In Motion

Annual Report 2016

TSUMURA & CO.

CONTENTS

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.

Forward-Looking Statements
In this annual report, all statements that contain the words "believe," "anticipate," estimate," "expect," or other similar words, and all numbers related to future performance, are considered forward-looking statements that are not historical facts but rather reflect management's best judgment and the most information available at the time this annual report was prepared. The actual results that Tsumura will achieve in the future may differ greatly from these estimates and forecasts due to various uncertain factors in the business environment and various risks that are discussed later in this annual report. The forward-looking statements contained herein were deemed reasonable by management at the time that we prepared this annual report, but it is important to exercise ample caution when making investment decisions based on these statements.

What is Kampo?

1,400 Years of History

Kampo is a traditional form of medicine in Japan. This tradition was handed down from China sometime in the 5th and 6th centuries. Over the following 1,400 years, Kampo medicine has evolved into a unique traditional medicine that differs from traditional medicine in its country of origin, China, and from Korean traditional medicine, which also has its roots in China. Throughout this history, the effectiveness of Kampo has continued to be verified by the empirical accounts of physicians and patients alike and has thus come to hold a distinctive position in the Japanese medical field of today.

Characteristics of Kampo Medicines

Kampo medicines are therapeutic formulations based on Kampo medicine principles, and the history of these medicines is as long as that of the Kampo medical tradition itself, with some formulations having been established 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.

Crude Drugs as Raw Ingredients

The raw materials for Kampo medicines are crude drugs derived from mainly plants. Crude drugs contain multiple active ingredients, and these ingredients are extracted as is, as opposed to extracting a single ingredient from one type of crude drug. Therefore, Kampo medicines have many active ingredients because they are formulations of at least two and sometimes up to 10 crude drugs. As such, multiple active ingredients are a special characteristic of Kampo medicines.

Tailor-Made Treatment

Kampo medicine seeks to improve the overall balance of a patient's body by acting on a person's natural healing power and immune system. For this reason, treatment methods are decided individually on an overall basis, taking into account the various differences among patients, such as natural constitution, physical type, and physical and subjective symptoms, and emphasizing medical interviews and palpations. The most appropriate Kampo medicine is then selected to ease and treat the symptoms of each patient.

More about Kampo

Difference between Western Drugs and Kampo Medicines

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 often contain a mixture of ingredients extracted from multiple crude drugs. As a result of containing many ingredients, one formulation can demonstrate positive results for multiple symptoms. Furthermore, substance patents, such as those available for Western medicine, do not exist in Kampo medicine, which is a tradition formed over 1,400 years.

Coverage under the Japanese National Health Insurance Plan

Currently, 148 prescription Kampo products are covered under the Japanese National Health Insurance (NHI) plan. The vast majority of prescription drugs applicable under this plan have officially set prices, which are reviewed once every two years in principle. The 129 Kampo formulations made by Tsumura are covered under the NHI plan and are thus subject to the establishment of set official prices.

Kampo Medicines Prescriptions Made by Physicians in Japan

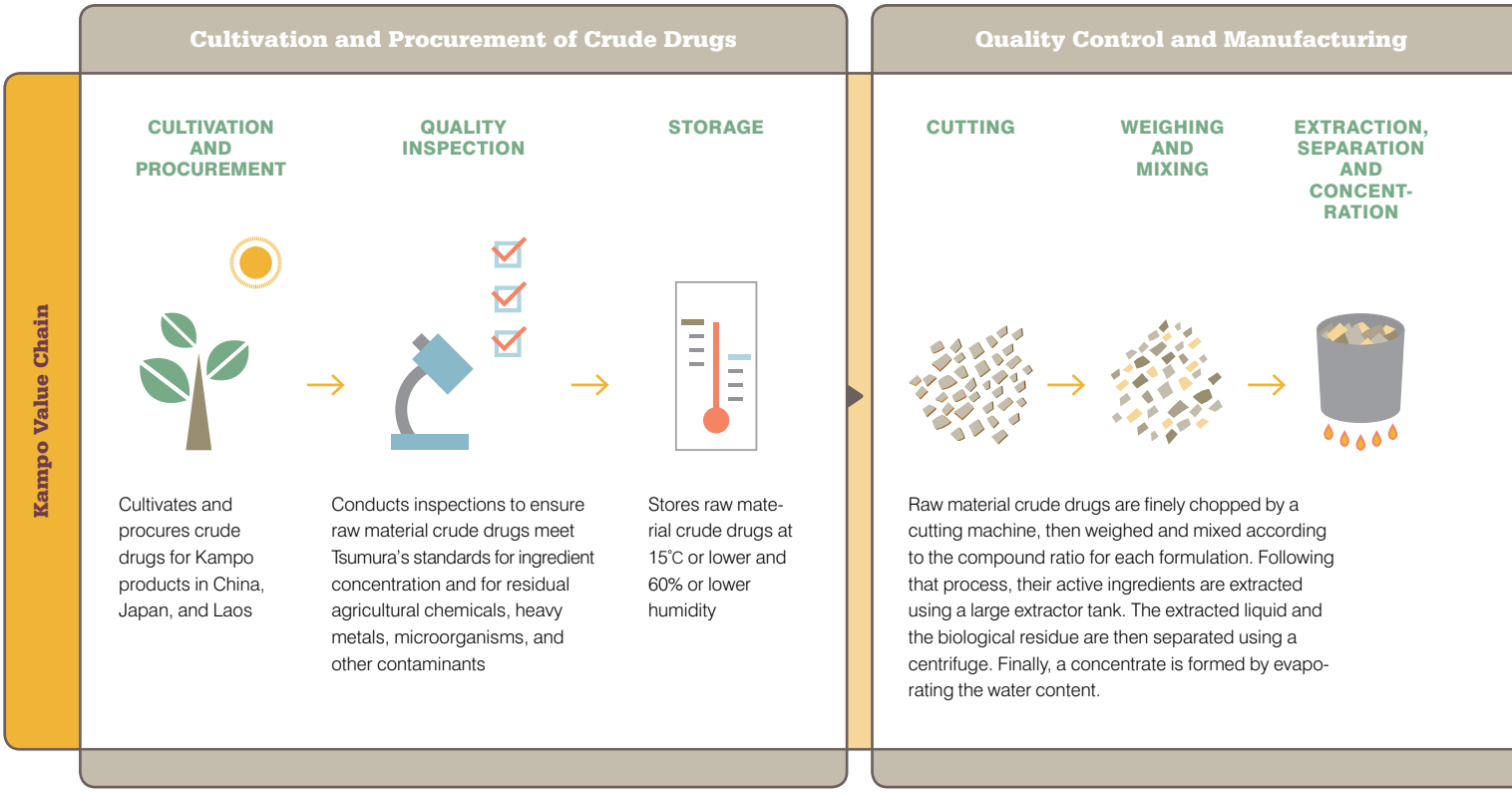
Although the Japanese medical field is primarily based around Western medicine, there is no differentiation between Western medicine and Kampo medicine in the licensing system for physicians, and there are those physicians that prescribe both Western drugs and Kampo medicines. In fact, according to a 2011 survey by the Japan Kampo Medicines Manufacturers Association, 89% of Japan's physicians had prescribed Kampo products for their patients.

Expanding the Scope of Kampo Medicines Prescriptions

Along with the recent establishment of a greater body of scientific evidence on the efficacy of Kampo medicines, there has been a growth trend in the scope of disorders for which these medicines are being prescribed. The scope has enlarged from the traditional treatment areas of internal, mental, and chronic disorders to such advanced medical fields as surgery and cancer treatment. Kampo medicines have also demonstrated their effectiveness for disorders and symptoms specific to women and the elderly. Consequently, the use of Kampo medicines is spreading widely among various demographics in Japan.

Tsumura and the Kampo Value Chain

Tsumura has established a comprehensive Kampo value chain that integrates all processes in its operations. The value chain includes the procurement of raw material crude drugs, product quality control and production, distribution, and the spread of Kampo education and enables the Company to provide a stable supply of high-quality Kampo products. With regard to raw material crude drug procurement, Tsumura researches cultivation methods and selective breeding techniques and also maintains Cultivated Land under Own Management to secure sufficient quantities of drug materials that conform to the Company's rigorous quality standards.

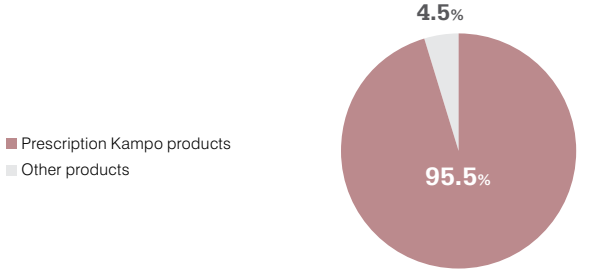


Our Strengths

Kampo Formulation Specialist

Sales of prescription Kampo products account for 95% of the Company's total net sales. The concentrated allocation of management resources to our prescription Kampo prod-uct operations is supporting the ongoing reinforcement of our Kampo value chain and the establishment of scientific evidence on the efficacy of Kampo medicines.

Tsumura's Net Sales



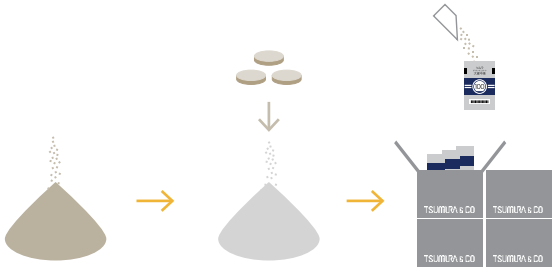
A sophisticated value chain is essential to the supply of a diverse range of high-quality Kampo products, and the establishment of such a value chain requires substantial investments of both time and money. While, unlike Western medicine, there are no substance patents in Kampo medicine, the need for this type of Kampo value chain creates a high barrier for participation in the Kampo business.

Distribution and Marketing

DRYING

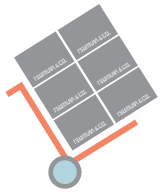
GRANULATION

FILLING AND PACKAGING



Using spray-drying equipment, concentrate spray is instantaneously dried, becoming powdered extract. After being compacted into tablets, the extract is crushed into granulated extract. Following a quality check, the granulated extract is packaged and boxed and shipped as product.

SALES



Makes sales to pharmaceutical wholesalers using the same method as 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

Market Leader

On an NHI drug price basis, the 129 prescription Kampo products manufactured and sold by Tsumura account for an 84.3%* share of the prescription Kampo product market. As the undisputed market leader, the Company is advancing efforts to expand the market.

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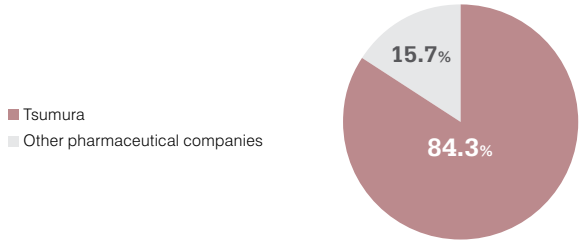
Tsumura's Share* in Japan's Prescription Kampo Product Market



Financial and Non-Financial Highlights

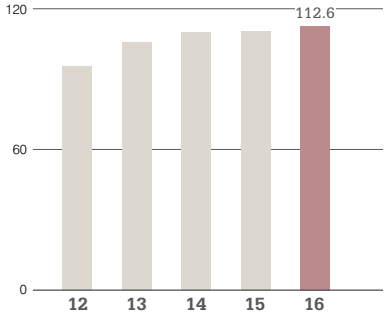
TSUMURA & CO. and subsidiaries
Years ended March 31

					¥ in millions	US$ in thousands*
	2012	2013	2014	2015	2016	2016
For the year						
Net sales	¥95,450	¥105,638	¥110,057	¥110,438	**¥112,625**	**$999,516**
Sales of prescription Kampo products	89,964	99,457	102,680	105,193	**107,599**	
Operating income	21,233	23,124	22,461	19,491	**19,826**	**175,952**
Net income attributable to owners of the parent	13,431	15,373	18,050	14,075	**12,557**	**111,442**
Selling, general and administrative expenses	44,271	46,586	48,808	49,087	**47,743**	**423,706**
R&D expenses	4,565	4,904	5,949	6,252	**5,968**	**52,968**
Depreciation	3,850	4,049	4,871	5,387	**5,059**	**44,903**
Capital expenditures for property, plant and equipment	6,425	9,328	8,991	8,428	**9,638**	
At year-end						
Total assets	¥151,874	¥170,466	¥187,623	¥215,654	**¥222,468**	**$1,974,335**
Total net assets	102,240	118,537	133,318	150,947	**155,702**	**1,381,814**
Interest-bearing debt	22,070	22,059	22,088	37,080	**37,048**	**328,789**
Other selected data						
Cash flows from operating activities	¥ 7,314	¥12,011	¥ 5,908	¥ 4,992	**¥17,570**	**$155,928**
Cash flows from investing activities	(5,342)	(8,022)	(1,694)	(10,683)	**(7,461)**	**(66,221)**
Cash flows from financing activities	(5,272)	(4,275)	(4,575)	10,408	**(4,608)**	**(40,901)**
Per share data (yen/dollars)						
Net income attributable to owners of the parent	¥ 190.45	¥ 217.98	¥ 255.94	¥ 199.58	**¥ 178.06**	**$ 1.58**
Dividends	60.00	62.00	64.00	64.00	**64.00**	
Net assets	1,430.94	1,658.88	1,860.14	2,103.04	**2,169.13**	**19.25**
Financial ratios (%)						
Operating income margin	22.2	21.9	20.4	17.6	**17.6**	
ROE	14.1	14.1	14.5	10.1	**8.3**	
ROA	14.5	14.3	12.5	9.7	**9.1**	
Non-financial data						
Number of employees	2,784	2,831	2,898	3,335	**3,242**	
Amount of crude drugs used (ton)	10,657	10,765	11,788	11,305	**11,619**	
Energy consumption per unit of production (GJ/t)	166.2	158.5	162.2	154.1	**153.9**	
Greenhouse gas emissions per unit of production (t-CO_2/t)	8.5	8.7	8.9	8.9	**8.5**	
Waste recycling rate (%)	99.4	99.1	99.2	99.2	**99.2**	
Water consumption per unit of production (t/t)	192	180	179	162	**161**	

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112.68=US$1, the prevailing Tokyo foreign exchange market rate as of March 31, 2016.

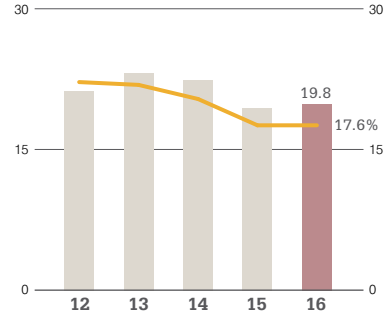
Net Sales

¥ billion



Operating Income / Operating Income Margin

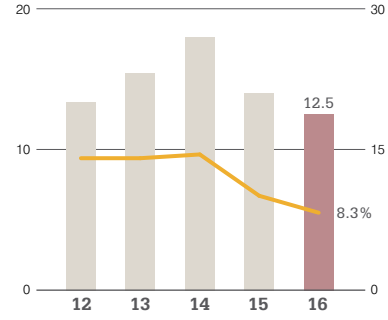
¥ billion / %



Operating income
Operating income margin (right scale)

Net Income Attributable to Owners of the Parent / ROE

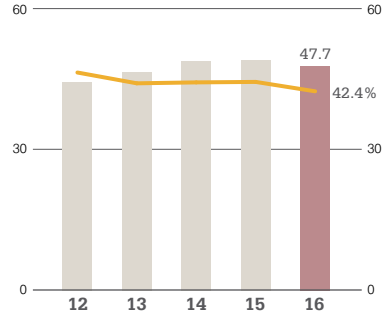
¥ billion / %



Net income
ROE (right scale)

SG&A Expenses / SG&A Expenses Margin

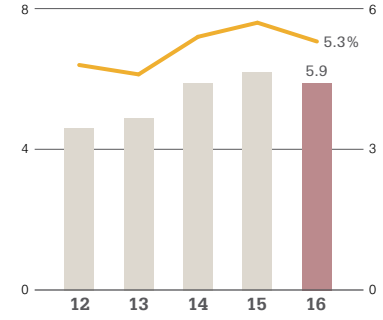
¥ billion / %



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

R&D Expenses / R&D Expenses Margin

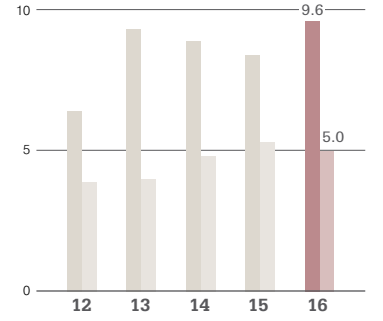
¥ billion / %



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

Capital Expenditures / Depreciation

¥ billion



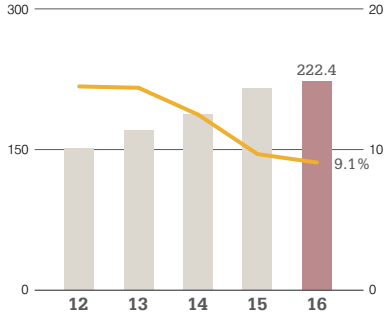
Capital expenditures
Depreciation

Free Cash Flow

¥ billion

Total Assets / ROA

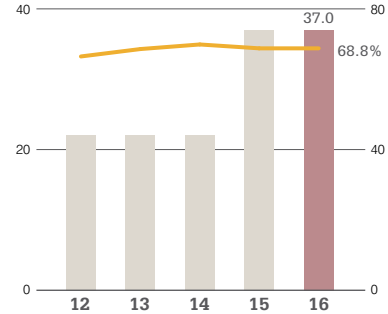
¥ billion / %



Total assets
ROA (right scale)

Interest-Bearing Debt / Equity Ratio

¥ billion / %



Interest-bearing debt
Equity ratio (right scale)

Under our new medium-term management plan, we will adopt a forward-looking perspective in creating new value through innovations in Kampo.

Terukazu Kato
President and Representative Director

We promise improved corporate value to our shareholders and other investors. The fulfillment of this promise will require that we live up to not only the expectations of the patients and medical practitioners that use our Kampo products but also to those of the greater society, which requires the provision of effective and efficient medical services.

That also means that the reason we are able to hold absolute confidence in the potential of our Kampo business and its ability to create medium-to-long-term value is the daily feedback we receive from stakeholders. Such feedback comes sometimes as words of trust from patients using Kampo medicines and other times as the expectations of medical practitioners that have faith in the future potential of Kampo. Our mission is to provide a stable supply of high-quality Kampo medicines. We are committed to fulfilling our mission as the undisputed leader of the prescription Kampo product market and thereby building our corporate value.

In May 2016, we announced a new medium-term management plan that sets out the strategic directives based on which we will chart our course over the six years leading up to fiscal 2022. I will discuss this plan in more detail later. Before that, I would like to explain our business results for fiscal 2016.

Fiscal 2016 Business Results

In fiscal 2016, net sales edged up 2.0%, to ¥112,625 million, and operating income rose 1.7%, to ¥19,826 million. Solid sales of prescription Kampo products enabled us to secure higher revenues. At the same time, cost reductions from improved operational efficiency exceeded the increase in cost of sales, which was centered on crude drug related expenses. As a result, we brought about an end to the downward trend in income that continued for two straight years beginning with fiscal 2014. We were thus able to post operating income that was 10.1% higher than our plan. I believe that our ability to achieve this success, even amid a difficult operating environment created by soaring crude drug prices and revisions to prices under the Japanese National Health Insurance, or NHI, plan, was a testament to the benefits of the cost structure reforms we have continued to implement. Net income attributable to owners of the parent, however, declined 10.8%, to ¥12,557 million. This decrease was largely a result of a foreign exchange loss recorded under other expenses. A product of the rapid appreciation of the yen, this loss replaced the foreign exchange gain posted in fiscal 2015 in association with loans to Chinese subsidiaries.

The conclusion of fiscal 2016 marked the end of the first medium-term management plan that guided us toward our 10-year, long-term business vision (Vision for 2021). Despite the year-on-year increases in net sales and operating income posted in fiscal 2016, we still fell short of our plan, and market capitalization has not risen. As a member of Tsumura's management, I find these results most regrettable.

Next, I would like to explain how we analyzed the causes of these regrettable results and how the findings were incorporated into the new medium-term management plan.

Fiscal 2016 Business Results

¥ million / %

			Vs. Planned		YoY	
	Plan	FY2016	Amount	Difference	Amount	Change
Net sales	113,000	112,625	–374	–0.3%	2,186	2.0%
Operating income	18,000	19,826	1,826	10.1%	334	1.7%
Net income attributable to owners of the parent	12,200	12,557	357	2.9%	–1,517	–10.8%
Operating income margin	15.9%	17.6%		+1.7 pts		0 pts

Roadmap for Vision for 2021 and the New Medium-Term Management Plan

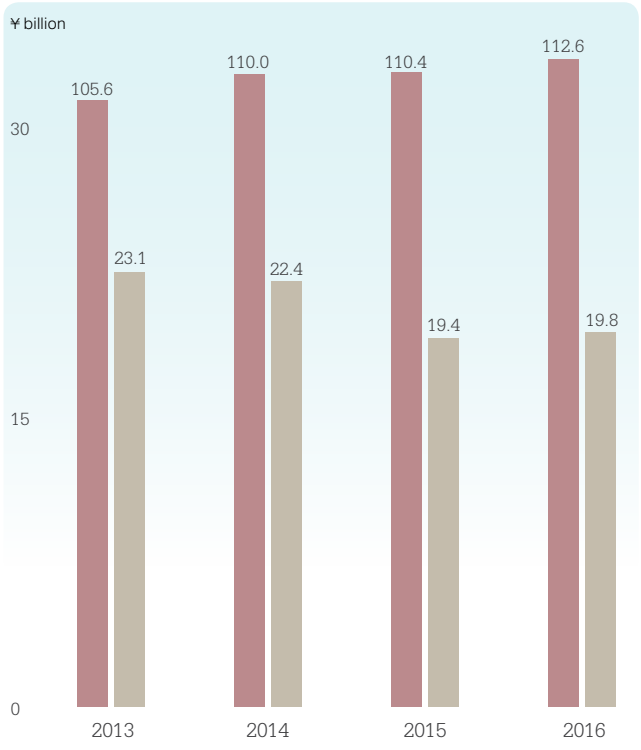
Our Vision for 2021 states that we will "aim to be a value-creation company that contributes to people's health through its Kampo business." To further us on this path, we launched the first medium-term management plan under the vision in fiscal 2013, which was based on the theme of "strengthening the growth base to achieve greater value creation." This plan ended with fiscal 2016.

The previous medium-term management plan generated qualitative benefits, but its initial quantitative targets went unmet. Based on the shortcomings of this plan as well as our successes and the challenges faced over its four-year period, we established a new medium-term management plan with the theme of "creating new value through innovations in Kampo." The commencement of concrete initiatives based on this plan began in April 2016.

There has, however, been no change to our vision for Tsumura in fiscal 2022. By tackling the strategic challenges set forth in the new plan, we will raise our resilience, by which I mean our ability to respond flexibly, to changes in the operating environment as we pursue medium-to-long-term growth and value creation.

External Factors Impacting Medium-Term Management Plan Progress

- Rising prices of ginseng and other crude drugs beginning in 2011
- Rapid yen appreciation after 2013
- NHI price revisions



First Medium-Term Management Plan

2013 **2016**

Overview of the First Medium-Term Management Plan

¥ billion	FY2013 results	FY2014 results	FY2015 results	FY2016 results
Net sales	105.6	110.0	110.4	112.6
Operating income	23.1	22.4	19.4	19.8
Operating income margin (%)	21.9	20.4	17.6	17.6
Net income attributable to owners of the parent	15.3	18.0	14.0	12.5
EPS (Yen)	217	255	199	178
ROE (%)	14.1	14.5	10.1	8.3

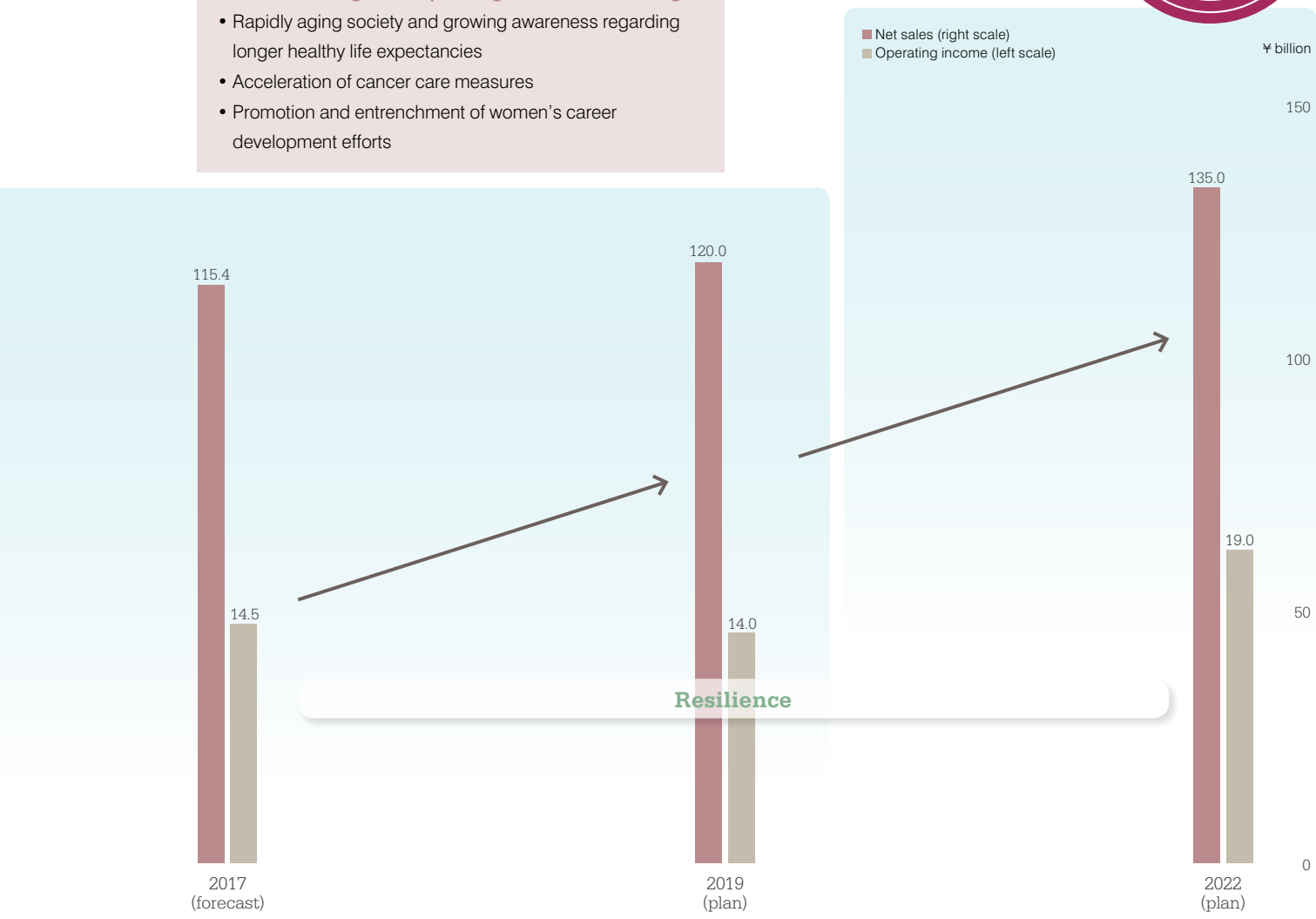
Quantitative Results and Issues in Three Strategic Challenges

Strategy	Expanding the Kampo medicines market	Enhancing earning power
Results	• Actively implemented Kampo medicine seminars, lectures, and briefings • Produced high-quality scientific evidence • Created scientific quality evaluation method for TU-100 (Daikenchuto)	• Established new manufacturing system that uses less manpower and is more efficient • Expanded Cultivated Land under Own Management area • Controlled selling, general and administrative expenses by increasing business efficiency
Remaining issues	• Utilization of evidence in "drug fostering" program formulations, especially TJ-43 (Rikkunshito) • Implementation of Phase II clinical tests for TU-100 (Daikenchuto)	• Improvement of marketing efficiency • Cultivation of crude drugs • Technological development and actual production for raw material crude drugs

Vision for 2021

Medium-to-Long-Term Operating Environment Changes

- Rapidly aging society and growing awareness regarding longer healthy life expectancies
- Acceleration of cancer care measures
- Promotion and entrenchment of women's career development efforts



New Medium-Term Management Plan

2017 — 2019 — 2020 — 2022 (FY)

Executing effective financial and capital policies

- Divested non-operating assets
- Carried out stable dividend payments
- Strategically stockpiled raw material crude drugs

- Yet to achieve ROE of 14%
- Inventory control for raw material crude drugs

Numerical Targets of the New Medium-Term Management Plan

¥ billion

	FY2017 forecast	FY2019 plan	FY2022 plan
Net sales	115.4	120.0	135.0
Operating income	14.5	14.0	19.0
Operating income margin (%)	12.6	11.5	14.0
Net income attributable to owners of the parent	10.7	10.0	13.0
EPS (Yen)	152	140	185
ROE (%)	6.9	6.0	8.0

Strategic challenge 1:
Expansion and stable growth in the Kampo medicines market

Strategic challenge 2:
Continued reinforcement of profitability and maximization of cash flow

Strategic challenge 3:
Challenge of new businesses in China

Evaluation of the Previous Medium-Term Management Plan

We failed to meet the quantitative targets of the previous medium-term management plan for three main reasons. The first reason was the slowdown in the sales of "drug fostering" program formulations.

Looking at the recent structure of disease, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and that Kampo products have demonstrated special efficacy for. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicines. To that end, we strove to bolster sales of the five "drug fostering" program formulations targeted in these efforts by establishing scientific evidence on their efficacy and using this evidence in promotions aimed at specialized physicians.

Expanding our focus after fiscal 2014, we diverged from this approach when we commenced initiatives for establishing formulations other than the five "drug fostering" program formulations as drugs with high cost performance, which included activities to have such formulations listed in medical treatment guidelines. A degree of progress was indeed made on this front. However, the act of expanding the focus of our sales strategies to include promotions of formulations other than the "drug fostering" program formulations and approaching physicians in fields other than those targeted by the program resulted in the dispersion of our sales resources.

The second reason for the failure to reach targets was the rapid rise in crude drug prices, particularly ginseng for which prices began a sharp increase in 2011, and the third reason was foreign exchange influences. Kampo products differ from Western drugs in that the portion of their sales price attributable to cost of sales, particularly the cost of raw material crude drugs, is quite high. Furthermore, as Tsumura procures roughly 80% of its raw material crude drugs from China, yen depreciation effectively increases procurement costs. Over the four-year period of the previous medium-term management plan, the impacts of rising prices and foreign exchange influences on crude drug procurement resulted in an increase of 5.1 percentage points in the cost of sales ratio.

However, we did not sit by and watch complacently as these changes in the operating environment occurred. To address crude drug procurement issues, we expanded the area of Cultivated Land under Own Management,* which allows for a stable supply of crude drugs, and began amassing strategic reserves of certain crude drugs. At the same time, proactive investments were conducted in new, labor-saving manufacturing systems to prepare for future crude drug price increases and NHI price revisions. We also sought to reduce selling, general and administrative expenses through exhaustive operational efficiency improvement measures while liquidating non-operating assets. However, these efforts proved insufficient for counteracting the impacts of external factors.

Nevertheless, we did make headway in expanding the Kampo medicines market, one of Tsumura's duties as the undisputed leader of this massive market. For example, we established highly viable scientific evidence on the efficacy of the five "drug fostering" program formulations and created a scientific quality evaluation method for TU-100, or Daikenchuto, with an eye for launching this product in the U.S. market. Researchers and physicians involved in Kampo research have stated that such an achievement would represent a major breakthrough toward the combination of Kampo medicine and Western medicine.

* Cultivated Land under Own Management are 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.

Theme and Strategic Challenges of the New Medium-Term Management Plan

The theme of the new medium-term management plan is "creating new value through innovations in Kampo." While it is common for people to misinterpret Kampo medicine as being "unscientific," I prefer to think of Kampo as being "not-yet scientific." Our corporate philosophy is "The Best of Nature and Science" and corporate mission is "To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." Acting in accordance with this philosophy and mission, we

embarked on a quest to establish scientific evidence on the efficacy of Kampo products in 2004. By breeding various innovations, we aim to advance the "science" of Kampo medicines and thereby fuel expansion and stable growth in the Kampo medicines market.

Strategic Challenge 1:
Expansion and Stable Growth in the Kampo Medicines Market

The first of the three strategic challenges defined in the new medium-term management plan is expansion and stable growth in the Kampo medicines market. Taking to heart the lessons learned through the previous medium-term management plan, we will reinforce our frameworks for effective and efficient utilization of scientific evidence in sales promotion activities. We have already begun conducting trainings regarding evidence for the five "drug fostering" program formulations targeting medical representatives responsible for university hospitals and designated hospitals for clinical training. Through such focused efforts in this area, which had been insufficient during the past three years, we are facilitating the exchange and utilization of new information.

The establishment of scientific evidence is the lynchpin of our efforts to expand the Kampo medicines market, and we are working toward the enhancement of evidence collection on the five "drug fostering" program formulations based on this realization. Moving away from our previous approach of accumulating evidence from individual research ventures, we have now set the goal of establishing a complete evidence collection that encompasses clinical evidence based medicine; action mechanisms; adverse drug reaction frequency surveys; absorption, distribution, metabolism, and excretion; and health economic data.

In addition, the new plan defines three important domains—namely, those of geriatric health, cancer, and women's health. We aim to grow formulations for responding to the significant demand among patients and medical practitioners in these domains with regard to the behavioral and psychological symptoms of dementia, frailty, supportive care for cancer, menopausal disorders, and other areas. To this end, we defined five new strategic "growing" formulations to stand alongside the five "drug fostering" program formulations.

Strategic Challenge 2:
Continued Reinforcement of Profitability and Maximization of Cash Flow

The second strategic challenge is the continued reinforcement of profitability and the maximization of cash flow. In tackling this challenge, optimization will be targeted in all areas of the supply chain, including the cultivation of raw material crude drugs and other aspects of crude drug procurement as well as production and sales. Under the previous medium-term management plan, we expanded the area of Cultivated Land under Own Management and reformed production systems. These initiatives will be accelerated under the new medium-term management plan. At the same time, we will revise our procedures for formulating management plans and estimating demand and sales at the sales stage. With a keen eye for quickly identifying risks, we will strive to practice management that facilitates swift and flexible responses in business operations. For example, we will monitor the cultivation status of crude drugs at Cultivated Land under Own Management in real time and use this information to adjust crude drug purchase volumes in order to minimize inventories of raw material crude drugs. I believe that this completely new approach will help us realize productivity improvements.

Strategic Challenge 3:
Challenge of New Businesses in China

The third strategic challenge laid out in the new medium-term management plan is a completely new one: challenge of new businesses in China. In this regard, Tsumura has already been able to enter into the business of Chinese medicine compound granules through the establishment of a joint venture with a major Chinese medicine supplier. We also concluded a business collaboration agreement with a local company for the sale of Chinese crude drug pieces for decoction, and other announced concrete plans included those for the future establishment of a holding company in China.

Approximately 80% of raw material crude drugs necessary to manufacture Tsumura's 129 Kampo formulations are procured from China. Our bases in this country include SHENZHEN TSUMURA MEDICINE CO., LTD., a crude drug procurement and storage base established in 1991, and

SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., a production base equipped with the same facilities used in Japan established in 2001. China has always been a key link in our Kampo value chain. All members of the Tsumura Group, including those on Chinese shores, strongly hope to develop a business in this country that will contribute to both the Group's growth and to the health of the people of China.

Through the aforementioned collaborative ventures, we have poised Tsumura to journey into fresh horizons with the start of new businesses that leverage our expertise in the procurement of high-quality raw material crude drugs and that are conducted in collaboration with reliable, local companies with which we have long business histories. As these new businesses in China are still in the preparation phase, we currently lack the information necessary to disclose quantitative figures for projected earnings contributions. Our forecasts and targets will thus be disclosed at a later date.

Eye to 40 Years in the Future

Our new challenge, that of new businesses in China, was included among the promises made to our shareholders and other investors in the new medium-term management plan to demonstrate my resolve to practice management based on a time frame that is longer than one, three, or even five years. At the risk of being misunderstood, let me say that, I believe, there is not much point to evaluating Tsumura's corporate value based on a single year's performance. The reason for this belief is that the Kampo value chain, which encompasses everything from the cultivation and procurement of crude drugs to the manufacture and sale of Kampo products, moves in cycles of several years. Furthermore, Tsumura is a unique pharmaceutical company with operations that extend to the agricultural field. Our current Kampo value chain was built based on the foresight of past managers who, roughly 40 years ago, predicted that our future growth would hinge on crude drug procurement. I too am committed to sowing the seeds for future growth with an eye to 40 years in the future.

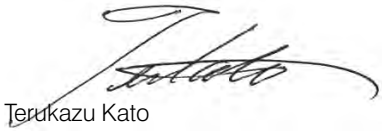
Human Capital, Social Relationship Capital, and the Kampo Value Chain

In sowing these seeds for future growth, nothing will be more important in our corporate management than the cultivation of our human resources. In conducting its Kampo and crude drug businesses, Tsumura has no rivals with which to gauge itself. For this reason, effective management can only be conducted by securing human capital capable of cutting open new paths. Based on this belief, we will pursue innovations in Kampo on a Groupwide basis, with all employees critically evaluating their own work to drive change.

Also, I hope my explanations thus far demonstrate that our Kampo value chain could not exist without our connections to stakeholders, which could be seen as a sort of "social relationship capital." There are some crude drugs that require a decade to cultivate, making procurement plans based on long-term demand projections a must. The implementation of such plans is supported by our trusting relationships with farmers and agricultural associations. We hope to maintain and strengthen these relationships going forward and will therefore continue to make precious, non-monetary investments into the future.

As I mentioned at the beginning of this message, we have absolute confidence in the ongoing growth of the prescription Kampo product market and the strong demand for Kampo medicines driving this growth. By boldly pushing forward with innovations in Kampo, we will provide a stable supply of Kampo products boasting the high quality necessary to live up to the expectations of patients and medical practitioners as we pursue growth and value creation.

August 2016



Terukazu Kato
President and Representative Director

Special Feature

Driving Forces behind Tsumura's Growth and Value Creation

The Kampo business is characterized by an exceptionally long business cycle, spanning the time from the cultivation of crude drugs to the prescription of Kampo products to patients. As such, a forward-looking stance is absolutely essential to achieving sustainable growth and ongoing value creation. In this special feature, we explain the strengths that Tsumura has amassed from a long-term perspective and how these strengths will serve as the driving forces behind future growth and value creation.

Driving Force 1:
Establishment and Utilization of Scientific Evidence

We are pushing forward with research strategies aimed at contributing to the expansion of the Kampo medicines market by establishing highly viable scientific evidence as well as by aiding medical representatives (MRs) in providing medical practitioners with timely information.

Ryuji Takasaki
Managing Executive Officer
Head of Kampo Scientific Strategies Division

Scientific Evidence for Explaining Kampo Products Using Western Medical Language

It has been found that close to 90% of Japan's physicians have prescribed Kampo products to their patients at some point in time.*1 Kampo medicine's spread in the Japanese medical field has been driven by the establishment of scientific evidence on efficacy.

TU-100 (Daikenchuto), for example, has traditionally been prescribed for stomach pain. Today, this product is widely prescribed to treat abdominal bloating resulting from postoperative ileus, a success driven by the accumulation of evidence on its efficacy in this respect. As a result, sales of TU-100 (Daikenchuto) have grown by an average of 6.8% per year over the 10-year period ended fiscal 2016. As demonstrated by this example, explaining the effectiveness of our products through the scientific approach that furnishes the language of Western medicine can make a direct contribution to Kampo's recognition and appreciation among medical practitioners and to the expansion of the Kampo medicines market.

Complete Evidence Collection for Raising Kampo's Value

In our efforts to establish a body of scientific evidence, we have primarily concentrated our research resources on the five "drug fostering" program*2 formulations, which target such fields as the gastrointestinal system, dementia, and cancer. We began this undertaking with a focus on TJ-100 (Daikenchuto), TJ-54 (Yokukansan), and TJ-43 (Rikkunshito). In developing a body of evidence on these formulations, we are moving ever closer to our goal of creating complete evidence collection that encompasses clinical evidence based medicine; action mechanisms; adverse drug reaction frequency surveys; absorption, distribution, metabolism, and excretion; and health economic data. By expanding the scope of our research from clinical evidence based medicine to include safety and economic data, we expect to be able to enhance the information contained in package inserts.*3 These enhanced package inserts, in turn, are expected to help heighten our ability to solicit the value of Kampo to medical practitioners, particularly specialists in the fields targeted by the "drug fostering" program formulations, thereby serving as a driving force behind the expansion of the Kampo medicines market.

Enhancement of Evidence Collection

	Meta-analysis	RCT	Action mechanisms	Adverse drug reaction frequency surveys	ADME	Listing in medical treatment guidelines (recommendation of Kampo medicines)
TJ-100 (Daikenchuto)	Paper submitted	23	✓✓✓	✓✓✓	✓✓✓	Pediatric chronic functional constipation disease, systemic sclerosis
TJ-54 (Yokukansan)	1	12	✓✓✓	✓✓✓	✓✓✓	Dementia disease
TJ-43 (Rikkunshito)	—	16	✓✓✓	Ongoing	✓✓✓	Functional gastrointestinal disease, diagnosis and treatment of psychosomatic diseases, GERD
TJ-107 (Goshajinkigan)	—	14	✓	—	✓✓	Benign prostatic hyperplasia, overactive bladder syndrome
TJ-14 (Hangeshashinto)	—	5	✓✓	—	—	—

Clear Target Domains and Enhanced Support for MR Activities Drawing out Latent Market Demand

To augment the power of this driving force, five new "growing" formulations were defined in fiscal 2017 to stand alongside the existing "drug fostering" program formulations. We are currently advancing research activities aimed at having these "growing" formulations listed in medical treatment guidelines. These activities will be aimed at three important domains—geriatric health, cancer, and women's health—in which we will focus on addressing unmet medical needs with regard to behavioral and psychological symptoms of dementia, frailty, supportive care for cancer (postoperative dysfunction, loss of appetite, and stomatitis), menopausal disorders, and other areas.

We are also committed to making good use of the scientific evidence we have already established. To this effect, members of the Kampo Scientific Strategies Division assist in the periodic training sessions held for MRs by explaining the details and significance of our latest scientific evidence. The goal of this participation is to enhance the sales capabilities of MRs, who are responsible for catering to university hospitals and designated hospitals for clinical training.

We have the utmost confidence with regard to the effectiveness of Kampo products and the scale of latent demand in the Kampo medicines market, and we have high expectations with regard to both. By linking the establishment of a body of scientific evidence with its utilization, we will create concrete results in drawing out latent market demand and thereby fuel steady growth of our Kampo business.

1 Based on "Survey on Prescribing Kampo Products" 2011 by the Japan Kampo Medicines Manufacturers Association; physicians that obtained nationally accredited licenses by studying in Western medicine also investigate and prescribe Kampo products as there is no differentiation between Western medicine and Kampo medicine in the licensing system for physicians in Japan

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

3 Official documents 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 of Japan that contain information on usage, dosages, and other characteristics of pharmaceuticals

Driving Force 2:
Information Provision Appropriately Emphasizing Scientific Evidence, Guidelines, and Utilization of Different Kampo Formulations

Our sales activities combine the dual qualities of tradition and innovation inherent in Kampo through an information provision approach based on scientific evidence as well as an approach based on Kampo medicine methodology.

Ryouichi Murata
Executive Officer
Head of Sales & Marketing Division

Market Share Expansion Exploiting New Evidence

Promotions targeting physicians at university hospitals and designated hospitals for clinical training exploiting scientific evidence will serve as a central pillar of our sales strategies for expanding the Kampo medicines market.

In the gastrointestinal field, for example, despite the ability for TJ-43 (Rikkunshito) to treat lack of appetites and stimulate gastric motility, this formulation only has a 7% share of the market for gastric motility drugs. However, as there are many physicians seeking up-to-date information, primarily at university hospitals, achieving a larger market share for this product will require us to continue producing new scientific evidence on its efficacy.

Tsumura is forging ahead with concentrated sales promotion activities focused on new scientific evidence. At the Sales & Marketing Division, we coordinate with the Marketing Training Division to share the latest data collected by the Kampo Scientific Strategies Division with the MRs. We thereby seek to facilitate efficient sales activities that emphasize, in particular, the three important domains of geriatric health, cancer, and women's health.

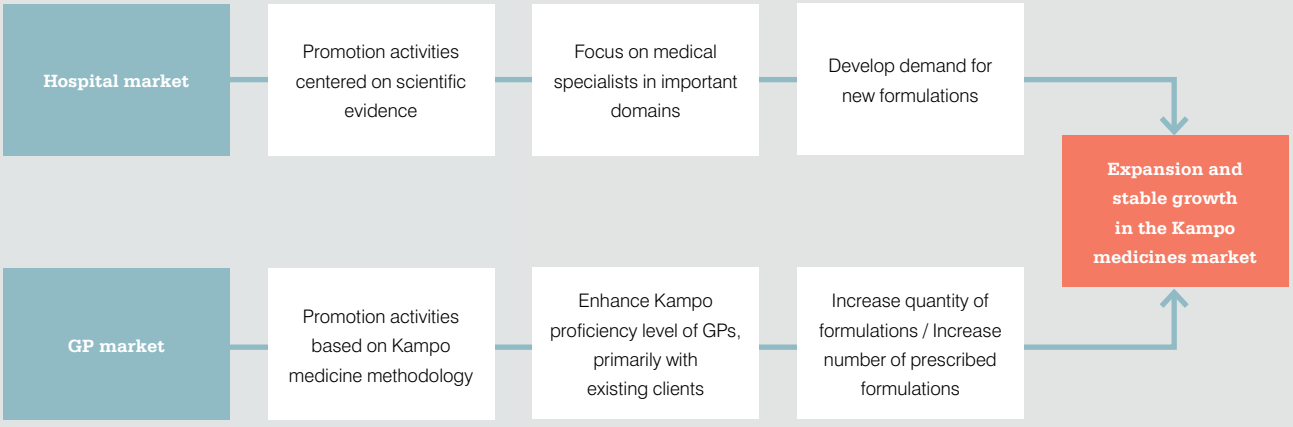
Promotion of Effective Kampo Use to Increase Prescription Numbers

At present, roughly 70% of Tsumura's sales come from the general practitioner and clinic (GP) market, which consists of relatively small, community-rooted medical institutions. The main task to be addressed through sales activities targeting this market is increasing Kampo medicines prescription numbers.

In the GP market, only slightly above 10% of physicians can effectively utilize more than 10 different Kampo formulations, but the majority of physicians have some form of experience prescribing Kampo products. Although many physicians are aware of the effectiveness of Kampo products, they perceive a high barrier of entry to adopting a Kampo treatment approach—namely, utilizing the ideal Kampo formulations based on individual patients by determining differences in their constitution and symptoms through diagnosis to issue different prescriptions regardless of how their disorder or symptom may be similar to that of other patients.

Sales Strategies for Expanding the Kampo Medicines Market

Appropriate provision of information emphasizing scientific evidence, guidelines, and proper use of different formulations based on Kampo medicine methodology



To help eliminate this barrier, Tsumura began implementing the disorders and symptoms differentiated approach in its sales activities targeting the GP market in April 2015. This approach targets 44 disorders and symptoms that are frequently treated at GP institutions and that Kampo medicine addresses with particular effectiveness, preparing between three and five formulations for each, for a total of 77 formulations, with certain formulations treating several disorders or symptoms. With a focus on providing information about these formulations, we create visual aids and other materials, which we use to explain such matters as which formulations will serve as substitutes should a specific formulation fail to prove effective. Physicians have offered much praise for how easy these explanations are to understand. These efforts have created clear results in increasing Kampo medicines prescription numbers, as marked by a 4.5% rise in the total sales of the formulations applicable under this approach in fiscal 2016 based on sales by pharmaceutical sales agents to medical institutions.

Enhanced Awareness of MR Roles as a Driving Force behind Market Expansion

Physicians with an interest in the latest data on the efficacy and safety of Kampo products not only work in university hospitals conducting leading-edge research and designated hospitals for clinical training but also can be found in small-scale medical institutions. In other words, the role of MRs—namely, to provide physicians with highly viable information in accordance with their needs—is the same in both of the two aforementioned information provision approaches. By adopting an information provision approach based on scientific evidence as well as an approach based on Kampo medicine methodology, we aim to augment our sales capabilities to provide flexible responses to physicians' various needs and utilize these capabilities as a driving force behind the expansion of the Kampo medicines market. Through this expansion, we will work toward our ultimate goal of contributing to the lives of patients.

Driving Force 3:
Ongoing Improvement of Productivity

By creating frameworks, in terms of both infrastructure and intangible elements, that allow for increased production without increased staff numbers, we will gradually improve productivity to prepare for upcoming periods of brisk sales.

Hideo Mano
General Manager
Product Secretary Pharmacist
Shizuoka Plant

Three Characteristics of Kampo Production at the Shizuoka Plant

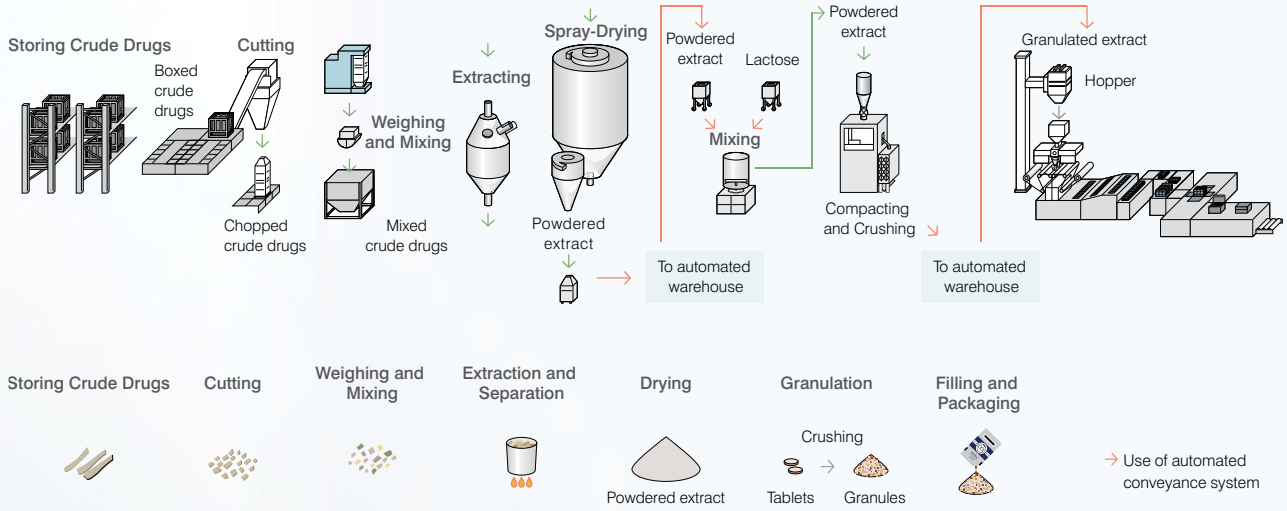
Productivity improvements at the Shizuoka Plant are heavily influenced by three characteristics of Kampo production. For this reason, the realization of improved productivity implies addressing the issues that arise from these characteristics.

The first characteristic is the large number of formulations needing to be produced. The Shizuoka Plant manufactures 84 of Tsumura's 129 prescription Kampo products as well as 44 over-the-counter formulations and more than 100 crude drug pieces for decoction and other products.

The second characteristic is the volume of materials handled. In Western medicine, the volume of active ingredients in drugs is measured in milligrams, and it is rare for a drug to contain more than a gram of an active ingredient. For Tsumura's Kampo products, however, even the lightest formulations still require 1.25 grams of dry extract in each dosage package, while heavier formulations can require as much as 7.00 grams. If the volume of a completed product is large, the volume and weight of the intermediates and materials used in production processes will also be large. In addition, these intermediates and materials are made from naturally sourced crude drugs, which come in various forms, including tree bark, plant roots, leaves, and minerals, and can be quite large or heavy. Accordingly, the storage and transportation of raw and other materials and products creates a significant obstacle toward productivity improvements.

The third characteristic is that the various formulations manufactured all have different traits. For example, all of the 84 prescription Kampo products manufactured at this facility end up as granulated extracts of the same size and shape in their final form. However, the physical qualities of each powder differ with regard to such factors as the viscosity of fluids and the quantity of powdered extracts used during production processes. As such, the production and cleaning knowledge required for each formulation is different.

Typical Production Flow for Kampo Products



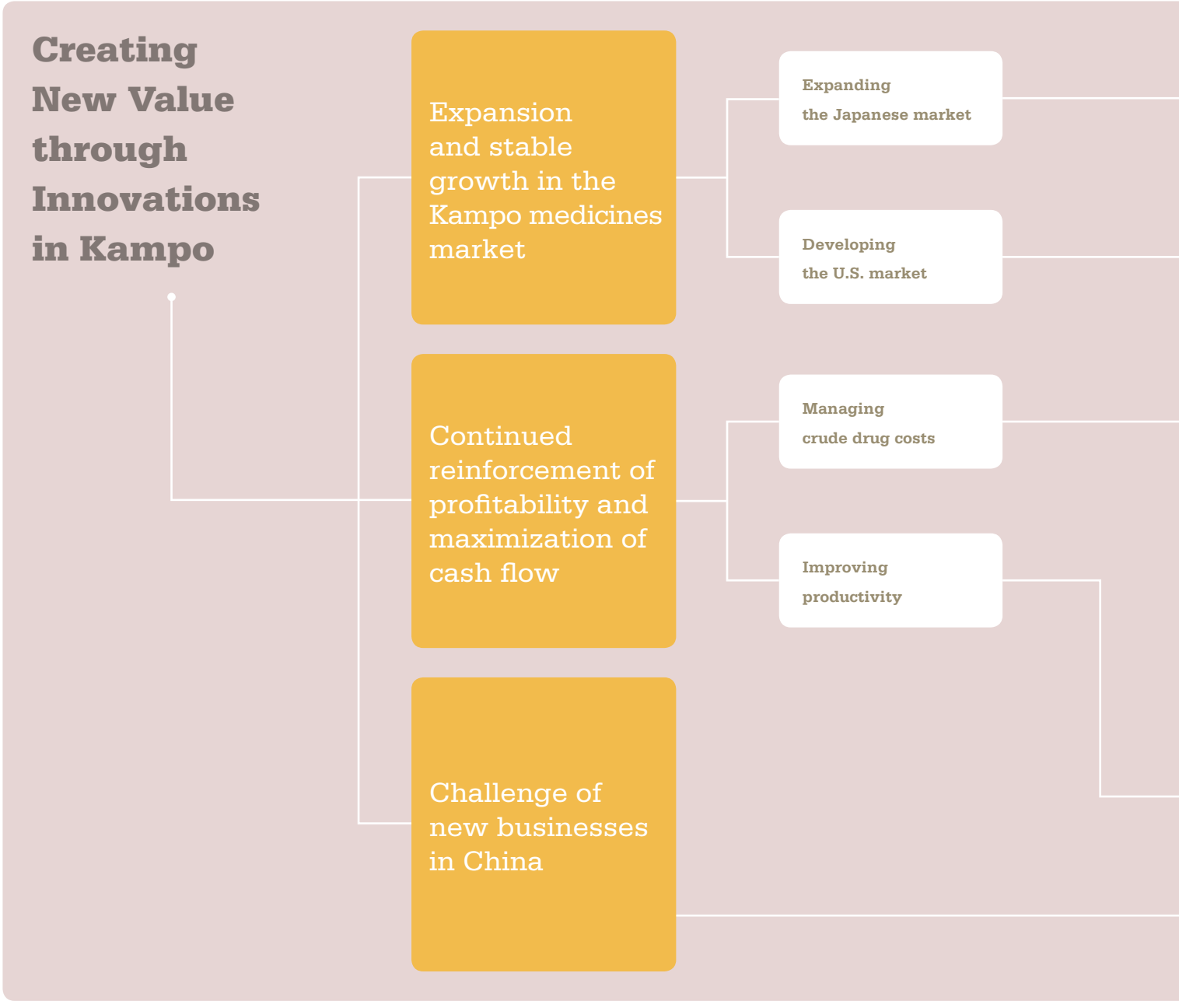
Productivity Improvements through Automated Conveyance Systems and Know-How Transference

The issues arising from the first and second characteristics of Kampo production can be addressed by reducing the labor requirements for transporting heavy articles. The Shizuoka Plant's new granulation and packaging facility, which is scheduled to commence full-fledged operation in fall 2016, will be equipped with an automated conveyance system that will store and transport the raw and other materials and intermediates needed for each step of the manufacturing process. This system will employ automated forklifts capable of retrieving even single pallets and robots for transporting material containers. The need for employees to transport heavy articles will be almost completely eliminated as a result. The automated conveyance system can also be used when switching over to the production of different products, lowering labor requirements for exchanging and washing parts and creating subsequent gains in production speed.

To address the issues created by the third characteristic, we are focusing our attention on the transference of expertise. In the past, experienced and highly skilled employees were responsible for making adjustments to production processes based on the differing traits of formulations. However, production processes are becoming increasingly automated and the employees that used to handle such adjustments are getting on in years. We are therefore working to compile the know-how and experience accumulated on the production floor in the form of data while sharing the answers to the questions that arise with regard to newly introduced equipment among plant staff.

As the automation of production processes proceeds, the main role of our plant employees will naturally shift toward monitoring these processes, and the know-how required to effectively control automated systems will become an increasingly more important part of operations. The intangible strengths of experience and know-how will thus serve as a driving force for our efforts to realize ongoing productivity improvements and maintain impeccable levels of quality by drawing out the maximum potential of our production facilities.

In May 2016, Tsumura launched its new medium-term management plan, which covers the period from fiscal 2017 to fiscal 2022 and is designed to further the Company down the path toward its long-term business vision (Vision for 2021): "Aim to be a value-creation company that contributes to people's health through its Kampo business." Based on the theme of "creating new value through innovations in Kampo," the new medium-term management plan sets forth 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.



These three strategic challenges were selected based on the results of the measures Tsumura has advanced to date. In this section, we review examples of the past measures and results that formed the basis for the new medium-term management plan. Specifically, we review two of the strategic challenges of the first-stage medium-term management plan implemented over the four-year period from fiscal 2013 to fiscal 2016: expanding the Kampo medicines market and enhancing earning power.

Strategically increasing prescriptions by physicians

Conducting medical representative activities: physician visits, seminars, information meetings, and other forums

▸▸ P. 25

Increase in percentage of physicians prescribing more than 10 formulations from current 10% to **50%** in future

Establishing scientific evidence

▸▸ P. 26

Five “drug fostering” program formulations contribute **27.1%** of net sales

Supporting Kampo medicine education

▸▸ P. 27

Kampo medicine taught at all **80** medical colleges and universities nationwide

Developing TU-100

▸▸ P. 28

Progress in clinical trials targeting **U.S. launch**

Increasing area of Cultivated Land under Own Management

▸▸ P. 29

Ratio of crude drugs procured from Cultivated Land under Own Management to total procurement volume of **36%**

Raising production efficiency

▸▸ P. 29

Expansion of **ginseng cultivation** in preparation for future demand growth

Introducing and exploring new production technologies

▸▸ P. 31

Average annual capital investment of **¥10.0 billion** leading up to fiscal 2019

Taking on the challenge of new businesses in China

▸▸ P. 32

Participation in **traditional Chinese medicine** compound granule and other businesses

Trends in Pharmaceutical Kampo Product Sales and Profits

Pharmaceutical Kampo Product Sales

In fiscal 2016, the year ended March 31, 2016, net sales rose 2.0% year on year, to ¥112,625 million. Within this amount, sales of the 129 formulations of prescription Kampo products manufactured by Tsumura rose 2.3% from the previous fiscal year, to ¥107,599 million. A total of 68 of the 129 formulations registered year-on-year sales increases.

Actual Sales of Prescription Kampo Products

On a unit sales basis, actual sales by pharmaceutical wholesalers to medical institutions increased 4.0% year on year, to more than 19.00 million units. Sales also increased on a monetary basis, rising 3.7%, to ¥123,053 million.*1 Tsumura's share of the overall market on a monetary basis remained about the same as in fiscal 2015, at 84.3%.*1

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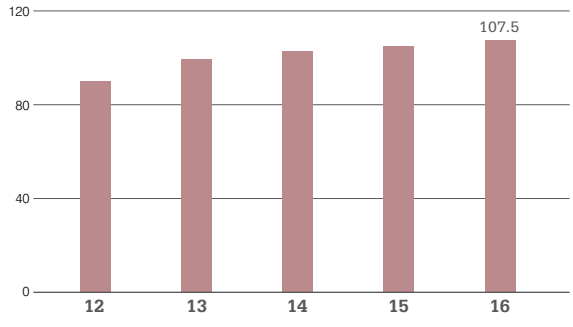
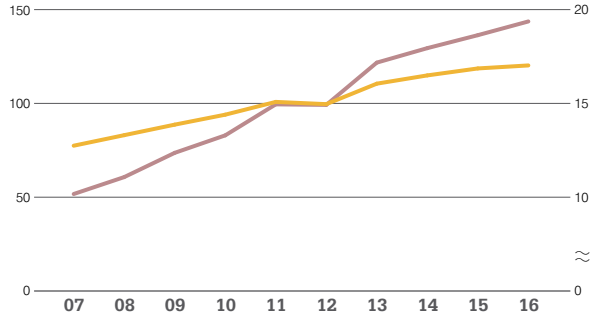
Sales of Prescription Kampo Products

¥ billion



Sales and Quantity of Tsumura Prescription Kampo Products*2

¥ billion / millions of units



2 Sales and quantity from pharmaceutical wholesalers to medical institutions

Top 10 Kampo Products by Sales Amount

¥ million

	Product name	Main effectively treatable disorders	FY2016	FY2015	Difference	YoY change
1	TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	10,273	9,993	279	2.8%
3	TJ-54 (Yokukansan)	Neurosis / insomnia, etc.	7,215	6,895	319	4.6%
2	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia, etc.	6,968	6,965	3	0.1%
4	TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia, etc.	6,604	6,633	–29	–0.4%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms, etc.	4,688	4,440	247	5.6%
7	TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	4,494	4,178	316	7.6%
6	TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance	4,465	4,285	179	4.2%
8	TJ-107 (Goshajinkigan)	Leg pain / low back pain / numbness / dysuria, etc.	3,838	3,814	23	0.6%
9	TJ-114 (Saireito)	Swelling (edema) / acute gastroenteritis, etc.	3,351	3,308	42	1.3%
10	TJ-1 (Kakkonto)	Common cold / coryza / shoulder stiffness, etc.	3,253	2,986	267	9.0%
—	TJ-14 (Hangeshashinto)	Stomatitis / fermentative diarrhea / neurotic gastritis, etc.	1,250	1,230	20	1.7%
Total sales of 129 prescription Kampo products			107,599	105,193	2,405	2.3%

Specialist Medical Representative Activities

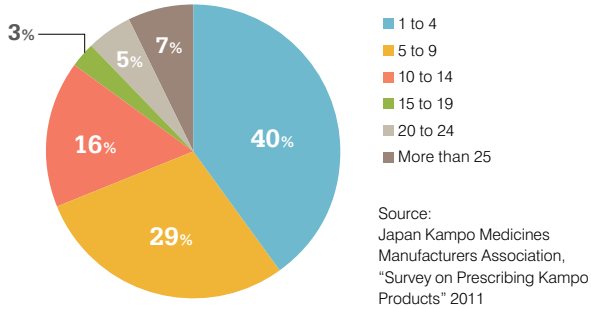
Use of Prescription Kampo Products by Physicians

Kampo products are widely used in the healthcare workplace in today's Japan. According to a 2011 survey conducted by the Japan Kampo Medicines Manufacturers Association,*3 89% of Japan's physicians have prescribed Kampo products for their patients, and the average number of different Kampo products prescribed by the respondent physicians that actually prescribe Kampo products was 8.5 products. This figure is up from 7.8 products in the previous survey done in 2008.

3 Japan Kampo Medicines Manufacturers Association, "Survey on Prescribing Kampo Products" 2011

Number of Types of Kampo Products Prescribed by Physicians

Physicians who actually prescribe Kampo products
(Valid number of responses = 558)

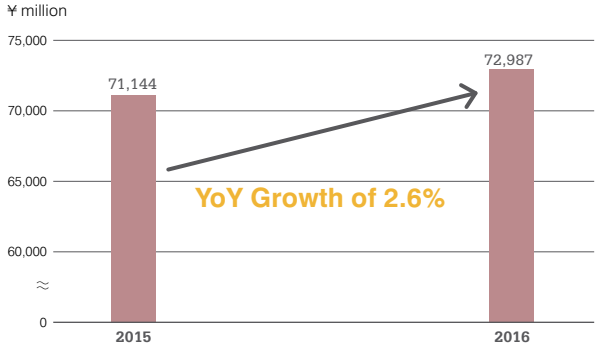


Source:
Japan Kampo Medicines Manufacturers Association, "Survey on Prescribing Kampo Products" 2011

Disorders and Symptoms Differentiated Approach

In fiscal 2016, Tsumura deployed its new disorders and symptoms differentiated approach, which entails focusing on disorders or symptoms for which Kampo products will most likely be effective and proposing appropriate formulations to physicians. Through this approach, we aim to increase the number of Kampo formulations prescribed by physicians that actively utilize Kampo products. As a result of these efforts, a total year-on-year increase of 2.6% was seen in the sales of the 77 formulations promoted through this approach.

Sales of 77 Formulations Promoted through Disorders and Symptoms Differentiated Approach

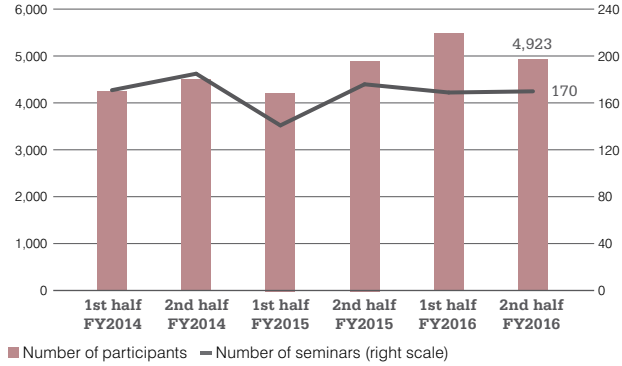


Provision of Information and Training Opportunities for Physicians

Tsumura holds Kampo training sessions for physicians-in-training at university hospitals and designated hospitals for clinical training. By exposing such fledgling physicians to Kampo products during the process of their medical education, we aim to increase the usage of Kampo products in clinical treatment. In addition, we provide fine-tuned responses to the diverse education needs of physicians that actually utilize Kampo medicine in their practice by offering various seminars based on different Kampo understanding levels.

Kampo Medicine Seminars

People / Times



"Drug Fostering" Program Results

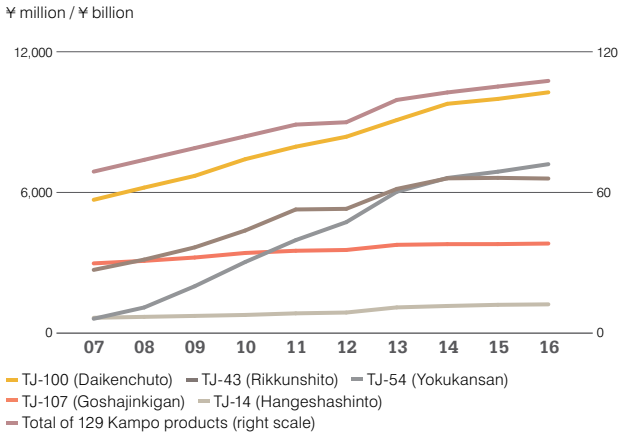
"Drug Fostering" Program Formulation Sales

Sales of the five prescription Kampo formulations in the "drug fostering" program—TJ-100 (Daikenchuto), TJ-43 (Rikkunshito), TJ-54 (Yokukansan), TJ-107 (Goshajinkigan), and TJ-14 (Hangeshashinto)—rose 2.1% year on year. Sales continued to increase for all formulations except TJ-43 (Rikkunshito), with particularly strong growth of 4.6% posted for TJ-54 (Yokukansan). Sales of the top seller, TJ-100 (Daikenchuto), climbed to more than ¥10.0 billion and generated 9.5% of Tsumura's total prescription Kampo product sales.

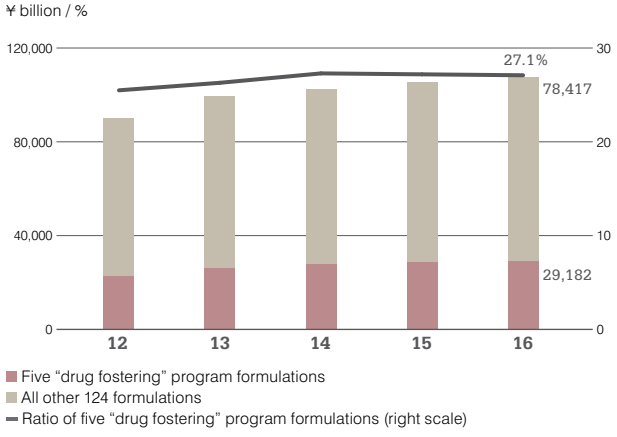
Sales Growth of "Drug Fostering" Program Formulations

In the past, sales of the five "drug fostering" program formulations drove growth in overall prescription Kampo products. In fiscal 2016, however, Tsumura began implementing its disorders and symptoms differentiated approach to respond to the diversification of physician needs, and the sales growth rate of the 77 formulations applicable under this approach exceeded the sales growth of the five "drug fostering" program formulations, although the sales of these formulations did remain high, representing 27.1% of total net sales.

Sales of "Drug Fostering" Program Formulations



Sales Contribution of Five "Drug Fostering" Program Formulations



Five "Drug Fostering" Program Formulations

Product name	Expected efficacy	Significance to program
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.	

Establishment of Kampo Medicine

Support for Kampo Medicine Education at Medical Colleges and University Medical Departments

As one of its goals toward establishing Kampo medicine, Tsumura is working toward the inclusion of questions on Kampo medicine in the Japanese national examination for medical practitioners.*4 To this end, Tsumura has been supporting Kampo medicine education for medical students at the 80 medical colleges and university medical departments in Japan since 1997. The Company achieved its goal of Kampo medicine education being implemented at all 80 of these medical colleges and universities in 2004. In recent years, we have been encouraging nationwide medical education institutions to include Kampo internships as part of their Kampo medicine education curriculum.

Integrated Kampo Medicine Education Support

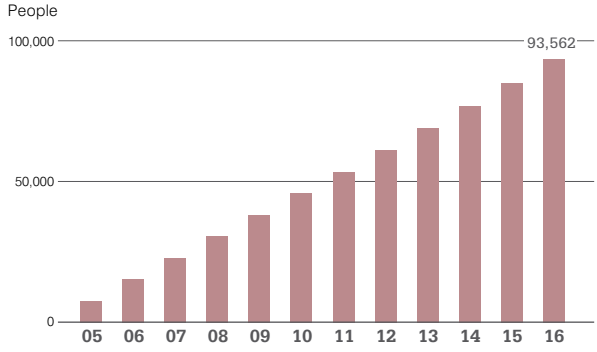
As of February 2016, nearly 100,000 medical students have passed the Japanese national examination for medical practitioners since 2005, the year following the implementation of Kampo medicine education at the 80 medical education institutions nationwide. In addition to providing support for Kampo education at medical education institutions, we are also encouraging increased prescription of Kampo products by providing information and training opportunities for newly graduated and practicing physicians.

4 Currently, in Japan there is no differentiation between Western medicine and Kampo medicine in the licensing system for physicians. Therefore, there is only one national examination in which there are no questions on Kampo medicine.

Three Objectives	FY2016 Record
• At least eight Kampo medicine courses required for graduation	• Implemented at 72 medical schools
• Setting up Kampo medicine outpatient clinics*5 at university hospitals	• Implemented at 79 medical schools
• Having medical schools established Kampo medicine lecturer development systems*6	• Implemented at all 80 medical schools

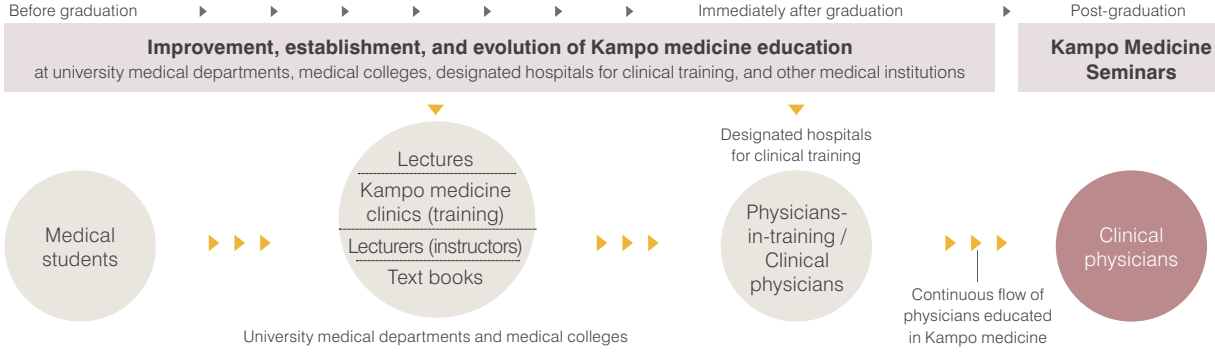
5 Outpatient clinics that provide Kampo medicine based diagnoses and treatment
6 Fostering education administrators within medical colleges and universities that promote Kampo medicine programs

Cumulative Total of Medical Students Passing the National Examination for Medical Practitioners*7



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

Kampo Medicine Education System



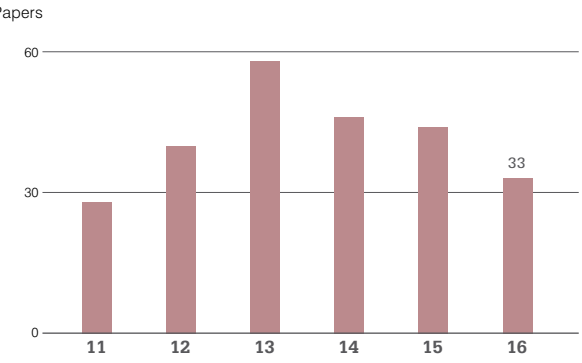
Internationalization of Kampo Medicines

Growing Kampo Medicines Related Research

Scientific evidence is absolutely essential to realizing the prescription of Kampo products in specialized medical fields. We have thus set the goal of establishing a complete evidence collection that encompasses clinical evidence based medicine; action mechanisms; adverse drug reaction frequency surveys; absorption, distribution, metabolism, and excretion; and health economic data. In addition, we began establishing evidence for five new "growing" formulations,*8 which were defined to stand alongside the five "drug fostering" program formulations.

8 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 contributions from medicine are low

Kampo Medicines Related Papers Published



TU-100 (Daikenchuto) Clinical Trials in the United States

Tsumura has its sights set on introducing Kampo products into the U.S. market, the world's largest market for pharmaceuticals. To accomplish this objective, we are advancing early-stage Phase II clinical trials in the United States for TU-100 (Daikenchuto), a "drug fostering" program formulation for which a body of scientific evidence has been established. The trials currently under way are set to conclude during fiscal 2018, and the findings of these trials will be used in setting the policies for late-stage Phase II trials and other trials.

FDA Approval Process for General Pharmaceuticals

- Investigational New Drug (IND) application
- Phase I to Phase III Clinical Trials
- Preliminary review—New Drug Application (NDA)
- Review Process and Additional Submissions
- Manufacturing Facility Inspection
- New Drug Approval
- Post-Marketing Monitoring

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) **Scheduled to be completed in fiscal 2017** PII (early stage)					Plan to decide on direction and schedule for late stage of PII and on in fiscal 2019 after finishing and analyzing all of early stage 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 reactions manifestation to the FDA
2 Submit clinical pharmacokinetic results on healthy U.S. citizens to the FDA

IBS: Irritable bowel syndrome, POI: Postoperative ileus

Stable Procurement of Crude Drugs and Production Efficiency Improvement

Expansion of Cultivated Land under Own Management

The expansion of Cultivated Land under Own Management*9 forms the central pillar of the Company's measures for securing a stable supply of crude drugs. The new medium-term management plan commenced in May 2016 has set the goal of raising the ratio of crude drugs procured from Cultivated Land under Own Management to our total commission volume from fiscal 2016's 36% to 43% in fiscal 2019.

9 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.

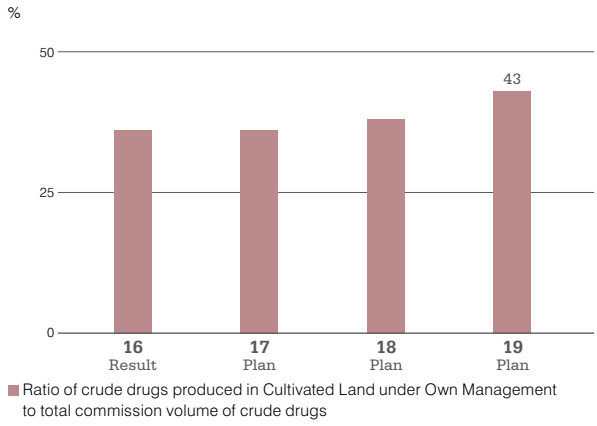
Procurement of Crude Drugs from China

Demand for Kampo products is expected to increase steadily going forward, and securing a stable supply of high-quality raw material crude drugs that matches the scale of this demand will be among the most important management tasks for Tsumura. Currently, approximately 80% of the crude drugs used by the Company are procured from China. In this country, local subsidiary SHENZHEN TSUMURA MEDICINE CO., LTD., plays a central role in establishing long-term cooperative business relationships with crude drug production associations.

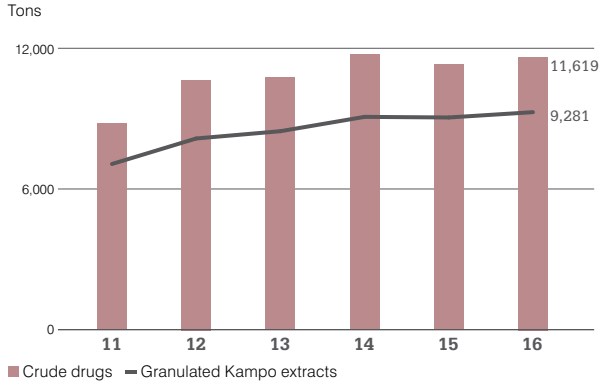
Expansion of Ginseng Cultivation

In 2011, the prices of ginseng and certain other raw material crude drugs began to rise sharply, adversely impacting the Company's profitability. In fiscal 2016, however, the price of ginseng began to fall due to a decrease in speculative investment demand as well as an increased supply to the market. Nonetheless, demand for ginseng in China is projected to grow over the medium-to-long term. 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 ongoing use of ginseng cultivation sites.

Cultivated Land under Own Management

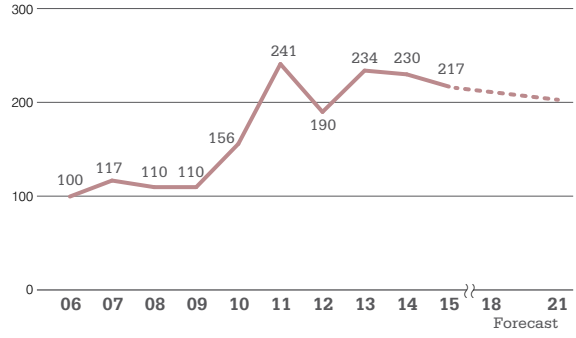


Amount of Crude Drugs Used and Granulated Kampo Extracts Produced



Overall Procurement Price of Crude Drugs Produced in China

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



Crude Drug Cultivation in Japan and Laos

In addition to China, Tsumura has been procuring raw material crude drugs from within Japan since the 1960s. Today, the Company utilizes crude drugs cultivated based on contracts with agricultural associations and other agricultural companies in Hokkaido, Iwate, Gunma, Wakayama, Kochi, and Kumamoto prefectures. In addition, subsidiary YUBARI TSUMURA & CO., LTD., was converted into an agricultural production corporation in December 2014 with the aim of expanding upon the functionality of this company and thereby transforming it into an integrated production base capable of everything from crude drug cultivation to processing and storage.

Furthermore, raw material crude drug cultivation subsidiary LAO TSUMURA CO., LTD., was established in Laos in February 2010. The subsidiary began with only 150 ha of Cultivated Land under Own Management, which has since expanded to approximately 770 ha spread across seven sites.

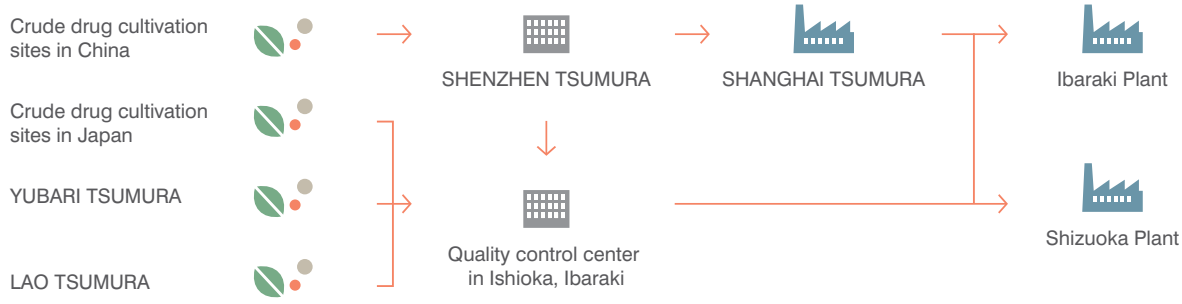
Traceability System Ensuring Stable Supply of High-Quality Crude Drugs

Tsumura procures raw material crude drugs from China, Japan, and Laos among other countries, and it is therefore critical to manage the quality of these crude drugs based on rigorous standards that are the same regardless of the producing region and to ensure a stable supply. For this reason, the Company has established a traceability system that records and stores 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. Moreover, this system allows for stored data to be tracked and reviewed.

Crude drug cultivation in Hokkaido

Crude drug cultivation in Laos

Sharing Traceability Information

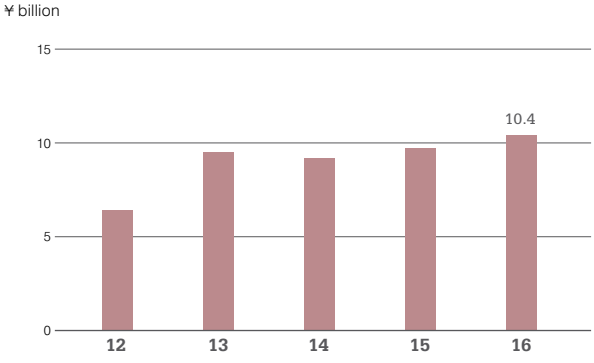


Introduction of New Manufacturing Technologies

Capital Investment for Increased Production Capacity

In consideration of sales trends, Tsumura conducts systematic capital investment through which it implements production system reforms to enable it to meet future demand. Capital investment in fiscal 2016 totaled ¥10.4 billion, up ¥0.7 billion year on year, and was directed at the construction of warehouses, manufacturing facilities, and office buildings at YUBARI TSUMURA, projects that were completed in September 2015. In fiscal 2017, the completion of construction at a new granulation and packaging facility at the Shizuoka Plant is scheduled for September 2016, with powdered extract production at this plant as well as the operation of a new manufacturing facility at the Ibaraki Plant set to begin later in the year.

Capital Investment



Productivity Improvement to Reduce Labor Requirements and Energy Consumption

By conducting ongoing capital investment, Tsumura is improving its basic production capabilities and, given Japan's participation in the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme (PIC/S),*10 is advancing compliance with PIC/S GMP, the international good manufacturing practice (GMP) standards set forth by these instruments. We are also endeavoring to automate processes and reduce labor requirements through the introduction of robots. By undertaking such capital investment and other initiatives aimed at optimization across the supply chain, we will target a 30% improvement in labor productivity*11 versus fiscal 2016's level to be achieved by fiscal 2022.

10 An organization that seeks to achieve international compliance regarding each country's GMP standards for manufacturing pharmaceuticals and The Convention for the Mutual Recognition of Inspections in Respect of the Manufacture of Pharmaceutical Products; membership is voluntary and mainly comprises health authorities from European nations

11 Labor productivity = Production volume / Number of factory employees

Capital Investment Plan

Phased capital investment in accordance with sales

			First-Stage Medium-Term Management Plan				New Plan
		Capital investment project	FY2013	FY2014	FY2015	FY2016	FY2017 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

Challenge of New Businesses in China

Participation in Traditional Chinese Medicine Compound Granule Business

In May 2016, Tsumura established a joint venture company with Shanghai Traditional Chinese Medicine Co., Ltd., a subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd., a local company in China with which the Company has a long business relationship regarding the procurement of crude drugs. The joint venture company will deal in traditional Chinese medicines, manufacturing and selling traditional Chinese medicine compound granules, which 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. Through this undertaking, we will utilize crude drug cultivation and processing technologies accumulated in China as well as our quality assurance expertise and powdered extract manufacturing technologies to contribute to the health of people in China. The business operations of this joint venture are also anticipated to help improve the quality of crude drugs in China and protect crude drug resources in the country, thereby enabling Tsumura to stably procure raw material crude drugs over the medium-to-long term.

Comprehensive Business Collaboration Agreement with Local Chinese Company

The Company has entered into a comprehensive business collaboration agreement with China Medico Co., Ltd., one of its main suppliers of raw material crude drugs. Under this agreement, both companies will strengthen their relationship with regard to the supply and procurement of raw material crude drugs for Kampo products. The agreement also entails conducting joint research on key crude drugs, such as ginseng, and managing related production sites as well as building a system that allows for stable, long-term supply of crude drugs. Furthermore, we are advancing plans for joint development of a Chinese crude drug pieces for decoction business in China and are examining the possibility of expanding the scope of such joint operations in the future.

Frequently Asked Questions

Tsumura places high priority on communicating with shareholders and other investors and strives to provide 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.

Recently in Japan, it is often being said that Kampo medicine and Kampo products are contributing to women's participation in the workforce. What is the connection between these two?

A.

As the number of working women increases, so does the number of women suffering from conditions thought to result from stress. Accordingly, Kampo medicine and Kampo products, which have traditionally demonstrated efficacy in treating disorders in the female body, are once again garnering attention.

Lately, gender-based medicine, the idea that treatment should be based on the differences in disorders and symptoms between men and women, has been identified as a matter of importance, even in Western medicine. Kampo medicine, meanwhile, has always provided methods of treatment for disorders and symptoms that are unique to women, as indicated by articles focusing on gender differences found in classical Kampo medicine documents. As such, the recent attention directed at the relationship between Kampo medicine and women can be seen as a result of the rise in the number of working women and the subsequent increase in the number of women suffering from various stress-related symptoms.

Menopausal disorders is one of the most noteworthy areas in which Kampo products can address disorders unique to women. Kampo medicine specializes in dealing with disorders like general malaise—that is, those disorders in which the patient feels significant discomfort despite examinations being unable to determine any cause. Kampo's strength in treating these disorders comes from the emphasis placed on the physical constitution and subjective symptoms of patients. While Western medicine faces difficulty in addressing such disorders, Kampo medicine is able to formulate an effective treatment based on the physical conditions and major symptoms of the patient. It is commonly known that Kampo products excel at recovering hormonal and autonomic nerve balances, and we therefore anticipate that the number of Kampo medicines prescriptions issued to treat disorders unique to women will increase going forward.

Q.

What steps does Tsumura take to ensure effective quality control and maintain appropriate working conditions for employees at its bases in Japan, China, and Laos?

A.

Quality control of crude drugs and Kampo products is conducted based on common standards that are applied to all bases. At the same time, we provide various training opportunities for employees at every base while striving to create an environment in which everyone can gain a sense of fulfillment from their work.

Currently, the Group procures approximately 80% of the raw material crude drugs it uses from China, 15% from Japan, and 5% from Laos, among other countries. We implement quality control measures for crude drugs based on common standards, regardless of which country they were procured from. Crude drugs procured in China are collected within SHENZHEN TSUMURA MEDICINE CO., LTD., and the Ishioka Center in Ibaraki Prefecture, while those procured in Japan, Laos, and other countries are

accumulated at the Ishioka Center. After separating out any foreign objects along with crude drugs that do not meet quality standards, quality inspections are conducted at these locations. These inspections entail safety checks for confirming that crude drugs do not contain residual agricultural chemicals, microbes, or heavy metals. To manage product quality, the manufacture of Kampo products at Tsumura's three production bases—SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., the Shizuoka Plant, and the Ibaraki Plant—is conducted in accordance with good manufacturing practice (GMP) standards* and with Kampo GMP standards.

Employees working at overseas bases are granted opportunities to undergo training in Japan. Over the past five years, several management candidates have been invited to Japan from SHANGHAI TSUMURA PHARMACEUTICALS, SHENZHEN TSUMURA MEDICINE, and LAO TSUMURA CO., LTD., to take part in training at Tsumura's Head Office, tour the Ibaraki Plant, and build ties with other Group employees.

In addition, the Group's long-term business vision (Vision for 2021) sets forth the goal of having Tsumura recognized as "the 'people' company." We are therefore committed to creating an environment in which all employees can gain a sense of fulfillment from their work. Furthermore, the new medium-term management plan unveiled in May 2016 sets forth the challenge of new businesses in China as a strategic challenge for the Company. In taking on this challenge, Tsumura will seek to expand its business while contributing to the health of people in China, and this undertaking is thus expected to lead to higher employee satisfaction, particularly in China.

* Standards for the manufacture and quality control of pharmaceuticals set by the Minister of Health, Labour and Welfare 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. (Pharmaceutical and Medical Device Act)

Q.

What does the Company refer to when it speaks of "NHI drug price revisions"? Also, what measures does Tsumura take to combat the effects of such revisions?

A.

The prescription Kampo products supplied by Tsumura are sold based on set official drug prices, and these prices are periodically revised to reflect market prices. We work to ensure that Kampo products are sold at prices that reflect their true value.

The 129 prescription Kampo products provided by Tsumura are all covered under the Japanese National Health Insurance (NHI) plan. The Ministry of Health, Labour and Welfare sets official prices for all prescription pharmaceuticals that are applicable under the NHI plan and periodically revises these prices to reflect market prices. These revisions are conducted once every two years, in principle, with the most recent revision taking place in April 2016.

The rate of decrease in the NHI drug prices of Tsumura's prescription Kampo products is relatively low in comparison to the overall rate of decrease for the entire pharmaceutical market. For example, the average rate of decrease for all pharmaceuticals was 7.8% in the April 2016 revision, but Tsumura's 129 prescription Kampo products only saw their prices decline by about 3.0% on average. This favorable outcome is a result of our efforts to solicit the value of Kampo products based on the amount of time and labor devoted to creating these products through such processes as crude drug cultivation and quality control. To minimize the adverse impacts of NHI drug price revisions, we endeavor to maintain the market price of our products and to expand the Kampo medicines market by increasing the range of disorders and symptoms for which Kampo products are prescribed along with the number of physicians that write such prescriptions.

Research and Development

Through its R&D activities, Tsumura is actively seeking to elucidate the mechanisms of Kampo products that have a history of use reaching back 1,400 years. The Company's purpose is to establish Kampo medicine as a useful contributor to modern medicine.

Basic R&D Policy

The most important area being addressed by Tsumura R&D programs is the establishment of a body of scientific evidence for the efficacy of pharmaceutical Kampo products.

Previously, the Company's drug discovery programs focused on Western drugs similar to other pharmaceutical companies. However, in 2004, Tsumura halted these programs and shifted the direction of its R&D policy to concentrate its resources on the accumulation of a body of evidence for existing Kampo products. The backdrop to this action was a determination by management that for the Company to achieve its mission of "contributing to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine," it had to demonstrate the efficacy of Kampo products using the same logic as applied to Western medicine—a scientific body of evidence.

Establishment of Scientific Evidence

Guided by the new R&D policy, Tsumura has continued to concentrate its research efforts on the five "drug fostering" program formulations in its endeavor to establish a body of scientific evidence for the efficacy and safety of Kampo products. These five formulations target disorders in fields where medical treatment needs are high that are difficult to treat with Western drugs and that prescription Kampo products have demonstrated special efficacy for. For these formulations, we have set the goal of establishing a complete evidence collection that encompasses clinical evidence based medicine; action mechanisms; adverse drug reaction frequency surveys; absorption, distribution, metabolism, and excretion; and health economic data. We are thus taking steps to enhance 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.

In addition, in May 2016, we defined five strategic "growing" formulations to stand alongside the five "drug fostering" program formulations as formulations for which we will establish scientific evidence in fields where treatment satisfaction and contributions from medicine are low. For the five "growing" formulations, we are advancing research efforts moving toward the milestone of having these formulations listed in medical treatment guidelines.

With regard to TJ-100 (Daikenchuto), one of the five "drug fostering" program formulations, our development activities are targeting the launch of this product as a prescription pharmaceutical in the U.S. market (see page 28). The Company is working to conduct efficient R&D efforts by linking its results in Japan with its development drive in the United States.

Utilization of New Technologies and Coordination with External Research and Educational Institutions

Tsumura actively takes advantage of new analysis methods, big data utilization methods, and other cutting-edge technologies with the aim of increasing the speed and efficiency of its research activities as it works to establish scientific evidence. In addition to accumulating fundamental data at the Company's research laboratory, we also coordinate with leading domestic and overseas research and educational institutions, such as Kobe University, the University of Chicago, the University of Tokyo, and the University of Oxford, to acquire and analyze fundamental and clinical data.

Contributions to the Kampo Value Chain

One of the research areas of Tsumura's R&D program is solving issues related to the Kampo value chain. These activities directly contribute to advancing the sophistication of the Kampo value chain and to increasing Tsumura's corporate value. The three main research themes in this area are (1) researching cultivation technology to secure stable supplies of raw material crude drugs, (2) enhancing the

quality of raw material crude drugs, and (3) improving Kampo product quality control and manufacturing technology.

In the case of researching cultivation technology, we have succeeded in developing cultivation technologies for ephedra herb and licorice, enabling us to completely shift from harvest to cultivation for ephedra herb and begin the shift for licorice. We are also seeking to improve the quality of such crude drugs by developing variants that contain greater amounts of active ingredients. As for improving Kampo product quality control, in light of Japan joining the Pharmaceutical Inspection Convention and the Pharmaceutical Inspection Co-operation Scheme (PIC/S)* on July 1, 2014, we are pushing forward with initiatives to achieve compliance with PIC/S GMP at the Ibaraki Plant and the Shizuoka Plant.

* An organization that seeks to achieve international compliance regarding each country's GMP standards for manufacturing pharmaceuticals and The Convention for the Mutual Recognition of Inspections in Respect of the Manufacture of Pharmaceutical Products; membership is voluntary and mainly comprises health authorities from European nations

Establishment of Scientific Evidence

Product name	Clinical EBM Ia	Clinical EBM Ib-IIb	Action mechanisms	Adverse drug reaction frequency surveys	ADME	Listing in medical treatment guidelines (recommendation of Kampo formulation)
TJ-100 (Daikenchuto)	—	59	✓✓✓	✓✓✓	✓✓✓	Pediatric chronic functional constipation disease, systemic sclerosis
TJ-41 (Hochuekkito)	—	30	✓✓			Lower urinary tract symptoms
TJ-54 (Yokukansan)	1	36	✓✓✓	✓✓✓	✓✓✓	Dementia disease
TJ-43 (Rikkunshito)	—	31	✓✓✓	Ongoing	✓✓✓	Functional gastrointestinal disease, diagnosis and treatment of psychosomatic diseases, GERD, others
TJ-24 (Kamishoyosan)	—	21				Gynecological diagnosis, diagnosis and treatment of psychosomatic diseases
TJ-107 (Goshajinkigan)	—	38	✓		✓✓	Benign prostatic hyperplasia, overactive bladder syndrome
TJ-68 (Shakuyakukanzoto)	—	35	✓	✓✓	✓✓✓	Amyotrophic lateral sclerosis
TJ-1 (Kakkonto)	—	4	✓			Chronic headache
TJ-17 (Goreisan)	—	19				Chronic headache
TJ-114 (Saireito)	—	15	✓			IgA nephropathy
TJ-29 (Bakumondoto)	—	15				Cough, asthma treatment
TJ-14 (Hangeshashinto)	—	8	✓✓			—

CSR Management and Corporate Governance

Contributions to Maintaining and Improving QOL during Cancer Treatment

The "super graying" of society is proceeding faster in Japan than anywhere else in the world, making responses to issues associated with an aging population a key to sustained social development. One such issue is growth in the number of cancer patients, which is a symptom of an aging society. At Tsumura, we position cancer as an important domain alongside geriatric health and women's health in our efforts to contribute to patients' quality of life (QOL).

Increased Incidence of Cancer and Government Measures

Japan has a large number of cancer patients in a developed country comparison and the number is rising. The number of people diagnosed with cancer was more than 851,000 in 2011 and the number of people dying of cancer exceeded 368,000 in 2014.*1

Government initiatives to reduce cancer death rates include the Cancer Control Act of 2009 and the Cancer Control Acceleration Plan announced in 2015.*2 The plan seeks to improve QOL for those in recuperation and enable patients to combine treatment with work without undue stress. To this end, it calls for research into nutritional therapy, rehabilitation therapy, and supportive therapy using Kampo medicines, with particular emphasis on reducing postoperative complications and after-effects. As such, this plan put the spotlight on the role of Kampo medicines in cancer treatment.

1 Cancer Information Services, The Center for Cancer Control and Information Services, National Cancer Center
http://ganjoho.jp/reg_stat/statistics/stat/summary.html
(Available in Japanese only; accessed July 2016)
2 Cancer Control Acceleration Plan, Ministry of Health, Labour and Welfare
http://www.mhlw.go.jp/file/04-Houdouhappyou-10901000-Kenkoukyoku-Soumuka/0000107766.pdf
(Available in Japanese only; accessed July 2016)

Kampo's Role in Cancer Treatment

The reason that palliative care and supportive therapy have become a focus of attention in cancer treatment is that a growing number of people are emphasizing the significance of patients' QOL and ties with society. The elimination of suffering caused by cancer treatment and the maintenance and improvement of QOL that has been diminished by treatment have come to be regarded as equal in importance to the treatment itself. As a result, medical professionals and patients have high hopes for Kampo, with its comprehensive approach to body and mind. Kampo targets overall balance between body and mind, seeking not only to alleviate physical distress but also to contribute to mental well-being.

The number of Kampo medicines prescriptions written at cancer treatment centers is growing steadily and all five of the "drug fostering" program formulations, for which Tsumura is creating the complete evidence collection, are being used in palliative care and supportive therapy.

Examples of the Use of Tsumura's Five "Drug Fostering" Program Formulations in the Field of Cancer

Product name	Principal conditions
TJ-100 (Daikenchuto)	Abdominal flatulence
TJ-54 (Yokukansan)	Neurosis, insomnia
TJ-43 (Rikkunshito)	Anorexia, nausea, vomiting
TJ-107 (Goshajinkigan)	Numbness, leg pain
TJ-14 (Hangeshashinto)	Stomatitis, fermentative diarrhea

Collection of Scientific Evidence and Dissemination of Information

Cancer is one of the specialist fields where scientific evidence is particularly crucial to treatment. To ensure the best use of our "drug fostering" and other Kampo formulations and to contribute to maintaining and improving patients' QOL, it is therefore necessary to collect scientific evidence on Kampo formulations and constantly disseminate information.

We are collecting scientific evidence in collaboration with medical and research institutions and providing support for related academic undertakings. One example is the DKT Forum organized by the Japanese Foundation for Multidisciplinary Treatment of Cancer (JFMC) for the scientific study of the clinical efficacy of TJ-100 (Daikenchuto). Participants in the forum were 46 medical facilities in different parts of Japan and the findings were substantial. Tsumura also plays a part in planning educational activities for the general public. These efforts include providing information on the latest trends in cancer treatment, including new methods and drugs, to patients and society at large. Information is also provided on local initiatives, palliative care, and supportive therapy.

Environmental Capital Policy

Kampo medicines are made chiefly from raw material crude drugs derived from plants. At Tsumura, we position the natural environment of regions that produce the raw material crude drugs as important “capital” and we pursue our own environmental capital policy, which includes research into cultivation and measures to conserve the environment, to promote sustainable procurement of raw material crude drugs. In addition, the Group as a whole has a framework for recycling crude drug botanical residues and other natural resources.

Medium-Term Environmental Targets

We set medium-term environmental targets in tandem with our first-stage medium-term management plan, which ran from fiscal 2013 to fiscal 2016. Our activities encompass our Group companies in Japan and center on measures to save energy and combat global warming and conserve resources.

Medium-Term Environmental Targets

Topic		Target	Result
Measures to save energy and combat global warming	Reduce energy consumption per unit of production*	5% average reduction over 4 years from fiscal 2013 in comparison with fiscal 2012	8.1% reduction in comparison with fiscal 2012
	Reduce greenhouse gas emissions	6% average reduction over 4 years from fiscal 2013 in comparison with fiscal 1991 (total fiscal 2013 to fiscal 2016 reduction to less than 217,000 metric tons of CO_2)	12.5% reduction in comparison with fiscal 1991
Measures to conserve resources	Reduce waste	Reduction of industrial waste through conversion to valuable resources and attainment of sustained 100% recycling (zero emissions)	100.0% recycling ratio
	Conserve water	Reduction in water use through efficient utilization and recycling to protect biodiversity	16.0% reduction in comparison with fiscal 2013

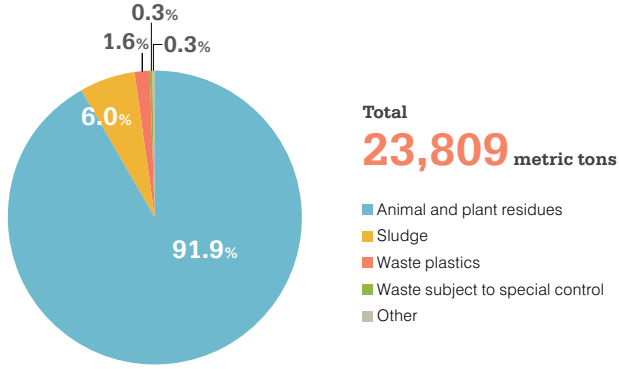
* Energy consumption per unit of production = Energy used (GJ) / Production volume of drug granulated extracts (t)

Our Recycling-Oriented Company Aspirations

Approximately 90% of the industrial waste produced by Tsumura consists of crude drug botanical residues from the production of Kampo medicine granulated extracts. The volume of residue is increasing along with growth in production.

We recycle all the crude drug botanical residues from our Shizuoka Plant and Ibaraki Plant and SHANGHAI TSUMURA PHARMACEUTICALS in the form of raw material for fertilizer, substitutes for reductants used in steelmaking, and fuel for thermal power plants. In the future, we want to convert all our crude drug botanical residues to fertilizer for use in crude drug cultivation, thus recycling resources in a way that reduces waste and is considerate of the natural environment.

Composition of the Tsumura Group’s Industrial Waste

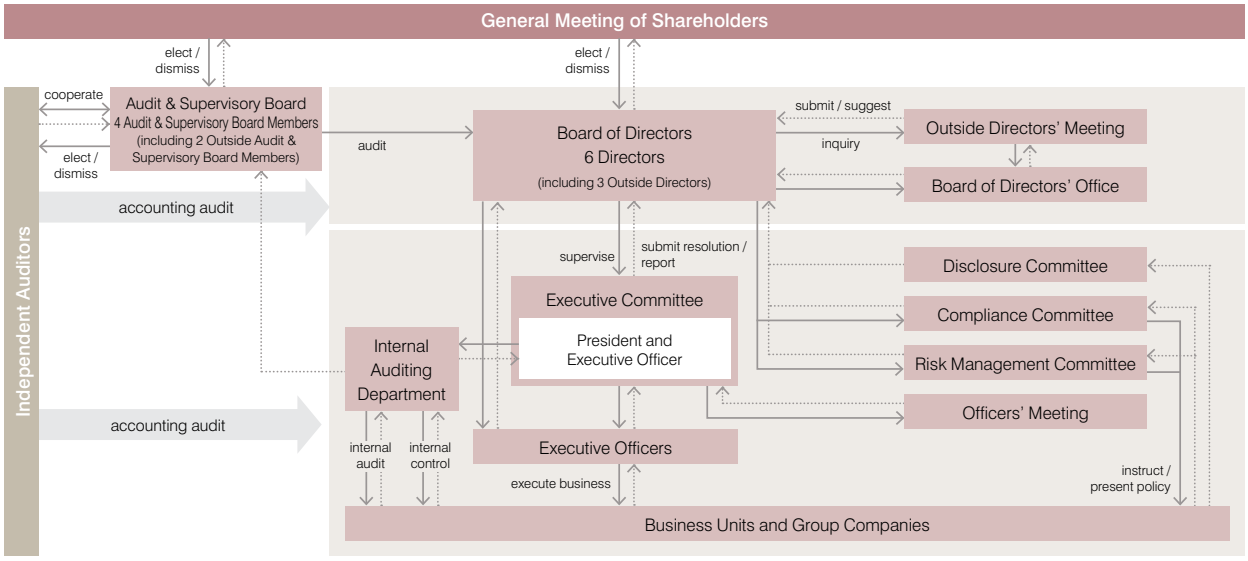


Corporate Governance

Basic Policy

Tsumura positions corporate governance as one of its most important management issues. We do so in recognition that further strengthening our corporate governance organization is essential to achieving sustained growth and development as well as to fulfilling our social responsibilities based on our corporate philosophy of “The Best of Nature and Science.”

Corporate Governance Structure



Overview of Corporate Governance System

Board of Directors

As management’s top decision-making body, the Board of Directors makes decisions related to law, the articles of incorporation, and other important matters regarding Tsumura’s business, as well as overseeing business execution.
Number of directors: 6 (including 3 outside directors)

Outside Directors’ Meeting

This meeting, comprising the outside directors, shares and exchanges information necessary for management and provides recommendations, as needed, to the Board of Directors from an independent perspective.
Number of members of Outside Directors’ Meeting: 3

Audit & Supervisory Board Members

Audit & Supervisory Board members monitor the decision-making processes of the Board of Directors and the Board of Directors’ execution of duties by attending Board of Directors’ meetings and other important meetings, holding periodic meetings with the representative director and other internal directors, reviewing documents related to important decisions, and, as necessary, conducting hearings with directors and other corporate officers on business operations.

Audit & Supervisory Board

The Audit & Supervisory Board, comprising all appointed Audit & Supervisory Board members, determines auditing policies based on the Audit & Supervisory Board’s regulations, pertinent laws, and Tsumura’s articles of incorporation. Also, the Audit & Supervisory Board forms its audit opinion by integrating all auditor reports.
Number of Audit & Supervisory Board members: 4 (including 2 outside Audit & Supervisory Board members)

Executive Committee

This body, comprising directors (excluding outside directors) and executive officers at the level of managing executive officer or above, assists the Board of Directors in its decision-making processes by deliberating and deciding important items related to operational execution with regard to general management.
Number of members of Executive Committee: 4

Directors and Audit & Supervisory Board Members

(Standing, from left) Terunari Nakayama, Kiyomi Haneishi, Yasunori Fuji, Terukazu Kato, Toru Sugita, Tsuyoshi Iwasawa, Shigeru Sugimoto
(Seated, from left) Yayoi Masuda, Kenichi Matsui, Kuniko Ouchi

Name
Position
Number of Company shares owned
(As reported in Fiscal 2016 Financial Report)

Directors

Terukazu Kato
President and Representative Director
President and Executive Officer
12,700 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
16,700 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
18,600 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)
2,100 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)
500 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)
200 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 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.

Audit & Supervisory Board Members

Terunari Nakayama
Standing Audit & Supervisory Board Member
11,200 shares

Appointed Audit & Supervisory Board member of the Company in June 2015. Appointed director of the Company and Head of the Compliance Advancement Department in June 2011, followed by director of the Company and Head of the Compliance Control Department in April 2015. Joined the Company in 1979.

Tsuyoshi Iwasawa
Standing Audit & Supervisory Board Member
10,700 shares

Appointed Audit & Supervisory Board member of the Company in June 2015. Served as director of the Company and Head of the Botanical Raw Materials Division from June 2012 to June 2015. Joined the Company in 1982.

Kuniko Ouchi
Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)
200 shares

Appointed outside Audit & Supervisory Board member of the Company in June 2015. Has served as president of the Kuniko Ouchi Law Office since March 1978. After registering as an attorney in April 1971, joined the Nagano Kunisuke Law Office, before moving to the Mamoru Fukazawa Law Office (now the Fukazawa General Law Office) in April 1972.

Kiyomi Haneishi
Audit & Supervisory Board Member
(Outside Audit & Supervisory Board Member)
200 shares

Appointed outside Audit & Supervisory Board member of the Company in June 2015. Has served as president of the Kiyomi Haneishi Certified Public Accountancy 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.

Corporate Governance Activities

Item	Details	
Corporate structure	Company with Audit & Supervisory Board Members under Japanese law	
Annual number of Board of Directors' meetings	19 times (13 times after the 79th Ordinary General Meeting of Shareholders)	
Board of Directors' meetings attended by outside directors	Mr. Shigeru Sugimoto Mr. Kenichi Matsui Ms. Yayoi Masuda	18 times 13 times 13 times
Annual number of Audit & Supervisory Board meetings	18 times (after the 79th Ordinary General Meeting of Shareholders)	
Audit & Supervisory Board meetings attended by outside Audit & Supervisory Board members	Ms. Kuniko Ouchi Ms. Kiyomi Haneishi	18 times 18 times
Board of Directors' meetings attended by outside Audit & Supervisory Board members	Ms. Kuniko Ouchi Ms. Kiyomi Haneishi	13 times 13 times
Standards for determination of independence of outside directors and outside Audit & Supervisory Board members	Contained in the Notice of the 80th Ordinary General Meeting of Shareholders held on June 29, 2016, available through the following link: http://www.tsumura.co.jp/english/ir/meeting/general/pdf/internet_080.pdf	
Audit corporation	Ernst & Young ShinNihon LLC	
Audit corporation compensation	¥45 million	

Methods of Determining Director and Audit & Supervisory Board Member Compensation

Directors

The Company's basic policy is to pay an amount of compensation to directors 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.

The types of director compensation paid are as follows.

1. Basic compensation is paid as a monthly sum of no more than ¥50 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 ranks, 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. Based on a resolution of the 80th Ordinary General Meeting of Shareholders held on June 29, 2016, 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 to be determined in consideration of their roles, duties, and rank and calculated using the following formulas based on the extent to which the Company's fiscal 2019 targets for consolidated net sales, operating income, and return on equity are met.

(1) This plan is available to directors, excluding non-operating directors, as well as to executive officers with which 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 issuance of stocks by the Company or disposal of treasury stock. 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.

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 fiscal 2019 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%.

For details on the performance-linked stock compensation plan, please refer to the related news release and the Notice of the 80th Ordinary General Meeting of Shareholders held on June 29, 2016, 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_080.pdf

Audit & Supervisory Board Members

Compensation for Audit & Supervisory Board members consists of fixed basic compensation, which has an upper limit of ¥6 million per month*3 and is decided for each individual Audit & Supervisory Board members through deliberation among Audit & Supervisory Board members.

1 Based on a resolution of the 70th Ordinary General Meeting of Shareholders held on June 29, 2006; does not include employee salaries paid to directors that also serve as employees of the Company
2 Based on a resolution of the 80th Ordinary General Meeting of Shareholders held on June 29, 2016
3 Based on a resolution of the 69th Ordinary General Meeting of Shareholders held on June 29, 2005

Director and Audit & Supervisory Board Member Compensation

Category	Total compensation (¥ in millions)	Breakdown of total compensation			Number of officers compensated
		Basic	Stock options	Incentive	
Directors (excluding outside directors)	199	199	—	—	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	46	46	—	—	4
Outside directors and outside Audit & Supervisory Board members	37	37	—	—	7

Note: The figures include compensation for four directors and four Audit & Supervisory Board members who retired at the conclusion of the 79th Ordinary General Meeting of Shareholders held on June 26, 2015.

Message from the Chairperson of the Outside Directors' Meeting

Shigeru Sugimoto

In fiscal 2016, Tsumura dramatically reformed its Board of Directors' structure. Two outside / independent directors were newly installed as the number of directors was reduced from eight to six. With the number of operating officers reduced from ten to nine, half of the board members became outside / independent directors to enhance the transparency of governance. Additionally, at the same time, the Company launched the Outside Directors' Meeting of which I have served as chairperson from the start. The Meeting greatly facilitates the exchange of ideas and information not only with outside directors but also with statutory Audit & Supervisory Board members and operating officers.

The main role of the outside / independent directors is twofold. First, they monitor significant decisions by the Company while providing oversight from the perspective of how to resolve conflicts of interests as well as assuage the concerns of minority shareholders. Second, they advise on business policy from an independent and objective standpoint. By attending Board of Directors' meetings, outside / independent directors contribute to sustainable Company growth and greater corporate value over the medium-to-long term.

The Meeting has pushed hard to fulfill this role since day one. Although the Meeting has been working for only a year, our expertise, diversity, and passion together enable us to tackle various issues while sharing ideas that lead to solutions.

Our expertise contributes to promoting more transparent and fair business judgment. For example, the Company introduced Key Performance Indicators (KPIs) not only to evaluate performance remuneration for officers but also to measure each division's periodic performance so as to enhance corporate value over the medium-to-long term. The setting of appropriate KPIs with sufficient accounting literacy can turn around performance evaluations of operating officers and each division, thus improving efficiency and productivity.

Our diversity plays an important part in monitoring management. For instance, one of my missions as a certified public accountant is to drive awareness in the boardroom, as early as possible, about potential accounting and taxation risks hidden in significant decisions. Although each director has a different background and expertise, our integrated and organized approach toward each management issue helps to streamline the Company's system of approval.

The passion with which the Meeting strives to bring about better business decisions prevents one of the Company's strengths, which is its assiduous and conservative workforce, from becoming organizationally complacent and inflexible on occasion. Our mission is to raise awareness of various economic threats posed by international situations and to promote continuous organizational reform to cope with potential threats.

As the market for prescription Kampo products is regarded as global, the new medium-term management plan could face additional challenges in the future. Therefore, the Meeting will push harder to have management adopt policies deemed favorable to sustainable Company growth and greater corporate value over the medium-to-long term.

Other Management Systems

Item	Details
Compliance	The Company has formulated the Tsumura Compliance Program, which includes the Tsumura Code of Conduct, to provide the basic guidelines for practicing compliance in business activities. In addition, the Company has established the Compliance Program for implementation at Group companies.
	The Company has formulated the Tsumura Code of Practice (the "Tsumura Code") to ensure corporate activities are always conducted in a highly ethical and transparent manner; foster accountability in interactions with researchers, healthcare managers, patient organizations, wholesalers, and other parties; and earn the trust of society. The Tsumura Code Committee, established in conjunction with the Tsumura Code, is responsible for managing, administering, and thoroughly instilling the code.
	The Company has established the Compliance Committee to deliberate and formulate policies and plans for promoting compliance within the Group. Following Board of Directors' approval, the committee provides explanation of and instruction on these policies to the managers of various departments and Group companies.
	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.
Internal Controls	The Internal Auditing Department, an internal audit organization under the direct jurisdiction of the president, established the Internal Audit Rules to help maintain an understanding of operating conditions and to facilitate improvements. Effective internal audits are conducted in accordance with these rules. In addition, the Affiliate Company Audit Standards describe the procedures and methods to be used for internal audits of Group companies and are used to verify that corporate activities are being conducted in an appropriate manner.
	The Company has in place internal controls that it uses to ensure the appropriateness of financial reports and has established basic policies and plans, based on which the Internal Auditing Department verifies the effectiveness of internal controls.
	To ensure appropriate information management for documents related to the execution of duties by directors and other information, the Company takes steps to establish internal systems and implement training based on relevant laws and the Basic Rule of Information Management. These steps include appointing a top manager of information management, an officer in charge of information management, and managers of information management and designating the main division of information management (General Affairs Department).
Risk Management	The Company has decided basic guidelines regarding risk management by the Group and created the Risk Management Rules to support their effective implementation.
	The Company has established the Risk Management Committee to deliberate and formulate risk management policies and plans for the Group. Following Board of Directors' approval, the committee provides explanation of and instruction on these policies to the managers of various departments and Group companies.
	The Company has built an organization to promote risk management, including a chief risk management officer, a director in charge of risk management, a chief risk compliance officer, risk compliance officers, and the risk management office (General Affairs Department). The Company has also established systems for setting up internal risk management systems, for determining and evaluating business risks, for taking measures to avoid the occurrence of risk events, and for minimizing damages and losses should a risk event occur. The Board of Directors is kept informed of the overall status of risk management within the Tsumura Group through regular reports by the director in charge of risk management (Head of the General Affairs Department).
	If an emergency situation occurs that threatens to have a serious impact on the business operations of the Group, the chief risk management officer has the authority to establish an emergency crisis management office with himself as senior manager and implement measures to resolve the crisis.
Others	The Organization and Operational Authority Rules define the duties, authority, and responsibilities of each rank of officer, and decision-making procedures based on these rules are used to ensure the appropriate and efficient execution of duties. Similar decision authority regulations are established and enacted at Group companies to ensure efficiency.
	Clear standards have been defined for managing Group companies, and the Company provides instruction to Group companies and promotes the appropriate leadership and cultivation of Group companies. Furthermore, the Affiliate Management Rules have been formulated to improve internal controls, compliance, corporate ethics, and management efficiency at Group companies. The Company also receives periodic reports from Group companies with regard to such matters as financial statements, organizational and employee-distribution documents, records of decisions made by the boards of directors, and minutes of meetings of other reporting bodies.
	The Compliance Control Department relays information on consultations or reports through the Tsumura Group Hotline to Audit & Supervisory Board members when appropriate. The Internal Auditing Department periodically provides Audit & Supervisory Board members with information on the results of internal audits as well as on the results of verification activities conducted as part of internal controls for financial reporting. Audit & Supervisory Board members of Group companies periodically report the results of audits conducted at Group companies to Audit & Supervisory Board members of the Company.

Financial Section

Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries
Years ended March 31

¥ in millions	2016	2015	2014
For the year			
Net sales	**¥ 112,625**	¥ 110,438	¥ 110,057
Cost of sales*[1]	**45,055**	41,859	38,787
Gross profit	**67,569**	68,578	71,269
Selling, general and administrative expenses	**47,743**	49,087	48,808
Operating income	**19,826**	19,491	22,461
Income before income taxes	**18,898**	20,078	28,118
Net income attributable to owners of the parent	**12,557**	14,075	18,050
At year-end			
Inventories	**¥ 52,348**	¥ 50,716	¥ 43,424
Property, plant and equipment, net	**62,822**	60,624	57,148
Long-term liabilities	**23,063**	23,339	9,126
Total liabilities	**66,765**	64,706	54,305
Total net assets*[2]	**155,702**	150,947	133,318
Total assets	**222,468**	215,654	187,623
Other selected data			
Capital expenditures for property, plant and equipment	**¥ 9,638**	¥ 8,428	¥ 8,991
R&D expenses	**5,968**	6,252	5,949
Depreciation	**5,059**	5,387	4,871
Free cash flow	**10,109**	(5,691)	4,214
Cash flows from operating activities	**17,570**	4,992	5,908
Cash flows from investing activities	**(7,461)**	(10,683)	(1,694)
Cash flows from financing activities	**(4,608)**	10,408	(4,575)
Cash and cash equivalents, end of year	**25,128**	19,343	14,418
Per share data (yen)			
Net income attributable to owners of the parent	**¥ 178.06**	¥ 199.58	¥ 255.94
Dividends	**64.00**	64.00	64.00
Net assets*[2]	**2,169.13**	2,103.04	1,860.14
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	**60.0%**	62.1%	64.8%
Selling, general and administrative expenses	**42.4**	44.4	44.3
Operating income	**17.6**	17.6	20.4
Income before income taxes	**16.8**	18.2	25.5
Net income attributable to owners of the parent	**11.1**	12.7	16.4
ROE	**8.3**	10.1	14.5
ROA	**9.1**	9.7	12.5
Current ratio	**305.9**	310.6	240.6

1 Including credit (debit) for allowance for sales returns
2 Due to a change in accounting standards, figures for the fiscal year ended March 2006 are net shareholders' equity

	2013	2012	2011	2010	2009	2008	2007	2006
	¥ 105,638	¥ 95,450	¥ 94,778	¥ 90,933	¥ 90,016	¥ 94,799	¥ 91,227	¥ 90,419
	35,927	29,944	29,435	28,518	29,028	31,609	29,438	28,000
	69,711	65,505	65,342	62,414	60,987	63,190	61,788	62,419
	46,586	44,271	43,789	43,475	44,504	47,369	46,282	45,951
	23,124	21,233	21,553	18,938	16,483	15,820	15,505	16,467
	24,062	22,448	21,058	18,710	17,940	14,605	21,261	14,726
	15,373	13,431	12,945	10,704	10,777	9,139	13,152	12,380
	¥ 35,565	¥ 30,570	¥ 22,057	¥ 22,335	¥ 19,810	¥ 19,651	¥ 17,073	¥ 16,468
	50,657	44,869	42,154	40,857	38,754	40,251	41,289	48,497
	9,448	8,093	8,587	8,773	8,970	14,440	21,400	26,287
	51,929	49,633	50,394	50,944	52,855	62,734	73,760	79,482
	118,537	102,240	91,154	83,752	73,968	72,411	69,618	54,625
	170,466	151,874	141,549	134,697	126,824	135,146	143,378	135,158
	¥ 9,328	¥ 6,425	¥ 5,264	¥ 5,237	¥ 5,479	¥ 3,124	¥ 3,906	¥ 4,090
	4,904	4,565	4,123	3,770	3,958	4,368	4,829	4,856
	4,049	3,850	3,453	3,225	3,298	3,396	2,777	2,761
	3,988	1,972	5,232	5,864	7,293	1,309	23,521	12,144
	12,011	7,314	12,047	12,019	10,634	5,358	12,687	14,593
	(8,022)	(5,342)	(6,815)	(6,155)	(3,341)	(4,049)	10,834	(2,448)
	(4,275)	(5,272)	(3,355)	(5,085)	(6,354)	(7,419)	(13,071)	(8,964)
	13,762	13,906	17,198	15,318	14,596	13,718	19,812	9,326
	¥ 217.98	¥ 190.45	¥ 183.55	¥ 151.77	¥ 152.80	¥ 129.57	¥ 186.43	¥ 173.62
	62.00	60.00	58.00	46.00	34.00	23.00	17.00	14.00
	1,658.88	1,430.94	1,274.06	1,175.04	1,037.76	1,015.46	970.50	772.34
	66.0%	68.6%	68.9%	68.6%	67.8%	66.7%	67.7%	69.0%
	44.1	46.4	46.2	47.8	49.4	50.0	50.7	50.8
	21.9	22.2	22.7	20.8	18.3	16.7	17.0	18.2
	22.8	23.5	22.2	20.6	19.9	15.4	23.3	16.3
	14.6	14.1	13.7	11.8	12.0	9.6	14.4	13.7
	14.1	14.1	15.0	13.7	14.9	13.0	21.3	26.5
	14.3	14.5	15.6	14.5	12.6	11.4	11.1	12.8
	222.5	207.8	189.1	173.8	157.2	142.3	133.7	107.7

Tsumura's Financial History

Favorable Growth for Kampo Products Following NHI Listing

In 1976, 33 of Tsumura's pharmaceutical Kampo products were approved under the National Health Insurance (NHI) plan. Tsumura's Kampo product sales were only ¥1.87 billion in the fiscal year ended March 1977, but grew steadily starting in the following year. Three years later, in the fiscal year ended March 1980, Tsumura's Kampo product sales surged to ¥10 billion. In 1987, the Company had a total of 129 prescription Kampo products approved under the NHI plan. Later, clinical data was announced demonstrating the efficacy of TJ-9 (Shosaikoto), a Kampo medicine for colds, in treating chronic hepatitis. Consequently, Tsumura's sales of prescription Kampo products rose substantially to approximately ¥100 billion in the fiscal year ended March 1992. Of this amount, about one-third was sales of TJ-9 (Shosaikoto).

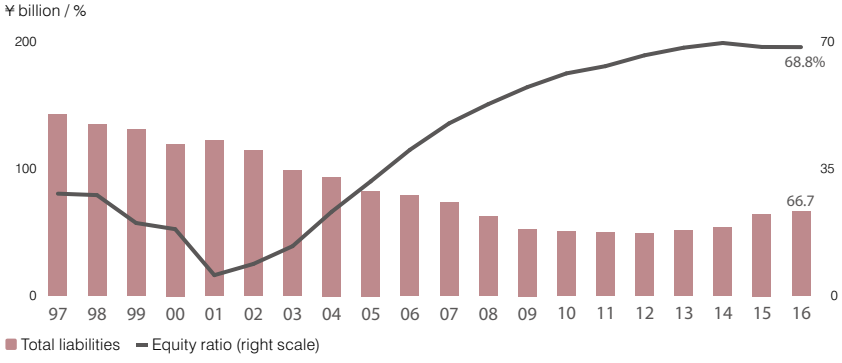
Adverse Reactions Problem Causes Sales to Stagnate

Prescription Kampo product sales continued to record favorable growth, but then news of an unexpected adverse reaction from treatment with TJ-9 (Shosaikoto) emerged. This news was followed by the announcement of a warning about using the product in 1991. Although the frequency of occurrence of interstitial pneumonia caused by treatment with TJ-9 (Shosaikoto) was low compared with Western drugs, the public's confidence was shaken because it was commonly believed that Kampo medicines did not have any adverse reactions. This news had a negative impact on the public's image of Kampo products and consequently sales slumped. Moreover, we pursued a business diversification strategy at that time, and many of those businesses began to produce red ink, resulting in deterioration in our financial position.

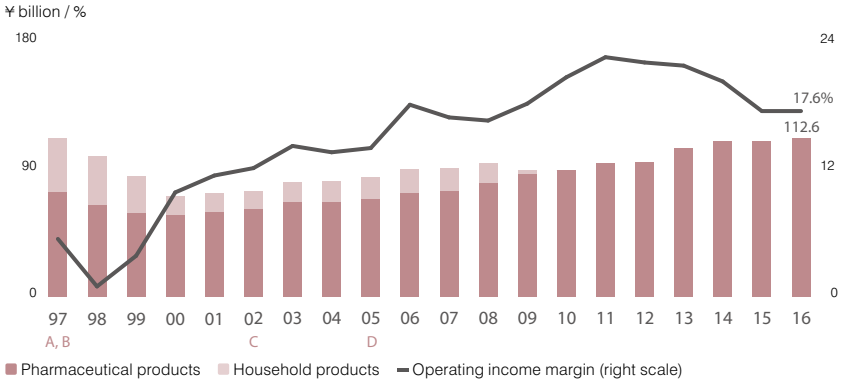
Specialization in Kampo Business

To overcome its business crisis, Tsumura changed its business policy drastically, shifting to one specializing in the development of the Kampo business. Under the revised business policy, the Company focused its efforts on patiently promoting the popularization of Kampo medicine through actions aimed at disseminating a proper understanding and awareness of Kampo medicine among students at medical schools and universities, clinical physicians, and general consumers. Specifically,

Total Liabilities / Equity Ratio



Net Sales / Operating Income Margin



A First reported TJ-9 (Shosaikoto) related deaths
B Extensive media coverage of possible adverse reactions of TJ-9 (Shosaikoto)
C Education ministry introduces model core curriculum—Outline of Kampo drugs approved
D Kampo education available at all 80 Japanese medical schools

the Company began activities to support Kampo medicine education at medical schools and universities, implemented Kampo medicine seminars for clinical physicians, and held public lectures on Kampo medicine for general consumers. As a result of these efforts, sales bottomed out in the fiscal year ended March 2000 and have continued to rebound since then—as has Tsumura's financial position. Moreover, in 2008, the Company divested its household products business in order to further specialize in its Kampo business.

Tsumura's Business

Our principal business is the manufacture and sale of pharmaceutical products, including primarily prescription Kampo products covered under the NHI plan as well as OTC Kampo products. Previously, we also had a household products business that manufactured and marketed household products, mainly bath additives and hair-growth agents. However, with the sale of all of the shares of Tsumura Lifescience Co., Ltd., on August 29, 2008, we now focus only on pharmaceutical products.

Income Statement

Overview of Results

¥ in millions, except ratios	2016	2015
Net sales	¥112,625	¥110,438
Gross profit	67,569	68,578
Gross profit margin	60.0%	62.1%
Operating income	¥ 19,826	¥ 19,491
Operating income margin	17.6%	17.6%
Net income attributable to owners of the parent	¥ 12,557	¥ 14,075

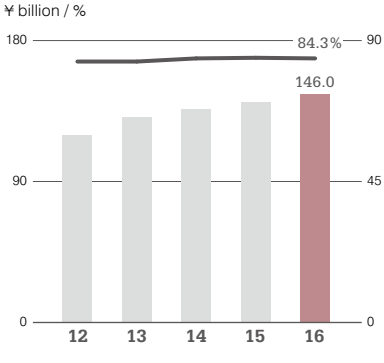
Net Sales

During fiscal 2016, there was no change in the Japanese government's policy of curtailing medical care expenses, and the business environment in the domestic prescription product market remained difficult as a result.

In this environment, Tsumura's consolidated net sales grew 2.0% year on year, to ¥112,625 million, due to strong sales of prescription Kampo products. Total sales for Tsumura's 129 prescription Kampo products rose 2.3% year on year, to ¥107,599 million, primarily reflecting increased sales of the five "drug fostering" program formulations as well as of the 77 formulations applicable under the disorders and symptoms differentiated approach, which is explained below.

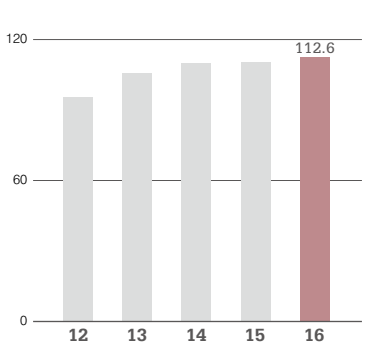
Underlying the firm growth in revenues was the steady progress we made in expanding the Kampo medicines market. We continued to provide information regarding Kampo medicine and Kampo products through basic activities, including face-to-face meetings with physicians, explanatory meetings at university hospitals, training sessions for physicians-in-training at designated hospitals for clinical training and university hospitals, and Kampo medicine seminars. In addition, to complement our previous Western medicine style approach centered on the five "drug fostering" program formulations, we also deployed the disorders and symptoms differentiated approach in fiscal 2016. This new approach is designed to address the diversifying needs of physicians for information on Kampo medicine and Kampo products. As part of this approach, we compiled information on evidence and theses related to applicable formulations, their listing in medical

Japanese Market Size for Prescription Kampo Products*

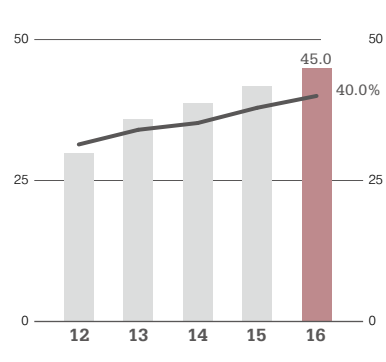


* NHI Listed Price

Net Sales



Cost of Sales / Cost of Sales Ratio



treatment guidelines, and their uses into new materials organized based on different disorders and symptoms. Using these materials, we promoted several specific formulations that demonstrate efficacy for these disorders and symptoms with the aim of offering physicians a wider range of treatment options. As a result of these activities, total sales of the five "drug fostering" program formulations rose 2.1% while sales of the 77 disorders and symptoms differentiated approach formulations grew 2.6%, driving overall growth in the Company's prescription Kampo product sales.

Cost of Sales

Cost of sales rose 7.6% year on year, to ¥45,055 million. This increase primarily reflects higher costs related to raw material crude drugs imported from China. The cost of sales ratio rose 2.1 percentage points year on year, to 40.0%, as we were unable to offset the increase in crude drug related costs, despite successfully lowering processing costs to a certain degree.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased 2.7% year on year, to ¥47,743 million, coming in below our forecast thanks to Companywide efforts to limit costs through improved operating efficiency. As a result, the SG&A expenses margin declined 2.0 percentage points, to 42.4%. Among major SG&A expenses, salaries and allowances decreased 1.8%, to ¥16,974 million, and sales promotion expenses declined 10.0%, to ¥3,823 million. Meanwhile, sales rebates rose 2.3%, to ¥9,363 million.

Among other major expenses, advertising cost fell 19.4% year on year, to ¥539 million, while R&D expenses declined 4.5%, to ¥5,968 million.

Major Expenses

¥ in millions	2016	2015
Personnel expenses	**¥28,845**	¥29,290
Sales promotion expenses	**3,823**	4,249
Advertising cost	**539**	669
R&D expenses	**5,968**	6,252

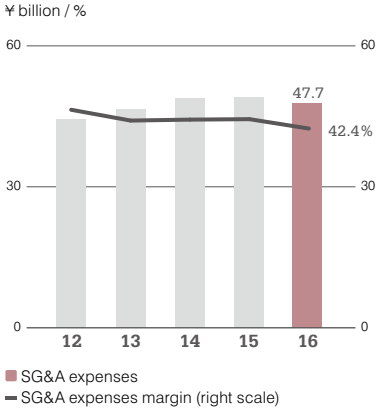
Operating Income

Operating income increased 1.7% year on year, to ¥19,826 million, while the operating income margin was unchanged at 17.6%.

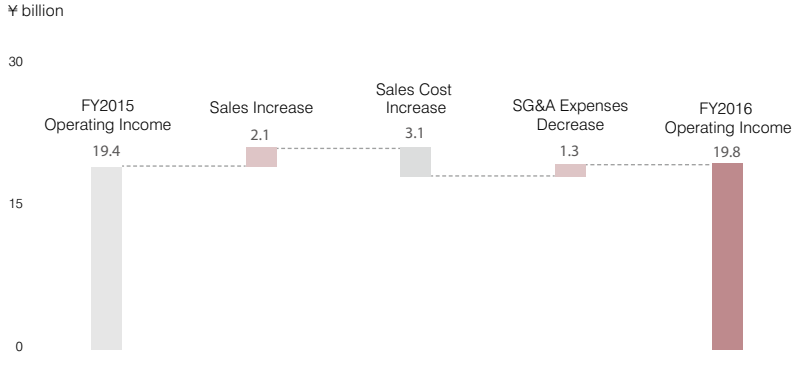
Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent declined 10.8%, or ¥1,517 million, year on year, to ¥12,557 million. This decrease was due to a foreign exchange loss of ¥975 million recorded under other expenses that stemmed from the yen appreciation trend seen beginning in the fourth quarter of fiscal 2016. This loss was a stark change from the ¥1,386 million foreign exchange gain recorded under other income in fiscal 2015 as a result of the yen depreciation trend. As a result, net income attributable to owners of the parent per share decreased to ¥178.06, compared with ¥199.58 per share in the previous fiscal year.

SG&A Expenses / SG&A Expenses Margin



Factors in Increase / Decrease of Operating Income



Liquidity and Capital Resources

Cash Flows

Cash Flows Data

¥ in millions	2016	2015
Cash flows from operating activities	**¥17,570**	¥ 4,992
Cash flows from investing activities	**(7,461)**	(10,683)
Cash flows from financing activities	**(4,608)**	10,408

Net cash provided by operating activities amounted to ¥17,570 million during fiscal 2016, up ¥12,577 million year on year. This increase was a result of lower income taxes paid and only a slight increase in inventories as well as the recording of decrease in receivables, as opposed to increase in receivables in the previous fiscal year.

Net cash used in investing activities amounted to ¥7,461 million, down ¥3,221 million year on year. This decrease in net outflow was a result of an increase in proceeds from sales of property, plant and equipment associated with the West Japan Distribution Center as well as lower outlays for purchase of property, plant and equipment.

Net cash used in financing activities amounted to ¥4,608 million, compared with net cash provided by financing activities of ¥10,408 million in the previous fiscal year. While increase in long-term loans payable was recorded in fiscal 2015, such an increase was not recorded in fiscal 2016, which led to a net financing outflow.

As a result, the balance of cash and cash equivalents at the end of the fiscal year under review was ¥25,128 million, an increase of ¥5,784 million from the beginning of the fiscal year.

Balance Sheet

Balance Sheet Data

¥ in millions	2016	2015
Total assets	**¥222,468**	¥215,654
Total liabilities	**66,765**	64,706
Interest-bearing debt	**37,048**	37,080
Total net assets	**155,702**	150,947

Assets

As of March 31, 2016, current assets stood at ¥133,668 million, up ¥5,184 million from a year earlier. Cash and time deposits increased in conjunction with higher retained earnings; raw materials and supplies rose as a result of higher prices for certain raw material crude drugs; and deferred tax assets grew due to the implementation of tax effect accounting. Meanwhile, long-term assets increased ¥1,629 million, coming to ¥88,799 million as of March 31, 2016. Property, plant and equipment, net, increased accompanying higher capital expenditures, while investment securities rose due to increases from mark-to-market valuation.

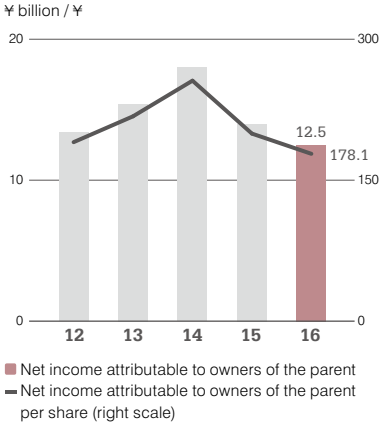
As a result of the above, total assets amounted to ¥222,468 million, an increase of ¥6,814 million from the previous fiscal year-end.

Liabilities

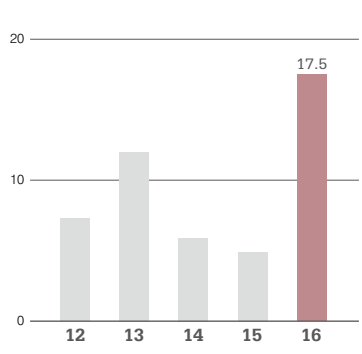
Current liabilities rose ¥2,335 million compared with the previous fiscal year-end, to ¥43,702 million, reflecting increases in income taxes payable and trade notes and accounts payable. Meanwhile, long-term liabilities decreased ¥276 million, to ¥23,063 million, due to a decline in deferred tax liabilities. Interest-bearing debt decreased ¥31 million, to ¥37,048 million.

Consequently, total liabilities at the end of the fiscal year under review increased ¥2,059 million from the previous fiscal year-end, to ¥66,765 million.

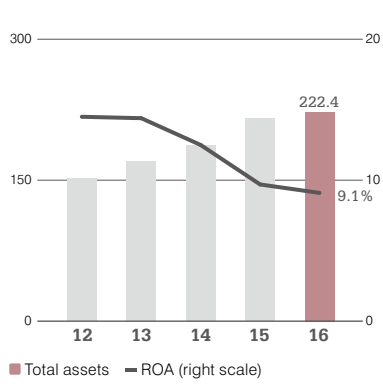
Net Income Attributable to Owners of the Parent / Net Income Attributable to Owners of the Parent per Share



Cash Flows from Operating Activities



Total Assets / ROA



Net Assets

Total net assets amounted to ¥155,702 million at the fiscal year-end, climbing ¥4,754 million from a year earlier. This increase can be attributed to higher retained earnings and a rise in unrealized holding gain on other securities, net of taxes.

Financial Policy and Dividend Policy

To increase profitability, the Company is working to secure free cash flow and optimize its capital structure going forward.

Seeking to further enhance corporate value, Tsumura's management has positioned return on equity (ROE) as a key performance indicator. In fiscal 2016, net income attributable to owners of the parent decreased and—following the increase in retained earnings—shareholders' equity rose. As a result, ROE fell 1.7 percentage points year on year, to 8.3%. Return on assets (ROA) declined 0.6 percentage points, to 9.1%. The equity ratio was unchanged year on year, at 68.8%, while the debt-to-equity ratio decreased from 0.25 times at the previous fiscal year-end to 0.24 times. Going forward, Tsumura will remain committed to continuing its efforts to thoroughly improve its profitability and implement efficient operations while strengthening its financial structure.

Currently, the Company is moving forward with reforms to its manufacturing cost structure, and it plans to allocate the cash generated from operating activities to capital and other investment to support future growth, such as through increases in the production capacities of existing facilities and the introduction of new manufacturing technologies. At the same time, Tsumura places importance on returning profits to shareholders. For that reason, the Company's policy is to issue stable dividend 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 2016, the same as in fiscal 2015, and the consolidated dividend payout ratio rose 3.8 percentage points, to 35.9%.

Key Financial Indicators

%	2016	2015
ROE	8.3%	10.1%
ROA	9.1	9.7
Equity ratio	68.8	68.8
Debt-to-equity ratio (times)	0.24	0.25
Dividend payout ratio	35.9	32.1

Risk Factors

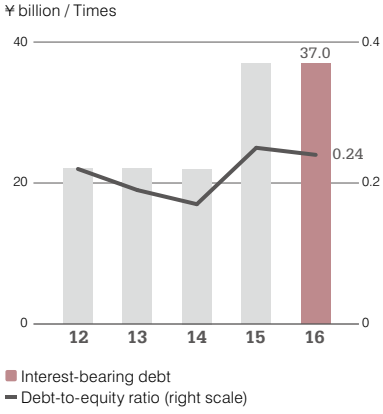
In the following discussion of risk factors, major risks related to the Group's business that may exert a significant influence on investors' judgment are outlined. From the standpoint of proactive information disclosure, we have included references to matters that do not necessarily constitute risk factors but we believe are important for investors to consider. The Tsumura Group will strive to avoid the materialization of such risks; however, should such risks materialize, we will endeavor to minimize their impact.

This discussion includes issues that are not yet pertinent to the Group's performance. However, they have been included as management has deemed them important as of June 29, 2016.

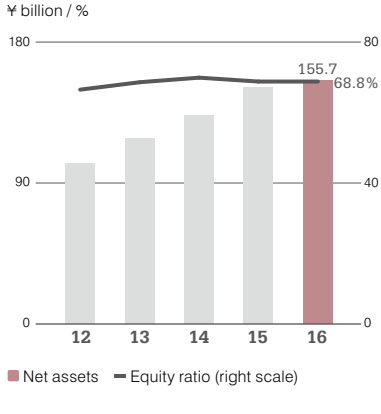
(1) Medical system

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

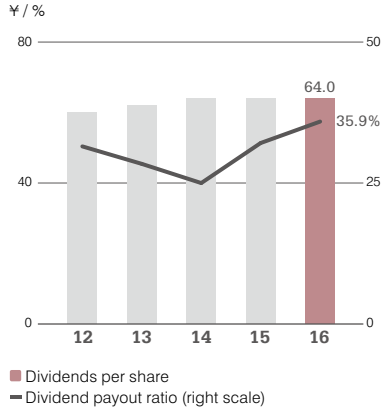
Interest-Bearing Debt / Debt-to-Equity Ratio



Net Assets / Equity Ratio



Dividends per Share / Dividend Payout Ratio



(2) Competition

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

(3) Product supply

Approximately 80% of the crude drug medicinal plants 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 subsidiaries situated in China. Because most of the medicinal plants grow wild, we are researching the cultivation of major medicinal plants 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 wars could destabilize social conditions, creating instability in the circulation of demand of the raw materials and supply of them procured domestically and internationally for the manufacture of products, which could have a negative impact on the supply of products due to hikes in the market prices of the raw materials or scarcity of their supply.

Likewise, while we have incorporated earthquake-resistant features in construction and conduct regular inspections of 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 the 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 in which we operate and our own original standard for crude drugs. However, we cannot completely guarantee that there will not be a defect or safety problem, including undetected pesticide residue on a medicinal plant 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 that described results in a decline in sales volume, demand for large amounts of damage compensation, or a large-scale recall, among other possibilities.

(5) R&D

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 the manufacture and sale of pharmaceuticals in China, South Korea, and other foreign countries. 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 conditions as sharp increases in declining share prices or increased 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 and others. The Group's performance may be negatively affected if there were leakage of such information, leading 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.

Consolidated Balance Sheets

TSUMURA & CO. and consolidated subsidiaries
March 31, 2016 and 2015

	¥ in millions		US$ in thousands (Note 2)
ASSETS	**2016**	**2015**	**2016**
Current assets:			
Cash and time deposits (Notes 4 and 13)	¥ 25,150	¥ 19,379	$ 223,199
Trade notes and accounts receivable (Note 4)	41,875	42,142	371,633
Less allowance for doubtful receivables	(4)	(4)	(36)
Inventories (Note 5)	52,348	50,716	464,580
Deferred tax assets (Note 8)	1,271	284	11,286
Other current assets	13,026	15,965	115,605
Total current assets	133,668	128,484	1,186,268
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates (Note 4)	2,645	2,197	23,480
Investment securities (Notes 3 and 4)	18,499	16,547	164,175
Net defined benefit asset (Note 9)	122	1,123	1,088
Deferred tax assets (Note 8)	32	33	284
Other assets	4,453	6,436	39,519
Less allowance for doubtful accounts	(2)	(2)	(25)
Total investments and other assets	25,750	26,336	228,523
Property, plant and equipment, at cost:			
Land (Note 6)	9,009	9,531	79,956
Buildings and structures	56,226	57,353	498,991
Machinery and equipment	42,421	40,773	376,479
Tools, furniture and fixtures	9,652	9,257	85,664
Construction in progress	12,815	8,479	113,732
Others	239	249	2,125
Less accumulated depreciation	(67,542)	(65,020)	(599,417)
Property, plant and equipment, net	62,822	60,624	557,531
Intangible assets, net of accumulated amortization	226	209	2,011
Total assets	¥222,468	¥215,654	$1,974,335

LIABILITIES AND NET ASSETS	¥ in millions 2016	2015	US$ in thousands (Note 2) 2016
Current liabilities:			
Short-term bank loans (Notes 4 and 7)	¥ 21,957	¥ 21,957	$ 194,861
Current portion of long-term debt (Notes 4 and 7)	31	35	275
Trade notes and accounts payable (Note 4)	3,157	2,828	28,026
Income taxes payable (Notes 4 and 8)	2,838	635	25,189
Accounts payable—other (Note 4)	4,927	6,251	43,732
Allowance for sales returns	16	8	145
Other current liabilities	10,773	9,649	95,611
Total current liabilities	43,702	41,366	387,842
Long-term liabilities:			
Long-term loans payable, less current portion (Notes 4 and 7)	15,000	15,000	133,120
Deferred tax liabilities other than unrealized revaluation gain on land (Note 8)	1,202	1,557	10,667
Deferred tax liability—unrealized revaluation gain on land (Note 6)	1,339	1,413	11,888
Net defined benefit liability (Note 9)	66	64	593
Other long-term liabilities	5,454	5,304	48,408
Total long-term liabilities	23,063	23,339	204,677
Net assets (Note 10)**:**			
Shareholders' equity:			
Common stock	19,487	19,487	172,948
Authorized—250,000,000 shares in 2016 and 2015			
Issued—70,771,662 shares in 2016 and 2015			
Capital surplus	1,940	1,940	17,222
Retained earnings	122,047	114,313	1,083,135
Treasury stock, at cost	(392)	(389)	(3,479)
Total shareholders' equity	143,084	135,351	1,269,827
Accumulated other comprehensive income:			
Unrealized holding gain on other securities, net of taxes	3,835	2,432	34,039
Deferred gain on hedges, net of taxes	479	3,559	4,257
Unrealized revaluation gain on land, net of taxes (Note 6)	2,513	2,130	22,305
Translation adjustments	3,549	4,207	31,497
Remeasurements of defined benefit plans, net of taxes	(485)	633	(4,311)
Total accumulated other comprehensive income	9,891	12,964	87,788
Non-controlling interests in consolidated subsidiaries	2,726	2,631	24,199
Total net assets	155,702	150,947	1,381,814
Total liabilities and net assets	¥222,468	¥215,654	$1,974,335

See notes to consolidated financial statements.

Consolidated Statements of Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	¥ in millions		US$ in thousands (Note 2)
	2016	2015	2016
Net sales	¥112,625	¥110,438	$999,516
Cost of sales (Note 5)	45,048	41,859	399,788
Gross profit before allowance for sales returns	67,577	68,579	599,727
Provision of allowance for sales returns	7	0	67
Gross profit	67,569	68,578	599,659
Selling, general and administrative expenses (Note 12)	47,743	49,087	423,706
Operating income	19,826	19,491	175,952
Other income (expenses):			
Interest and dividends received	461	416	4,091
Interest expenses	(182)	(201)	(1,617)
Equity in income of affiliates	8	44	79
Foreign exchange gain (loss)	(975)	1,386	(8,654)
Gain on sales of property, plant and equipment	0	4	3
Loss on sales and disposition of property, plant and equipment	(32)	(379)	(287)
Impairment losses (Note 18)	(563)	(973)	(4,999)
Gain on sales of investment securities (Note 3)	0	–	0
Gain on sales of investments in subsidiaries and affiliates	–	61	–
Loss on valuation of investments in subsidiaries and affiliates	–	(217)	–
Other, net	355	445	3,150
Total other income (expenses)	(927)	586	(8,233)
Income before income taxes	18,898	20,078	167,719
Income taxes (Note 8)**:**			
Current	5,949	5,455	52,799
Deferred	123	299	1,095
Subtotal	6,072	5,754	53,895
Net income	12,825	14,323	113,823
Total net income attributable to:			
Non-controlling interests	(268)	(248)	(2,381)
Owners of the parent	¥ 12,557	¥ 14,075	$111,442

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	¥ in millions		US$ in thousands (Note 2)
	2016	2015	2016
Net income	¥12,825	¥14,323	$113,823
Other comprehensive income (loss) (Note 16):			
Unrealized holding gain on other securities, net of taxes	1,402	571	12,449
Deferred gain (loss) on hedges, net of taxes	(3,079)	3,006	(27,329)
Unrealized revaluation gain on land, net of taxes	382	146	3,397
Translation adjustments	(753)	2,192	(6,689)
Remeasurements of defined benefit plans, net of taxes	(1,119)	1,079	(9,935)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	(29)	63	(260)
Total other comprehensive income (loss)	(3,196)	7,058	(28,368)
Comprehensive income	¥ 9,629	¥21,382	$ 85,455
Total comprehensive income attributable to:			
Owners of the parent	¥ 9,485	¥20,826	$ 84,176
Non-controlling interests	144	555	1,278

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

¥ in millions

	Shareholders' equity					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2015	70,771,662	¥19,487	¥1,940	¥114,313	¥(389)	¥135,351
Cash dividends paid	–	–	–	(4,513)	–	(4,513)
Net income attributable to owners of the parent	–	–	–	12,557	–	12,557
Reversal of revaluation reserve for land	–	–	–	(309)	–	(309)
Purchase of treasury stock	–	–	–	–	(2)	(2)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	–
Total changes during the year	–	–	–	7,734	(2)	7,732
Balance at March 31, 2016	**70,771,662**	**¥19,487**	**¥1,940**	**¥122,047**	**¥(392)**	**¥143,084**

¥ in millions

	Accumulated other comprehensive income							
	Unrealized holding gain on other securities, net of taxes	Deferred gain on hedges, net of taxes	Unrealized revaluation gain on land, net of taxes (Note 6)	Translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2015	¥2,432	¥ 3,559	¥2,130	¥4,207	¥ 633	¥12,964	¥2,631	¥150,947
Cash dividends paid	–	–	–	–	–	–	–	(4,513)
Net income attributable to owners of the parent	–	–	–	–	–	–	–	12,557
Reversal of revaluation reserve for land	–	–	–	–	–	–	–	(309)
Purchase of treasury stock	–	–	–	–	–	–	–	(2)
Net changes in items other than those in shareholders' equity	1,402	(3,079)	382	(658)	(1,119)	(3,072)	94	(2,977)
Total changes during the year	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**

US$ in thousands (Note 2)

	Shareholders' equity					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2015	70,771,662	$172,948	$17,222	$1,014,494	$(3,459)	$1,201,206
Cash dividends paid	–	–	–	(40,056)	–	(40,056)
Net income attributable to owners of the parent	–	–	–	111,442	–	111,442
Reversal of revaluation reserve for land	–	–	–	(2,745)	–	(2,745)
Purchase of treasury stock	–	–	–	–	(19)	(19)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	–
Total changes during the year	–	–	–	68,640	(19)	68,620
Balance at March 31, 2016	**70,771,662**	**$172,948**	**$17,222**	**$1,083,135**	**$(3,479)**	**$1,269,827**

US$ in thousands (Note 2)

	Accumulated other comprehensive income							
	Unrealized holding gain on other securities, net of taxes	Deferred gain on hedges, net of taxes	Unrealized revaluation gain on land, net of taxes (Note 6)	Translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2015	$21,590	$ 31,587	$18,907	$37,344	$ 5,623	$115,053	$23,356	$1,339,616
Cash dividends paid	–	–	–	–	–	–	–	(40,056)
Net income attributable to owners of the parent	–	–	–	–	–	–	–	111,442
Reversal of revaluation reserve for land	–	–	–	–	–	–	–	(2,745)
Purchase of treasury stock	–	–	–	–	–	–	–	(19)
Net changes in items other than those in shareholders' equity	12,449	(27,329)	3,397	(5,847)	(9,935)	(27,265)	842	(26,422)
Total changes during the year	12,449	(27,329)	3,397	(5,847)	(9,935)	(27,265)	842	42,198
Balance at March 31, 2016	**$34,039**	**$ 4,257**	**$22,305**	**$31,497**	**$(4,311)**	**$ 87,788**	**$24,199**	**$1,381,814**

See notes to consolidated financial statements.

¥ in millions

	Number of shares of common stock	Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014	70,771,662	¥19,487	¥1,940	¥103,934	¥(388)	¥124,974
Cumulative effects of changes in accounting policies	–	–	–	817	–	817
Restated balance at April 1, 2014	–	19,487	1,940	104,751	(388)	125,791
Cash dividends paid	–	–	–	(4,513)	–	(4,513)
Net income attributable to owners of the parent	–	–	–	14,075	–	14,075
Purchase of treasury stock	–	–	–	–	(1)	(1)
Net changes in items other than those in shareholders' equity	–	–	–	–	–	–
Total changes during the year	–	–	–	9,561	(1)	9,560
Balance at March 31, 2015	70,771,662	¥19,487	¥1,940	¥114,313	¥(389)	¥135,351

¥ in millions

	Accumulated other comprehensive income							
	Unrealized holding gain on other securities, net of taxes	Deferred gain on hedges, net of taxes	Unrealized revaluation gain on land, net of taxes (Note 6)	Translation adjustments	Remeasurements of defined benefit plans, net of taxes	Total accumulated other comprehensive income	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2014	¥1,861	¥ 552	¥1,984	¥2,259	¥ (445)	¥ 6,212	¥2,131	¥133,318
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–	817
Restated balance at April 1, 2014	1,861	552	1,984	2,259	(445)	6,212	2,131	134,135
Cash dividends paid	–	–	–	–	–	–	–	(4,513)
Net income attributable to owners of the parent	–	–	–	–	–	–	–	14,075
Purchase of treasury stock	–	–	–	–	–	–	–	(1)
Net changes in items other than those in shareholders' equity	571	3,006	146	1,948	1,079	6,751	500	7,252
Total changes during the year	571	3,006	146	1,948	1,079	6,751	500	16,812
Balance at March 31, 2015	¥2,432	¥3,559	¥2,130	¥4,207	¥ 633	¥12,964	¥2,631	¥150,947

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2016 and 2015

	¥ in millions		US$ in thousands (Note 2)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥18,898	¥ 20,078	$167,719
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	5,059	5,387	44,903
Impairment losses (Note 18)	563	973	4,999
Interest and dividends received	(461)	(416)	(4,091)
Interest expenses	182	201	1,617
Equity in (income) of affiliates	(8)	(44)	(79)
Loss on sales and disposition of property, plant and equipment	25	339	222
(Gain) on sales of investment securities	(0)	–	(0)
(Gain) on sales of investments in subsidiaries and affiliates	–	(61)	–
(Increase) decrease in receivables	215	(2,454)	1,911
(Increase) in inventories	(2,440)	(5,669)	(21,659)
Increase (decrease) in allowance for doubtful receivables	0	(1)	1
Increase (decrease) in payables and accrued expenses	390	(438)	3,463
(Increase) in net defined benefit asset	(510)	(403)	(4,527)
(Decrease) in net defined benefit liability	(100)	(96)	(888)
Others, net	(693)	(1,979)	(6,154)
Subtotal	21,120	15,414	187,440
Interest and dividends received	486	441	4,320
Interest paid	(182)	(194)	(1,623)
Income taxes paid	(3,854)	(10,668)	(34,209)
Net cash provided by operating activities	17,570	4,992	155,928
Cash flows from investing activities:			
Purchase of property, plant and equipment	(7,675)	(9,628)	(68,121)
Proceeds from sales of property, plant and equipment	1,200	8	10,658
Purchase of intangible assets	(60)	(41)	(540)
Purchase of investment securities	(10)	(9)	(90)
Proceeds from sales and redemption of investment securities	8	–	77
Proceeds from sales of investments in subsidiaries and affiliates resulting in change in scope of consolidation	–	91	–
Payments of loans receivable	(934)	(1,103)	(8,290)
Collection of loans receivable	5	5	52
Deposits of time deposits with maturity of more than three months	(34)	(45)	(301)
Refunds of time deposits with maturity of more than three months	48	36	425
Others, net	(10)	3	(90)
Net cash used in investing activities	(7,461)	(10,683)	(66,221)
Cash flows from financing activities:			
Increase in long-term loans payable	–	15,000	–
Purchase of treasury stock	(2)	(1)	(19)
Cash dividends	(4,515)	(4,515)	(40,072)
Cash dividends paid to non-controlling shareholders	(54)	(39)	(487)
Others, net	(36)	(35)	(321)
Net cash provided by (used in) financing activities	(4,608)	10,408	(40,901)
Effect of exchange rate changes on cash and cash equivalents	285	207	2,530
Net increase in cash and cash equivalents	5,784	4,925	51,336
Cash and cash equivalents at beginning of year	19,343	14,418	171,668
Cash and cash equivalents at end of year (Note 13)	¥25,128	¥ 19,343	$223,004

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

TSUMURA & CO. and consolidated subsidiaries
For the year ended March 31, 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 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) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant companies controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method.

The consolidated financial statements include the accounts of the Company and its four and five significant subsidiaries for the years ended March 31, 2016 and 2015, respectively. All significant inter-company balances and transactions have been eliminated in consolidation.

The equity method is applied to investments in significant affiliates in accordance with the provisions of the Accounting Standard for Consolidated Financial Statements.

Investments in non-consolidated subsidiaries and other affiliates are stated at cost. If the equity method had been applied to the investments in these companies, there would have been no material effect in the accompanying consolidated financial statements.

The consolidated financial statements for the year ended March 31, 2015, do not include the operating results of Creative Service, Inc., formerly a consolidated subsidiary, from the second quarter of the fiscal year, because all of the shares owned by the Company were sold off on August 1, 2014.

(c) Accounting period

The accounting period of the Company begins on April 1 and ends on March 31 of the following year. The three overseas consolidated subsidiaries have fiscal years ending on December 31. The necessary adjustments for significant transactions, if any, during the intervening period are made on consolidation.

(d) Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates in effect at the balance sheet date and the accounts of the overseas consolidated subsidiaries, etc., except for the components of shareholders' equity, which are translated into yen at the rates of exchange in effect at the balance sheet date. Foreign exchange gains and losses are credited or charged to operations and translation differences are included in net assets.

(e) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposits, and liquid short-term investments with a maturity of three months or less from acquisition date.

(f) Marketable securities and investment securities

Trading securities are carried at market value and held-to-maturity securities are amortized or accumulated to face value. Money in trust with a market value is carried at market value.

Other securities with determinable market value are carried at market value with any changes in unrealized holding gain or loss included in net assets. Other securities without determinable market value are stated at cost determined principally by the moving average method. The cost of other securities sold is principally computed based on the moving average method. The Company and its consolidated subsidiaries do not have any trading securities or held-to-maturity securities.

(g) Inventories

Inventories of the Company and its consolidated subsidiaries are mainly stated at cost determined by the average cost method of reducing book value when the contribution of inventories to profitability declines.

(h) Property, plant and equipment (except for leased assets)

Property, plant and equipment are stated at cost and depreciation of property, plant and equipment is computed by the straight-line method.

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

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

(i) Intangible assets (except for leased assets)

Intangible assets are amortized by the straight-line method. Cost of software purchased for internal use is amortized by the straight-line method over five years, the useful life applicable to commercially available software.

(j) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide allowances for losses on bad debts at the amounts estimated specifically on each doubtful receivable and the amounts calculated based on past experience for receivables other than specific doubtful receivables.

(k) Allowance for sales returns

Allowance for sales returns is provided for estimated losses on sales returns subsequent to the balance sheet date.

(l) Employees' retirement and severance benefits

The benefit formula method is used as the method of attributing expected benefits to the current period in calculating retirement and severance benefit obligations.

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

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

(m) 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.

Among finance lease transactions that do not transfer ownership to the lessee, those lease transactions that commenced on or before March 31, 2008, are accounted for in a similar manner as operating lease transactions in accordance with generally accepted accounting standards.

(n) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

(o) Accounting for consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid by the Company and its consolidated subsidiaries on the purchases of goods and services that are not deductible under the Consumption Tax Law of Japan are expensed as incurred.

(p) Consolidated taxation system

The Company has applied the consolidated taxation system.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2016 presentation. These changes had no impact on previously reported results of operations or net assets.

(r) Changes in accounting policies

From the year ended March 31, 2016, the Company has applied "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, September 13, 2013 (hereinafter, the "Business Combinations Accounting Standard")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, the "Consolidation Accounting Standard")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, the "Business Divestitures Accounting Standard")). As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination takes place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the prior year's consolidated financial statements were reclassified to conform to the current year's presentation.

With respect to application of the accounting standards regarding business combinations, the Company followed the provisional treatment in Article 58-2 (4) of the Business Combinations Accounting Standard, Article 44-5 (4) of the Consolidation Accounting Standard and Article 57-4 (4) of the Business Divestitures Accounting Standard with prospective application from the beginning of the current fiscal year.

In the consolidated statement of cash flows from the fiscal year ended March 31, 2016, cash flows from the acquisition or disposal of shares of subsidiaries that do not result in changes in the scope of consolidation are included in "Cash flows from financing activities," and cash flows from acquisition related costs for shares of subsidiaries that result in changes in the scope of consolidation or costs related to the acquisition or disposal of shares of subsidiaries that do not result in changes in the scope of consolidation are included in "Cash flows from operating activities."

There was no effect on the consolidated financial statements and per share information for the year ended March 31, 2016, as a result of these changes.

(s) Accounting standard issued but not yet adopted

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016)

(a) Overview
Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes the estimation of deferred tax assets according to the classification of the entity into one of five categories, the following treatments were changed as necessary:

1) Treatment for an entity that does not meet any of the criteria in categories 1 to 5;
2) Criteria for categories 2 and 3;
3) Treatment for deductible temporary differences which an entity classified as category 2 is unable to schedule;
4) Treatment for the period which an entity classified as category 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5) Treatment when an entity classified as category 4 also meets the criteria for categories 2 or 3.

(b) Effective date
The guidance is expected to be effective from the beginning of the year ending March 31, 2017.
(c) Impact of the application of the guidance
The impact is under assessment at the time of preparation of the accompanying consolidated financial statements.

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 ¥112.68=US$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2016. 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 Investment Securities

The cost and related aggregate market value of securities, other than those held for trading and held-to-maturity purposes, with a readily available market value at March 31, 2016 and 2015, are summarized as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Cost	¥12,978	¥12,968	$115,178
Market value	18,409	16,448	163,377
Total unrealized gain	5,575	3,905	49,484
Total unrealized loss	(144)	(424)	(1,286)

Securities as of March 31, 2016 and 2015, that are excluded from the above table are summarized at their book values as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Non-current assets:			
Unlisted stocks other than those on the over-the-counter market	¥90	¥98	$798

Securities, other than those held for trading and held-to-maturity purposes, which were sold during the years ended March 31, 2016 and 2015, are summarized as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Proceeds received	¥18	¥–	$164
Total gain	9	–	87
Total loss	–	–	–

The Company recognized impairment losses on all securities whose market value had declined by 50% or more of book value and on some securities whose market value had declined by 30% or more of book value. Impairment losses were, if any, recognized at the amount of the difference between book value and market value. No impairment losses on securities were recognized for the years ended March 31, 2016 and 2015.

4 Financial Instruments

The Company and its consolidated subsidiaries finance necessary funds through bank loans, considering capital investments for the pharmaceutical production and selling business. Temporary excess funds are operated by highly rated financial institutions. Derivative transactions are only utilized to hedge the following risks, and it is the Company's policy not to enter into derivative transactions for speculative purposes.

Operating receivables such as trade notes and accounts receivable are exposed to credit risk. The Company and its consolidated subsidiaries manage the due date and balance for each customer following internal rules and asking for deposits depending on the customer's credit conditions.

Investment securities mainly consist of securities of counterparties and are exposed to market fluctuation risk. The fair value of the investment securities is regularly reported to the responsible board of directors.

Operating payables such as trade notes and accounts payable 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 Company and its consolidated subsidiaries utilize foreign exchange forward contracts to hedge the risk.

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

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

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

The Company and its consolidated subsidiaries utilize derivative financial instruments to hedge against such risks, such as foreign exchange forward contracts to hedge their foreign currency fluctuation risk. Please refer to Note 15: Derivatives for information on hedge accounting.

Implementation and management of derivative transactions are based on internal rules. The Company and its consolidated subsidiaries only enter into derivative transactions with highly rated financial institutions to mitigate credit risk.

Operating payables and loans are exposed to liquidity risk. The Company and its consolidated subsidiaries manage the risk by preparing the cash management plans monthly.

The contract amount and other information regarding derivative transactions described in Note 15: Derivatives does not indicate market risk related to derivative transactions.

Carrying value reported in the consolidated balance sheet, fair value, and differences of financial instruments as of March 31, 2016 and 2015, are as follows:

¥ in millions

	2016		
	Carrying value reported in the balance sheet	Fair value	Difference
Cash and time deposits	¥25,150	¥25,150	¥ –
Trade notes and accounts receivable	41,875	41,875	–
Investment securities:			
Other securities	18,409	18,409	–
Total	¥85,435	¥85,435	¥ –
Trade notes and accounts payable	¥ 3,157	¥ 3,157	¥ –
Short-term bank loans	21,957	21,957	–
Accounts payable—other	4,927	4,927	–
Income taxes payable	2,838	2,838	–
Long-term loans payable, less current portion	15,000	15,031	31
Total	¥47,881	¥47,913	¥31
Derivative transactions	¥ 693	¥ 693	¥ –

¥ in millions

	2015		
	Carrying value reported in the balance sheet	Fair value	Difference
Cash and time deposits	¥19,379	¥19,379	¥–
Trade notes and accounts receivable	42,142	42,142	–
Investment securities:			
Other securities	16,448	16,448	–
Total	¥77,971	¥77,971	¥–
Trade notes and accounts payable	¥ 2,828	¥ 2,828	¥–
Short-term bank loans	21,957	21,957	–
Accounts payable—other	6,251	6,251	–
Income taxes payable	635	635	–
Long-term loans payable, less current portion	15,000	15,000	–
Total	¥46,672	¥46,672	¥–
Derivative transactions	¥ 5,293	¥ 5,293	¥–

US$ in thousands

	2016		
	Carrying value reported in the balance sheet	Fair value	Difference
Cash and time deposits	$223,199	$223,199	$ –
Trade notes and accounts receivable	371,633	371,633	–
Investment securities:			
Other securities	163,377	163,377	–
Total	$758,210	$758,210	$ –
Trade notes and accounts payable	$ 28,026	$ 28,026	$ –
Short-term bank loans	194,861	194,861	–
Accounts payable—other	43,732	43,732	–
Income taxes payable	25,189	25,189	–
Long-term loans payable, less current portion	133,120	133,403	283
Total	$424,930	$425,213	$283
Derivative transactions	$ 6,158	$ 6,158	$ –

Unlisted stocks of ¥90 million (US$798 thousand) and ¥98 million as of March 31, 2016 and 2015, respectively, whose fair value is extremely difficult to determine were not included in the above table.

Furthermore, unlisted stocks of ¥1,619 million (US$14,376 thousand) and ¥1,619 million included in "Investments in non-consolidated subsidiaries and affiliates" as of March 31, 2016 and 2015, respectively, whose fair value is extremely difficult to determine were not included in the above table.

The valuation method of fair value of financial instruments and information regarding marketable and investment securities and derivative transactions is summarized as follows.

Cash and time deposits and trade notes and accounts receivable:

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

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 3: Investment Securities for information regarding securities by classification.

Trade notes and accounts payable, short-term bank loans, accounts payable—other, and 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.

Long-term loans payable, less current portion:

The fair value of long-term loans payable less the current portion 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 15: Derivatives.

The redemption schedule of monetary assets and securities with maturity dates at March 31, 2016 and 2015, is summarized as follows:

	¥ in millions			
	2016			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥25,132	¥–	¥–	¥–
Trade notes and accounts receivable	41,875	–	–	–
Total	¥67,007	¥–	¥–	¥–

	¥ in millions			
	2015			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥19,339	¥–	¥–	¥–
Trade notes and accounts receivable	42,142	–	–	–
Total	¥61,482	¥–	¥–	¥–

	US$ in thousands			
	2016			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	$223,039	$–	$–	$–
Trade notes and accounts receivable	371,633	–	–	–
Total	$594,672	$–	$–	$–

The repayment schedule of long-term loans payable after the fiscal year-end:
Please refer to Note 7: Debt.

5 Inventories

Inventories at March 31, 2016 and 2015, consisted of the following:

	¥ in millions		US$ in thousands
	2016	2015	2016
Merchandise and finished goods	¥ 8,438	¥ 8,887	$ 74,886
Work in process	12,428	13,276	110,299
Raw materials and supplies	31,482	28,552	279,394
Total	¥52,348	¥50,716	$464,580

Inventories at March 31, 2016 and 2015, are stated at net selling value. Losses valuation of inventories included in cost of sales were ¥796 million (US$7,064 thousand) and ¥203 million for the years ended March 31, 2016 and 2015, respectively.

6 Land Revaluation

In accordance with the Land Revaluation Law (Proclamation No. 34, dated March 31, 1998), land used for business activities was revalued at March 31, 2002. Unrealized revaluation gain on land, net of related deferred taxes, has been presented as a component of net assets.

The market value of land as of March 31, 2016 and 2015, decreased by ¥2,572 million (US$22,828 thousand) and by ¥2,525 million after the revaluation, respectively.

7 Debt

Short-term bank loans at average interest rates of 0.6% and 0.6% amounted to ¥21,957 million (US$194,861 thousand) and ¥21,957 million at March 31, 2016 and April 1, 2015, respectively.

Long-term debt at March 31, 2016, and April 1, 2015, consisted of the following:

	¥ in millions		US$ in thousands
	2016	**2015**	**2016**
Long-term loans payable, maturing through 2018, average interest rate of 0.3%	**¥15,000**	¥15,000	**$133,120**
Lease obligations, maturing through 2022	**91**	123	**809**
Less: current portion	**(31)**	(35)	**(275)**
	¥15,060	¥15,087	**$133,653**

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2016, are summarized as follows:

Years ending March 31	¥ in millions	US$ in thousands
2017	¥ –	$ –
2018	–	–
2019	15,000	133,120
2020 and thereafter	–	–
Total	¥15,000	$133,120

The aggregate annual maturities of lease obligations subsequent to March 31, 2016, are summarized as follows:

Years ending March 31	¥ in millions	US$ in thousands
2017	¥31	$275
2018	21	192
2019	14	131
2020 and thereafter	23	209
Total	¥91	$809

No assets were pledged as collateral for short-term bank loans and long-term loans payable at March 31, 2016 and 2015.

The Company and its consolidated subsidiaries had no credit commitments with a bank at March 31, 2016 and 2015.

8 Income Taxes

At March 31, 2016 and 2015, the significant components of deferred tax assets and liabilities are summarized as follows:

	¥ in millions		US$ in thousands
	2016	**2015**	**2016**
Deferred tax assets:			
Net defined benefit liability	**¥ 20**	¥ 20	**$ 181**
Accrued bonuses	**726**	838	**6,444**
Accrued enterprise tax	**192**	103	**1,712**
Consigned research expenses	**469**	384	**4,167**
Impairment losses	**173**	321	**1,541**
Loss on valuation of inventory	**188**	19	**1,671**
Other	**600**	553	**5,325**
Total deferred tax assets	**2,371**	2,242	**21,043**
Valuation allowance	**(183)**	(193)	**(1,629)**
Deferred tax assets recognized	**2,187**	2,048	**19,414**
Deferred tax liabilities:			
Unrealized holding gain on other securities	**(1,595)**	(1,038)	**(14,158)**
Deferred gain on hedges	**(274)**	(1,734)	**(2,437)**
Net defined benefit asset	**(37)**	(362)	**(333)**
Other	**(178)**	(152)	**(1,581)**
Total deferred tax liabilities	**(2,085)**	(3,288)	**(18,510)**
Net deferred tax assets (liabilities)	**¥ 101**	¥(1,239)	**$ 903**

The Company and its consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively. The differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2016, are not disclosed because the total differences are less than 5% of the statutory tax rate. The statutory tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2015, differs from the effective tax rate for the following reasons:

	2015
Statutory tax rate	35.6%
Effect of:	
Inhabitants per capita taxes	0.4
Permanent differences such as entertainment and donation expenses	0.6
Nontaxable dividend income	(0.4)
Tax credit for research and development expense	(4.9)
Decrease in valuation allowance	0.3
Reduction of deferred tax liabilities due to income tax rate change	(0.7)
Other	(2.2)
Effective tax rate	28.7%

The "Act on Partial Revision of the Income Tax Act (Act No.15 of 2016)" and the "Act on Partial Revision of the Local Income Tax Act (Act No.13 of 2016)" were passed by the Japanese National Diet on March 29, 2016 and the statutory tax rate applied to calculate deferred tax assets and deferred tax liabilities was changed from 32.3% to 30.9% for temporary differences expected to be realized in the period between April 1, 2016 and March 31, 2018, and to 30.6% for temporary differences expected to be realized on or after April 1, 2018.

As a result, deferred tax assets, net of deferred tax liabilities, decreased by ¥22 million (US$197 thousand), income taxes-deferred, unrealized holding gain on other securities, net of taxes, and deferred gain on hedges, net of taxes increased by ¥114 million (US$1,012 thousand), ¥87 million (US$776 thousand), and ¥16 million (US$148 thousand), respectively, and remeasurements of defined benefit plans, net of taxes, decreased by ¥11 million (US$101 thousand) as of and for the year ended March 31, 2016. The deferred tax liability—unrealized gain on land decreased by ¥73 million (US$652 thousand) and unrealized revaluation gain on land, net of taxes, increased by the same amount as of and for the year ended March 31, 2016.

9 Employees' Retirement and Severance Benefits

The Company maintains 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 times a unit value for each point, are accumulated in this hypothetical individual account balance.

Under the lump-sum severance payment plan (unfunded), employees who terminate their employment are entitled to lump-sum severance 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). The Company's consolidated subsidiaries use the simplified method for the calculation of net defined benefit liability and retirement benefit expenses.

In addition, the Company and its consolidated subsidiaries pay meritorious service awards to employees in excess of the prescribed formula.

The employees' pension fund, in which the Company and its consolidated subsidiaries participate, is a multi-employer type. Since it is difficult to reasonably calculate the Companies' portion of the plan assets corresponding to its contributions, the contributions to the plan assets are recorded as periodic benefit expenses.

(Defined benefit plan)

(1) The changes in retirement and severance benefit obligations for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Balance at beginning of year	¥14,369	¥15,446	$127,524
Cumulative effects of changes in accounting policies	–	(1,269)	–
Restated balance at beginning of year	¥14,369	¥14,176	$127,524
Service cost	780	781	6,925
Interest cost on benefit obligation	212	209	1,883
Actuarial gain or loss	1,400	(181)	12,430
Benefits paid	(1,113)	(617)	(9,884)
Other	4	1	42
Balance at end of year	¥15,653	¥14,369	$138,921

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Balance at beginning of year	¥15,428	¥13,104	$136,924
Expected return on plan assets	534	452	4,739
Actuarial gain or loss	(209)	1,388	(1,863)
Employer's contribution	1,053	1,070	9,351
Benefits paid	(1,103)	(592)	(9,791)
Other	6	3	55
Balance at end of year	¥15,709	¥15,428	$139,416

(3) The reconciliation between the liability recorded on the consolidated balance sheet and the balances of retirement and severance benefit obligations and plan assets as of March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Funded retirement and severance benefit obligations	¥ 15,620	¥ 14,339	$ 138,624
Plan assets	(15,709)	(15,428)	(139,416)
	(89)	(1,088)	(791)
Unfunded retirement and severance benefit obligations	33	29	296
Net liability for retirement and severance benefit obligations on the consolidated balance sheet	¥ (55)	¥ (1,059)	$ (494)

	¥ in millions		US$ in thousands
	2016	2015	2016
Net defined benefit liability	¥ 66	¥ 64	$ 593
Net defined benefit asset	(122)	(1,123)	(1,088)
Net defined benefit liability on the consolidated balance sheet	¥ (55)	¥(1,059)	$ (494)

(4) The components of net retirement benefit expenses for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Service cost	¥ 780	¥ 781	$ 6,925
Interest cost on benefit obligation	212	209	1,883
Expected return on plan assets	(534)	(452)	(4,739)
Amortization of actuarial gain or loss	(5)	155	(50)
Amortization of prior service cost	2	(96)	24
Other	17	14	156
Net retirement benefit expenses	¥ 473	¥ 611	$ 4,199

(5) The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Prior service cost	¥ 2	¥ (96)	$ 24
Actuarial gain or loss	(1,616)	1,725	(14,345)
Total	¥(1,613)	¥1,628	$(14,320)

(6) The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income as of March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Unrecognized prior service cost	¥ 12	¥ 15	$ 109
Unrecognized actuarial gain or loss	665	(951)	5,904
Total	¥677	¥(936)	$6,013

(7) The components of plan assets as of March 31, 2016 and 2015, are as follows:

	2016	2015
Debt securities	36%	26%
Equity securities	29%	43%
General accounts	35%	29%
Other	0%	2%
Total	100%	100%

The expected long-term rate of return on plan assets is determined considering 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, 2016 and 2015, are as follows:

	2016	2015
Discount rate	0.4%	1.5%
Expected long-term rate of return on plan assets	3.5%	3.5%

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

(9) Simplified method

Plans for which the simplified method is applied are included in the above tables due to their immateriality.

(Defined contribution plan)

The required contributions to the defined contribution plan (including the multi-employer employees' pension fund plan accounted for in the same way as the defined contribution plan) are ¥967 million (US$8,586 thousand) and ¥1,044 million for the years ended March 31, 2016 and 2015, respectively.

(The multi-employer plan for which the required contributions are recorded as retirement benefit expenses)

(1) The overall funding status as of March 31, 2016 and 2015, is as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Plan assets	¥571,380	¥512,488	$5,070,824
Total of actuarial obligation and minimum actuarial reserve	561,736	522,289	4,985,234
Difference	¥ 9,644	¥ (9,801)	$ 85,589

The amounts in the above table are provided based on the most recently available information (as of March 31, 2015 and 2014, for fiscal 2016 and 2015, respectively).

(2) The contribution ratios of the Company to the entire plan during the years ended March 31, 2016 and 2015, are 3.82% and 3.76%, respectively.

(3) Supplemental information

As of March 31, 2016, the difference described in (1) was calculated by the sum of the balance of the unamortized prior service cost of ¥(40,107) million (US$(355,940) thousand), earnings of the fund of ¥14,310 million (US$127,004 thousand), and voluntary reserve of ¥35,440 million (US$314,526 thousand).

As of March 31, 2015, the difference described in (1) was calculated by the sum of the balance of the unamortized prior service cost of ¥(45,242) million, and earnings of the fund 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 periods are 7 years and 0 months and 8 years and 0 months as of March 31, 2015 and 2014, respectively

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

10 Net Assets

The Companies Act of Japan (the "Act"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met. The legal reserve amounted to ¥2,931 million (US$26,014 thousand) and ¥2,931 million as of March 31, 2016 and 2015, respectively.

11 Amounts per Share

Net assets per share as of March 31, 2016 and 2015, were ¥2,169.13 (US$19.25) and ¥2,103.04, respectively.

Net income per share for the years ended March 31, 2016 and 2015, was ¥178.06 (US$1.58) and ¥199.58, respectively.

The basis for calculation of basic total net assets per share as of March 31, 2016 and 2015, was as follows:

	¥ in millions		US$ in thousands
	2016	**2015**	**2016**
Basic total net assets per share:			
Total net assets	**¥ 155,702**	¥ 150,947	**$ 1,381,814**
Less: Non-controlling interests in consolidated subsidiaries	**2,726**	2,631	**24,199**
Amounts attributable to shareholders of common stock	**¥ 152,976**	¥ 148,316	**$ 1,357,615**
Number of shares outstanding at the end of the periods	**70,524,031**	70,524,779	**70,524,031**

The basis for calculation of basic net income per share for the years ended March 31, 2016 and 2015, is as follows:

	¥ in millions		US$ in thousands
	2016	**2015**	**2016**
Basic net income per share:			
Net income attributable to owners of the parent	**¥ 12,557**	¥ 14,075	**$ 111,442**
Amounts attributable to owners of the parent related to common stock	**¥ 12,557**	¥ 14,075	**$ 111,442**
Weighted-average number of shares outstanding	**70,524,330**	70,524,999	**70,524,330**

Basic net income per share is computed based on net income attributable to owners of the parent and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on net income attributable to owners of the parent and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued. Diluted net income per share for the years ended March 31, 2016 and 2015, has not been presented because there were no potentially dilutive securities at March 31, 2016 and 2015, respectively.

Net assets per share are based on the number of shares of common stock outstanding at each balance sheet date.

The Company and its consolidated subsidiaries and non-consolidated subsidiaries and other affiliates to which the equity method had been applied had 247,631 and 246,883 shares of treasury stock at March 31, 2016 and 2015, respectively.

12 Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Sales promotion expenses	¥ 3,823	¥ 4,249	$ 33,936
Sales rebates	9,363	9,155	83,095
Salaries and allowances	16,974	17,279	150,639
Research and development expenses	5,968	6,252	52,968
Provision for employees' retirement and severance benefits	972	1,012	8,634
Provision of allowance for doubtful accounts	0	0	0

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2016 and 2015, amounted to ¥5,968 million (US$52,968 thousand) and ¥6,252 million, respectively.

13 Cash and Cash Equivalents

A reconciliation of cash and cash equivalents at March 31, 2016 and 2015, to the accounts and amounts in the accompanying balance sheets is summarized as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Cash and time deposits	¥25,150	¥19,379	$223,199
Less: Time deposits with a maturity in excess of three months	(22)	(36)	(195)
Cash and cash equivalents	¥25,128	¥19,343	$223,004

14 Leases

Finance lease transactions that do not transfer ownership

Leased assets consisted of forklifts in the factories, etc.

Finance lease transactions that do not transfer ownership commenced on or before March 31, 2008, are still accounted for in the same manner as operating lease transactions.

Pro-forma information of leased assets such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, and other information of finance leases that do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended March 31, 2016 and 2015, are as follows:

(1) A summary of the pro-forma amounts for acquisition cost, accumulated depreciation, and net book value relating primarily to tools, furniture and fixtures at March 31, 2016 and 2015, is as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Acquisition cost	¥3	¥61	$33
Accumulated depreciation	3	60	33
Net book value	¥–	¥ 0	$ –

(2) Future minimum lease payments at March 31, 2016 and 2015, are summarized as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Payments in one year or less	¥–	¥0	$–
Payments after one year	–	–	–
Total	¥–	¥0	$–

(3) Lease payments and pro-forma depreciation charges for the years ended March 31, 2016 and 2015, are analyzed as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Lease payments	¥0	¥5	$3
Pro-forma depreciation charges	0	5	3

(4) Depreciation and interest allocation policy

The pro-forma effects of depreciation are computed using the straight-line method over lease terms with no residual value.

Operating leases

Future minimum lease payments for non-cancellable operating leases subsequent to March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Payable in one year or less	¥54	¥61	$479
Payable after one year	16	15	142
Total	¥70	¥77	$621

15 Derivatives

The Company and its consolidated subsidiaries have entered into foreign exchange forward contracts to reduce their exposure to the risk of future adverse fluctuations in foreign exchange rates related to assets and liabilities denominated in foreign currencies.

An unrealized gain or loss on a hedge instrument is deferred until the Company recognizes a gain or loss on the hedged item.

It is the Company's policy not to enter into any speculative derivatives transactions. The Company and its consolidated subsidiaries have entered into derivative transactions to hedge foreign currency fluctuation risk of normal foreign currency transactions based on past import activities, etc.

The management of the Company considers that the Company would not be significantly impacted by market risk related to derivative transactions because their effects on income would be opposite to the effects of the underlying hedged transactions. As the Company enters into contracts with domestic banks with high credit ratings, the Company does not anticipate any risk of non-performance by these counterparties.

The Company and its consolidated subsidiaries enter into and monitor derivative transactions in accordance with internal execution and control regulations relating to derivative transactions, which stipulate control policies, purpose, scope, and reporting system of derivative transactions.

Derivative transactions for which hedge accounting has been applied at March 31, 2016 and 2015, are as follows:

Currency related

			¥ in millions			US$ in thousands		
								2016
Hedge accounting method	Transaction	Hedged items	Contract amount	Contract amount over one year	Fair value	Contract amount	Contract amount over one year	Fair value
Allocation method	Foreign exchange forward contracts USD (Buying)	Forecast transactions denominated in foreign currencies	**¥18,058**	**¥2,709**	**¥663**	**$160,263**	**$24,042**	**$5,889**
	CNY (Buying)		**11,436**	**3,894**	**30**	**101,499**	**34,561**	**269**
Total			**¥29,495**	**¥6,603**	**¥693**	**$261,762**	**$58,603**	**$6,158**

			¥ in millions		
					2015
Hedge accounting method	Transaction	Hedged items	Contract amount	Contract amount over one year	Fair value
Allocation method	Foreign exchange forward contracts USD (Buying)	Forecast transactions denominated in foreign currencies	¥27,563	¥ 7,935	¥4,303
	CNY (Buying)		9,448	4,899	990
Total			¥37,011	¥12,834	¥5,293

Fair value is principally based on obtaining quotes from counterparty financial institutions.

Information on derivative transactions for which hedge accounting does not apply is omitted since all outstanding derivative positions qualified for hedge accounting.

16 Comprehensive Income

Reclassifications and adjustments and income tax effects attributable to other comprehensive income (loss) for the years ended March 31, 2016 and 2015, are as follows:

	¥ in millions		US$ in thousands
	2016	2015	2016
Unrealized holding gain on other securities, net of taxes:			
Gains arising during the year	¥ 1,960	¥ 694	$ 17,398
Reclassifications and adjustments	(9)	–	(87)
Before income tax effects	1,950	694	17,310
Income tax effects	(547)	(123)	(4,861)
Unrealized holding gain on other securities, net of taxes	¥ 1,402	¥ 571	$ 12,449
Deferred gain (loss) on hedges, net of taxes:			
Gains (losses) arising during the year	¥(4,599)	¥ 4,434	$(40,820)
Income tax effects	1,520	(1,428)	13,491
Deferred gain (loss) on hedges, net of taxes	¥(3,079)	¥ 3,006	$(27,329)
Unrealized revaluation gain on land, net of taxes:			
Gains arising during the year	¥ 309	¥ –	$ 2,745
Income tax effects	73	146	652
Unrealized revaluation gain on land, net of taxes	¥ 382	¥ 146	$ 3,397
Translation adjustments:			
Adjustments arising during the year	¥ (753)	¥ 2,192	$ (6,689)
Translation adjustments	¥ (753)	¥ 2,192	$ (6,689)
Remeasurements of defined benefit plans, net of taxes:			
Adjustments arising during the year	¥(1,610)	¥ 1,569	$(14,294)
Reclassifications and adjustments	(2)	58	(26)
Before income tax effects	(1,613)	1,628	(14,320)
Income tax effects	494	(549)	4,385
Remeasurements of defined benefit plans, net of taxes	¥(1,119)	¥ 1,079	$ (9,935)
Share of other comprehensive income (loss) of affiliates accounted for using equity method:			
Gains (losses) arising during the year	¥ (29)	¥ 63	$ (260)
Share of other comprehensive income (loss) of affiliates accounted for using equity method	¥ (29)	¥ 63	$ (260)
Total other comprehensive income (loss)	¥(3,196)	¥ 7,058	$(28,368)

17 Segment Information

Information about reportable segments is not disclosed since the Company and its consolidated subsidiaries have categorized their reportable segments into a single segment, pharmaceutical products operation.

(Related information)

(1) Information about products and services

Information about products and services is not disclosed since sales amount of single product or service classification to external customers exceeded 90% of net sales on the consolidated statements of income.

(2) Information about geographical areas

(a) Sales

Information about sales by geographical area is not disclosed since sales to external customers in Japan exceeded 90% of net sales on the consolidated statements of income.

(b) Property, plant and equipment

Information about property, plant and equipment by geographical area for the years ended March 31, 2016 and 2015, is as follows:

			¥ in millions
			2016
Japan	China	Other	Total
¥51,530	**¥11,290**	**¥0**	**¥62,822**

			¥ in millions
			2015
Japan	China	Other	Total
¥47,995	¥12,627	¥0	¥60,624

			US$ in thousands
			2016
Japan	China	Other	Total
$457,321	**$100,202**	**$8**	**$557,531**

(3) Information about major customers for the years ended March 31, 2016 and 2015, is as follows:

	Sales		
	¥ in millions	US$ in thousands	
Name of major customers		**2016**	Segment
Alfresa Holdings Corporation	**¥27,577**	**$244,745**	Pharmaceutical products
MEDIPAL HOLDINGS CORPORATION	**24,957**	**221,487**	Pharmaceutical products
Suzuken Co., Ltd.	**18,595**	**165,031**	Pharmaceutical products
TOHO HOLDINGS CO., LTD.	**14,244**	**126,415**	Pharmaceutical products

	Sales	
	¥ in millions	
Name of major customers	**2015**	Segment
Alfresa Holdings Corporation	¥28,046	Pharmaceutical products
MEDIPAL HOLDINGS CORPORATION	24,220	Pharmaceutical products
Suzuken Co., Ltd.	17,417	Pharmaceutical products
TOHO HOLDINGS CO., LTD.	13,433	Pharmaceutical products

Since the Company and its consolidated subsidiaries have categorized their reportable segments into a single segment, pharmaceutical products operation, information regarding impairment losses on fixed assets by reportable segment for the years ended March 31, 2016 and 2015, was omitted.

18 Impairment Losses

The Company and its consolidated subsidiaries group their assets used for business 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.

(Fiscal 2016)

For the year ended March 31, 2016, the Company and its consolidated subsidiaries recognized ¥563 million (US$4,999 thousand) of impairment losses on fixed assets used for business, which consisted of the following:

Location	Description	Classification
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 other income (expenses) as impairment losses.

The recoverable amount of the buildings and land, etc. was measured at 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 considered to be immaterial and are not taken into account since the usage period of the assets is short.

Impairment losses of ¥563 million (US$4,999 thousand) consist of ¥72 million (US$641 thousand) for land and ¥491 million (US$4,358 thousand) for buildings and structures for the year ended March 31, 2016.

(Fiscal 2015)

For the year ended March 31, 2015, the Company and its consolidated subsidiaries recognized ¥973 million of impairment losses on fixed assets used for business, which consisted of the following:

Location	Description	Classification
Kasai-shi, Hyogo, Japan	Distribution facilities	Buildings and land, etc.

The Company disposed of assets related to distribution facilities and their carrying values have been reduced to their recoverable amounts and recognized in other income (expenses) as impairment losses.

The recoverable amount was measured at net selling price. Discount rates are considered to be immaterial and are not taken into account since the assets are scheduled to be sold off in a short period of time.

Impairment losses of ¥973 million consist of ¥365 million for land, ¥525 million for buildings and structures, ¥73 million for machinery and equipment, and ¥9 million for tools, furniture and fixtures for the year ended March 31, 2015.

19 Note to Consolidated Statements of Changes in Net Assets

Issued stock and treasury stock as of March 31, 2016, are as follows:

Number of issued shares

Common stock 70,771,662 shares

The number of treasury stock is as follows:

Shares

	At April 1, 2015	Increase	Decrease	At March 31, 2016
Common stock	246,883	748	–	**247,631**

Dividends from surplus as of March 31, 2016, are as follows:

(1) Dividend payments

Scheduled resolution	Category	Total amount of dividends (¥ in millions)	Dividend per share (¥)	Total amount of dividends (US$ in thousands)	Dividend per share (US$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 26, 2015	Common Stock	¥2,256	¥32	$20,028	$0.28	March 31, 2015	June 29, 2015
Board of Directors' meeting held on November 5, 2015	Common Stock	2,256	32	20,028	0.28	September 30, 2015	December 4, 2015

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

Scheduled resolution	Category	Source of dividends	Total amount of dividends (¥ in millions)	Dividend per share (¥)	Total amount of dividends (US$ in thousands)	Dividend per share (US$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common Stock	Retained Earnings	¥2,256	¥32	$20,028	$0.28	March 31, 2016	June 30, 2016

20 Subsequent Events

(1) At the shareholders' meeting held on June 29, 2016, the following appropriation from unappropriated retained earnings of the Company was approved by the shareholders:

	¥ in millions	US$ in thousands
Cash dividends, ¥32.00 (US$0.28) per share	¥2,256	$20,028

(2) Joint venture agreement in China

On May 6, 2016, the Company entered an agreement to establish a joint venture company with Shanghai Traditional Chinese Medicine Co., Ltd., a subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd., thereby enabling it to enter the business of traditional Chinese medicine compound granules.

(a) Purpose of establishing the joint venture

The Company agreed to establish this joint venture believing that the expertise in research, technologies, quality control, and other elements related to the cultivation and processing of crude drugs and the manufacturing technologies for Kampo, which have been developed in China, will be utilized in the business of traditional Chinese medicine compound granules, and this will enable an even more stable supply of crude drugs to Japan while improving the quality of crude drugs in China and protecting crude drug resources in China.

(b) Outline of the joint venture

Name of company: SPH TSUMURA PHARMACEUTICALS CO., LTD.
Location: Shanghai
Representative: Chairman (To be determined)
Capital: 600 million RMB
Investment ratio: Shanghai Traditional Chinese Medicine: 51%, The Company: 49%
Business description: Manufacturing and sales of traditional Chinese medicine compound granules, establishment of criteria for traditional Chinese medicine compound granules, research and development of products, research and development of manufacturing methods, and other operations.

(Note 1) Traditional Chinese medicine compound granules
A single crude drug is extracted from crude drug pieces for decoction, made into a product through a series of processes that consists of separation, concentration, drying, and granulation, and used for preparation of a drug in the same way as crude drug pieces for decoction.

(Note 2) Traditional Chinese medicines
Traditional medicines used in China

Report of Independent Auditors

Independent Auditor's Report

The Board of Directors
TSUMURA & CO.

We have audited the accompanying consolidated financial statements of TSUMURA & CO. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 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. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the consolidated financial position of TSUMURA & CO. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 20(2) to the consolidated financial statements, which states that the Company entered an agreement to establish a joint venture company in China on May 6, 2016. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young Shinnihon LLC

June 29, 2016
Tokyo, Japan

Corporate Data

As of March 31, 2016

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: 3,242 (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
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, 2016

Stock Exchange Listing: Tokyo
Stock Code: 4540
Paid-in Capital: ¥19,487 million
Net Assets: ¥155,702 million
Common Stock:
Authorized: 250,000,000
Issued: 70,771,662
Closing Date of Accounts: March 31
Independent Auditor:
Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.,
2-2-3, Uchisaiwai-cho, Chiyoda-ku,
Tokyo 100-0011, 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: 12,278

Major Shareholders	% of equity
Japan Trustee Services Bank, Ltd. (Trust Account)	5.24
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.28
Japan Trustee Services Bank, Ltd. (Trust Account 9)	4.07
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.12
Employees' Stockholding	2.69
BNYML-NON TREATY ACCOUNT	2.38
JP MORGAN CHASE BANK 385632	2.24
DAIICHI SANKYO COMPANY, LIMITED	2.16
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	2.02
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	1.55

Ownership and Distribution of Shares

%

TSUMURA & CO.
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