (6,243)	$ (55,646)

(Note) The amounts in the above table are provided based on the most recently available information (as of March 31, 2016, and 2015, for fiscal 2017 and 2016, respectively).

(2) The contribution ratios of the Company to the entire plan during the years ended March 31, 2017, and 2016 are 3.90% and 3.82%, respectively.

(3) Supplemental information
As of March 31, 2017, the difference described in (1), ¥(6,243) million (US$(55,646) thousand), was calculated by the sum of the balance of the unamortized prior service cost of ¥(34,540) million (US$(307,870) thousand), deficient amount carry forward of ¥(21,454) million (US$ (191,229) thousand), and voluntary reserve of ¥49,751 million (US$ 443,453 thousand).

As of March 31, 2016, the difference described in (1), ¥9,644 million, was calculated by the sum of the balance of the unamortized prior service cost of ¥(40,107) million, earnings of the fund of ¥14,310 million, and voluntary reserve of ¥35,440 million.

The balance of unamortized prior service cost represents the present value of special premium income and is amortized using the straight-line method with a 15.5‰ premium ratio burdened by the employer. The remaining amortization period is six years and zero months as of March 31, 2016.

The ratios in (2) are not equal to the actual share ratio.

13 Stock options

Not applicable.

14 Income Taxes

(a) The significant components of deferred tax assets and liabilities as of March 31, 2017, and 2016 are as follows:

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Deferred tax assets:			
Net defined benefit liability	¥ 20	¥ 24	$ 213
Accrued bonuses	726	697	6,212
Accrued business office taxes	192	124	1,105
Consigned research expenses	469	604	5,383
Impairment loss	173	–	–
Loss on valuation of inventories	188	96	855
Other	600	611	5,446
Total deferred tax assets	2,371	2,159	19,244
Valuation allowance	(183)	–	–
Deferred tax assets recognized	2,187	2,159	19,244
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(1,595)	(1,590)	(14,172)
Deferred gains or losses on hedges	(274)	(410)	(3,654)
Net defined benefit asset	(37)	(324)	(2,887)
Other	(178)	(199)	(1,773)
Total deferred tax liabilities	(2,085)	(2,524)	(22,497)
Net deferred tax assets (liabilities)	¥ 101	¥ (365)	$ (3,253)

(Note) Net deferred tax assets and liabilities are included in the following accounts:

	¥ in millions		US$ in thousands
As of March 31,	2016	2017	2017
Current assets–deferred tax assets	¥1,271	¥1,325	$11,810
Non-current assets–deferred tax assets	32	43	383
Non-current liabilities–deferred tax liabilities	(1,202)	(1,733)	(15,447)

(b) The significant differences between the statutory tax rate and the actual effective tax rate are as follows:

As of March 31,	2017
Statutory tax rate	30.9%
Effect of:	
Inhabitants per capita taxes	0.5%
Permanent differences (non-deductible) such as entertainment expenses	0.3%
Permanent differences (non-taxable) such as dividend income	(0.2)%
Tax credit for research and development expenses	(2.8)%
Tax credit for taxation scheme to promote production facilities investment	(0.3)%
Decrease in valuation allowance	(1.1)%
Other	(1.4)%
Actual effective tax rate	25.9%

The reconciliations for the year ended March 31, 2016 are not presented because the difference between the statutory tax rate and the actual effective tax rate was less than or equal to 5%.

15 Asset Retirement Obligations

Disclosure omitted due to insignificancy.

16 Segment Information

(Segment information)

Information by reportable segments for the years ended March 31, 2017, and 2016 is omitted since the Group has categorized its reportable segments into a single segment, pharmaceutical products operation.

(Related information)

(1) Information by products and services

Information by products and services for the years ended March 31, 2017, and 2016 is omitted since more than 90% of sales and services to external customers consisted of single category of product and service.

(2) Information by geographical areas

1) Sales

Information on sales by geographical area for the years ended March 31, 2017, and 2016 is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statements of income.

2) Property, plant and equipment

Information on property, plant and equipment by geographic area for the years ended March 31, 2017, and 2016 is as follows:

As of March 31, 2017

			¥ in millions				US$ in thousands
Japan	China	Other	Total	Japan	China	Other	Total
¥54,540	¥10,145	¥0	¥64,686	$486,139	$90,426	$0	$576,575

As of March 31, 2016

			¥ in millions
Japan	China	Other	Total
¥51,530	¥11,290	¥0	¥62,822

(3) Information on major customers

For the year ended March 31,	Related segment	2016	¥ in millions 2017	US$ in thousands 2017
Sales to:				
Alfresa Holdings Corporation	Pharmaceutical products	¥27,577	¥28,065	$250,155
MEDIPAL HOLDINGS CORPORATION	Pharmaceutical products	24,957	25,050	223,281
SUZUKEN CO., LTD.	Pharmaceutical products	18,595	19,642	175,077
TOHO HOLDINGS CO., LTD.	Pharmaceutical products	14,244	14,478	129,048

17 Amounts per Share

	2016	¥ in millions 2017	US$ in thousands 2017
Net assets per share	¥2,169.13	¥2,250.34	$20.05
Profit per share	178.06	179.46	1.59

Notes:
1. The diluted profit per share is not stated due to no dilutive shares.
2. Basis of calculation

1) The basis of calculation of net assets per share is as follows:

As of March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Total net assets	¥155,702	¥157,397	$1,402,950
Amounts to be deducted from total net assets	2,726	2,613	23,290
[Of which, non-controlling interests]	[2,726]	[2,613]	[23,290]
Amounts attributable to shareholders of common stock	¥152,976	¥154,783	$1,379,650
Number of shares outstanding at the end of the year (Shares in thousands)	70,524	68,782	

2) The basis of calculation of profit per share is as follows:

As of March 31,	2016	¥ in millions 2017	US$ in thousands 2017
Profit attributable to owners of the parent	¥12,557	¥12,488	$111,311
Amounts not attributable to owners of the parents	–	–	–
Amounts attributable to owners of the parent related to common stock	¥12,557	¥12,488	$111,311
Weighted-average number of shares outstanding (Shares in thousands)	70,524	69,592	

18 Subsequent Events

(Issuance of corporate bonds)

Based on the comprehensive resolution at the Board of Directors' Meeting held on April 28, 2017, the Company issued unsecured corporate bonds with the following terms and conditions on June 2, 2017.

(1) The 1st unsecured corporate bond with limited inter-bond pari passu clause

1. Total amount of bonds	¥15,000 million (US$133,701 thousand)
2. Issue price	¥100 (US$0.89) per face value of ¥100 (US$0.89)
3. Interest rate	0.230% per annum
4. Issue date	June 2, 2017
5. Redemption period	May 31, 2024
6. Use of funds	Repayment of borrowings and investment and finance activities
7. Special provision	Restrictions on providing collateral
8. Collateral	No guarantee nor collateral is granted. In addition, there is no asset appropriated to be assigned as collateral of this bond.

(2) The 2nd unsecured corporate bond with limited inter-bond pari passu clause

1. Total amount of bonds	¥15,000 million (US$133,701 thousand)
2. Issue price	¥100 (US$0.89) per face value of ¥100 (US$0.89)
3. Interest rate	0.345% per annum
4. Issue date	June 2, 2017
5. Redemption period	June 2, 2027
6. Use of funds	Repayment of borrowings and investment and finance activities
7. Special provision	Restrictions on providing collateral
8. Collateral	No guarantee nor collateral is granted. In addition, there is no asset appropriated to be assigned as collateral of this bond.

19 Supplemental Information

(1) Corporate Bonds

Not Applicable.

(2) Short-term loans payable, long-term loans payable and lease obligations

As of March 31,	Average interest rates (%)	Maturity due	¥ in millions 2016	¥ in millions 2017	US$ in thousands 2017
Short-term loans payable	0.4	–	¥21,957	¥12,581	$112,140
Current portion of long-term loans payable	–	–	–	–	–
Current portion of lease obligations	–	–	31	34	303
Long-term loans payable excluding current portion	0.3	September 2021	15,000	24,376	217,274
Lease obligations excluding current portion	–	April 2018 to November 2023	60	97	864
Other interest-bearing debt	–	–	–	–	–
Total	–	–	¥37,048	¥37,088	$330,582

Notes:
1. "Average interest rate" represents the weighted-average interest rate of loans as of the balance sheet date.
2. Long-term guarantee deposited is not included above, although the amount equivalent to the interest is recognized.
3. Lease obligations on the balance sheet include the amount equivalent to the interest portion of total lease payments. Therefore, "average interest rate" of lease obligations is not stated.
4. The repayment schedule of long-term loans payable and lease obligations excluding current portion is as follows:

¥ in millions

	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term loans payable	¥15,000	¥ –	¥ –	¥9,376	¥ –
Lease obligations	25	23	¥19	13	¥14

US$ in thousands

	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Long-term loans payable	$133,701	$ –	$ –	$83,572	$ –
Lease obligations	222	205	169	115	124

(3) Details of Asset Retirement Obligations

Not Applicable.

20 Other

Quarterly information

(Year-to-date)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales (millions)	¥28,692	¥56,359	¥87,959	¥114,954
Profit before income taxes (millions)	4,161	7,346	15,453	17,184
Profit attributable to owners of parent (millions)	2,952	5,311	11,163	12,488
Profit per share (yen)	41.87	75.57	159.85	179.46

(Quarterly)	First quarter	Second quarter	Third quarter	Fiscal year
Profit per share (yen)	¥41.87	¥33.64	¥84.89	¥19.27

(Year-to-date)	First quarter	Second quarter	Third quarter	Fiscal year
Sales (thousands)	$255,744	$502,353	$784,018	$1,024,636
Profit before income taxes (thousands)	37,088	65,478	137,739	153,168
Profit attributable to owners of parent (thousands)	26,312	47,339	99,500	111,311
Profit per share (dollar)	0.37	0.67	1.42	1.59

(Quarterly)	First quarter	Second quarter	Third quarter	Fiscal year
Profit per share (dollar)	$0.37	$0.29	$0.75	$0.17

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of TSUMURA & CO.

We have audited the accompanying consolidated financial statements of TSUMURA & CO. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the purpose of the financial statement audit is not to express an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2017, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

PricewaterhouseCoopers Aarata LLC
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

pwc

To the Board of Directors of
TSUMURA & CO.
Page 2

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Other Matter
The consolidated financial statements of the Company for the year ended March 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on June 29, 2016.

PricewaterhouseCoopers Aarata LLC

August 10, 2017

Corporate Data

As of March 31, 2017

Head Office: 2-17-11, Akasaka,
Minato-ku, Tokyo 107-8521, Japan
Corporate Communications Department
Phone: 81-3-6361-7101
Fax: 81-3-5574-6630
URL: http://www.tsumura.co.jp/english/

Founded: April 10, 1893
Incorporated: April 25, 1936
Number of Employees: 3,331 (Consolidated)
Plants: Shizuoka, Ibaraki, Shanghai
Research Laboratory: Ibaraki

Subsidiaries and Affiliates:

Country	Company	Business
Japan	LOGITEM TSUMURA CO., LTD.	Logistics, storage, distribution, and materials handling services
	YUBARI TSUMURA CO., LTD.	Production, processing, and storage of botanical raw materials
United States	TSUMURA USA, INC.	Development of pharmaceutical products in the United States
China	SHENZHEN TSUMURA MEDICINE CO., LTD.	Procurement, sorting, processing, and storage of botanical raw materials
	SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.	Production and sale of Kampo extract intermediates
	SICHUAN CHUANCUN TRADITIONAL CHINESE MEDICINES CO., LTD.	Procurement and sorting of botanical raw materials

Investor Information

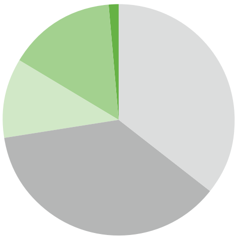
As of March 31, 2017

Stock Exchange Listing: Tokyo
Stock Code: 4540
Paid-in Capital: ¥19,487 million
Net Assets: ¥157,397 million
Common Stock:
Authorized: 250,000,000
Issued: 70,771,662
Closing Date of Accounts: March 31
Independent Auditor:
PricewaterhouseCoopers Aarata LLC
Sumitomo Fudosan
Shiodome Hamarikyu Bldg.,
8-21-1 Ginza, Chuo-ku,
Tokyo 104-0061, Japan
Shareholder Register Agent for Common Stock in Japan:
Mitsubishi UFJ Trust and
Banking Corporation
1-4-5, Marunouchi, Chiyoda-ku,
Tokyo 100-8212, Japan
Number of Shareholders: 10,198

Major Shareholders	% of equity
Japan Trustee Services Bank, Ltd. (Trust Account)	6.66
The Master Trust Bank of Japan, Ltd. (Trust Account)	5.91
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4.65
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.19
Employees' Stockholding	2.77
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2.65
JP MORGAN CHASE BANK 385632	2.31
DAIICHI SANKYO COMPANY, LIMITED	2.22
THE BANK OF NEW YORK 133524	1.93
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1.88

Ownership and Distribution of Shares

%

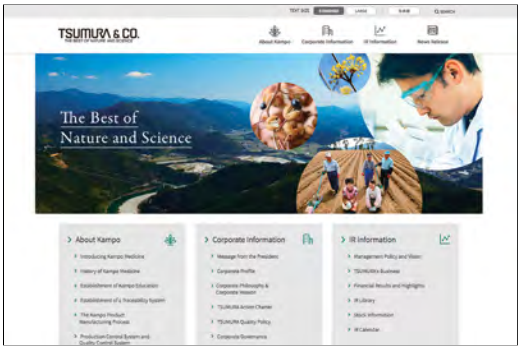


Japanese financial institutions	35.83%
Foreign institutions	36.85%
Other Japanese corporations	11.06%
Japanese individuals and others	14.97%
Japanese securities firms	1.29%

Website

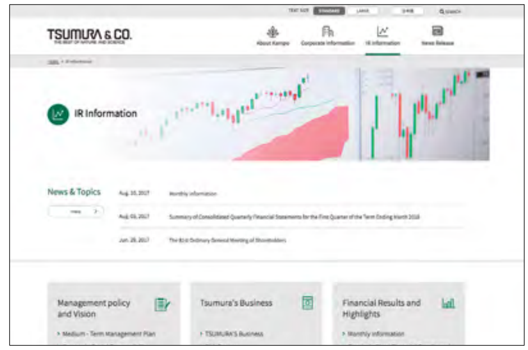
Home page:

http://www.tsumura.co.jp/english/



Investor Relations:

http://www.tsumura.co.jp/english/ir/



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