

Summary of Consolidated Financial Statements for the Second Quarter of the Term Ending March 2018 (Japan GAAP)

November 8, 2017

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

Exchange: Tokyo Stock Exchange

Code: 4540

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

Representative: Position: President & Representative Director Name: Terukazu Kato
Contact: Position: Head of Corporate Communications Dept. Name: Noboru Suzuki
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Scheduled date of submission: November 9, 2017

Scheduled date of dividend payment commencement: December 5, 2017

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

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

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

1. Consolidated business results for the second quarter of the term ending March 2018

(From April 1, 2017 to September 30, 2017)

(1) Financial results (year to date)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six month period ended September 30, 2017	58,282	3.4	8,985	14.2	9,248	25.6	6,614	24.5
Six month period ended September 30, 2016	56,359	3.3	7,868	-20.2	7,366	-26.9	5,311	-18.8

(Note) Comprehensive income

Six month period ended September 30, 2017: 7,254 million yen (—%)

Six month period ended September 30, 2016: -589 million yen (—%)

	Profit per share	Fully diluted profit per share
	Yen	Yen
Six month period ended September 30, 2017	96.16	—
Six month period ended September 30, 2016	75.57	—

(2) Consolidated financial conditions

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2017	258,464	162,450	61.8
As of March 31, 2017	222,008	157,397	69.7

(Reference) Shareholders' equity:

As of September 30, 2017: 159,737 million yen

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

2. Dividends

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

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

3. Projections of consolidated business results for the term ending March 2018 (From April 1, 2017 to March 31, 2018)

(Figures in percentage show the rate of increase or decrease from the previous fiscal year for full-year.)

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

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

At a board meeting held on September 22, 2017, the Board of Directors resolved to issue new shares and dispose of treasury shares by way of third-party allotment. The profit per share in the projections of consolidated business results takes the effect of the issuance of new shares and the disposal of treasury shares into consideration. For more information, please refer to “2. Quarterly Consolidated Financial Statements and Key Notes, (4) Notes to the Quarterly Consolidated Financial Statements (Significant subsequent events)” on page 7 of the accompanying materials.

Notes

- (1) Important changes of subsidiaries during the term
(change of specified subsidiaries that lead to a change in the scope of consolidation) : No
- (2) Application of special accounting practices in consolidated quarterly financial statements preparation: Yes
- (3) Changes in accounting principles and procedures and the method for indication, etc.
- 1) Changes associated with the revision of accounting principles, etc.: No
 - 2) Change other than 1): No
 - 3) Accounting estimate change: No
 - 4) Retrospective restatement: No

(4) Number of shares issued (common stock)

- 1) Number of shares issued at the end of the term (including treasury stock) (shares)
- 2) Number of treasury stock at the end of the term (shares)
- 3) Average number of shares during the term (shares)

FY 3/2018 2Q	70,771,662	FY 3/2017	70,771,662
FY 3/2018 2Q	1,989,382	FY 3/2017	1,989,282
FY 3/2018 2Q	68,782,351	FY 3/2017 2Q	70,284,235

* This Summary of Quarterly Consolidated Financial Statements does not require the quarterly audit procedure.

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

(Note about forward-looking information)

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

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1. Qualitative information on quarterly results

(1) Description of operating results

In the first half of the consolidated fiscal year (from April 1 to September 30, 2017), net sales rose 3.4% year on year, to 58,282 million yen.

Operating profit stood at 8,985 million yen, up 14.2% year on year, and ordinary profit came to 9,248 million yen, up 25.6% year on year. Profit attributable to owners of parent was 6,614 million yen, up 24.5%. The cost of sales ratio declined 1.1 percentage point year on year, and the ratio of selling, general and administrative expenses fell 0.3 percentage point year on year. The operating profit margin stood at 15.4%, up 1.4 percentage points from a year earlier.

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

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

(2) Description of financial position

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

Total assets rose 36,456 million yen from the end of the previous fiscal year mainly due to an increase in cash and deposits, to 258,464 million yen.

Liabilities increased 31,402 million yen chiefly due to the issuance of bonds, to 96,014 million yen.

Net assets climbed 5,053 million yen, to 162,450 million yen.

As a result, the equity ratio declined 7.9 percentage points, to 61.8%.

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

Cash provided by operating activities stood at 11,413 million yen. Compared with the first half of the previous fiscal year, cash provided declined 2.1 billion yen, mainly due to an increase in notes and accounts receivable-trade.

Cash used in investing activities came to 19,011 million yen. Cash used increased 14,367 million yen year on year.

Cash provided by financing activities was 25,317 million yen. Cash provided rose 30,930 million yen from the first half of the previous fiscal year, chiefly reflecting proceeds from the issuance of bonds.

As a result, cash and cash equivalents at the end of the first half under review increased 17,538 million yen from the end of the previous fiscal year, to 47,439 million yen.

(3) Description of projections of consolidated business results

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

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

(Unit: million yen)

	As of March 31, 2017	As of September 30, 2017
Assets		
Current assets		
Cash and deposits	29,931	52,089
Notes and accounts receivable-trade	40,347	42,214
Securities	—	9,998
Merchandise and finished goods	8,122	8,009
Work in process	14,547	12,895
Raw materials and supplies	29,467	27,982
Other	12,266	13,639
Allowance for doubtful accounts	(4)	(4)
Total current assets	<u>134,679</u>	<u>166,825</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures	64,429	64,426
Other	71,301	77,101
Accumulated depreciation	(71,044)	(73,386)
Total property, plant and equipment	<u>64,686</u>	<u>68,141</u>
Intangible assets	266	360
Investments and other assets		
Investment securities	17,530	18,287
Net defined benefit asset	1,058	1,440
Other	3,786	3,409
Allowance for doubtful accounts	(0)	(0)
Total investment and other assets	<u>22,376</u>	<u>23,137</u>
Total non-current assets	<u>87,329</u>	<u>91,639</u>
Total assets	<u>222,008</u>	<u>258,464</u>
Liabilities		
Current liabilities		
Notes and accounts payable - trade	6,696	5,986
Short-term loans payable	12,581	25,314
Income taxes payable	1,901	2,573
Provision for sales returns	13	5
Other	10,691	14,320
Total current liabilities	<u>31,883</u>	<u>48,200</u>
Non-current liabilities		
Bonds payable	—	30,000
Long-term loans payable	24,376	9,376
Net defined benefit liability	84	93
Other	8,267	8,343
Total non-current liabilities	<u>32,727</u>	<u>47,813</u>
Total liabilities	<u>64,611</u>	<u>96,014</u>
Net assets		
Shareholders' equity		
Capital stock	19,487	19,487
Capital surplus	1,940	1,940
Retained earnings	129,937	134,350
Treasury shares	(5,393)	(5,394)
Total shareholders' equity	<u>145,972</u>	<u>150,385</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,845	4,395
Deferred gains or losses on hedges	925	1,221
Revaluation reserve for land	2,673	2,673
Foreign currency translation adjustment	1,470	1,070
Remeasurements of defined benefit plans	(102)	(8)
Total accumulated other comprehensive income	<u>8,811</u>	<u>9,352</u>
Non-controlling interests	<u>2,613</u>	<u>2,713</u>
Total net assets	<u>157,397</u>	<u>162,450</u>
Total liabilities and net assets	<u>222,008</u>	<u>258,464</u>

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

(Unit: million yen)

	Six month period ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Net sales	56,359	58,282
Cost of sales	24,256	24,404
Gross profit	32,102	33,878
Selling, general and administrative expenses	24,234	24,893
Operating profit	7,868	8,985
Non-operating income		
Interest income	29	33
Dividend income	199	202
Share of profit of entities accounted for using equity method	20	35
Foreign exchange gains	—	104
Other	179	148
Total non-operating income	428	524
Non-operating expenses		
Interest expenses	72	90
Bond issuance cost	—	143
Foreign exchange losses	848	—
Other	9	27
Total non-operating expenses	930	261
Ordinary profit	7,366	9,248
Extraordinary income		
Gain on sales of non-current assets	0	4
Gain on sales of investment securities	—	25
Total extraordinary income	0	30
Extraordinary losses		
Loss on sales of non-current assets	—	12
Loss on retirement of non-current assets	14	28
Loss on disaster	4	—
Total extraordinary losses	19	40
Profit before income taxes	7,346	9,238
Income taxes	1,921	2,469
Profit	5,425	6,768
Profit attributable to non-controlling interests	114	153
Profit attributable to owners of parent	5,311	6,614

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

(Unit: million yen)

	Six month period ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Profit	5,425	6,768
Other comprehensive income		
Valuation difference on available-for-sale securities	(169)	549
Deferred gains or losses on hedges	(2,044)	296
Foreign currency translation adjustment	(3,818)	(446)
Remeasurements of defined benefit plans	102	94
Share of other comprehensive income (loss) of entities accounted for using equity method	(83)	(7)
Total other comprehensive income (loss)	<u>(6,014)</u>	<u>486</u>
Comprehensive income	<u>(589)</u>	<u>7,254</u>
Comprehensive income attributable to		
Owners of parent	(198)	7,154
Non-controlling interests	(390)	99

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: million yen)

	Six month period ended September 30, 2016 (From April 1, 2016 to September 30, 2016)	Six month period ended September 30, 2017 (From April 1, 2017 to September 30, 2017)
Cash flows from operating activities		
Profit before income taxes	7,346	9,238
Depreciation	2,593	3,028
Increase (decrease) in allowance for doubtful accounts	(3)	0
Interest and dividend income	(228)	(236)
Interest expenses	72	90
Bond issuance cost	—	143
Share of (profit) loss of entities accounted for using equity method	(20)	(35)
Loss (gain) on sales and retirement of property, plant and equipment	14	36
Decrease (increase) in notes and accounts receivable - trade	3,337	(1,883)
Decrease (increase) in inventories	428	3,031
Increase (decrease) in notes and accounts payable - trade	342	(650)
Loss (gain) on sales of short-term and long-term investment securities	—	(25)
Decrease (increase) in net defined benefit asset	(143)	(192)
Increase (decrease) in net defined benefit liability	(46)	(43)
Other	2,369	415
Subtotal	16,062	12,916
Interest and dividend income received	246	238
Interest expenses paid	(70)	(61)
Income taxes paid	(2,724)	(1,680)
Net cash provided by (used in) operating activities	13,513	11,413
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,854)	(4,315)
Proceeds from sales of property, plant and equipment	0	11
Purchase of intangible assets	(19)	(121)
Purchase of short-term and long-term investment securities	(5)	(10,006)
Proceeds from sales and redemption of short-term and long-term investment securities	—	39
Payments of loans receivable	(1)	(3)
Collection of loans receivable	2	2
Payments into time deposits	(18)	(4,644)
Proceeds from withdrawal of time deposits	24	24
Other	228	0
Net cash provided by (used in) investing activities	(4,644)	(19,011)
Cash flows from financing activities		
Decrease in short-term loans payable	—	(2,267)
Proceeds from issuance of bonds	—	29,856
Purchase of treasury shares	(3,283)	(0)
Cash dividends paid	(2,257)	(2,199)
Dividends paid to non-controlling interests	(49)	(49)
Other	(22)	(22)
Net cash provided by (used in) financing activities	(5,613)	25,317
Effect of exchange rate change on cash and cash equivalents	(828)	(181)
Net increase (decrease) in cash and cash equivalents	2,428	17,538
Cash and cash equivalents at beginning of period	25,128	29,901
Increase in cash and cash equivalents from newly consolidated subsidiary	290	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	28	—
Cash and cash equivalents at end of period	27,876	47,439

(4)Notes to the Quaterly Consolidated Financial Statements

(Notes on premise of a going concern)

No relevant items.

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

No relevant items.

(Transfer of important subsidiaries during the quarter under review)

No relevant items.

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

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

(Deferment of cost variance)

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

(Significant subsequent events)

(Completion of payment for issuing of new shares and disposal of treasury shares through third-party allotment)

The Company announces that, at a meeting held on September 22, 2017, its Board of Directors passed resolutions to implement the issuance of new shares and disposal of treasury shares by way of third party-allotment (hereinafter referred to collectively as "the Third-Party Allotment") to Ping An Life Insurance Company of China, Ltd. (Headquarters: Guangdong Province, China; hereinafter "Ping An Life"), which is a subsidiary of Ping An Insurance (Group) Company of China, Ltd. (Headquarters: Guangdong Province, China; hereinafter "Ping An Insurance"), and the payment procedures have been completed on October 13, 2017.

Following the Third-Party Allotment, the percentage of voting rights held by Ping An Life became 10.04%, and the largest shareholder of the Company has changed.

Outline of the issuance of new shares and disposal of treasury shares by the Third-Party Allotment

(1) Payment Date	October 13, 2017
(2) Number of new shares issued and number of shares disposed of	7,675,900 shares of common stock, which is the total of (i) and (ii) below
	(i) Number of new shares issued common stock 5,986,700 shares
	(ii) Number of shares disposed of common stock 1,689,200 shares
(3) Issue price and disposal value	JPY 3,559.5 per share
(4) Paid-in amount	JPY 27,322,366,050
(5) Appropriation to capital	JPY 1,779.75 per share
(6) Total appropriation to capital	JPY 10,654,829,325
(7) Method of Subscription or Allotment	By way of third-party allotment (Ping An Life 7,675,900 shares)
(8) Specific uses of capital	Tsumura and Ping An Insurance plan to establish a joint venture, and the capital will be applied to the following businesses through the joint venture.
	(i) Business related to strengthening the crude drug procurement structure
	(ii) Business related to analysis and research focusing on traditional Chinese medicines(*)
	(iii) Business related to manufacturing and selling traditional Chinese medicines, etc.
	(*)Traditional Chinese medicines: Medicines used in traditional Chinese medicine (or TCM)