



Ensuring Long-Term Growth

Annual Report 2015



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.

CONTENTS

- 02** What is Kampo?
- 04** Tsumura and Kampo
- 06** Tsumura and Kampo Value Chain
- 08** Financial and Non-Financial Highlights
- 10** **To Our Stakeholders**



We are working to further reinforce the growth base and aiming to maximize corporate value from a long-term perspective.

In this section, the president will report on Tsumura's efforts to further reinforce its growth base to maximize corporate value from a long-term perspective. He will also outline the Company's business performance in fiscal 2015, its operating environment, and the progress made with its first-stage medium-term management plan.

15 Special Feature

Tsumura's Strengthening of its Growth Base to Solidify Growth over the Medium to Long Term



Under the first-stage medium-term management plan, we are working to strengthen the growth base that Tsumura has solidified over the course of many years. In this section, we will frame initiatives implemented to this end from the perspective of two strategic challenges: expanding the Kampo medicine market and enhancing earning power.

- 22** Review of Operations
- 32** Frequently Asked Questions
- 34** Research and Development

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.

36 Creating Shared Value



Business and Social Value Created Through Raw Material Crude Drug Cultivation Research

Tsumura’s Kampo business could not exist without the crude drugs that serve as the raw material ingredients for Kampo products. In this section, we will illustrate the business and social value that is created through raw material crude drug cultivation research aimed at securing a stable and sustainable supply of these essential ingredients.

41 Corporate Governance

47 Financial Section

79 Corporate Data / Investor Information



What is Kampo?



1,400 YEARS OF HISTORY

Kampo is a traditional form of medicine in Japan 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.



WHAT DO KAMPO MEDICINES CONTAIN?

Kampo is medication usually formulated from two or more crude drugs based on Kampo medicine principles. Today, most of the prescription Kampo products used in Japan are powdered extracts, the active ingredients of which have been distilled from the crude drugs and processed into these powdered extracts.



CRUDE DRUGS AS RAW MATERIALS

The raw materials for Kampo medicines are crude drugs from mainly plants. As such, one type of crude drug contains multiple ingredients. Therefore, Kampo medicines have many active ingredients because they are formulations of at least two and sometimes up to 10 crude drugs. Multiple active ingredients are a special feature of Kampo medicine.



TAILOR-MADE TREATMENT

In Kampo medicine, the treatment of patients can vary even if two patients have the same disease. The treatment method is 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. The most-appropriate Kampo medicine is then selected for each patient.



DIFFERENCE BETWEEN KAMPO AND WESTERN DRUGS

Western drugs have only one ingredient. A single drug is administered for a single symptom or disorder. In contrast, Kampo medicines contain a mixture of multiple crude drugs. As a result of containing many ingredients, one formulation can demonstrate positive results for multiple symptoms.

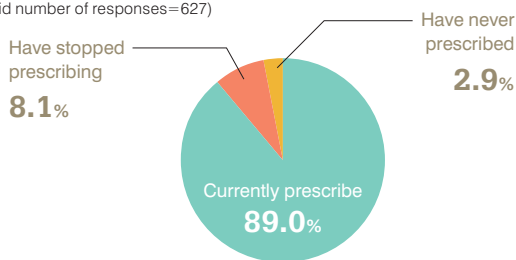


KAMPO MEDICINES ARE COVERED UNDER THE JAPANESE NATIONAL HEALTH PLAN

Currently, 148 Kampo prescription products are covered under the Japanese National Health Insurance (NHI) plan and can be used for a wide range of disorders and symptoms. Tsumura makes 129 of the formulations covered under the NHI plan.

Kampo Medicine Prescriptions by Physicians

(Valid number of responses=627)



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

KAMPO PRESCRIPTIONS MADE BY PHYSICIANS IN JAPAN

According to a 2011 survey by the Japan Kampo Medicines Manufacturers Association, 89% of Japan's physicians had prescribed Kampo products for their patients. This represented a 5.5% increase from their fiscal 2008 survey. The main reason (56.6%) given for prescribing Kampo products was that the Kampo products were effective in treating symptoms in cases where Western drugs were not.



EXPANDING SCOPE OF KAMPO PRODUCT PRESCRIPTIONS

Along with the establishment of a greater body of scientific evidence of efficacy, there has been a growth trend in the scope of disorders for which Kampo products are being prescribed. The scope has enlarged from internal disorders to mental disorders, the surgical field, and other areas. 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 Japan's generations.

Tsumura and Kampo

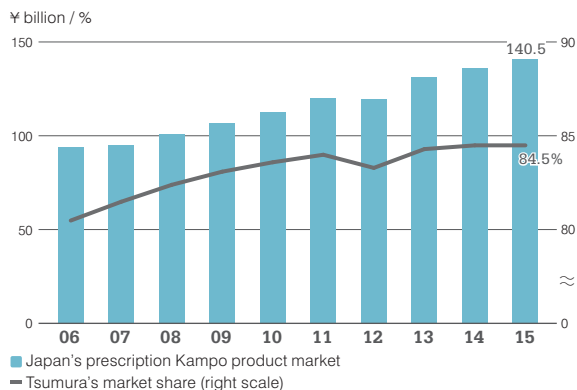
Tsumura's Strengths

MARKET LEADER

Tsumura manufactures and sells 129 prescription Kampo products that are covered under the NHI plan. On an NHI drug price basis, Tsumura accounts for an 84.5%* share of the ¥140.5 billion market. As the market leader, it is also taking the lead in efforts to expand the domestic prescription Kampo product market.

* Copyright 2015 IMS Health. All rights reserved. Estimated based on "IMS JPM Mar. 2006 MAT- Mar. 2015 MAT." Reprinted with permission.

Size of Japan's Prescription Kampo Product Market and Tsumura's Market Share*



BUILDING A KAMPO VALUE CHAIN

Tsumura has built a comprehensive value chain that encompasses its operations. It includes all processes from the production and procurement of crude drugs that are the raw material for Kampo products to the manufacture of powdered extracts. It even includes the drive to popularize Kampo medicine. Using the value chain to provide a stable supply of high-quality Kampo products, Tsumura has established a dominant position in the market.



ESTABLISHING AND POPULARIZING KAMPO MEDICINE

With the aim of establishing and popularizing Kampo medicine in Japan, Tsumura began support activities for Kampo medicine education at medical colleges and universities in fiscal 1998. Through the Company's efforts, Kampo medicine education is now taught at all medical colleges and universities, and has been since fiscal 2005.



ESTABLISHING CULTIVATION TECHNOLOGIES FOR RAW MATERIAL CRUDE DRUGS

In 2011, in collaboration with a research institute, Tsumura was successful in developing the technology to cultivate licorice, which is used in the formulations of about 70% of its Kampo products. In the same year, because of concerns about soaring prices for ginseng, Tsumura concluded a memorandum of understanding with the municipality of Baishan in Jilin Province, China, and is proceeding with joint development of cultivation technology for ginseng.

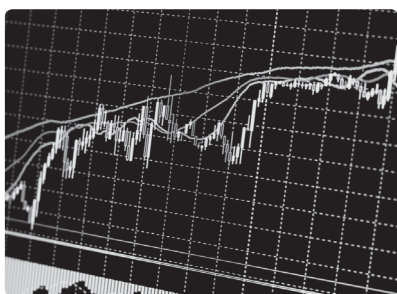
What We Face

ESCALATING CRUDE DRUG PRICES IN CHINA

Tsumura sources more than 80% of its raw material crude drugs from China. Because of growing demand, poor weather, attempts by speculators to corner the market, and other factors, crude drug prices began to spike in 2011. Since 2013 as well, crude drug prices have been soaring with ginseng as the main cause, becoming a contributing factor in the downward pressure on profitability growth.

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 as 100



IMPACT OF EXCHANGE RATES

Tsumura imports about 85% of its raw material crude drugs, so exchange rate fluctuations affect profitability.

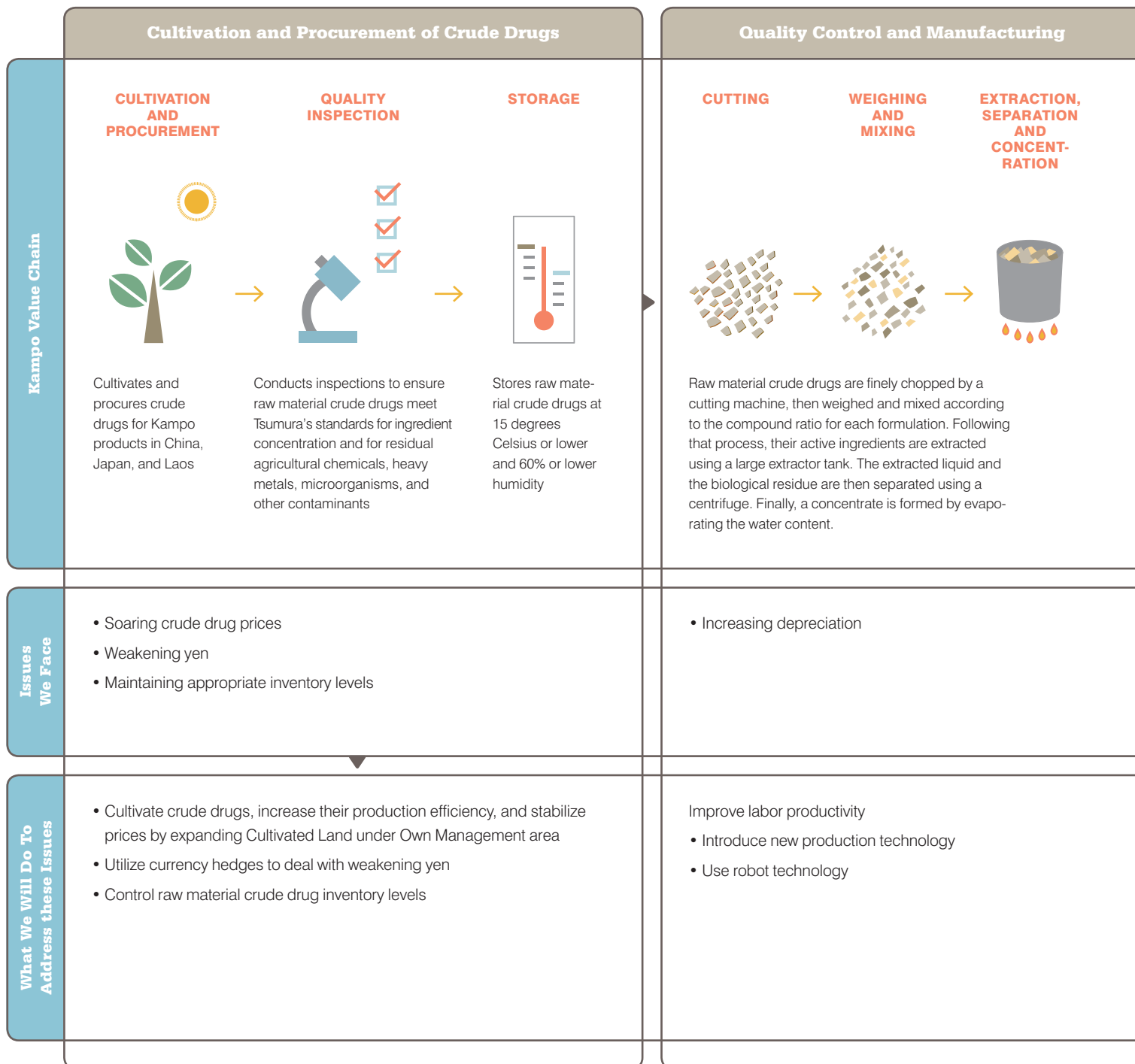


IMPACT OF OFFICIAL DRUG PRICE REVISIONS

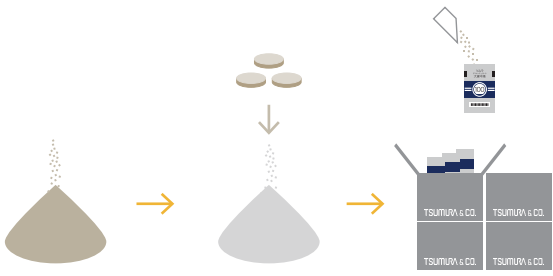
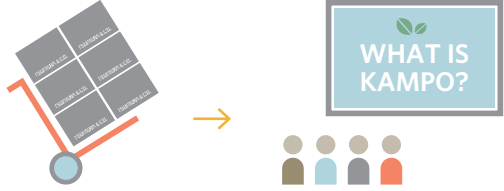
In Japan, the Ministry of Health, Labour and Welfare sets the NHI-listed drug prices for prescription pharmaceuticals. The NHI-listed drug prices are revised—generally downward—once every two years (in principle) to close the gap between official and market prices (the prices at which pharmaceutical wholesalers sell to medical institutions).

Tsumura and Kampo Value Chain

Tsumura has established a comprehensive Kampo value chain that integrates all processes in its operations. The value chain includes the cultivation and production of raw material crude drugs, product quality control and production, distribution, and even the spread of Kampo education. The measures taken over many years have enabled the Company to provide a stable supply of high-quality Kampo products. As a result, Tsumura has established a dominant position in the Kampo market.



Recently, Tsumura has continually faced a severe business environment because of changes in external factors beyond what could have been foreseen. They include such factors as soaring crude drug prices and the impact of the weakening yen. Even under these business conditions, Tsumura is taking measures to make certain that the Company's corporate value will increase in the medium to long term based on the technology and know-how accumulated in its Kampo value chain. These measures will include further strengthening Tsumura's growth base by focusing on reforming its cost structure and by expanding the Kampo market.

			Distribution and Market	
<p>DRYING GRANULATION FILLING AND PACKAGING</p>  <p>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.</p>		<p>SALES EDUCATION AND POPULARIZATION</p>  <p>Makes sales to pharmaceutical wholesalers using same method as Western drugs in Japan</p> <p>Disseminates information to medical institutions, holds seminars for the general public, and sponsors portal websites to popularize Kampo products and educate people about them</p>		
<ul style="list-style-type: none"> • Raising productivity at manufacturing sites 		<ul style="list-style-type: none"> • Impact of downward revisions in official drug prices once every two years 		
<ul style="list-style-type: none"> • Operate plants around the clock • Introduce new granulation and packaging system 		<ul style="list-style-type: none"> • Explain to pharmaceutical wholesalers and medical treatment related people that products are being distributed at a price appropriate to their value • Absorb declines in official drug prices by expanding unit sales 		

Financial and Non-Financial Highlights

TSUMURA & CO. and subsidiaries
Years ended March 31

Growth

Sales of prescription Kampo products were firm, rising 2.4% year on year, while consolidated net sales increased 0.3%.

Profitability

An increased cost of sales ratio stemming from such factors as higher prices on some raw material crude drugs was partially offset by curtailing the SG&A expenses margin. Nevertheless, the operating income margin decreased 2.8 percentage points from the previous year, to 17.6%.

Operating Efficiency and Stability

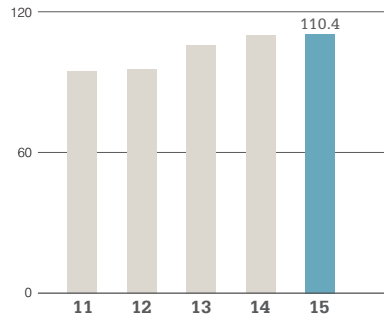
Net income decreased 22.0% compared with the preceding fiscal year, while shareholders' equity grew. ROE consequently dropped 4.4 percentage points, to 10.1%. The equity ratio slipped 1.1 percentage points, to 68.8%.

	2011	2012	2013	2014	¥ in millions 2015	US\$ in thousands* 2015
For the year						
Net sales	¥94,778	¥95,450	¥105,638	¥110,057	¥110,438	\$919,019
Sales of prescription Kampo products	89,247	89,964	99,457	102,680	105,193	
Operating income	21,553	21,233	23,124	22,461	19,491	162,202
Net income	12,945	13,431	15,373	18,050	14,075	117,127
Selling, general and administrative expenses	43,789	44,271	46,586	48,808	49,087	408,480
R&D expenses	4,123	4,565	4,904	5,949	6,252	52,026
Depreciation	3,453	3,850	4,049	4,871	5,387	44,830
Capital expenditures for property, plant and equipment	5,264	6,425	9,328	8,991	8,424	
At year-end						
Total assets	¥141,549	¥151,874	¥170,466	¥187,623	¥215,654	\$1,794,575
Total net assets	91,154	102,240	118,537	133,318	150,947	1,256,120
Interest-bearing debt	23,086	22,070	22,059	22,088	37,080	308,562
Other selected data						
Cash flows from operating activities	¥12,047	¥7,314	¥12,011	¥5,908	¥ 4,992	\$41,543
Cash flows from investing activities	(6,815)	(5,342)	(8,022)	(1,694)	(10,683)	(88,902)
Cash flows from financing activities	(3,355)	(5,272)	(4,275)	(4,575)	10,408	86,617
Per share data (yen/dollars)						
Net income	¥ 183.55	¥ 190.45	¥ 217.98	¥ 255.94	¥ 199.58	\$1.66
Dividends	58.00	60.00	62.00	64.00	64.00	
Net assets	1,274.06	1,430.94	1,658.88	1,860.14	2,103.04	17.50
Financial ratios (%)						
Operating income margin	22.7	22.2	21.9	20.4	17.6	
ROE	15.0	14.1	14.1	14.5	10.1	
ROA	15.6	14.5	14.3	12.5	9.7	
Non-financial data						
Employees	2,717	2,784	2,831	2,898	3,335	
Amount of crude drug used (ton)	8,797	10,657	10,765	11,788	11,305	

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.17=U.S.\$1, the prevailing Tokyo foreign exchange market rate as of March 31, 2015.

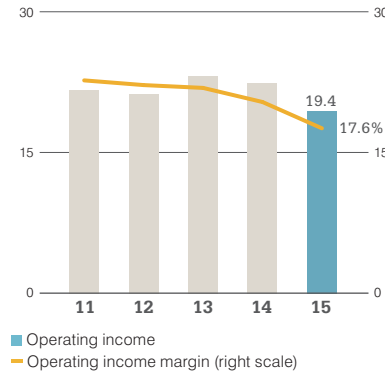
Net Sales

¥ billion



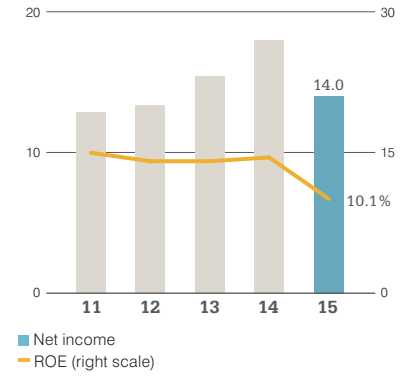
Operating Income / Operating Income Margin

¥ billion / %



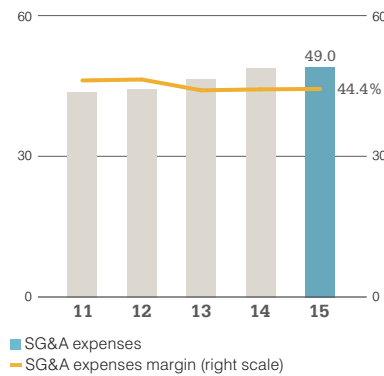
Net Income / ROE

¥ billion / %



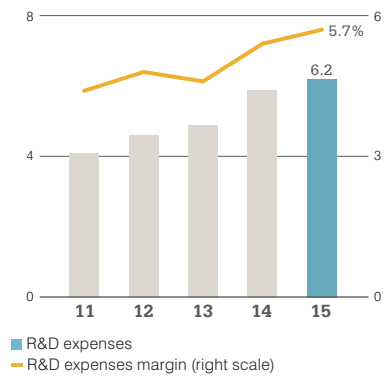
SG&A Expenses / SG&A Expenses Margin

¥ billion / %



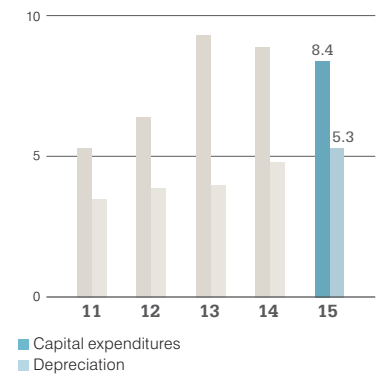
R&D Expenses / R&D Expenses Margin

¥ billion / %



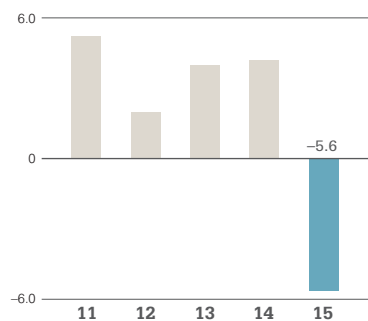
Capital Expenditures / Depreciation

¥ billion



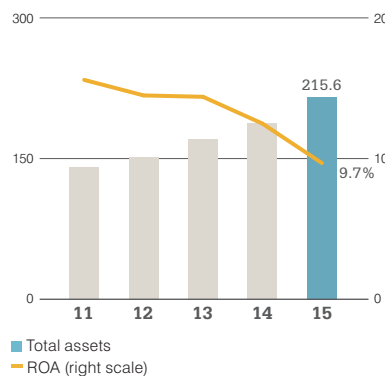
Free Cash Flow

¥ billion



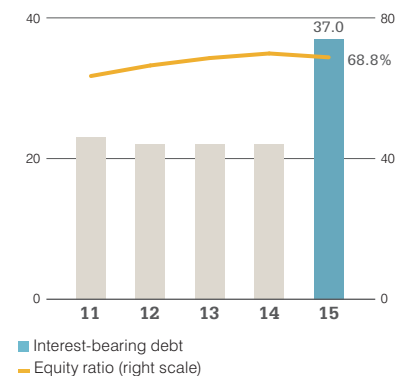
Total Assets / ROA

¥ billion / %



Interest-Bearing Debt / Equity Ratio

¥ billion / %



To Our Stakeholders

We are working to further reinforce the growth base and aiming to maximize corporate value from a long-term perspective.



In fiscal 2015, ended March 31, 2015, Tsumura was largely affected by external factors. These included price rises on certain crude drugs, ongoing yen depreciation, and the revision of NHI-listed drug prices. Nevertheless, we forged ahead in line with the theme of our first-stage medium-term management plan, “strengthening the growth base to achieve greater value creation,” and these efforts generated steady results. The initiatives we are pursuing depend on the steady accumulation of efforts; by overcoming short-term fluctuations, we aim to strengthen our foundations for creating value over the long term.

In line with the theme of our first-stage medium-term management plan, we are undertaking three strategic challenges, namely, expanding the Kampo medicine market, enhancing earning power, and increasing corporate value by executing effective financial and capital policies. Each of these challenges is integral; we need to progress on all fronts for the plan to succeed. For example, on enhancing earning power, even if we make capital investments to augment labor productivity, we cannot enjoy the full benefits of this measure unless production volumes increase. Similarly, expanding the Kampo medicine market should drive an increase in the number of physicians prescribing Kampo products, leading to higher sales volumes. We will first begin to enjoy synergies from this effort once production volumes are higher.

The Kampo medicine market is in a state of flux. Perceiving these changes as opportunities for growth, Tsumura is stepping up its initiatives addressing the three strategic challenges. Through these measures, we are fortifying our foundations for growth with the aim of maximizing

corporate value from a long-term perspective. Furthermore, we will move steadily forward to achieve our long-term business vision (Vision 2021) for 10 years hence: "Aim to be a value-creation company that contributes to people's health through its Kampo medicine business."

Fiscal 2015 Business Results and Performance Forecast for Fiscal 2016

Operating in an adverse domestic market for prescription pharmaceutical products, we achieved an increase in net sales, but operating income declined because of higher raw materials procurement costs.

In fiscal 2015, net sales edged up 0.3%, to ¥110,438 million, while operating income declined 13.2%, to ¥19,491 million. Faced with severe market conditions marked by the April 2014 downward revision in NHI drug prices combined with the consumption tax rate hike, net sales fell short of our target. Nevertheless, sales from overall shipments of our 129 prescription Kampo formulations rose 2.4% year on year. Despite our efforts to curtail selling, general and administrative (SG&A) expenses, operating costs rose 3.8% year on year due to higher prices on certain raw material crude drugs, the impact of yen depreciation, and falling drug prices. Operating income declined accordingly.

Net income dropped 22.0%, to ¥14,075 million, affected by the posting of an impairment loss associated with the sale of logistics facilities and the absence of a gain on sales of investment securities that was present in the preceding fiscal year. In keeping with our policy of emphasizing stable dividends, we maintained annual dividends per share at the previous year's level of ¥64.

In fiscal 2016, we anticipate higher sales of prescription Kampo preparations, boosting net sales 2.3% compared with fiscal 2015. Affected by higher prices of raw material crude drugs and the impact of exchange rates, we expect operating income to fall 7.7%, despite more-efficient application of SG&A expenses.

Fiscal 2016 Performance Forecast

¥ million / %	
Net sales	113,000
Operating income	18,000
Net income	12,200
Operating income margin	15.9%

Note: The performance forecast above is established based on the information available as of May 12, 2015 and is also subject to certain assumptions. Therefore, our actual financial performance may differ.

Fiscal 2015 Business Results

¥ million / %	Plan	FY2015	Vs. Planned		YoY	
			Amount	Difference	Amount	Change
Net sales	111,400	110,438	-961	-0.9%	380	0.3%
Operating income	18,200	19,491	1,291	7.1%	-2,969	-13.2%
Net income	11,800	14,075	2,275	19.3%	-3,975	-22.0%
Operating income margin	16.3%	17.6%		+1.3 pts		-2.8 pts

First-Stage Medium-Term Management Plan: “Strengthening the growth base to achieve greater value creation”

1. Initiatives for Expanding the Kampo Medicine Market

As Kampo medicine proliferates and its use expands, physicians' needs are changing. We are working to accelerate expansion of the Kampo medicine market by taking a new approach to provide information to physicians from medical representatives (MRs).

Tsumura has concentrated on expanding the market for Kampo medicine by helping to popularize the medicine itself. To this end, we provide Kampo medicine education for physicians before and directly after their graduation and on an ongoing basis thereafter. For instance, we support the introduction of Kampo medicine education at medical colleges and universities, host study groups at designated hospitals for clinical training, hold field information meetings across all medical specialties, and proactively conduct Kampo medicine seminars. We continued these efforts in fiscal 2015. In addition, as a focus measure during the year we stepped up sales activities targeting physicians at university hospitals and designated hospitals for clinical training and physicians who prescribe multiple Kampo products.

In the past, our sales strategy has focused on explaining the action mechanisms for five “drug fostering” program formulations that are our core products by using the scientific approach of evidence-based medicine. In other words, our sales approach has been similar to that of Western medicine. However, physicians' understanding of Kampo medicine has grown and their needs have become increasingly more diverse. As such, while focusing on this sales strategy, we have also been actively making efforts under another strategy for the next stage, which promotes the expansion of other formulations related to the disorders that our “drug fostering” products target. To ensure that all MRs provide the same level of information, we have published evidence, papers, and guidelines, and we have organized information on the selective use of formulations into new materials by disorders and symptoms. In order to expand on a “disorders and symptoms differentiated approach,” we introduced these materials in April 2015, in accordance with physicians' needs (See pages 16–17). In addition to

the disorders our “drug fostering” products target, we have narrowed down the number of disorders and symptoms that Kampo medicine addresses with particular effectiveness to 21 and prepared between three and five formulations for each, for a total of 60. At the same time, the marketing specialists of pharmaceutical sales agents can use this information when explaining Kampo products to physicians. Rather than using a specific drug to treat a certain illness for all patients, Kampo medicine diagnoses individual patient's physical conditions and symptoms. Taking a disorders and symptoms differentiated approach, we are making steady inroads in providing guidance on prescribing Kampo medicines by proposing multiple efficacious formulations to physicians who have not seen the desired patient result with one type of formulation and need to select another. Through this approach, we aim to increase the percentage of physicians in Japan prescribing 10 or more Kampo products from the current figure of around 10% to more than 50%. This move should lead firmly to the establishment of Kampo medicine.

In the United States, in our development of TU-100 (Daikenchuto) we are making steady progress with clinical trials toward satisfying Food and Drug Administration (FDA) requirements. As methods for evaluating botanical preparations are not established in the United States, each stage of the process requires extensive preparation and data collection, which takes time. However, by helping to pioneer the creation of evaluation standards, we are also bolstering our own quality control and research levels. Furthermore, we are convinced that the impact of obtaining FDA approval for TU-100 (Daikenchuto) in the United States will be more far-reaching than simply launching a single preparation into the marketplace.

2. Efforts Aimed at Enhancing Earning Power

By expanding Cultivated Land under Own Management*¹, we aim to stem the rise in crude drug procurement costs. Also, by introducing new production technologies we are boosting labor productivity, thereby improving the cost structure.

The Company obtains around 80% of its raw material crude drugs from China. Prices on some of these items began to rise precipitously around 2011, to the point where crude drug costs account for more than twice as much of the total product price as they did in 2006. Crude drug prices continued to eat into profitability in fiscal 2015. At the same time, the yen continued to depreciate, so we were unable to absorb the higher cost-of-sales percentage through increased levels of production and better production efficiency. To address this situation, three years ago we began working to expand Cultivated Land under Own Management. Ginseng, which typically takes five to seven years to cultivate, is particularly susceptible to multiyear increases in crude drug prices. Consequently, we are pursuing raw material crude drugs such as this in Cultivated Land under Own Management, thereby creating a framework that makes us less susceptible to market price fluctuations.

When procuring crude drugs, in the past we have prioritized increasing the number of producers with Tsumura's GACP*² certification guaranteeing crude drug quality. In the future, we will move on to the next step in our procurement activities.

Specifically, we will concentrate on increasing our percentage of transactions with producers with whom we have in place long-term agreements based on appropriate prices that are impervious to market price fluctuations. By focusing our attention on carefully selected excellent producers, we intend to forge long-term business relationships, further enhance crude drug productivity, and stabilize procurement.

To curtail crude drug prices and reduce their cost percentage, we need to lower processing expenses by boosting plant labor productivity. In fiscal 2015, we made record capital investments of ¥9.7 billion to this end, and we are planning a further increase to ¥10.0 billion in fiscal 2016. To bolster labor productivity, we are making steady inroads on maximizing the efficiency of existing production facilities and introducing new production technologies. Through initiatives such as these, we are building a solid base from which to augment productivity. Going forward, we expect to lower the unit cost of production by expanding production volumes.

¹ Farms with a certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices.

² Good Agricultural and Collection Practice

3. Measures for Executing Effective Financial and Capital Policies

We are giving top priority to enhancing corporate value by growing our business. By doing so, we expect to raise ROE and meet the expectations of our shareholders and other investors.

I believe that increasing corporate value by expanding our business is ultimately the best way to ensure returns to shareholders and other investors.

When formulating our first-stage medium-term management plan in 2011, in addition to recording steady increases in net sales and operating income, we had planned for ROE of 14% in the final year of the plan. However, because the operating income margin underlying this assumption fell short of expectations, we revised our forecast for the final year of

the plan for ROE to 8%. I recognize that raising our operating income margin is of foremost importance to boosting ROE. Nevertheless, given current conditions I see a short-term recovery as unlikely. Consequently, while being mindful of crude drug procurement price increases we are presently working to curtail ballooning crude drug inventories in the interest of heightening capital turnover. Through this measure, I expect capital efficiency to increase, which should lead to higher ROE.

We will redouble our focus on the management structure and our foundations for growth.

To strengthen the Board of Directors' supervisory function and clarify the structure for business execution by executive officers, in June 2015, Tsumura increased its number of outside directors by two. The resulting, stronger governance structure comprises three internal directors and three outside directors. I believe the two incoming outside directors have the background our company needs, and I look forward to their informed advice on achieving increased corporate growth.

As a leading global manufacturer of multiconstituent complex pharmaceuticals, Tsumura has numerous avenues for generating profits in its business—from cultivating and procuring crude drugs to manufacturing and sales and on to expanding the Kampo medicine market. This unparalleled variety is an important element of our business model and a source of strength. At the moment, I see our most important priority as accelerating the expansion of Cultivated Land under Own Management so that we can procure crude drugs at consistently stable prices, in the necessary quantities, and at the high-quality levels we require. In expanding the Kampo medicine market, we are aiming for the implementation, establishment and development of Kampo medicine education for physicians before and directly after their graduation and on an ongoing basis thereafter. We are

proceeding along a course of trial and error as we foster Kampo medicine education at designated hospitals for clinical training, which is directly after graduation, and increase the effectiveness of our approach to providing information to physicians. By persevering with these initiatives, I have faith that we will create a positive feedback loop that will maximize corporate value going forward. As we work toward these objectives, we will target sustainable increases in corporate value to meet the Tsumura growth expectations of our various stakeholders, including patients, the healthcare community, shareholders, and other investors.

August 2015



Terukazu Kato
President and Representative Director



SPECIAL FEATURE

Tsumura's Strengthening of its Growth Base to Solidify Growth over the Medium to Long Term

Guided by its first-stage medium-term management plan, which is based on the theme “strengthening the growth base to achieve greater value creation,” Tsumura is advancing measures with regard to three strategic challenges—expanding the Kampo medicine market, enhancing earning power, and increasing corporate value by executing effective financial and capital policies. Tsumura’s growth base is an amalgamation formed from the organizational frameworks constructed to further the expansion of the Kampo market as well as the activities of medical representatives (MRs) and the cultivation of crude drugs, which constitute the frontlines of its business. This growth base has been solidified over the Company’s long history, and we will continue to strengthen it going forward with the aim of improving corporate value over the long term.

New Approach for Popularizing and Expanding the Kampo Market

Steady Popularization and Expansion of the Kampo Market through Organizational Wide Adoption of a New Approach

Tsumura's long-term business vision (Vision 2021) states that: "We will contribute to the creation of medical care practices to ensure that patients in Japan can receive medical treatment, adopting Kampo medicine as needed at any medical institution and in any department." Striving to accomplish this goal, we are implementing various measures to further expand the Kampo market.

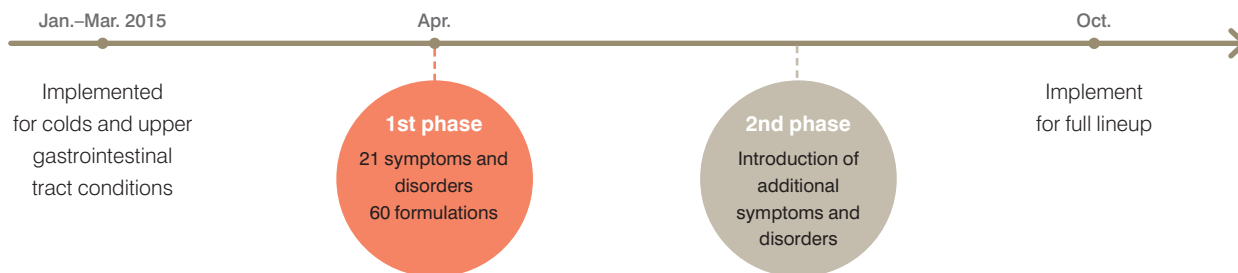
In recent years, Kampo medicine has become a common subject taught at medical schools, and physicians have developed a better understanding with regard to this treatment option. This trend has also resulted in a diversification of the needs of physicians. Tsumura's MRs have stepped up their efforts to increase the provision of information to physicians in response to this change. As one specific measure, the disorders and symptoms differentiated approach was put into full force in April 2015 based on

information collected during interviews with physicians and from MRs. This strategy entails selecting 21 symptoms and disorders for which Kampo medicines are an effective treatment option, and then choosing 60 formulations to be proposed to physicians as prescription options based on a patient's condition. By providing information to meet the needs of physicians seeking alternative prescription options when certain Kampo products have proven ineffective, we aim to increase the number of physicians that prescribe Kampo formulations and help establish an understanding of how individual Kampo products should be used.

Through the efforts of MRs, who are responsible for practicing the disorders and symptoms differentiated approach at medical institutions, we aim to raise the ratio of physicians that can effectively utilize more than 10 different Kampo formulations from the current level of 10% to over 50%.

Disorders and Symptoms Differentiated Approach

- Propose formulations that are effective at treating patient conditions
- Establish understanding of use of individual Kampo products



- Select 3-5 formulations for each symptom and disorder for which Kampo medicines are effective
- Provide information and compile materials based on physician needs (scientific evidence, treatment guidelines, and use of specific Kampo products)
- Enhance sales promotion capabilities of pharmaceutical distributors

We will work to improve the capabilities of MRs in conjunction with the introduction of the disorders and symptoms differentiated approach.



Ryouichi Murata

Executive Officer
Head of Sales &
Marketing Division

At Tsumura, we promote the ideal of Kampo formulations being prescribed based on Kampo medicine principles, where physicians understand how to use Kampo products, and are able to selectively prescribe formulations by evaluating a patient's physical characteristics and symptoms. However, for physicians lacking a sufficient understanding of Kampo medicine, it is difficult to appreciate the concept of Kampo medicine and subsequently select formulations based on Kampo medicine principles. Accordingly, we have been providing information through an approach similar to that used for Western medicine, proposing one formulation for each disorder, focused on Tsumura's five "drug fostering" program formulations, for which there already exists a significant body of scientific evidence.

Aiming to better respond to the diversifying informational needs of physicians, we developed a hypothesis regarding these needs, and then directly interviewed more than 150 physicians to test the hypothesis. The resounding feedback from those physicians who lack a sufficient understanding of Kampo medicine was that they thought it was important to first focus on the scientific evidence, and then learn the uses of individual Kampo medicines after accepting this evidence. Meanwhile, physicians who were confident in prescribing three to five formulations stated that they would be interested in prescribing any alternative formulations presented to them. This helped reaffirm the importance of matching our approach to a physician's level of Kampo understanding. The disorders and symptoms differentiated approach was brought about by evolving our traditional sales approach based on the knowledge gained through this process.

We have also developed a new tool for proposing multiple formulations to physicians. This tool features illustrations representing patient conditions, which helps paint a picture of Kampo-style diagnosis, and information on several formulations that are effective at treating specific symptoms, thereby offering physicians alternative prescription options. In doing so, we have created a means of responding to the needs of physicians seeking alternative prescription options after a specific formulation has proven ineffective. Moreover, providing such a tool on an organizational level helps improve the capabilities of all MRs, thereby realizing more-efficient use of time and allowing for physicians to receive information that better meets their needs.

It has only been six months since we introduced the disorders and symptoms differentiated approach, even if the period of activities related to the six disorders for which this approach was initially tested is included. Nonetheless, we have seen growth in certain business indicators. As a result, we are preparing to expand the lineup of formulations incorporated into beyond the current 60 formulations for treating 21 symptoms and disorders. The related tool will be used not only by Tsumura's MRs but also by the marketing specialists of pharmaceutical distributors to provide medical institutions with information. In doing so, we hope to further the popularization of Kampo and the expansion of the Kampo market.

New Approach for Popularizing and Expanding the Kampo Market

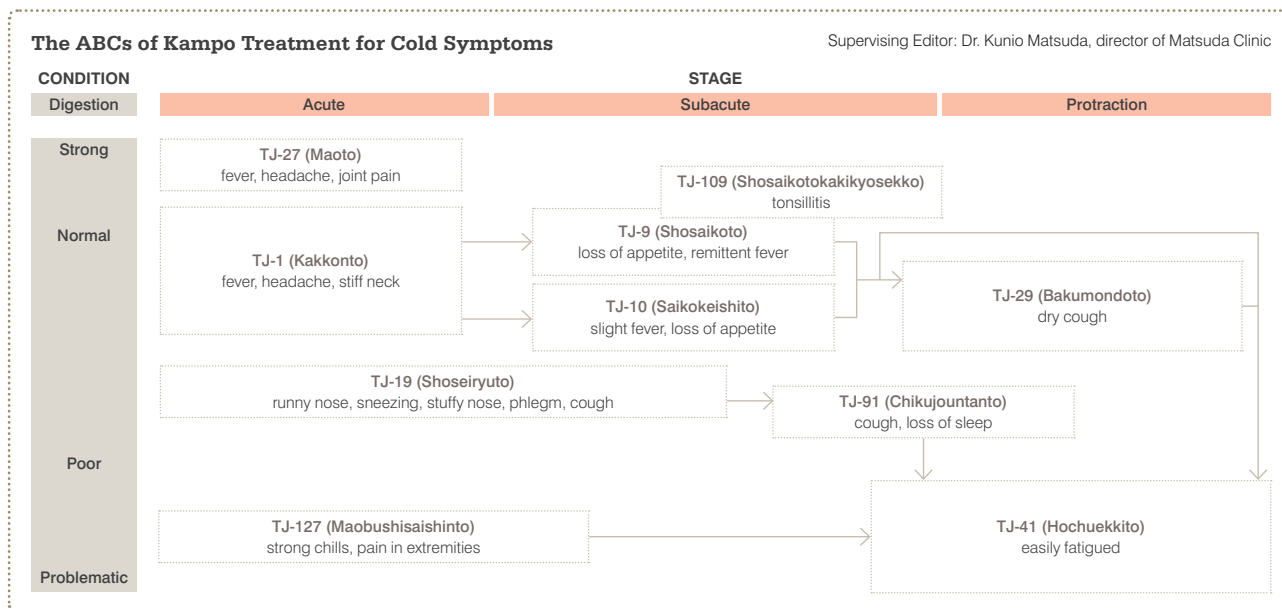
The Activities of Tsumura’s Medical Representatives (MRs) Founded on Bonds of Trust Forged with Physicians.

Tsumura’s MRs are charged with the important mission of promoting the popularization of Kampo products and of Kampo medicine itself, thereby expanding the Kampo market.

Kampo medicine is said to be a “tailor-made treatment,” as Kampo medicines are prescribed after taking into account the patient’s overall constitution and any subjective complaints they may have, which can differ even among individuals exhibiting the same symptoms. For example, a variety of Kampo medicines may be prescribed for a patient suffering from the common cold, depending on such conditions as the patient’s physical strength, the amount of time affected, and their symptoms. A patient in the early stages of a common cold might have a fever, leading to the prescription of TJ-1 (Kakkonto), whereas TJ-19 (Shoseiryuto) would be prescribed for a runny nose or sneezing, and TJ-29 (Bakumondoto) for a dry cough. Therefore, the selective

use of more than one Kampo product can help to better respond to multiple symptoms—one of its strengths.

The prescription of Kampo products, however, may seem difficult to some physicians who are trained primarily in Western medicine. Helping physicians to understand the concept of Kampo medicine and spreading knowledge of how to selectively use Kampo products is no easy task. To facilitate this effort, we have introduced a new approach, the disorders and symptoms differentiated approach, through which we propose Kampo products as alternative prescription options to physicians. Through this approach, Tsumura’s MRs have been able to offer more-accurate responses to physician needs, which has helped increase the number and variety of Kampo medicines used, thereby expanding the Kampo market.



We partner with physicians who take an interest in Kampo medicine to provide information that can help individual patients.



Tamamo Kurita
Medical
representative

As MRs, we provide information to physicians with varying levels of Kampo knowledge, ranging from those that lack a basic understanding of Kampo medicine to those who make use of 20–30 or more formulations. Offering information to physicians on a daily basis, it seems to me that providing information on the five “drug fostering” program formulations, for which scientific evidence is available to support their use, aids their understanding. From that base, their interest expands to encompass the other 124 formulations.

A point of particular focus in our MR activities is helping physicians understand that the selective use of Kampo products is not that difficult. Tsumura manufactures and sells 129 formulations of prescription Kampo products. Many physicians have preconceived notions about the difficulty of using Kampo medicine and prescribing Kampo products, thinking that a rigorous understanding of all formulation differences is needed. Granted, as the ideal Kampo formulation can vary from patient to patient, even if their symptoms are the same, it can be difficult to identify all of the possibly effective formulations in one single attempt. It is for this reason that the disorders and symptoms differentiated approach, which entails MRs proposing alternative prescription options when a given formulation has proven ineffective, is incredibly useful.

Personally, I have come to find Kampo medicine fascinating. As many different formulations may be used to treat one single symptom, in Kampo medicine there is no absolute right and wrong. Viewed another way, Kampo medicine is a flexible process of selecting from a number of correct alternatives the formulation that best suits the patient. Also, symptoms sometimes have no discernable associated disease, as in a fever of undetermined origin. I think the ability to treat such unclassifiable symptoms is what makes Kampo medicine interesting.

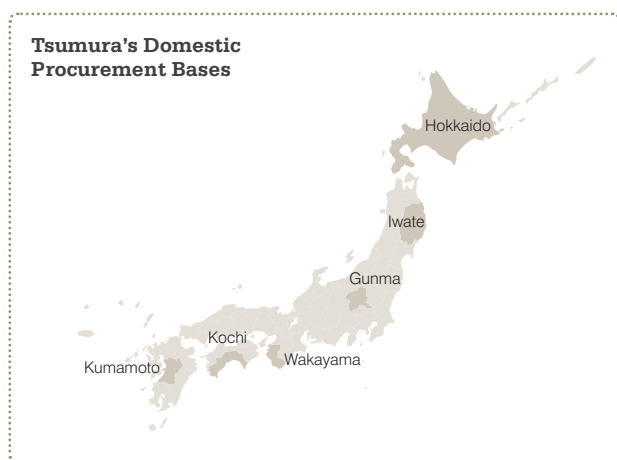
Entrenching an understanding of the selective use of Kampo products is one of our most pressing tasks, and this process requires considerable time and effort. Through the steady accumulation of low-key efforts, on a daily basis I see how physicians who initially knew little about Kampo medicine consulted with us about their patients’ symptoms, took an interest in knowing more, and eventually developed a deep understanding. Physicians also sometimes provide us with information about the effects Kampo products have had in an actual clinical setting. This sort of interactive exchange of information enables both parties to enhance their understanding about Kampo medicine while simultaneously fostering a trust-based relationship.

In the long term, the Company is thinking of having physicians who we have helped to learn about Kampo medicine lead seminars in the subject, spreading this knowledge even further. I look forward to continuing to communicate to various physicians the efficacy and intrigue of Kampo medicine, thereby helping the Kampo market expand.

Expansion of Domestic Production Bases to Boost Profitability

Reinforcement of Domestic Procurement Systems in Tandem with Kampo Market Expansion

The overall market for prescription Kampo products, including Tsumura's products, has grown substantially over the last decade. On the basis of the monetary value of Kampo medicines sold, the scale of this market was ¥92.3 billion in fiscal 2005. In fiscal 2015, this scale had increased to ¥140.5 billion.*¹ Tsumura boasts a share of the domestic prescription Kampo product market of more than 84%*¹, and this market growth therefore means that the amount of crude drugs, the raw material ingredients for Kampo medicines, needing to be procured will continue to increase over the long term. The domestic demand for prescription Kampo products from physicians in the medical field has been rising with each coming year. In addition, the Ministry of Agriculture, Forestry and Fisheries has defined its goal of expanding the volume of crude drugs produced in Japan to 1.5 times fiscal 2011's levels by fiscal 2017.*² For this reason, efforts to promote the domestic production of crude drugs are garnering attention, and this area is being viewed as a growth industry.



Currently, the Company procures approximately 80% of the crude drugs it uses from China and 5% from Laos, meaning that only 15% of its crude drugs come from Japan. Compounding this situation is the fact that the recent rise in demand for crude drugs in China has driven up the price of the Kampo products produced in this country. Tsumura is committed to resolving this issue, and is expanding its Cultivated Land under Own Management*³ and other cultivation sites in Japan and overseas with the aim of securing a stable supply of crude drugs going forward.

Domestic Crude Drug Cultivation through the Conversion of YUBARI TSUMURA into an Agricultural Production Corporation

Tsumura primarily conducts the production of crude drugs in Japan at six cultivation sites located in Hokkaido, Iwate, Gunma, Kochi, Wakayama, and Kumamoto prefectures. Of these, the Hokkaido site is operated by Company subsidiary YUBARI TSUMURA & CO., LTD., which was established in July 2009 to serve as an integrated production base for crude drugs. Consequently, this subsidiary was equipped with functions ranging from procurement to processing and storage. YUBARI TSUMURA possesses a vast expanse of land, ample space for conducting large-scale cultivation operations as Cultivated Land under Own Management, and is located in a cool climate ideal for storing crude drugs. Leveraging these characteristics, YUBARI TSUMURA has continued to play a part in providing crude drug cultivation guidance to producers throughout Hokkaido while also serving as a site for conducting cultivation research on Cultivated Land under Own Management.

YUBARI TSUMURA was converted into an agricultural production corporation*4 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 storage. We have also established plans to increase the annual production capacity of YUBARI TSUMURA from the current 700 tons to 2,000 tons in the future. We will also expand the area of its cultivation sites throughout Hokkaido, which consist of Company-owned land and the land of contracted farmers, to approximately 1,000 ha. In preparation, we are currently in the process of outfitting this company with more-functional equipment, and we intend to double its crude drug storage capacity to 2,000 tons by September 2015.

In addition, the Takikawa Farm, which is part of this company's Cultivated Land under Own Management, will expand its size from the current area of 60 ha to approximately 150 ha. This farm will also be equipped with cultivation machinery to boost its capacity to perform large-scale cultivation operations.

At the moment, certain crude drugs produced in Hokkaido are inspected at the Ishioka Center in Ibaraki Prefecture. However, in the future, all of these crude drugs will be inspected by YUBARI TSUMURA, enabling

more-timely quality management guidance to be provided to farmers. Going forward, we will introduce inspection machines to automate this process in order to realize higher operating ratios and lower costs.

The transformation of YUBARI TSUMURA has enabled us to further accelerate the cultivation-streamlining and labor-saving initiatives conducted to date. These initiatives include establishing cultivation techniques through test cultivation, developing agricultural machinery for use with crude drugs, and expanding the range of applicable agricultural chemicals. At the same time, we are now able to collaborate more closely with contracted-cultivation organizations and farmers in Hokkaido, providing greater support and cultivation guidance.

Moving forward, Tsumura plans to introduce the methods used to convert YUBARI TSUMURA into an agricultural production corporation at other production bases in Japan and overseas, and thereby secure a stable supply of crude drugs going forward.

- 1 Copyright 2015 IMS Health. All rights reserved. Estimated based on "IMS JPM Mar. 2005 MAT- Mar. 2015 MAT." Reprinted with permission.
- 2 Source: Fiscal 2014 budget request for medical, welfare, food, and agricultural fields, Ministry of Agriculture, Forestry and Fisheries, October 2013
- 3 Farms with a certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices
- 4 General term for corporations that conduct agricultural operations compliant with certain conditions defined by the Agricultural Land Act, which grants access to various benefits from government-sponsored agricultural management support systems



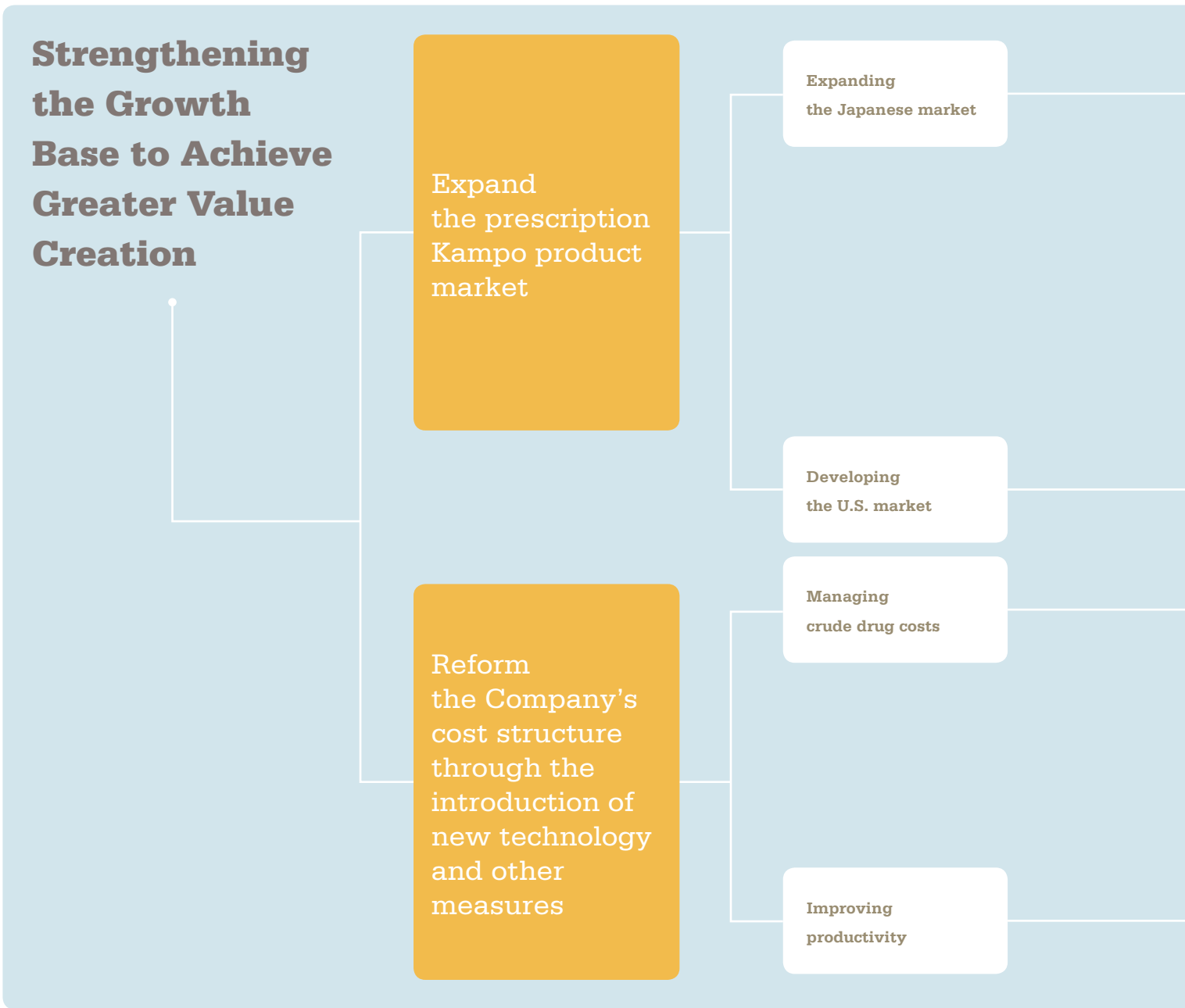
YUBARI TSUMURA & CO., LTD.



Agricultural machinery used to realize large-scale cultivation operations

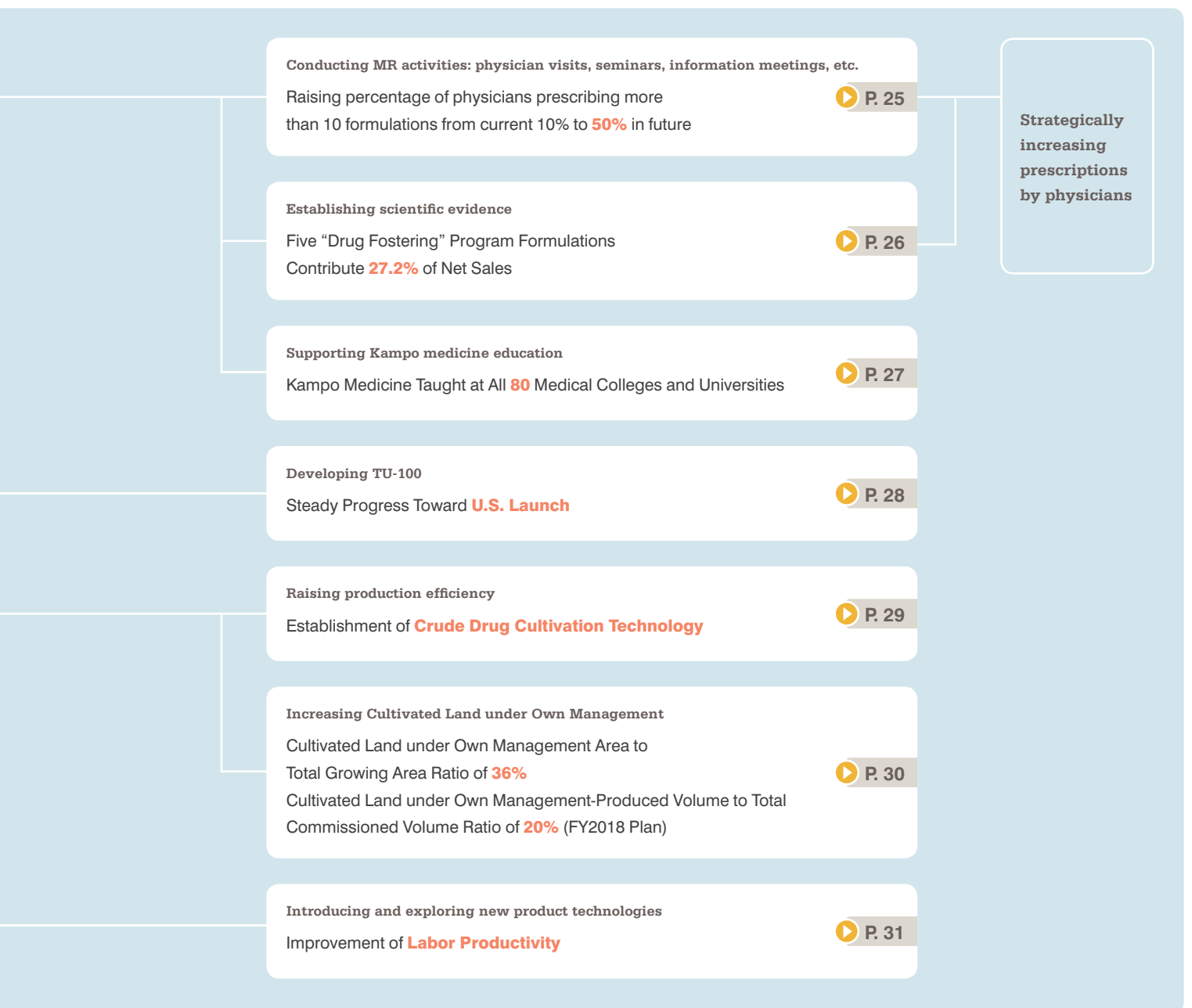
Review of Operations

Tsumura's long-term business vision (Vision 2021) is to "Aim to be a value-creation company that contributes to people's health through its Kampo medicine business." In pursuit of that vision, the Company has formulated a first-stage medium-term management plan covering fiscal 2013 to fiscal 2016. The four-year plan is positioned as an important phase during which Tsumura will set a firm course toward attaining its long-term business vision, which is reflected in its theme "strengthening the growth base to achieve greater value creation." Guided by the first-stage medium-term management plan, Tsumura is implementing three strategic challenges—expanding the Kampo medicine market, enhancing earning power, and increasing corporate value by executing effective financial and capital policies.



In fiscal 2015, the third year of the first-stage medium-term management plan, Tsumura posted growth in net sales, but profits declined. For the past several years, the Company has faced soaring costs of raw material crude drugs and a progressive depreciation of the Japanese yen. Dealing with these harsh conditions has become an urgent issue. Still, even under these difficult circumstances, Tsumura has continued to achieve positive results in each of the measures it has been pursuing on a long-term basis. The Company intends to overcome its current issues over the medium term by further strengthening its operating base through the continuation of these long-term measures.

In the following section, we report on the measures and progress of the two strategic challenges especially related to the Kampo business—expanding the Kampo medicine market and enhancing earning power.

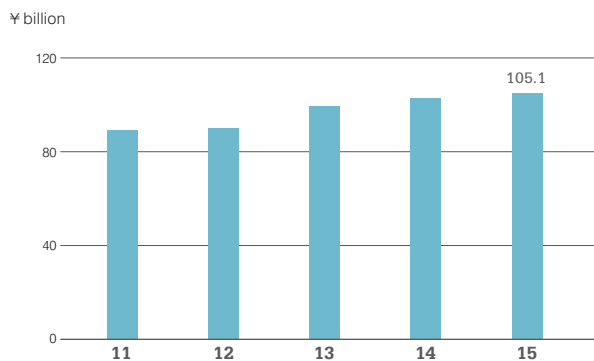


Trends in Pharmaceutical Kampo Product Sales and Profits

Pharmaceutical Kampo Product Sales

In fiscal 2015, the year ended March 31, 2015, net sales edged up 0.3% from a year earlier, to ¥110,438 million. Within this amount, sales of the 129 formulations of prescription Kampo products manufactured by Tsumura rose 2.4% from the previous fiscal year, to ¥105,193 million. A total of 81 of the 129 formulations registered year-on-year sales increases.

Sales of Prescription Kampo Products

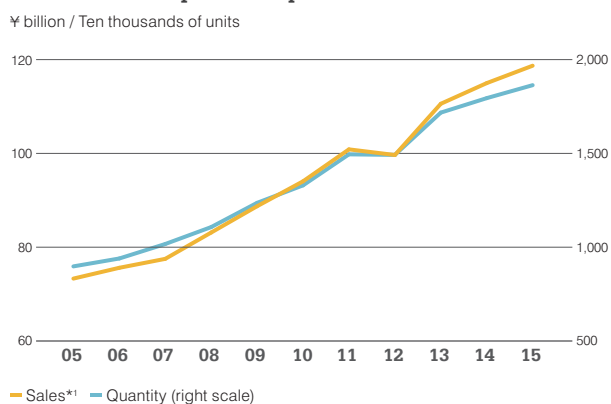


Actual Sales of Prescription Kampo Products

On a unit sales basis, actual sales by pharmaceutical wholesalers to medical institutions increased 3.7% year on year, to over 18.00 million units. Sales also increased on a monetary basis, rising 3.2%, to ¥118.7 billion. Tsumura's share of the overall market on a monetary basis remained the same as in fiscal 2014, at 84.5%.*1

*1 Copyright 2015 IMS Health. All rights reserved. Estimated based on "IMS JPM Mar. 2006 MAT- Mar. 2015 MAT." Reprinted with permission.

Sales and Quantity of Tsumura Prescription Kampo Products**2



— Sales*1 — Quantity (right scale)

**2 Actual sales and quantity: Represent sales and quantity from pharmaceutical distributors to medical institutions

Top 10 Kampo Products by Sales Amount

¥ million

Product name	Main effectively treatable disorders	FY2015	FY2014	Difference	YoY change
1 TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	9,993	9,785	207	2.1%
2 TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia, etc.	6,965	6,883	81	1.2%
3 TJ-54 (Yokukansan)	Neurosis / insomnia, etc.	6,895	6,628	267	4.0%
4 TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia, etc.	6,633	6,612	20	0.3%
5 TJ-68 (Shakuyakukanzoto)	Pain accompanying sudden muscle spasms, etc.	4,440	4,179	261	6.2%
6 TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance	4,285	4,264	21	0.5%
7 TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	4,178	3,996	181	4.5%
8 TJ-107 (Goshajinkigan)	Leg pain / low back pain / numbness / dysuria, etc.	3,814	3,812	2	0.1%
9 TJ-114 (Saireito)	Swelling (edema) / acute gastroenteritis, etc.	3,308	3,343	-34	-1.0%
10 TJ-1 (Kakkonto)	Common cold / coryza / shoulder stiffness, etc.	2,986	2,680	305	11.4%
— TJ-14 (Hangeshashinto)	Stomatitis / fermentative diarrhea / neurotic gastritis, etc.	1,230	1,181	48	4.1%
Total sales of 129 prescription Kampo products		105,193	102,680	2,513	2.4%

Specialist Medical Representative Activities and Physician Network

Use of Prescription Kampo Products by Physicians

Kampo products are widely used in the healthcare workplace in today's Japan. It is estimated that about 90% of Japan's physicians have prescribed Kampo products for their patients. According to a 2011 survey*³, the average number of different Kampo products prescribed by the respondent physicians who actually prescribe Kampo products was 8.5 products. The figure compares with 7.8 products in a previous survey done in 2008.

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

MR Activities

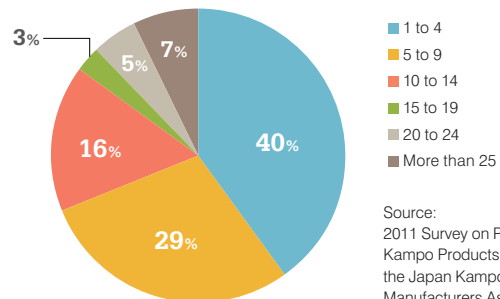
Tsumura is strengthening the marketing approach of its MRs for physicians-in-training at designated hospitals for clinical training and university hospitals. During the two-year period of fiscal 2014 and fiscal 2015, the Company focused its MR activities on holding study groups for physicians-in-training as well as Kampo medicine and product information meetings for all medical specialty departments. Screening each medical facility by needs, Tsumura will begin refining its approach in fiscal 2016 to implement even more-effective MR activities going forward.

Increase in Physicians Prescribing Kampo Products and in Product Prescriptions

With the needs of physicians diversifying, Tsumura is providing Kampo product information on its other 124 formulations besides the five "drug fostering" formulations that have driven prescription expansion in the past. The Company is using a disorders and symptoms differentiated approach that focuses on disorders or symptoms for which Kampo products will most likely be effective and proposes a few specific formulations to physicians. Tsumura's policy will be to enhance the precision of the information being provided by MRs and increase the number of physicians prescribing more than 10 formulations (Please refer to pages 16 and 17).

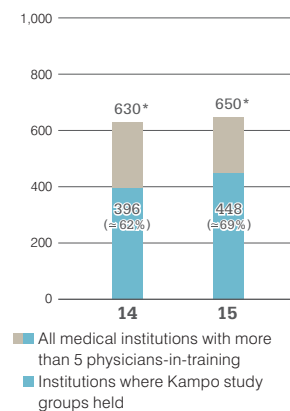
Number of Types of Kampo Products Prescribed by Physicians

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



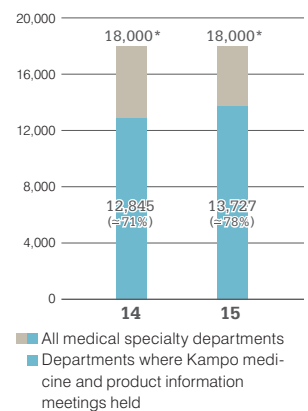
Kampo Study Groups / Information Meetings

Medical institutions



* Approximate figures

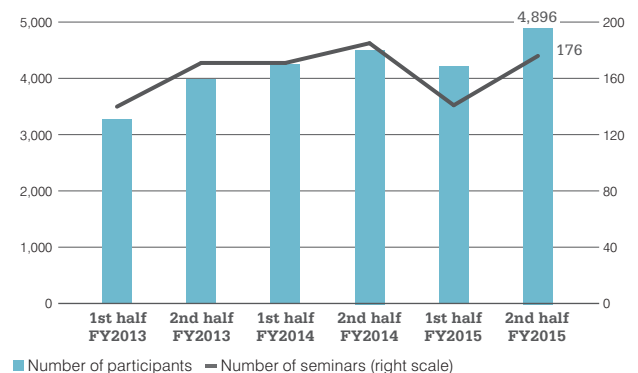
Medical specialty departments



* Approximate figures

Kampo Medicine Seminars

People / Times



Drug Fostering and Evolution of Kampo Program Progress

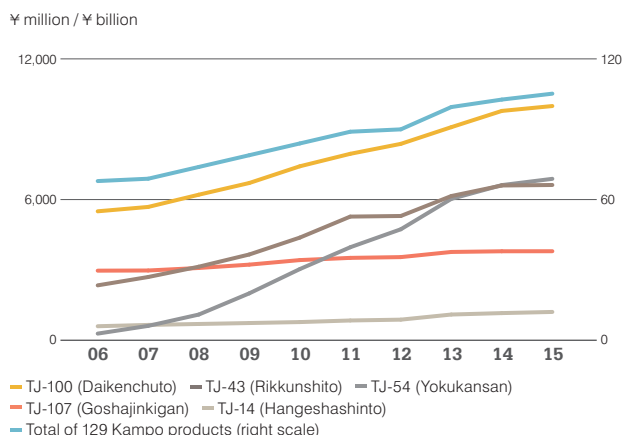
“Drug Fostering” Program Formulation Sales

Although sales growth rates slowed compared with the previous fiscal year, sales of the five prescription Kampo formulations in the program—TJ-100 (Daikenchuto), TJ-43 (Rikkunshito), TJ-54 (Yokukansan), TJ-107 (Goshajinkigan), and TJ-14 (Hangeshashinto)—continued to increase. Among the five formulations, sales of TJ-14 (Hangeshashinto) posted the highest growth, at 4.1%, followed by TJ-54 (Yokukansan), at 4.0%, and TJ-100 (Daikenchuto), at 2.1%. Sales of the top seller, TJ-100 (Daikenchuto), climbed to ¥9,993 million and generated 9.5% of Tsumura’s total prescription Kampo product sales.

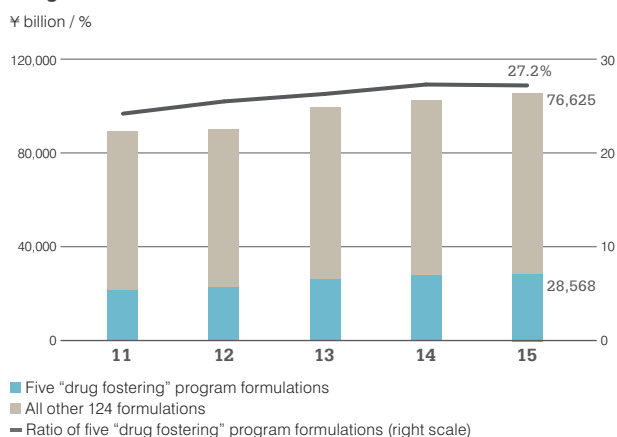
Expanding Sales Contribution of “Drug Fostering” Program Formulations

In the past, sales of the “drug fostering” program formulations drove growth in overall prescription Kampo products. However, in fiscal 2015, in comparison with the 2.4% increase in the total sales of Tsumura’s 129 prescription Kampo products, sales growth of the five “drug fostering” program formulations was held to a small increase of 2.0%. Despite the decline in growth, the sales contribution of the five “drug fostering” program formulations remained high, at 27.2%.

Sales of “Drug Fostering” Program Formulations



Sales Contribution of Five “Drug Fostering” Program Formulations



Five “Drug Fostering” Program Formulations

Name	Expected efficacy	Significance to program
TJ-100 (Daikenchuto)	Improves abdominal bloating from illness such as post-operative 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)	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 modern drugs.	Elucidating special characteristics of multiple ingredient based Kampo medicine and correlation to MOA.
TJ-54 (Yokukansan)	Improves behavioral and psychological symptoms of dementia such as delusions, hallucinations, anxiety, insomnia, and other disorders.	Researching the medical and economic contribution of Kampo medicine to medicine and medical treatment in an aged society.
TJ-107 (Goshajinkigan)	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 medicine in oncology and other advanced medical treatment fields.
TJ-14 (Hangeshashinto)	Mitigates mucosal damage (diarrhea and oral inflammation) resulting from anticancer drugs and other causes.	

Establishing Kampo Medicine

Supporting Kampo Medicine Education in Medical Colleges and Universities

To establish Kampo medicine, Tsumura has been supporting Kampo medicine education for medical students at all 80 medical colleges and universities in Japan since 1997. As a result of setting three objectives for its medical education support activities in 2001, the Company achieved its overall goal of Kampo medical education being implemented at all medical colleges and universities in Japan in 2004. These programs have now become well established.

National Medical Examination as a Symbol of Establishment of Kampo Medicine

One of the goals the Company has been aiming for in implementing support programs for Kampo medicine education has been the inclusion of questions on Kampo medicine included in the Japanese national examination for medical practitioners, which is the standard examination for licensing both Western and Kampo medicine physicians in Japan.*⁶ Since 2001, there has been steady progress in the status of Kampo medicine in Japan following the Ministry of Education, Culture, Sports, Science and Technology's announcement of its "medical education model core curriculum," which includes a requirement for Kampo medicine.

⁶ Inclusion of questions on Kampo medicine included in the Japanese national examination for medical practitioners: 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

- At least eight Kampo medicine courses required for graduation
- Setting up Kampo medicine outpatient clinics*⁴ at university hospitals
- Having medical schools established Kampo medicine lecturer development systems*⁵

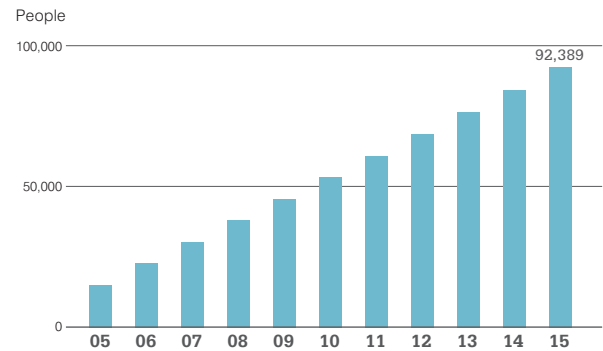
FY2015 Record

- Implemented at 72 medical schools
- Implemented at 79 medical schools hospitals
- Implemented at all 80 medical schools

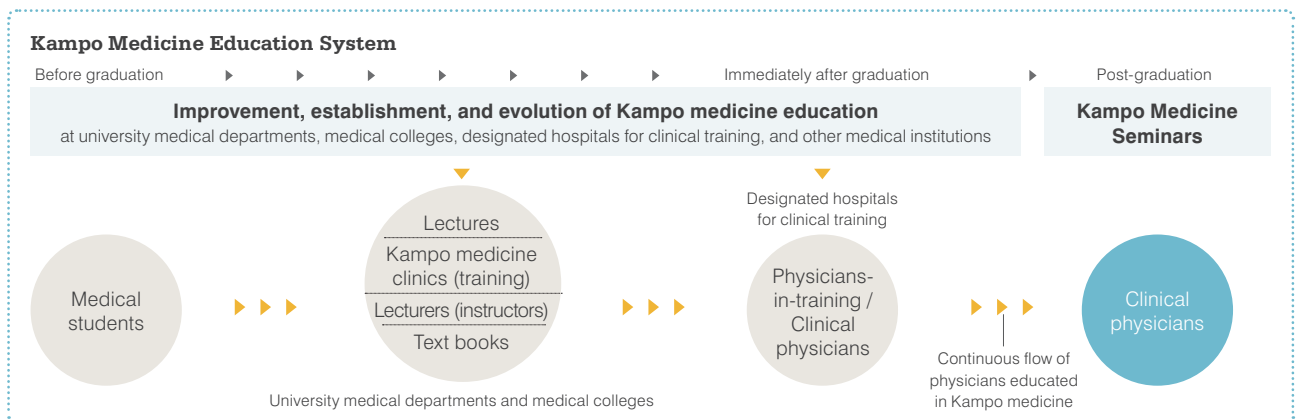
⁴ Outpatient clinics that provide Kampo medicine-based diagnoses and treatment

⁵ Fostering education administrators within medical colleges and universities that promote Kampo medicine programs

Cumulative Total of Physicians Passing the National Examination for Medical Practitioners⁷



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



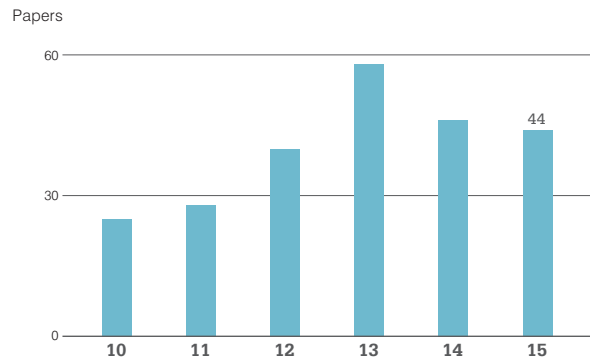
Internationalizing Kampo Medicine

Kampo Medicine Related Research Growing

The body of scientific evidence on the efficacy of Kampo products continues to grow. Many English-language scientific papers have been published reflecting the heightened interest overseas. In Japan, these highly reputable scientific papers have influenced physicians in designated hospitals for clinical training and in medical specialty fields. The papers have been deepening these physicians' understanding of Kampo medicine as an EBM⁸, especially for the "drug fostering" formulations. This greater acceptance should subsequently contribute to growth in the number of Kampo product prescriptions.

8 Evidence-based medicine

Kampo Medicine Related Papers Published

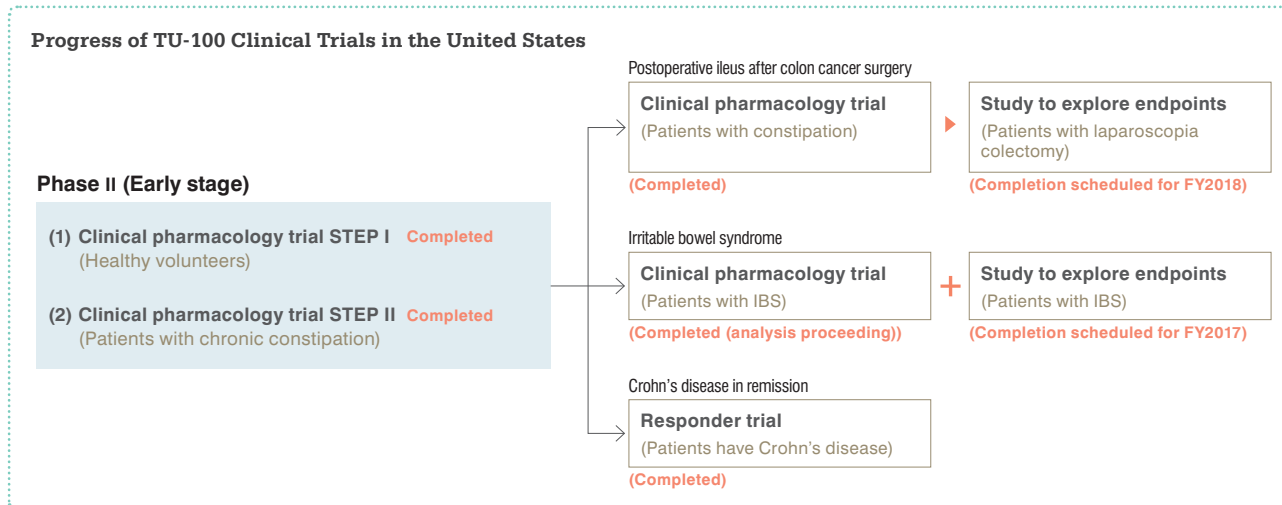


TU-100 (Daikenchuto) Clinical Trials in the United States

Tsumura has its sights set on introducing Kampo products to the U.S. market and setting the global standard for botanical drug product quality management. Toward those goals, the Company has been proceeding with U.S. clinical trials for TU-100 (Daikenchuto), the product in our "drug fostering" program for which our body of scientific evidence is most advanced. The clinical trials are progressing smoothly. After the currently under way endpoint search clinical trial is completed, Tsumura plans to begin the last stage of Phase II clinical tests.

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



Stable Procurement of Crude Drugs and Increasing Production Efficiency

Procuring Crude Drugs and Expanding Cultivated Land under Own Management

Tsumura is expanding its Cultivated Land under Own Management*⁹ to secure the stable procurement of raw material crude drugs in volumes appropriate for the anticipated continued steady growth in demand for Kampo products. Specifically, the Company is planning to increase the ratios of Cultivated Land under Own Management-produced volume to total commissioned volume and of Cultivated Land under Own Management area to total growing area to 20% and 36%, respectively, by March 31, 2018.

9 Farms with a certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices

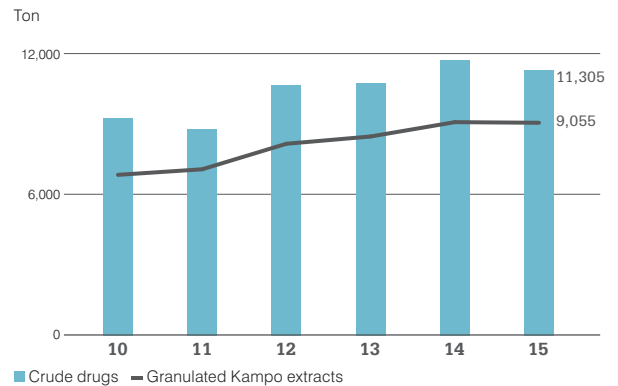
Price Stabilization of Crude Drugs

Crude drug prices have been rising dramatically in China, where Tsumura sources approximately 80% of its crude drugs as a result of such factors as the growth in crude drug demand, the poor weather conditions, and speculative investment. Crude drug prices began to soar in 2011, followed by a spike in ginseng prices in 2013, and are anticipated to continue to rise. In 2015, the Company expects procurement prices to increase because of the increased proportion of high-priced ginseng and other crude drugs. However, Tsumura's policy will be to better control procurement prices for raw material crude drugs by expanding its Cultivated Land under Own Management.

Developing Cultivation Technology for Crude Drugs

Ginseng is currently the main cause of the Company's rising crude drug prices. Accordingly, Tsumura concluded a memorandum of understanding (MOU) on the joint development of cultivation technology for ginseng with the municipality of Baishan in Jilin Province, China in 2011. Through the provision of cultivation, quality control, and production management knowledge and technology, Tsumura is aiming to develop large-scale ginseng cultivation operations going forward. Sourcing ginseng from this cultivation area is expected to contribute to better controlling procurement prices.

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 as 100



Cultivating ginseng

Review of Operations

Achievements and Plans for Cultivated Land under Own Management

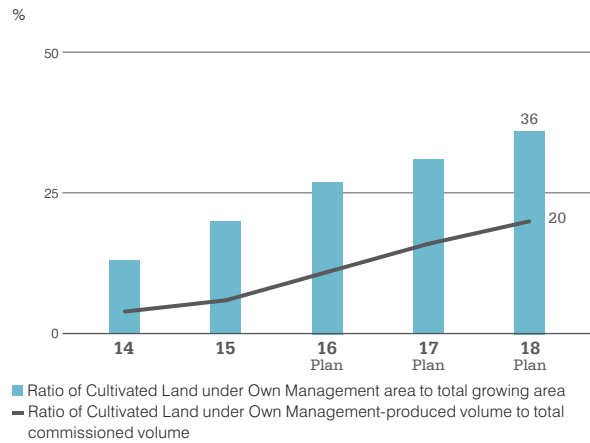
Tsumura is aiming to control its crude drug procurement prices and ensure stable supplies through the expansion of Cultivated Land under Own Management areas. Expansion is proceeding favorably at the Company's operations in Japan, China, and Laos. As a result, following an expected peak in crude drug procurement prices in fiscal 2017, Tsumura expects to steadily bring crude drug prices under control going forward.

YUBARI TSUMURA has been the Company's largest-scale crude drug production base in Japan since its establishment in July 2009. In December 2014, Tsumura converted the subsidiary into an agriculture production corporation. The Company also extended its functions, establishing a comprehensive production base encompassing cultivation as well as sorting, processing, and storage. In future, Tsumura plans to further enhance the efficiency of its cultivation methods by pursuing large-scale mechanization and research on the cultivation of crude drugs that have never been artificially cultivated (Please refer to page 32).

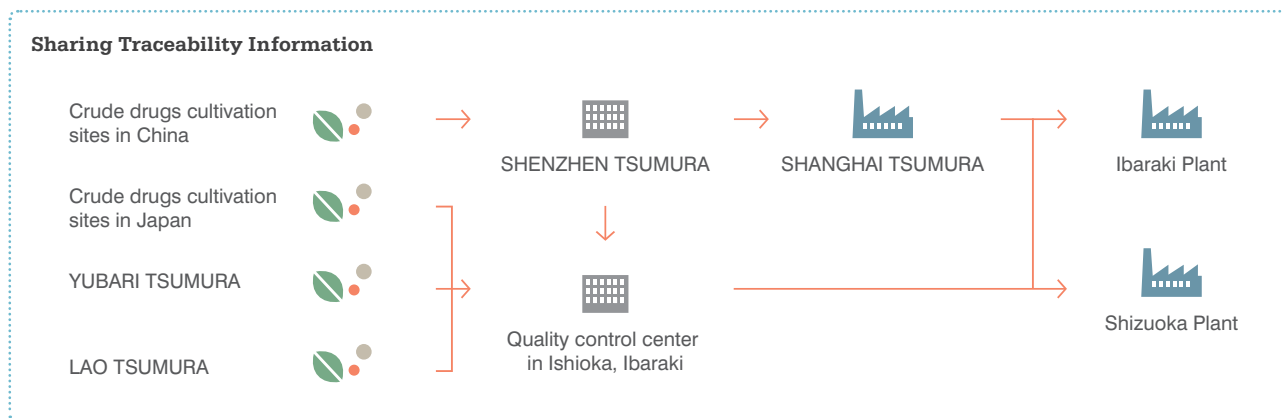
Traceability System Ensures Stable Supply of High-Quality Crude Drugs

Tsumura procures its raw material crude drugs from a wide-range of production bases in Japan and overseas. Consequently, it is critical to control the quality of the raw material crude drugs and ensure their stable supply. To enable those functions, the Company has established a traceability

Cultivated Land under Own Management Performance and Plan



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. Maintaining this database allows Tsumura to trace and confirm information on all its crude drug supply.



Introduction of New Manufacturing Systems

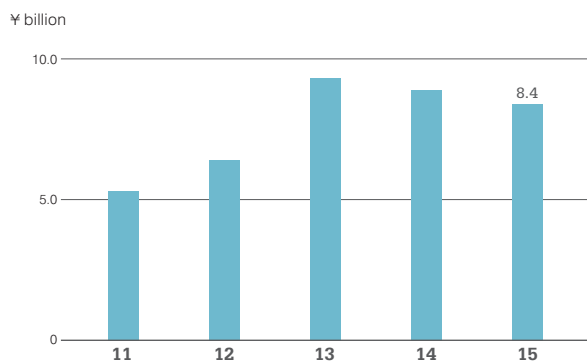
Capital Investment for Sustained Growth

Taking market conditions into consideration, Tsumura is making strategic capital investments to expand its production capacity to enable it to meet future growth in demand. The Company's three main production bases are in Shizuoka and Ibaraki prefectures in Japan and in Shanghai, China. In February 2014, Tsumura introduced a new granulation system at the Ibaraki Plant. The Company also has plans to make further capital investments in the Shizuoka and Ibaraki plants at some point in fiscal 2017 or thereafter.

Reducing Manpower and Energy Consumption to Improve Production Efficiencies

In addition to the previously mentioned capital investments in plant and equipment to improve basic production capabilities, Tsumura is proceeding with measures to reduce manpower and conserve energy. Processes such as the transport and processing of large amounts of raw materials and the reversal and movement of heavy objects in the production process have almost been fully automated.

Capital Expenditures



From insertion into the washer, container rotation, and transfer into the dryer, the whole process is done by robots

Capital Investment Plan

Phased capital investment in accordance with sales

		First-Stage Medium-Term Management Plan			Second Plan	
		FY2013	FY2014	FY2015	FY2016	FY2017 and after
Production-related	Shizuoka Plant	Capital investment project				
		New granulation and packaging facilities, etc.				★
		New crude drug warehouse		May		
		SD line-related				★
Ibaraki Plant		New granulation facility	February			
		New standard-based facilities, etc.				★
STP (Shanghai)	SD facility		October			
Production, other	Development / maintenance / renewal	→				
Crude drug related	Ishioka	Ishioka Center reconstruction	January			
	STM (Shenzhen)	Warehouse	March			
	Yubari	Yubari Tsumura building				★
	Crude drugs, etc.		→			

★ Scheduled start of operations

Frequently Asked Questions

Tsumura places high priority on communicating with shareholders and 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 investors received through our investor relations (IR) activities.

Q.

Kampo medicine is drawing an increasing amount of attention from around the world. Is there a possibility that competitors overseas, such as in China or Korea, will enter the prescription Kampo product market in Japan?

A.

The nature of prescription Kampo products manufactured by Tsumura is very different to the botanical drugs made by overseas producers. In addition, because Tsumura has established an advanced value chain that ensures the quality of its products, the possibility of new competitors from Japan or overseas entering the market is extremely low.

Recently, there has been a movement toward the international standardization of crude drugs and related medicine. However, the possibility of botanical drug manufacturers from China, Korea, or other countries entering the Japanese market is extremely low. The reason is that factors such as the medical system and product quality on which Tsumura's Kampo products depend are on a different level than those for overseas botanical drug manufacturers. Moreover, the establishment of an advanced value chain essential to manufacturing and supplying high-quality Kampo products creates a barrier to market entry.

Although China was the origin of the traditional medicines of Japan, Korea, and China, the development of traditional medicine has proceeded independently in Japan. The medical systems, drugs, and formulations of traditional medicines in China and Korea are of an extremely different nature. For that reason, the crude drug mixtures, diagnostic methods, and other elements of the botanical drugs popular in China and Korea are different than those of Kampo medicines in Japan. Moreover, operating in Japan's Kampo product market requires having evidence of efficacy and

building a network with physicians. As a result, entering and subsequently expanding operations in the Japanese market would not be an easy task.

Furthermore, Tsumura has gone to great lengths to rigorously manage every step of its value chain to provide stable supplies of a wide range of high-quality Kampo products. The value chain begins with raw material crude drug procurement and encompasses powdered extract production, quality assurance, and logistics. Through the construction of this proprietary value chain over many years, Tsumura has accumulated advanced technologies and know-how at each stage of its operations. In doing so, the Company has built an overwhelming market position that is unassailable by any other company, either from Japan or overseas.

Q.

Would you please tell me about your progress with Cultivated Land under Own Management*¹, one of Tsumura's measures to control crude drugs procurement prices?

A.

The expansion of Cultivated Land under Own Management is proceeding favorably in Japan, China, and Laos. In December 2014, with the conversion of our subsidiary YUBARI TSUMURA into an agriculture production corporation, Cultivated Land under Own Management operations also got underway full-scale in Japan.

With the aim of controlling crude drug procurement prices and further stabilizing procurement, we are expanding raw material crude drug cultivation on Cultivated Land under Own Management areas in Japan, China, and Laos. We procure approximately 80% of our raw material crude drugs

from China. In that country, our subsidiary SHENZHEN TSUMURA MEDICINE is an extremely important base, providing the four functions of procurement, sorting, processing, and storage. The subsidiary also is responsible for the expansion and management of Cultivated Land under Own Management in all regions of China. Among other operations, the subsidiary conducts research on reducing production costs through mechanization and on improving such factors as yields and quality. It also contributes to the preservation of the wilderness.

Laos supplies Tsumura with 5% of its raw material crude drugs. The Company began cultivation on Cultivated Land under Own Management in the country when it established LAO TSUMURA in February 2010. The subsidiary started with only 150 ha of Cultivated Land under Own Management, which has since expanded to approximately 770 ha as of March 2015. The subsidiary is mainly cultivating crude drugs that are appropriate for warm climates and is moving forward toward achieving stable supplies.

In Japan, where we procure 15% of Tsumura's raw material crude drugs, we have Cultivated Land under Own Management areas located mainly at six major cultivation bases around the country. Established in July 2009 to strengthen the procurement of raw material crude drugs, YUBARI TSUMURA became an agriculture production corporation in December 2014. In addition, the subsidiary has expanded its capabilities to function as a comprehensive production base, from crude drug cultivation to formulation processing and storage. It is working on large-scale mechanization of its Cultivated Land under Own Management and collaborating with its commissioned cultivators of raw materials for crude drugs. The subsidiary is also conducting research on methods of improving cultivation efficiency.

By expanding Cultivated Land under Own Management areas in Japan, China, and Laos, we plan to increase the ratio of Cultivated Land under Own Management produced volume to total commissioned volume and the ratio of Cultivated Land under Own Management area to total growing area from 6% and 20%, respectively, at March 31, 2015 to 20% and 36% by March 31, 2018.

¹ Farms with a certain scale of cultivation area for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices

Q.

More than 80% of your raw material crude drugs come from abroad. How are you dealing with the impact of the depreciation in the yen currency rate?

A.

In the short term, we are using forward exchange contracts to manage the exchange rate fluctuation risk. To deal with this issue in the long term, we will enhance our earning power by expanding the Kampo medicine market and by lowering our cost rate through cost cutting.

Tsumura procures over 80% of its raw material crude drugs overseas from China, Laos, and other countries. As a result, the higher procurement costs caused by the weaker yen hamper the Company's profit growth. To address this issue, Tsumura is using forward exchange contracts to hedge exchange rate fluctuation risk. By fixing the yen exchange rate using these measures, we have been able to avoid exchange rate losses and secure future cash flows. The measures have also allowed Tsumura to have a clear view of its future direction.

These measures contribute to avoiding any impact of the depreciation of the yen on the Company's performance in the short term. However, from a medium- to long-term perspective they cannot offer Tsumura any guarantee that its earning power can be increased. The Company recognizes that, in the medium- to long-term, both sales growth and cost reductions will be essential to enhance its earning power and increase corporate value. Sales must be expanded based on the growth of the Kampo medicine market and the cost rate must be lowered by reducing costs. To do so, we will work steadily on "strengthening the growth base," the strategic challenges set out in our first-stage medium-term management plan. Moreover, we will endeavor to control the costs and manage the inventories of raw material crude drugs by expanding the previously mentioned Cultivated Land under Own Management areas. Through these measures, we plan to enhance our earning power.

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.

Establishing a Body of Evidence

Guided by the new R&D policy, Tsumura is concentrating its research efforts on five formulations in its endeavor to establish a body of scientific evidence for the efficacy of Kampo products. Taking into consideration the recent structure of disease, the Company is targeting prescription Kampo products that demonstrate special efficacy in patients with disorders for which the use of new drugs is difficult or for which there are strong medical needs. In addition to gathering basic data through its own research, Tsumura is building a collaborative R&D network by supporting the work of medical research specialists who gather and analyze basic and clinical data.

For one of the five formulations mentioned previously, Tsumura has implemented a program to develop the formulation as a prescription drug for the U.S. market and launch it (Please refer to page 28). The Company is working to achieve efficient R&D in the program by linking its results in Japan with its development drive in the United States.

Contributing 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, the Company's efforts over more than 10 years have borne fruit in terms of the successful establishment of cultivation technologies for licorice and ephedra herb. As rare species, the Chinese government has restricted exports of both licorice and ephedra herb grown in the wild. Therefore, the shift to cultivated forms will have an extremely large impact on the stable procurement of these raw material crude drugs for Tsumura.

Similarly, because of the concern about soaring prices for ginseng (Please refer to page 29), Tsumura concluded a memorandum of understanding with the municipality of Baishan in Jilin Province, China in 2011. Through the provision of cultivation, quality control, and production management knowledge and technology, Tsumura and the municipality are cooperatively working toward the development of large-scale ginseng cultivation operations.

Quality control for Kampo products is an important issue throughout the Kampo value chain. Accordingly, Tsumura implements various measures at each stage of the value chain. At the cultivation and procurement stage, the Company provides guidance to farmers on cultivation technology. In addition, Tsumura has developed technology to differentiate all crude drugs on a DNA level. Moreover, procured raw material crude drugs are tested for residual agricultural chemicals, microorganisms, and heavy metals at SHENZHEN TSUMURA MEDICINE in China and at the Analytical Technology Center in Japan. Quality remains an important

Kampo Efficacy Scientific Evidence (DB-RCT & Safety)

Formulation	Targeted disorder	Institution in-charge	Public announcements, etc.
TJ-100 Daikenchuto	Postoperative ileus after liver cancer surgery	Tokushima University, other 30 institutions	Published in International Journal of Clinical Oncology
	Postoperative ileus after colon cancer surgery (main trial)	Kitasato University, other 64 institutions	Adopted for Japanese Journal of Clinical Oncology
	Postoperative ileus after colon cancer surgery (supplemental trial)	Fujita Health University, other 19 institutions	Paper submitted
	Postoperative ileus after gastric cancer surgery	Oita University, other 43 institutions	Adopted for Journal of the American College of Surgeons
	Paralytic ileus after pancreatic cancer surgery; JAPAN-PD Study	Wakayama Medical University, other 10 institutions	Paper submitted
	Gastrointestinal dysfunction after liver transplant; DKB-14 Study	Kyoto University, other 14 institutions	Case collection ongoing Aug. 2014 – May 2016
TJ-54 Yokukansan	Intractable schizophrenia	Shimane University, other 33 institutions	Published in Psychopharmacology
	Intractable schizophrenia (long-term trial)	Shimane University and other	Case collection ongoing Nov. 2014 – Oct. 2016
	BPSD	Tohoku University, other 21 institutions	Paper submission in preparation
	Autism spectrum disorder (ages 6-17)	Shimane University, other 4 institutions	Case collection ongoing Jan. 2015 – Dec. 2016
	Headaches due to drug abuse	Saitama Medical University, other 4 institutions	Case collection ongoing Jan. 2015 – Dec. 2016
TJ-43 Rikkunshito	Intractable gastroesophageal reflux disease; G-PRIDE Study	Osaka City University, other 75 institutions	Published in Journal of Gastroenterology Published in BMC Gastroenterology (additional analysis)
	Functional dyspepsia (FD); DREAM Study	Osaka City University and other	Case collection ongoing Apr. 2014 – Mar. 2016
	Functional dyspepsia (FD); clinical pharmacological trials	University of Leuven	Trial in preparation Oct. 2014 – Jun. 2016
	Anorexia from chemotherapy for lung cancer; RICH Study	Fukushima Medical University	Case collection ongoing Nov. 2014 – Oct. 2016
TJ-107 Goshajinkigan	FOLFOX treatment peripheral neuropathy; GONE Study	Asahikawa Medical University, other 16 institutions	Published in Cancer Chemotherapy and Pharmacology
	FOLFOX treatment peripheral neuropathy; GENIUS Study	Kyushu University, other 43 institutions	Published in International Journal of Clinical Oncology (online)
TJ-14 Hangeshashinto	Oral inflammation from chemotherapy for stomach cancer; HANGESHA-G Study	Kanagawa Cancer Center, other 14 institutions	Published in Cancer Chemotherapy and Pharmacology
	Oral inflammation from chemotherapy for colon cancer; HANGESHA-C Study	National Hospital Organization Osaka National Hospital, other 18 institutions	Adopted for Cancer Chemotherapy and Pharmacology
TJ-54 Yokukansan	Frequency investigation of adverse drug reactions	—	Package insert revision in Nov. 2014
TJ-68 Shakuyakukanzoto	Frequency investigation of adverse drug reactions	—	Analysis proceeding

* Shakuyakukanzoto is not a product of the "drug fostering" program

focus at the manufacturing stage as well, with Tsumura complying with GMP*¹ and Kampo GMP standards for manufacturing Kampo products. Since Japan became a member of PIC/S*² on July 1, 2014, Tsumura is now aiming to further raise the advanced level of its technology. The Company is working toward compliance with the PIC/S GMP international standards.

1 Good Manufacturing Practice. These are standards for the manufacture and quality control of pharmaceuticals. The standards are set by the Minister of Health, Labour and Welfare in accordance with the Act Concerning the Quality, Efficacy, and Safety of Pharmaceuticals, Medical Devices, and Other Therapeutic Products (Pharmaceutical and Medical Device Act).

2 The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme. 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.

Creating Shared Value

BUSINESS AND SOCIAL VALUE CREATED THROUGH RAW MATERIAL CRUDE DRUG CULTIVATION RESEARCH

Tsumura's Kampo business could not exist without the crude drugs that serve as the raw material ingredients for Kampo products. For this reason, the Company is engaged in cultivation research to ensure that a stable and sustainable supply of raw material crude drugs can be secured. In this section, we will illustrate the business and social value that is created through raw material crude drug cultivation research from the perspectives of a researcher in this field.

Obstacles to Stable Procurement of Raw Material Crude Drugs

Tsumura is committed to providing a stable supply of high-quality prescription Kampo products. With regard to the quality of the crude drugs used as raw materials, we adhere to the specifications described in the Japanese Pharmacopoeia and have also developed rigorous internal standards. Crude drugs whose active ingredients fail to meet these specifications and standards cannot be used as raw materials. However, as crude drugs are organic materials, quality and production volume can vary dependent upon the weather and other environmental conditions. As such, it is crucial for the Company to research crude drug cultivation methods and pursue ongoing improvements in these methods in order to secure a stable supply of high-quality raw material crude drugs.

Tsumura imports roughly 80% of the raw material crude drugs it uses from China. The price of these imported raw materials has been rising over the past several years due to a number of factors, including increased demand, irregular weather patterns, and the emergence of speculative investment cornering market activities. This situation has made it necessary to conduct raw material crude drug cultivation research aimed at limiting price increases as well as research for the purpose of expanding the range and volume of crude drugs produced in Japan.

Realization of Stable Quality, Improved Productivity, and Stable Prices

Since joining Tsumura in 2008, Mayumi Otake, who works in the Botanical Raw Materials Research Laboratories of the Botanical Raw Materials Division, has been active in efforts to secure a stable supply of raw material crude drugs. To this end, she has pushed forward with her research, creating improvements to crude drug cultivation techniques while seeking out methods of cultivating wild-grown medicinal plants. In Otake's own words, "There are three important areas requiring improvement with regard to the stable procurement of crude drugs."

The first area is ensuring a stable quality of crude drugs. Otake describes her research in the following manner, "Specifically, we are working to uncover the factors that influence the quality of crude drugs to make sure that the active ingredient content is always up to standard. Crude drugs differ from agricultural crops in that if the content of active ingredients does not meet standards, then a crude drug material cannot be used in Kampo products. Active ingredient content cannot be determined based on outward appearance; therefore it is necessary to analyze the content of crude drugs at several points during the cultivation process in order to identify the factors that affect this variable."

The second area is securing a sufficient production volume. In comparison to standard agricultural products, efforts to improve cultivation techniques for crude drug raw materials are still lacking, and, even today, the primary



Otake glimmering with pride at the opportunity to conduct crude drug cultivation research in a field that no one else has explored before

cultivation method predominately involves manual labor. The introduction of machines that can be used for cultivation processes, such as planting and harvesting, is a necessary step toward realizing large-scale cultivation operations and subsequently higher production volumes. Another major obstacle in expanding the production volume was created by the introduction of the positive list system*, which severely limited the range of agricultural chemicals that can be used in growing crude drugs. Otake says the following about this situation, “It is necessary to conduct test screenings on agricultural chemicals to determine if a particular chemical is harmful to certain crude drugs or if it will impact

quality. We are currently prioritizing the screening of chemicals for use with the crude drugs we currently produce, such as Japanese Angelica Root (*Angelicae Radix*) and Bupleurum Root (*Bupleuri Radix*), as well as for crude drugs we plan to cultivate in the near future.”

The third area is to limit increases in the price of crude drugs, which must be done while also ensuring consistent quality and securing a sufficient production volume. The price of crude drugs has proven consistently high in China. In response, Tsumura has been taking steps to expand its Cultivated Land under Own Management. Procuring crude drugs from this type of Company-managed land enables us to maintain an understanding of the cost structure associated with cultivation, and thereby set crude drug prices accordingly. For this reason, we aim to increase the volume of drugs procured from Cultivated Land under Own Management in order to stabilize prices. Going forward, Tsumura will reinforce its crude drug cultivation systems through cooperation with Cultivated Land under Own Management operators in China and Laos as well as the domestic contracted-cultivation organizations located in six prefectures, such as Hokkaido and Kochi, which serve as the Company’s principal domestic production bases.

* Positive list system: The positive list system was introduced in conjunction with the 2006 revision of the Food Sanitation Act. This system was designed to eliminate threats to people’s health from factors such as residual agricultural chemicals contained in food products. To this end, the system established residual content standards for all agricultural chemicals, feed additives, and veterinary drugs based on international standards. The Ministry of Agriculture, Forestry and Fisheries has subsequently formulated application standards for the Agricultural Chemicals Control Act in accordance with these residual content standards. The use of agricultural crops or chemicals not listed in these application standards is prohibited.

Coordination with Contracted-Cultivation Organizations in Japan

Cultivation sites located in Hokkaido, Iwate, Gunma, Kochi, Wakayama, and Kumamoto prefectures serve as Tsumura's principal domestic production bases, and we are working to expand production of crude drugs in Japan through efforts at these bases. Efforts on this front are steadily moving forward. In July 2009, we established a subsidiary in Yubari City, Hokkaido Prefecture, which was later converted into an agricultural production corporation in December 2014, signifying the start of full-fledged agricultural facility operations. With regard to coordination with contracted-cultivation organizations, Otake states, "Crude drug cultivation research would not be possible without the cooperation of contracted-cultivation organizations in Japan."

Commencing cultivation research requires that we first find appropriate cultivation sites. Cultivation tests are conducted with the cooperation of the cultivation organizations that provide site candidates. These organizations assist with cultivation management tasks, such as weeding and applying fertilizer, as well as with monitoring the development of the crude drugs, including helping to track the appearance of pests. Otake offers an example of this cooperation, "These organizations share their knowledge with researchers in laboratories to help us develop cultivation methods that match the particular region. In areas with frequent typhoons, for example, they helped us find a way to prevent Bupleurum Root plants from toppling over due to strong winds, namely constant pruning to limit the height of plants."



Otake with a member of a contracted-cultivation organization whose support is indispensable to cultivation research

Cultivation Research on Wild-Grown Medicinal Plants

In addition to cultivation on farms, crude drugs are also procured by harvesting wild-grown medicinal plants. Today, a large number of crude drugs can be cultivated on farms, but there used to be several raw material crude drugs that only grew in the wild. For example, we used to rely almost entirely on wild-grown plants in China for the procurement of licorice, which is used in approximately 70% of Tsumura's Kampo products. To address this issue, the Company commenced a joint research project with the Beijing University of Chinese Medicine in 2001, and in 2011 we jointly succeeded in cultivating licorice with glycyrrhizic acid content of 3.5%, higher than the level of 2.5% dictated by Japanese pharmaceutical standards. With regard to the cultivation



research currently underway, Otake says, “Our top priority is research regarding the cultivation of licorice and other wild-grown medicinal plants. While we have succeeded in cultivating licorice, it is still necessary to continue research going forward in order to further improve cultivation techniques. Of a particularly high priority are crude drugs for which we are still completely reliant on wild-grown plants as well as those for which exports out of China are restricted.”

Social Value from Crude Drug Cultivation Research

Cultivation research creates business value by allowing for the stable procurement of crude drugs. However, it also generates various types of social value.

By enabling wild-grown medicinal plants to be cultivated, we can help prevent such plants from being over-harvested. In addition, cataloging the ecological conditions related to a particular crude drug can contribute to the protection of natural resources, and thereby aid in preserving the environment. With regard to the environmental preservation benefits of crude drug cultivation research, Otake explains that, “For example, large-scale cultivation operations can create issues with regard to the contamination of groundwater, lakes, and marshes from the use of fertilizer. However, if we can determine the optimal amount of fertilizer for each crude drug being produced, we can limit the impact on these water bodies.” She continues, “Crude drug cultivation research can also help stimulate local agricultural industries and improve the efficiency of the tasks performed by agricultural workers.” It is possible to utilize agricultural land more

effectively by making a clear distinction between regions in which machinery can be introduced to create large-scale cultivation operations and low upland regions, where cultivation work primarily consists of light-labor tasks. In addition, reducing the labor requirements of cultivating crude drugs can alleviate the burden on older agricultural workers. This is of utmost importance considering the increasingly high average age of workers in Japan’s agricultural industry and the issues this presents. Furthermore, we are helping remove the barriers preventing people with disabilities from performing agricultural work to assist in creating employment opportunities for them.

In closing Otake offers her thoughts for the future, “It can take 20 to 30 years to reap the benefits of crude drug cultivation research. It is therefore incredibly important to take a long-term perspective when formulating test plans. Sometimes it requires patience, but, at the same time, this work can be very appealing knowing that you are a pioneer in a field that no one has explored before. In the future, we will work to remove one of the largest obstacles preventing the realization of domestic cultivation: the rise in costs due to the manual labor requirements. In this undertaking, we will collaborate with manufacturers from other industries, such as those related to machinery for agricultural or food production. I hope to accelerate these efforts going forward.”

Creating Shared Value

Cultivation of Understanding of Kampo Medicine's Benefits for Women

Throughout their lives, women experience substantial changes in their living conditions and hormonal balance. It is not uncommon for some women to experience physical and mental distress due to a disrupted hormonal balance, which can result in slight deterioration in physical condition or in emotional disorders, including depression.

Kampo medicine has long been known as a form of medical treatment that is particularly effective at resolving the unique issues faced by women. This is because Kampo medicine practices entail looking at a patient's ill body as a whole, rather than focusing only on the illness itself. This approach allows physicians to provide treatments that consider both the physical and mental state of female patients. It is for this reason that Kampo medicines are commonly used in obstetrics and gynecology departments as well as for women's outpatient care services.

Tsumura aims to cultivate an understanding of Kampo medicine's benefits for women among medical practitioners and the general population. To this end, we conduct Kampo medicine seminars and sponsor other related events aimed at women throughout Japan. These information-provision activities will be continued on into the future as we strive to use Kampo medicine to support the health of as many women as possible.

Drive to Spread Understanding among Dementia Patients and Their Families of Kampo Medicine's Ability to Treat Dementia

In 2012, it was calculated that approximately 4.6 million people, and one in seven people over the age of 65, suffered from dementia in Japan.* As the population continues to age, the rising number of dementia patients will become an ever-more pressing issue.* Addressing this issue is particularly urgent considering the heavy burden that can be placed on family members or nursing care professionals looking after dementia patients that also exhibit troublesome associated behaviors, such as wandering, hallucinations, and sleep disorders.

TJ-54 (Yokukansan), one of Tsumura's five "drug fostering" program formulations, has been shown effective in preventing some of these troublesome associated behaviors due to its ability to alleviate aggravation and agitation.

Looking ahead, while the overall population of Japan is expected to decrease, the number of senior citizens is projected to rise. We believe that Tsumura's Kampo business has the potential to contribute to an improved quality of life for both dementia patients, through treatment, and for family members, nursing care professionals, and other caregivers by reducing their burden. Based on this recognition, we are actively distributing information on the benefits of Kampo medicines in preventing troublesome dementia-associated behaviors through dementia-related events and lectures with the aim of making such contributions going forward.

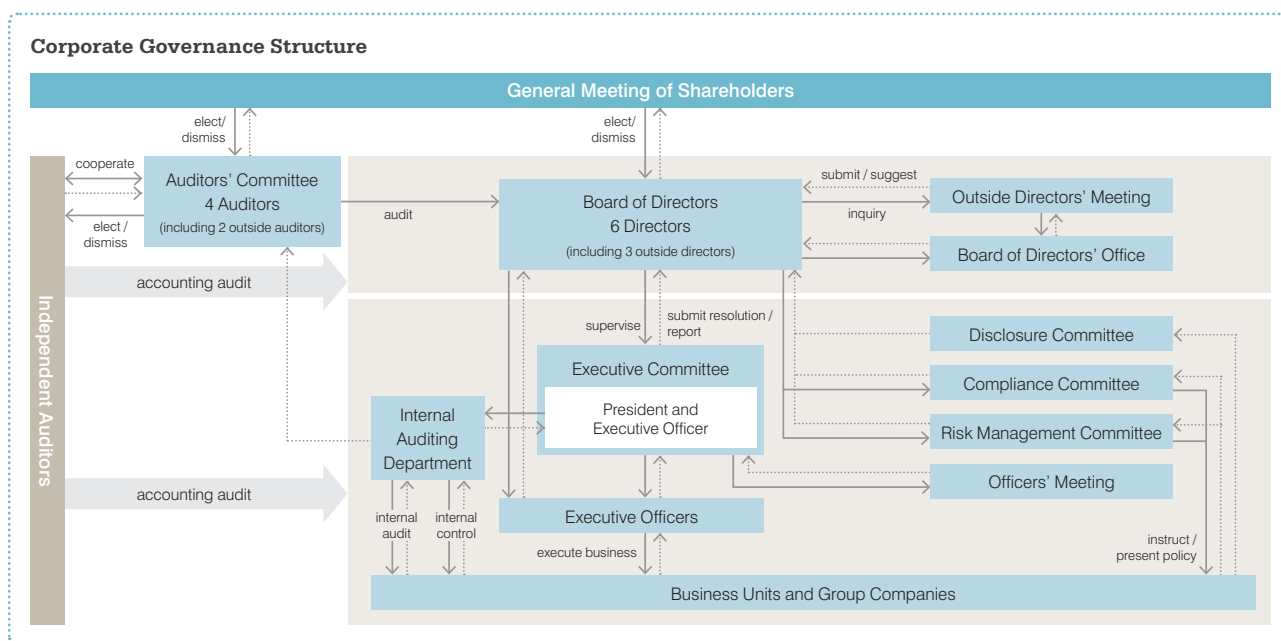
* Health and Labour Sciences Research Grants (General Research on Measures against Dementia), "The Proportion of People with Dementia in Cities and Measures for Dealing with Dementia's Daily Living Functional Disorders," March 2013.



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 fulfilling our social responsibilities based on our corporate philosophy of “the Best of Nature and Science.”



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.

Members of the Outside Directors' Meeting: 3

Auditors

Auditors monitor the decision-making processes of the Board of Directors and the Board of Directors' execution of operations by attending Board of Directors' meetings and other important meetings, holding periodic meetings with

the members of the Executive Committee, reviewing documents related to important decisions, and, as necessary, conducting hearings with directors and other corporate officers on business operations.

Auditors' Committee

The Auditors' Committee, comprising all appointed auditors, determines auditing policies based on the Auditors' Committee's regulations, pertinent laws, and Tsumura's articles of incorporation. Also, the Auditors' Committee forms its audit opinion by integrating all auditor reports.

Number of auditors: 4 (including 2 outside auditors)

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 process by deliberating and deciding important items related to operational execution with regard to general management.

Members of the Executive Committee: 4

Corporate Governance

Directors and Auditors



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

Name
Position
Number of Company shares owned
(As reported in Fiscal 2015 Financial Report)

Directors

Terukazu Kato

President and Representative Director
President and Executive Officer

11,200 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

15,400 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

17,200 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 1981.

Shigeru Sugimoto

Director (Outside Director)

1,400 shares

Has served as director of the Company since June 2012 and supervisory officer of Hulic Reit, Inc., since November 2013. In addition, served as representative of Sakura Horwath Audit Corporation since July 1988.

Kenichi Matsui

Director (Outside Director)

— shares

Appointed 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 executive vice president, representative director since June 2010.

Yayoi Masuda

Director (Outside Director)

— shares

Appointed 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, she served in various leadership roles specializing in the field of human resources, including a leading role on the Global Leadership Planning and Development team at Levi Strauss & Co. (the U.S.), and the head of the Asia-Pacific Human Resources Department of Nike, Inc. (the U.S.).

Auditors

Terunari Nakayama

Standing Auditor

10,800 shares

Appointed auditor 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 Auditor

10,300 shares

Appointed auditor 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

Auditor (Outside Auditor)

— shares

Appointed outside auditor 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

Auditor (Outside Auditor)

— shares

Appointed outside auditor of the Company in June 2015. Has served as president of the Kiyomi Haneishi Certified Public Accountancy since September 2013. After joining Ohta Showa Ernst and Young (now Ernst & Young Tax Co.) in 1993, moved to Sakura Horwath & Co. in 1997. After registering as a 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 auditors under Japanese law
Annual number of board of directors' meetings	21 times
Board of directors' meetings attended by outside directors	21 times
Annual number of board of auditors' meetings	24 times
Board of auditors' meetings attended by outside auditors	Mr. Tomiji Yusa (24 times) Ms. Seiko Noda (22 times)
Board of directors' meetings attended by outside auditors	Mr. Tomiji Yusa (21 times) Ms. Seiko Noda (18 times)
Audit corporation	Ernst & Young ShinNihon LLC
Audit corporation compensation	¥45 million

Corporate Governance

Reinforcing Governance with a New Structure

To reinforce the Board of Directors' supervisory function, the Company has added two outside directors; it now comprises three inside directors and three outside directors. Furthermore, to clarify the business execution function of executive officers, the Company has assigned responsibility for business execution to executive officers with specific titles, putting in place an organization capable of responding

promptly to changes in the operating environment, making swift and optimal decisions, and executing operations. The Company has newly established the Officers' Meeting, comprising executive officers, to promote thorough efficiency in operational execution through the sharing of information. Going forward, we will continue working to augment management transparency, efficiency, and soundness.

Reasons for Appointment of Outside Directors and Outside Auditors

Name	Reason for Appointment
Shigeru Sugimoto (Outside Director)	Mr. Sugimoto has extensive experience and insight as a certified public accountant, real estate appraiser, and tax accountant. The Company judges that he will sufficiently fulfill such roles as making important management decisions and supervising the execution of business for the Company.
Kenichi Matsui (Outside Director)	Mr. Matsui has extensive experience and insight as a corporate manager, developed over many years. The Company judges that he will sufficiently fulfill such roles as making important management decisions and supervising the execution of business for the Company.
Yayoi Masuda (Outside Director)	Ms. Masuda has extensive experience and insight, developed over many years in a foreign-capitalized company. The Company judges that she will sufficiently fulfill such roles as making important management decisions and supervising the execution of business for the Company.
Kuniko Ouchi (Outside Auditor)	Ms. Ouchi has extensive experience and specialized insight as an attorney. The Company judges that she will reflect this expertise in her audits of the Company.
Kiyomi Haneishi (Outside Auditor)	Ms. Haneishi, a certified public accountant and certified tax accountant, has extensive insight into financial and accounting matters. The Company judges that she will reflect this extensive experience and insight as a certified public accountant and tax accountant in her audits of the Company.

Messages from the Outside Directors

Shigeru Sugimoto

Three years have passed since I joined Tsumura as an outside director. During this time, the environment surrounding corporate governance has undergone drastic change. In my eyes, Tsumura has been extremely responsive in responding to these changes. The strength of Tsumura's business, in my opinion, lies in how the business of manufacturing and selling prescription Kampo products represents a unique business model. However, due to the highly specialized nature of this business, making it difficult to compare against the business models of other companies, Tsumura could run the risk of failing to effectively respond to changes in the operating environment in a timely manner. Such changes can result, for example, in previously effective internal controls losing their effectiveness. The key to appropriately responding to environmental changes related to internal control is no doubt the people in internal control organizations. In closing, I believe that a core organizational strength of Tsumura is that its corporate philosophy—The Best of Nature and Science—has been disseminated and embraced throughout the Company. This gives me high expectations for Tsumura going forward.

Kenichi Matsui

Tsumura is in the process of undertaking a drastic reform of its management systems. By strengthening operational execution systems to reinvigorate managerial efficiency and appointing half of the directors on the Board of Directors as outside directors, Tsumura has reaffirmed its stance toward further enhancing its corporate governance. This move, I believe, was taken to earn the increased support and understanding of an even wider group of stakeholders, thereby facilitating the rapid growth of the Company's Kampo business going forward. I, in my capacity as an outside director, will work to support Tsumura in this endeavor while focusing on three points. The first point is whether or not Tsumura is remaining true to its corporate philosophy and corporate mission. The second is whether management is contributing to improved corporate value or not. The third, and final point, is whether or not the tangible and intangible benefits of Tsumura's growth are being shared equitably with its shareholders, employees, and all of its other stakeholders. Going forward, I would like to work together with the employees of Tsumura to pursue the Company's ambitious goals in the current difficult operating environment.

Yayoi Masuda

Effective June 2015, I have been appointed by Tsumura as one of three independent directors of the Board. My role will be to use my broad business experience in addition to my professional expertise to bring an external perspective, thoughtful debate and objective oversight to leadership discussions and decisions with the goal of transparency, sustainable corporate growth, and increasing shareholder value.

For over 15 years I have held various senior Human Resource leadership roles with global organizations in the US and other countries, after 10 years of business experience in Japan. My career has spanned local, regional and global roles, resulting in deep experience and insight into organizational challenges such as collaboration across boundaries, global talent development, and cross-cultural competence. For the last 5 years, I have consulted to and advised CEOs and the executive teams of local and multi-national companies in Japan. The areas of focus included strengthening their senior leadership and developing succession plans, facilitating globalizing of their organizations through culture change, and ultimately, increasing their corporate value. I look forward to leveraging my experience and expertise to support the future growth of Tsumura.

Corporate Governance

Director and Auditor Compensation

Category	Total compensation (¥ in millions)	Breakdown of total compensation				Number of directors compensated
		Basic	Stock options	Incentive	Severance	
Directors (excluding outside directors)	316	316	—	—	—	9
Auditors (excluding outside auditors)	47	47	—	—	—	2
Outside directors and outside auditors	24	24	—	—	—	3

Method of Determining Director and Auditor Compensation

Compensation for individual directors is decided by resolution of the Board of Directors within the scope determined by the General Meeting of Shareholders, based on the Board of Directors' Compensation Regulations and

taking into overall account of such factors as director rank, operating performance, and employee salary levels.

Compensation for individual auditors is decided through deliberation among the auditors, within the scope determined by the General Meeting of Shareholders.

Other Management Systems

Item	Details
Compliance	<p>The Company formulated the Tsumura Compliance Program, including the Tsumura Code of Conduct, as the basic business practice rules for compliance in its business activities. Based on this program, the Company is carrying out continuous and systematic compliance activities, including compliance education.</p> <p>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.</p> <p>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.</p> <p>To promote compliance, the Company has established a hierarchy of compliance staff—the chief compliance officer, a director in charge of compliance, compliance officers, and compliance supervisors, as well as the compliance office (the Compliance Control Department). These compliance-related employees and bodies are responsible for establishing the Group's compliance system, educating employees about it, and spreading its use. In addition, the director in charge of compliance (the Head of the Compliance Control Department) determines the status of Group initiatives and reports periodically to the Board of Directors.</p>
Internal Control	<p>The Company has established the Disclosure Committee to boost its information disclosure efforts based on strengthening its internal control system for information disclosure. The purpose of the committee is to consider appropriate information disclosure based on relevant laws and regulations and to increase the quality and transparency of information disclosure by clarifying the responsibility of those involved.</p>
Risk Management	<p>The Company has decided basic guidelines regarding risk management by the Group and created the Risk Management Rules to support their effective implementation.</p> <p>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.</p> <p>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 (the Head of the General Affairs Department).</p> <p>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.</p>

FINANCIAL SECTION

- 48** Eleven-Year Selected Financial Data (Unaudited)
- 50** Management's Discussion and Analysis
- 56** Consolidated Balance Sheets
- 58** Consolidated Statements of Income /
Consolidated Statements of Comprehensive Income
- 59** Consolidated Statements of Changes in Net Assets
- 61** Consolidated Statements of Cash Flows
- 62** Notes to the Consolidated Financial Statements
- 78** Report of Independent Auditors

FINANCIAL SECTION
Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries
Years ended March 31

¥ in million	2015	2014	2013
For the year			
Net sales	¥110,438	¥110,057	¥ 105,638
Cost of sales*1	41,859	38,787	35,927
Gross profit	68,578	71,269	69,711
Selling, general and administrative expenses	49,087	48,808	46,586
Operating income	19,491	22,461	23,124
Income before income taxes and minority interests	20,078	28,118	24,062
Net income	14,075	18,050	15,373
At year-end			
Inventories	¥ 50,716	¥ 43,424	¥ 35,565
Property, plant and equipment, net	60,624	57,148	50,657
Long-term liabilities	23,339	9,126	9,448
Total liabilities	64,706	54,305	51,929
Total net assets*2	150,947	133,318	118,537
Total assets	215,654	187,623	170,466
Other selected data			
Capital expenditures for property, plant and equipment	¥ 8,424	¥ 8,991	¥ 9,328
R&D expenses	6,252	5,949	4,904
Depreciation	5,387	4,871	4,049
Free cash flow	(5,691)	4,214	3,988
Cash flows from operating activities	4,992	5,908	12,011
Cash flows from investing activities	(10,683)	(1,694)	(8,022)
Cash flows from financing activities	10,408	(4,575)	(4,275)
Cash and cash equivalents, end of year	19,343	14,418	13,762
Per share data (yen)			
Net income	¥ 199.58	¥ 255.94	¥ 217.98
Dividends	64.00	64.00	62.00
Net assets*2	2,103.04	1,860.14	1,658.88
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	62.1%	64.8%	66.0%
Selling, general and administrative expenses	44.4	44.3	44.1
Operating income	17.6	20.4	21.9
Income before income taxes and minority interests	18.2	25.5	22.8
Net income	12.7	16.4	14.6
ROE	10.1	14.5	14.1
ROA	9.7	12.5	14.3
Current ratio	310.6	240.6	222.5

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 and prior years are net shareholders' equity.

	2012	2011	2010	2009	2008	2007	2006	2005
	¥ 95,450	¥ 94,778	¥ 90,933	¥ 90,016	¥ 94,799	¥ 91,227	¥ 90,419	¥ 84,837
	29,944	29,435	28,518	29,028	31,609	29,438	28,000	26,522
	65,505	65,342	62,414	60,987	63,190	61,788	62,419	58,314
	44,271	43,789	43,475	44,504	47,369	46,282	45,951	46,351
	21,233	21,553	18,938	16,483	15,820	15,505	16,467	11,962
	22,448	21,058	18,710	17,940	14,605	21,261	14,726	8,548
	13,431	12,945	10,704	10,777	9,139	13,152	12,380	10,401
	¥ 30,570	¥ 22,057	¥ 22,335	¥ 19,810	¥ 19,651	¥ 17,073	¥ 16,468	¥ 15,655
	44,869	42,154	40,857	38,754	40,251	41,289	48,497	47,702
	8,093	8,587	8,773	8,970	14,440	21,400	26,287	32,354
	49,633	50,394	50,944	52,855	62,734	73,760	79,482	83,040
	102,240	91,154	83,752	73,968	72,411	69,618	54,625	38,824
	151,874	141,549	134,697	126,824	135,146	143,378	135,158	122,674
	¥ 6,425	¥ 5,264	¥ 5,237	¥ 5,479	¥ 3,124	¥ 3,906	¥ 4,090	¥ 2,441
	4,565	4,123	3,770	3,958	4,368	4,829	4,856	5,372
	3,850	3,453	3,225	3,298	3,396	2,777	2,761	2,782
	1,972	5,232	5,864	7,293	1,309	23,521	12,144	3,311
	7,314	12,047	12,019	10,634	5,358	12,687	14,593	5,063
	(5,342)	(6,815)	(6,155)	(3,341)	(4,049)	10,834	(2,448)	(1,752)
	(5,272)	(3,355)	(5,085)	(6,354)	(7,419)	(13,071)	(8,964)	(10,456)
	13,906	17,198	15,318	14,596	13,718	19,812	9,326	6,018
	¥ 190.45	¥ 183.55	¥ 151.77	¥ 152.80	¥ 129.57	¥ 186.43	¥ 173.62	¥ 145.81
	60.00	58.00	46.00	34.00	23.00	17.00	14.00	12.00
	1,430.94	1,274.06	1,175.04	1,037.76	1,015.46	970.50	772.34	548.39
	68.6%	68.9%	68.6%	67.8%	66.7%	67.7%	69.0%	68.7%
	46.4	46.2	47.8	49.4	50.0	50.7	50.8	54.6
	22.2	22.7	20.8	18.3	16.7	17.0	18.2	14.1
	23.5	22.2	20.6	19.9	15.4	23.3	16.3	10.1
	14.1	13.7	11.8	12.0	9.6	14.4	13.7	12.3
	14.1	15.0	13.7	14.9	13.0	21.3	26.5	30.7
	14.5	15.6	14.5	12.6	11.4	11.1	12.8	9.7
	207.8	189.1	173.8	157.2	142.3	133.7	107.7	106.9

Management's Discussion and Analysis

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.

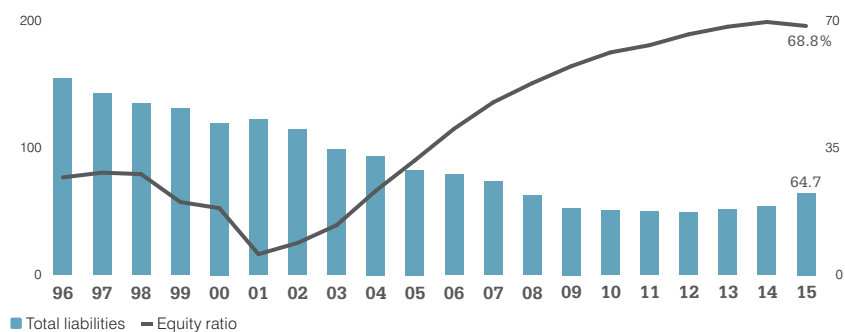
This news was followed by the announcement of a warning about using the product in 1991. Although the frequency of occurrence of interstitial pneumonia caused by treatment with TJ-9 (Shosaikoto) was low compared with Western drugs, the public's confidence was shaken because it was commonly believed that 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 medicines 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,

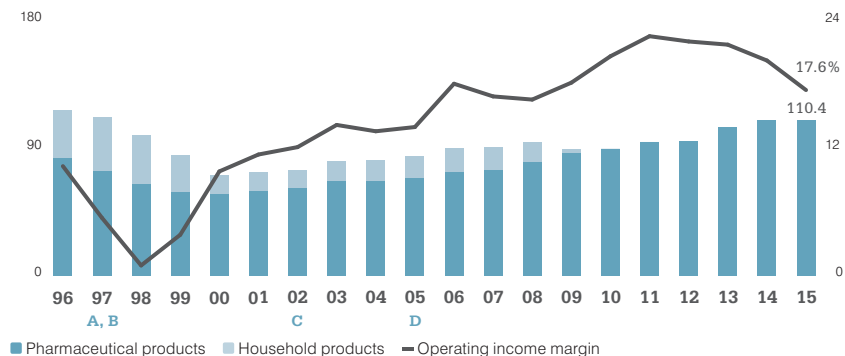
Total Liabilities / Equity Ratio

¥ billion / %



Net Sales / Operating Income Margin

¥ billion / %



- 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 medicine 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. We also used to have 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

	2015	2014
Net sales	¥110,438	¥110,057
Gross profit	68,578	71,269
Gross profit margin	62.1%	64.8%
Operating income	¥ 19,491	¥ 22,461
Operating income margin	17.6%	20.4%
Net income	¥ 14,075	¥ 18,050

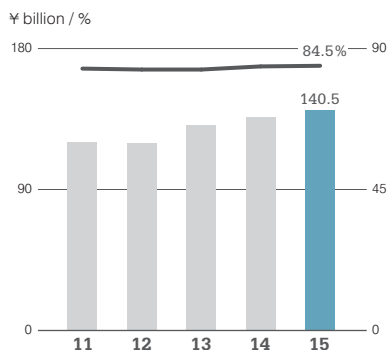
Net Sales

During the fiscal year under review, the year ended March 31, 2015, the business environment of the prescription Kampo product market remained difficult. There was no change in the Japanese government’s policy of curtailing medical care expenses, as it continued to implement such measures as revising official drug prices in April 2014. Notwithstanding these difficult business conditions, Tsumura’s consolidated net sales increased 0.3% year on year, to ¥110,438 million. This increase was due in part to solid growth in sales of prescription Kampo products. Despite the negative impact of NHI drug price revisions and the consumption tax rate increase, total sales for Tsumura’s 129 prescription Kampo products rose 2.4% year on year, to ¥105,193 million, primarily reflecting an increase in sales of the five “drug fostering” program formulations.

Underlying the firm growth in prescription Kampo product sales was the steady progress we made in expanding the Kampo medicine market. During the fiscal year under review, we continued our efforts to further disseminate information related to Kampo medicine and Kampo products. We continued to improve our sales visits and consultation activities for physicians. In addition, we have been actively conducting seminars, lectures, study groups, and medical institution informational meetings related to Kampo medicine, which are aimed at physicians-in-training working at designated hospitals for clinical training.

Through double-blind, placebo-controlled clinical trials conducted at multiple institutions, we continued to move forward with clinical research on the five Kampo products featured in Tsumura’s “drug fostering” program—TJ-100 (Daikenchuto), TJ-43 (Rikkunshito), TJ-54 (Yokukansan),

Japanese Market Size for Prescription Kampo Products*

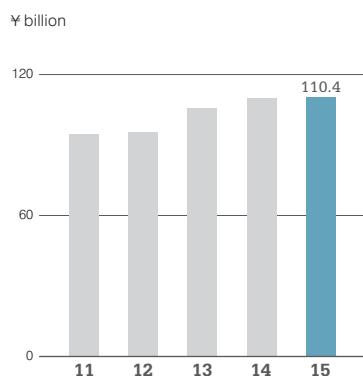


■ Overall market — Tsumura's share

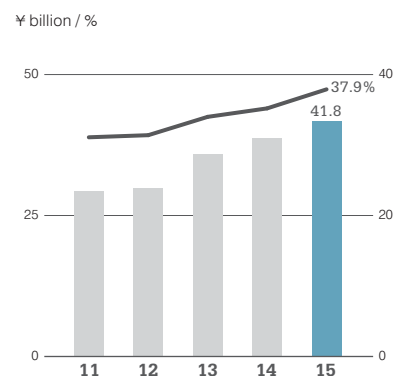
* NHI Listed Price

©2015 IMS Health. All rights reserved. Estimated based on "IMS JPM Mar. 2011 MAT- Mar. 2015 MAT." Reprinted with permission.

Net Sales



Cost of Sales / Cost of Sales Ratio



■ Cost of sales — Cost of sales ratio

FINANCIAL SECTION

TJ-107 (Goshajinkigan), and TJ-14 (Hangeshashinto)—as well as pharmacokinetic studies and basic research that supports the effectiveness of clinical research. In this way, we continued to establish additional quality scientific evidence on the efficacy and safety of these five Kampo products. Also during the fiscal year under review, we announced our research results at various academic conferences and published these results in research papers. In addition, thanks to the scientific evidence-based promotional activities carried out by our medical representatives (MRs), the reputation of our Kampo products continued to rise in various medical specialty fields. As a result, sales of the five “drug fostering” program formulations increased 2.0% year on year, which helped to drive growth in the overall sales of prescription Kampo products.

Cost of Sales

Cost of sales increased 7.9% year on year, to ¥41,859 million. This increase reflects a rise in the cost of certain crude drugs that are used as raw materials for our prescription Kampo products, which was brought about by increased demand and other reasons. As a result, the cost of sales ratio rose 2.7 percentage points year on year, to 37.9%. This worsening was brought about by NHI drug price revisions, the previously mentioned increase in certain crude drug costs, and the depreciation of the yen.

Selling, General and Administrative (SG&A) Expenses

Although selling, general and administrative (SG&A) expenses were lower than anticipated due to efforts to reduce costs, they increased 0.6% year on year, to ¥49,087 million. The SG&A expenses margin was almost equal to the prior-year level, worsening 0.1 of a percentage

point, to 44.4%. Among major SG&A expenses, sales rebate climbed 15.8%, to ¥9,155 million, and salaries and allowances edged up 0.6%, to ¥17,279 million. Meanwhile, sales promotion expenses decreased 5.1%, to ¥4,249 million.

Among other SG&A expenses, advertising cost fell 31.0%, to ¥669 million, while R&D expenses rose 5.1% from a year earlier, to ¥6,252 million. The rise in R&D expenses can be attributed to the “drug fostering” program, including intensified R&D efforts in the United States related to the development of TU-100 (Daikenchuto).

Major Expenses

¥ in millions	2015	2014
Personnel expenses	¥29,290	¥28,886
Sales promotion expenses	4,249	4,477
Advertising cost	669	969
R&D expenses	6,252	5,949

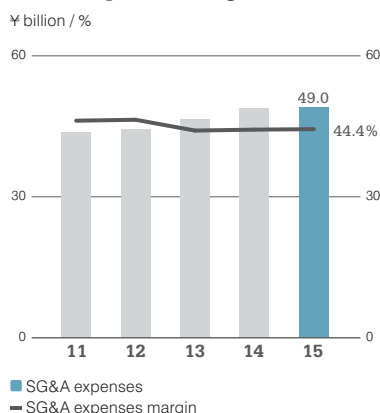
Operating Income

Operating income declined 13.2%, to ¥19,491 million. The operating income margin also declined 2.8 percentage points, to 17.6%.

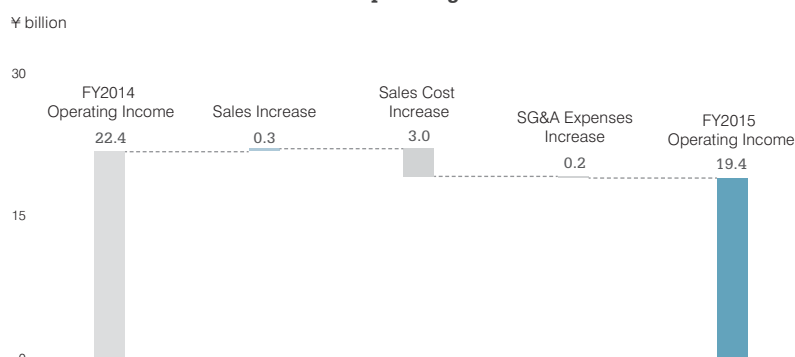
Net Income

Net income decreased 22.0%, to ¥14,075 million. This decrease was due to an extraordinary loss of ¥1,570 million recorded in the fiscal year under review as well as ¥973 million in impairment losses and a ¥217 million loss on valuation of investments in subsidiaries and affiliates, compared to a ¥4,416 million gain on sales of investment securities recorded in the previous fiscal year. This resulted in net income declining ¥3,975 million. As a result, net income per share decreased to ¥199.58, compared to ¥255.94 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

¥ in millions

	2015	2014
Cash flows from operating activities	¥ 4,992	¥ 5,908
Cash flows from investing activities	(10,683)	(1,694)
Cash flows from financing activities	10,408	(4,575)

Net cash provided by operating activities amounted to ¥4,992 million during the fiscal year under review, decreasing ¥916 million year on year. In addition to a decrease in income before income taxes and minority interests and the recording of impairment losses, there was an increase in expenses for the purpose of strategic procurement of raw material crude drugs, resulting in an increase in cash outflows.

Net cash used in investing activities amounted to ¥10,683 million, increasing ¥8,988 million from a year earlier. In addition to cash inflows decreasing due to the lack of proceeds from sales and redemption of investment securities recorded in the previous fiscal year, cash outflows increased due to the increase in payments of loans receivable and the purchase of property, plant and equipment.

Net cash from financing activities amounted to ¥ 10,408 million, increasing ¥14,984 million from the previous year. This increase was the result of a number of factors, including increased cash inflows from increased in long-term loans payable.

As a result, the balance of cash and cash equivalents at the end of the fiscal year under review was ¥19,343 million, an increase of ¥4,925 million from the beginning of the fiscal year.

Balance Sheet

Balance Sheet Data

¥ in millions

	2015	2014
Total assets	¥215,654	¥187,623
Total liabilities	64,706	54,305
Interest-bearing debt	37,080	22,088
Total net assets	150,947	133,318

Assets

Compared to the previous fiscal year-end, current assets grew ¥19,792 million, to ¥128,484 million. In addition to an increase in raw materials and supplies due to the rise in prices of some raw material crude drugs and the impact of foreign exchange rates, cash and time deposits, trade notes and accounts receivable, and inventories also increased year-on-year.

Long-term assets increased ¥8,237 million, to ¥87,169 million, reflecting increases in construction in progress and net defined benefit asset.

As a result of the above, total assets amounted to ¥215,654 million, an increase of ¥28,030 million from the previous fiscal year-end.

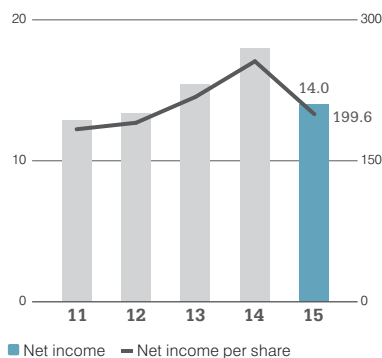
Liabilities

Current liabilities fell ¥3,812 million compared with the previous fiscal year-end, to ¥41,366 million, reflecting decreases in accrued income taxes and trade notes and accounts payable. Meanwhile, long-term liabilities increased ¥14,213 million, to ¥23,339 million, due to an increase in long-term loans payable. Interest-bearing debt increased ¥14,991 million, to ¥37,080 million.

Consequently, total liabilities at the end of the fiscal year increased ¥10,400 million from the prior fiscal year-end, to ¥64,706 million.

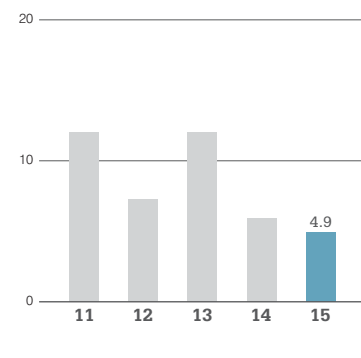
Net Income / Net Income per Share

¥ billion / ¥



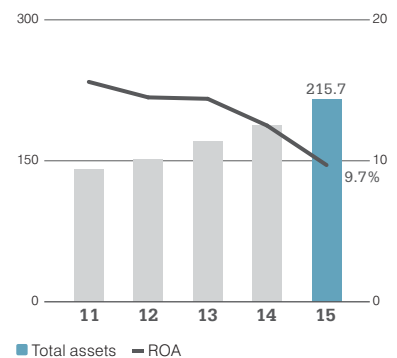
Cash Flows from Operating Activities

¥ billion



Total Assets / ROA

¥ billion / %



FINANCIAL SECTION

Net Assets

Total net assets amounted to ¥150,947 million at the fiscal year-end, increasing ¥17,629 million from a year earlier. The increase can be attributed to increases in retained earnings, deferred gain on hedges (net of taxes), translation adjustments, and unrealized holding gain on other securities (net of taxes).

Financial 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 ROE as a key performance indicator. In the fiscal year under review, net income decreased and—following an increase in retained earnings—shareholders' equity increased. As a result, ROE fell 4.4 percentage points from a year earlier, to 10.1%. ROA declined 2.8 percentage points, to 9.7%. The equity ratio fell 1.1 percentage points year on year, to 68.8%, while the debt-to-equity ratio increased from 0.41 times at the previous fiscal year-end to 0.44 times. Going forward, Tsumura will remain committed to continuing its efforts to thoroughly implement efficient operations and strengthen its financial structure.

Currently, the Company is moving forward with reforms to its manufacturing cost structure, and plans to allocate the cash generated from operating activities to capital and other investment to support future growth, such as improving the productivity of existing facilities and introducing new manufacturing technologies. At the same time, Tsumura places importance on returning profits to shareholders. For that reason, the Company's policy is to achieve stable dividend payments after taking into consideration capital investment, consolidated performance, and the dividend payout ratio. For the fiscal year under review, Tsumura paid

a total annual dividend of ¥64.0 per share, and the dividend payout ratio rose 7.1 percentage points, to 32.1%.

Financial Policy and Dividend Policy

%	2015	2014
ROE	10.1%	14.5%
ROA	9.7	12.5
Equity ratio	68.8	69.9
Debt-to-equity ratio (times)	0.44	0.41

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 26 June, 2015.

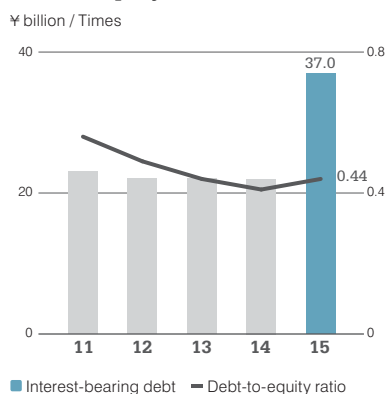
(1) Medical system

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.

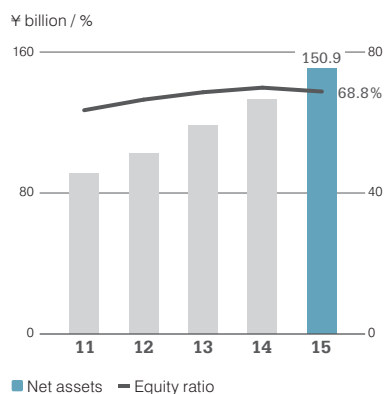
(2) Competition

In Japan, we have long maintained a dominant position in the field of prescription Kampo products, which is the

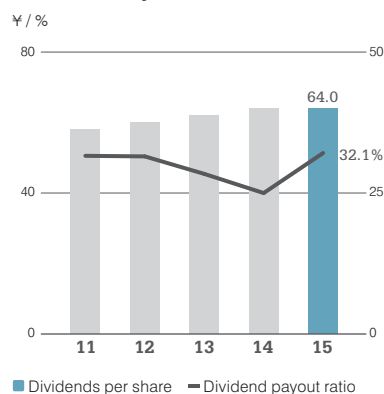
Interest-Bearing Debt / Debt-to-Equity Ratio



Net Assets / Equity Ratio



Dividends per Share / Dividend Payout Ratio



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 the above 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.

FINANCIAL SECTION
Consolidated Balance Sheets

 TSUMURA & CO. and consolidated subsidiaries
 March 31, 2015 and 2014

	¥ in millions		US\$ in thousands (Note 2)
	2015	2014	2015
ASSETS			
Current assets:			
Cash and time deposits (Notes 4 and 13)	¥ 19,379	¥ 14,445	\$ 161,268
Trade notes and accounts receivable (Note 4)	42,142	39,553	350,693
Less allowance for doubtful receivables	(4)	(3)	(34)
Inventories (Note 5)	50,716	43,424	422,036
Deferred tax assets (Note 8)	284	1,654	2,364
Other current assets	15,965	9,618	132,860
Total current assets	128,484	108,692	1,069,188
Investments and other assets:			
Investments in non-consolidated subsidiaries and affiliates (Note 4)	2,197	2,349	18,285
Investment securities (Notes 3 and 4)	16,547	15,842	137,699
Net defined benefit asset (Note 9)	1,123	–	9,351
Deferred tax assets (Note 8)	33	26	279
Other assets	6,436	3,357	53,563
Less allowance for doubtful accounts	(2)	(4)	(21)
Total investments and other assets	26,336	21,572	219,156
Property, plant and equipment, at cost:			
Land (Note 6)	9,531	9,897	79,320
Buildings and structures	57,353	57,088	477,269
Machinery and equipment	40,773	39,653	339,300
Tools, furniture and fixtures	9,257	8,281	77,036
Construction in progress	8,479	3,224	70,559
Others	249	225	2,072
Less accumulated depreciation	(65,020)	(61,222)	(541,071)
Property, plant and equipment, net	60,624	57,148	504,487
Intangible assets, net of accumulated amortization	209	210	1,742
Total assets	¥215,654	¥187,623	\$1,794,575

LIABILITIES AND NET ASSETS	¥ in millions		US\$ in thousands (Note 2)
	2015	2014	2015
Current liabilities:			
Short-term bank loans (Notes 4 and 7)	¥ 21,957	¥ 21,957	\$ 182,716
Current portion of long-term debt (Notes 4 and 7)	35	33	296
Trade notes and accounts payable (Note 4)	2,828	3,210	23,536
Income taxes payable (Notes 4 and 8)	635	5,890	5,292
Accounts payable—other (Note 4)	6,251	6,357	52,022
Allowance for sales returns	8	8	72
Other current liabilities	9,649	7,722	80,296
Total current liabilities	41,366	45,179	344,232
Long-term liabilities:			
Long-term loans payable, less current portion (Notes 4 and 7)	15,000	–	124,823
Deferred tax liabilities other than unrealized revaluation gain on land (Note 8)	1,557	66	12,958
Deferred tax liability—unrealized revaluation gain on land (Note 6)	1,413	1,559	11,759
Net defined benefit liability (Note 9)	64	2,341	537
Other long-term liabilities	5,304	5,159	44,143
Total long-term liabilities	23,339	9,126	194,222
Net assets: (Note 10)			
Shareholders' equity:			
Common stock	19,487	19,487	162,168
Authorized—250,000,000 shares in 2015 and 2014			
Issued—70,771,662 shares in 2015 and 2014			
Capital surplus	1,940	1,940	16,149
Retained earnings	114,313	103,934	951,263
Treasury stock, at cost	(389)	(388)	(3,243)
Total shareholders' equity	135,351	124,974	1,126,337
Accumulated other comprehensive income:			
Unrealized holding gain on other securities, net of taxes	2,432	1,861	20,244
Deferred gain on hedges, net of taxes	3,559	552	29,618
Unrealized revaluation gain on land, net of taxes (Note 6)	2,130	1,984	17,729
Translation adjustments	4,207	2,259	35,016
Remeasurements of defined benefit plans, net of taxes	633	(445)	5,273
Total accumulated other comprehensive income	12,964	6,212	107,882
Minority interests in consolidated subsidiaries:	2,631	2,131	21,900
Total net assets	150,947	133,318	1,256,120
Total liabilities and net assets	¥215,654	¥187,623	\$1,794,575

See notes to consolidated financial statements.

FINANCIAL SECTION
Consolidated Statements of Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	¥ in millions		US\$ in thousands (Note 2)
	2015	2014	2015
Net sales	¥110,438	¥110,057	\$919,019
Cost of sales (Note 5)	41,859	38,788	348,332
Gross profit before allowance for sales returns	68,579	71,269	570,686
Provision of allowance for sales returns	0	–	3
Reversal of allowance for sales returns	–	0	–
Gross profit	68,578	71,269	570,682
Selling, general and administrative expenses (Note 12)	49,087	48,808	408,480
Operating income	19,491	22,461	162,202
Other income (expenses):			
Interest and dividends received	416	383	3,465
Interest expenses	(201)	(186)	(1,678)
Equity in income of affiliates	44	2	366
Foreign exchange gain	1,386	962	11,540
Gain on sales of property, plant and equipment	4	2	39
Loss on sales and disposition of property, plant and equipment	(379)	(267)	(3,157)
Impairment losses (Note 18)	(973)	–	(8,101)
Gain on sales of investment securities (Note 3)	–	4,416	–
Gain on sales of investments in subsidiaries and affiliates	61	–	509
Loss on valuation of investments in subsidiaries and affiliates	(217)	–	(1,812)
Other, net	445	342	3,710
Total other income (expenses)	586	5,656	4,881
Income before income taxes and minority interests	20,078	28,118	167,084
Income taxes (Note 8):			
Current	5,455	9,937	45,396
Deferred	299	(27)	2,491
Subtotal	5,754	9,910	47,888
Net income before minority interests	14,323	18,207	119,195
Minority interests	(248)	(157)	(2,068)
Net income	¥ 14,075	¥ 18,050	\$117,127

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	¥ in millions		US\$ in thousands (Note 2)
	2015	2014	2015
Net income before minority interests	¥14,323	¥18,207	\$119,195
Other comprehensive income (Note 16):			
Unrealized holding gain (loss) on other securities, net of taxes	571	(1,533)	4,755
Deferred gain (loss) on hedges, net of taxes	3,006	(434)	25,019
Unrealized revaluation gain on land, net of taxes	146	–	1,215
Translation adjustments	2,192	3,447	18,241
Remeasurements of defined benefit plans, net of taxes	1,079	–	8,983
Share of other comprehensive income of affiliates accounted for using equity method	63	94	525
Total other comprehensive income	7,058	1,574	58,740
Comprehensive income	¥21,382	¥19,782	\$177,936
Total comprehensive income attributable to:			
Interests of the parent	¥20,826	¥19,154	\$173,311
Minority interests	555	627	4,624

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	Shareholders' equity					
	Number of shares of common stock	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	–	–	–	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

	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	Total accumulated other comprehensive income	Minority 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	–	–	–	–	–	–	–	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

	Shareholders' equity						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	
							US\$ in thousands (Note 2)
Balance at April 1, 2014	70,771,662	\$162,168	\$16,149	\$864,895	\$(3,231)	\$1,039,982	
Cumulative effects of changes in accounting policies	–	–	–	6,800	–	6,800	
Restated balance at April 1, 2014	–	162,168	16,149	871,695	(3,231)	1,046,782	
Cash dividends paid	–	–	–	(37,560)	–	(37,560)	
Net income	–	–	–	117,127	–	117,127	
Purchase of treasury stock	–	–	–	–	(12)	(12)	
Net changes in items other than those in shareholders' equity	–	–	–	–	–	–	
Total changes during the year	–	–	–	79,567	(12)	79,554	
Balance at March 31, 2015	70,771,662	\$162,168	\$16,149	\$951,263	\$(3,243)	\$1,126,337	

	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	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total net assets
Balance at April 1, 2014	\$15,489	\$ 4,599	\$16,513	\$18,805	\$(3,709)	\$ 51,698	\$17,733	\$1,109,413
Cumulative effects of changes in accounting policies	–	–	–	–	–	–	–	6,800
Restated balance at April 1, 2014	15,489	4,599	16,513	18,805	(3,709)	51,698	17,733	1,116,214
Cash dividends paid	–	–	–	–	–	–	–	(37,560)
Net income	–	–	–	–	–	–	–	117,127
Purchase of treasury stock	–	–	–	–	–	–	–	(12)
Net changes in items other than those in shareholders' equity	4,755	25,019	1,215	16,211	8,983	56,184	4,166	60,351
Total changes during the year	4,755	25,019	1,215	16,211	8,983	56,184	4,166	139,905
Balance at March 31, 2015	\$20,244	\$29,618	\$17,729	\$35,016	\$ 5,273	\$107,882	\$21,900	\$1,256,120

See notes to consolidated financial statements.

FINANCIAL SECTION

	¥ in millions						
	Number of shares of common stock	Shareholders' equity					Total shareholders' equity
		Common stock	Capital surplus	Retained earnings	Treasury stock		
Balance at April 1, 2013	70,771,662	¥19,487	¥1,940	¥ 90,397	¥(385)	¥111,440	
Cash dividends paid	-	-	-	(4,513)	-	(4,513)	
Net income	-	-	-	18,050	-	18,050	
Purchase of treasury stock	-	-	-	-	(2)	(2)	
Net changes in items other than those in shareholders' equity	-	-	-	-	-	-	
Total changes during the year	-	-	-	13,537	(2)	13,534	
Balance at March 31, 2014	70,771,662	¥19,487	¥1,940	¥103,934	¥(388)	¥124,974	

	¥ in millions							Total net assets
	Unrealized holding gain (loss) on other securities, net of taxes	Deferred gain on hedges, net of taxes	Unrealized revaluation gain on land, net of taxes (Note 6)	Accumulated other comprehensive income			Minority interests in consolidated subsidiaries	
				Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at April 1, 2013	¥ 3,394	¥ 987	¥1,984	¥ (812)	¥ -	¥5,554	¥1,542	¥118,537
Cash dividends paid	-	-	-	-	-	-	-	(4,513)
Net income	-	-	-	-	-	-	-	18,050
Purchase of treasury stock	-	-	-	-	-	-	-	(2)
Net changes in items other than those in shareholders' equity	(1,533)	(434)	-	3,072	(445)	658	588	1,246
Total changes during the year	(1,533)	(434)	-	3,072	(445)	658	588	14,780
Balance at March 31, 2014	¥ 1,861	¥ 552	¥1,984	¥2,259	¥(445)	¥6,212	¥2,131	¥133,318

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUMJURA & CO. and consolidated subsidiaries
For the years ended March 31, 2015 and 2014

	¥ in millions		US\$ in thousands (Note 2)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 20,078	¥28,118	\$167,084
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation	5,387	4,871	44,830
Impairment losses (Note 18)	973	–	8,101
Interest and dividends received	(416)	(383)	(3,465)
Interest expenses	201	186	1,678
Equity in (income) of affiliates	(44)	(2)	(366)
Loss on sales and disposition of property, plant and equipment	339	199	2,821
(Gain) on sales of investment securities	–	(4,416)	–
(Gain) on sales of investments in subsidiaries and affiliates	(61)	–	(509)
(Increase) in receivables	(2,454)	(2,291)	(20,424)
(Increase) in inventories	(5,669)	(5,728)	(47,175)
Increase (decrease) in allowance for doubtful receivables	(1)	0	(13)
(Decrease) in payables and accrued expenses	(438)	(90)	(3,651)
(Increase) in net defined benefit asset	(403)	–	(3,359)
(Decrease) in net defined benefit liability	(96)	(407)	(804)
Others, net	(1,979)	(6,086)	(16,475)
Subtotal	15,414	13,969	128,271
Interest and dividends received	441	411	3,670
Interest paid	(194)	(184)	(1,617)
Income taxes paid	(10,668)	(8,288)	(88,780)
Net cash provided by operating activities	4,992	5,908	41,543
Cash flows from investing activities:			
Purchase of property, plant and equipment	(9,628)	(7,669)	(80,125)
Proceeds from sales of property, plant and equipment	8	29	74
Purchase of intangible assets	(41)	(21)	(342)
Purchase of investment securities	(9)	(9)	(82)
Proceeds from sales and redemption of investment securities	–	5,916	–
Proceeds from sales of investments in subsidiaries and affiliates resulting in change in scope of consolidation	91	–	760
Payments of loans receivable	(1,103)	(10)	(9,183)
Collection of loans receivable	5	9	42
Deposits of time deposits with maturity of more than three months	(45)	(44)	(374)
Refunds of time deposits with maturity of more than three months	36	48	299
Others, net	3	58	28
Net cash used in investing activities	(10,683)	(1,694)	(88,902)
Cash flows from financing activities:			
Increase in long-term loans payable	15,000	–	124,823
Purchase of treasury stock	(1)	(2)	(12)
Cash dividends	(4,515)	(4,515)	(37,572)
Cash dividends paid to minority shareholders	(39)	(26)	(326)
Others, net	(35)	(30)	(293)
Net cash provided by (used in) financing activities	10,408	(4,575)	86,617
Effect of exchange rate changes on cash and cash equivalents	207	1,016	1,725
Net increase in cash and cash equivalents	4,925	656	40,984
Cash and cash equivalents at beginning of year	14,418	13,762	119,984
Cash and cash equivalents at end of year (Note 13)	¥ 19,343	¥14,418	\$160,968

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

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

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, 2015 and 2014, 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 2015 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, 2015, the Company has applied Article 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26, May 17, 2012 (hereinafter, "Statement No. 26")) and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015 (hereinafter, "Guidance No. 25")). Accordingly, the methods for calculating retirement and severance benefit obligations and current service costs have been revised and the method of attributing expected benefits has been changed from the straight-line method to the benefit formula method. Also, the method of determining the discount rate has been changed from using the period that approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated period and amount of benefit payment.

In accordance with Article 37 of Statement No. 26, the cumulative effect changing the methods for calculating retirement and severance benefit obligations and current service costs has been recognized by adjusting retained earnings as of April 1, 2014.

As a result, as of April 1, 2014, net defined benefit liability decreased by ¥1,269 million (U.S. \$10,566 thousand), and retained earnings increased by ¥817 million (U.S. \$6,800 thousand).

Also, for the year ended March 31, 2015, operating income and income before income taxes and minority interests decreased by ¥61 million (U.S. \$512 thousand), respectively. The effect of the accounting change on net assets per share is disclosed in Note 11: Amounts per Share.

(s) Changes in presentation methods

In accordance with a revision of Guidance No.25, the Company changed the presentation methods for notes on retirement benefits related to the multi-employer pension plan and reclassified the consolidated financial statements for the year ended March 31, 2014.

Also, related details on the reclassification of the consolidated financial statements and the amounts therein are disclosed in Note 9: Employee's Retirement and Severance Benefits.

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 ¥120.17=US\$1.00, the approximate exchange rate prevailing on the Tokyo Foreign

Exchange Market on March 31, 2015. 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, 2015 and 2014, are summarized as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Cost	¥12,968	¥12,958	\$107,915
Market value	16,448	15,744	136,877
Total unrealized gain	3,905	3,674	32,496
Total unrealized loss	(424)	(888)	(3,534)

Securities as of March 31, 2015 and 2014, that are excluded from the above table are summarized at their book values as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Non-current assets:			
Unlisted stocks other than those on the over-the-counter market	¥98	¥98	\$821

Securities, other than those held for trading and held-to-maturity purposes, which were sold during the years ended March 31, 2015 and 2014, are summarized as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Proceeds received	¥-	¥4,916	\$-
Total gain	-	4,416	-
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, 2015 and 2014.

4 Financial Instruments

The Company and its consolidated subsidiaries finance medium-term operating capital through bank loans, although capital investments for the pharmaceutical production and selling business are financed mainly by their own funds. 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 on the consolidated balance sheet, fair value, and differences of financial instruments as of March 31, 2015 and 2014, are as follows:

	¥ 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	¥-

	¥ in millions		
	2014		
	Carrying value reported in the balance sheet	Fair value	Difference
Cash and time deposits	¥14,445	¥14,445	¥-
Trade notes and accounts receivable	39,553	39,553	-
Investment securities:			
Other securities	15,744	15,744	-
Total	¥69,742	¥69,742	¥-
Trade notes and accounts payable	¥ 3,210	¥ 3,210	¥-
Short-term bank loans	21,957	21,957	-
Accounts payable—other	6,357	6,357	-
Income taxes payable	5,890	5,890	-
Total	¥37,415	¥37,415	¥-
Derivative transactions	¥ 858	¥ 858	¥-

	US\$ in thousands		
	2015		
	Carrying value reported in the balance sheet	Fair value	Difference
Cash and time deposits	\$161,268	\$161,268	\$-
Trade notes and accounts receivable	350,693	350,693	-
Investment securities:			
Other securities	136,877	136,877	-
Total	\$648,839	\$648,839	\$-
Trade notes and accounts payable	\$ 23,536	\$ 23,536	\$-
Short-term bank loans	182,716	182,716	-
Accounts payable—other	52,022	52,022	-
Income taxes payable	5,292	5,292	-
Long-term loans payable, less current portion	124,823	124,823	-
Total	\$388,390	\$388,390	\$-
Derivative transactions	\$ 44,050	\$ 44,050	\$-

FINANCIAL SECTION

Unlisted stocks of ¥98 million (U.S.\$821 thousand) and ¥98 million as of March 31, 2015 and 2014, respectively, whose fair value is extremely difficult to determine were not included in the above table.

Furthermore, unlisted stocks of ¥1,619 million (U.S.\$13,480 thousand) and ¥1,620 million included in "Investments in non-consolidated subsidiaries and affiliates" as of March 31, 2015 and 2014, 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.

The redemption schedule of monetary assets and securities with maturity dates at March 31, 2015 and 2014, is summarized as follows:

	¥ 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	¥-	¥-	¥-

	¥ in millions			
	2014			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	¥14,409	¥-	¥-	¥-
Trade notes and accounts receivable	39,553	-	-	-
Total	¥53,963	¥-	¥-	¥-

	US\$ in thousands			
	2015			
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and time deposits	\$160,934	\$-	\$-	\$-
Trade notes and accounts receivable	350,693	-	-	-
Total	\$511,628	\$-	\$-	\$-

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, 2015 and 2014, consisted of the following:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Merchandise and finished goods	¥ 8,887	¥ 8,842	\$ 73,959
Work in process	13,276	10,542	110,479
Raw materials and supplies	28,552	24,038	237,597
Total	¥50,716	¥43,424	\$422,036

Inventories at March 31, 2015 and 2014, are stated at net selling value. Losses valuation of inventories included in cost of sales were ¥203 million (U.S.\$1,694 thousand) and ¥50 million for the years ended March 31, 2015 and 2014, 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 the revalued land as of March 31, 2015 and 2014, decreased by ¥2,525 million (U.S.\$21,012 thousand) and by ¥2,465 million after the revaluation, respectively.

7 Debt

Short-term bank loans at average interest rates of 0.6% and 0.8% amounted to ¥21,957 million (U.S.\$182,716 thousand) and ¥21,957 million at March 31, 2015, and April 1, 2014, respectively.

Long-term debt at March 31, 2015, and April 1, 2014, consisted of the following:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Long-term loans payable, maturing through 2018 average interest rate of 0.3%	¥15,000	¥ –	\$124,823
Lease obligations, maturing through 2021	123	131	1,024
Less: current portion	(35)	(33)	(296)
	¥15,087	¥ 98	\$125,551

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2015, are summarized as follows:

Years ending March 31	¥ in millions	US\$ in thousands
2016	¥ –	\$ –
2017	–	–
2018	–	–
2019 and thereafter	15,000	124,823
Total	¥15,000	\$124,823

The aggregate annual maturities of lease obligations subsequent to March 31, 2015, are summarized as follows:

Years ending March 31	¥ in millions	US\$ in thousands
2016	¥ 35	\$ 296
2017	30	253
2018	21	175
2019 and thereafter	35	299
Total	¥123	\$1,024

No assets were pledged as collateral for short-term bank loans and long-term loans payable at March 31, 2015 and 2014.

The Company and its consolidated subsidiaries had no credit commitments with a bank at March 31, 2015 and 2014.

8 Income Taxes

At March 31, 2015 and 2014, the significant components of deferred tax assets and liabilities are summarized as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Deferred tax assets:			
Net defined benefit liability	¥ 20	¥ 834	\$ 173
Accrued bonuses	838	907	6,981
Accrued enterprise tax	103	427	860
Impairment losses	321	–	2,678
Other	957	927	7,967
Total deferred tax assets	2,242	3,097	18,661
Valuation allowance	(193)	(149)	(1,611)
Deferred tax assets recognized	2,048	2,948	17,049
Deferred tax liabilities:			
Unrealized holding gain on other securities	(1,038)	(924)	(8,643)
Deferred gain on hedges	(1,734)	(306)	(14,432)
Net defined benefit asset	(362)	–	(3,020)
Other	(152)	(103)	(1,268)
Total deferred tax liabilities	(3,288)	(1,333)	(27,364)
Net deferred tax assets (liabilities)	¥(1,239)	¥ 1,614	\$(10,314)

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 35.6% and 38.0% for the years ended March 31, 2015 and 2014, respectively. The

statutory tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2015 and 2014, differ from the effective tax rates for the following reasons:

	2015	2014
Statutory tax rates	35.6%	38.0%
Effect of:		
Inhabitants per capita taxes	0.4	0.3
Permanent differences such as entertainment and donation expenses	0.6	0.5
Nontaxable dividend income	(0.4)	(0.3)
Tax credit for research and development expense	(4.9)	(2.0)
Tax credit for investment in manufacturing facilities	–	(0.3)
Decrease in valuation allowance	0.3	(0.1)
Reduction of deferred tax assets due to income tax rate change	–	0.4
Reduction of deferred tax liabilities due to income tax rate change	(0.7)	–
Other	(2.2)	(1.3)
Effective tax rates	28.7%	35.2%

The “Act on Partial Revision of the Income Tax Act” and the “Act on Partial Revision of the Local Income Tax Act” were promulgated on March 31, 2015. Accordingly, the statutory tax rate applied to calculate deferred tax assets and deferred tax liabilities was reduced from 35.6% to 33.1% for temporary differences expected to be realized in the fiscal year beginning on April 1, 2015, and to 32.3% for temporary differences expected to be realized in the fiscal year beginning on April 1, 2016 and thereafter.

As a result, deferred tax liabilities, net of deferred tax assets, decreased by ¥149 million (U.S.\$1,241 thousand), income taxes-

deferred, unrealized holding gain (loss) on other securities, net of taxes, deferred gain (loss) on hedges, net of taxes, and remeasurements of defined benefit plans, net of taxes increased by ¥142 million (U.S.\$1,187 thousand), ¥108 million (U.S.\$901 thousand), ¥152 million (U.S.\$1,267 thousand), and ¥31 million (U.S.\$260 thousand), respectively, as of and for the year ended March 31, 2015. The deferred tax liability-unrealized gain on land decreased by ¥146 million (U.S.\$1,215 thousand) and unrealized revaluation gain on land, net of taxes, increased by the same amount as of and for the year ended March 31, 2015.

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.

(Defined benefit plan)

(1) The changes in retirement and severance benefit obligations for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Balance at beginning of year	¥15,446	¥15,181	\$128,537
Cumulative effects of changes in accounting policies	(1,269)	–	(10,566)
Restated balance at beginning of year	¥14,176	¥15,181	\$117,970
Service cost	781	703	6,500
Interest cost on benefit obligation	209	224	1,742
Actuarial gain or loss	(181)	(72)	(1,508)
Benefits paid	(617)	(608)	(5,138)
Other	1	17	10
Balance at end of year	¥14,369	¥15,446	\$119,575

(2) The changes in plan assets for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Balance at beginning of year	¥13,104	¥11,524	\$109,053
Expected return on plan assets	452	397	3,768
Actuarial gain or loss	1,388	663	11,553
Employer's contribution	1,070	1,056	8,909
Benefits paid	(592)	(549)	(4,927)
Other	3	11	32
Balance at end of year	¥15,428	¥13,104	\$128,390

(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, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Funded retirement and severance benefit obligations	¥ 14,339	¥ 15,414	\$ 119,329
Plan assets	(15,428)	(13,104)	(128,390)
Unfunded retirement and severance benefit obligations	29	32	246
Net liability for retirement and severance benefit obligations on the consolidated balance sheet	¥ (1,059)	¥ 2,341	\$ (8,814)

FINANCIAL SECTION

	¥ in millions		US\$ in thousands
	2015	2014	2015
Net defined benefit liability	¥ 64	¥2,341	\$ 537
Net defined benefit asset	(1,123)	–	(9,351)
Net defined benefit liability on the consolidated balance sheet	¥(1,059)	¥2,341	\$ (8,814)

(4) The components of net retirement benefit expenses for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Service cost	¥ 781	¥ 703	\$ 6,500
Interest cost on benefit obligation	209	224	1,742
Expected return on plan assets	(452)	(397)	(3,768)
Amortization of actuarial gain or loss	155	269	1,294
Amortization of prior service cost	(96)	(96)	(804)
Other	14	18	122
Net retirement benefit expenses	¥ 611	¥ 721	\$ 5,086

(5) The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Prior service cost	¥ (96)	¥–	\$ (804)
Actuarial gain or loss	1,725	–	14,357
Total	¥1,628	¥–	\$13,553

(6) The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income as of March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Unrecognized prior service cost	¥ 15	¥ (81)	\$ 125
Unrecognized actuarial gain or loss	(951)	774	(7,914)
Total	¥(936)	¥692	\$ (7,789)

(7) The components of plan assets as of March 31, 2015 and 2014, are as follows:

	2015	2014
Debt securities	26%	27%
Equity securities	43%	40%
General accounts	29%	31%
Other	2%	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, 2015 and 2014, are as follows:

	2015	2014
Discount rate	1.5%	1.5%
Expected long-term rate of return on plan assets	3.5%	3.5%

(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 ¥1,044 million (U.S.\$8,694 thousand) and ¥1,029 million for the years ended March 31, 2015 and 2014, 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, 2015 and 2014, is as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Plan assets	¥512,488	¥465,229	\$4,264,697
Total of actuarial obligation and minimum actuarial reserve	522,289	497,125	4,346,258
Difference	¥ (9,801)	¥ (31,895)	\$ (81,561)

The amounts in the above table are provided based on the most recent available information (as of March 31, 2014 and 2013, for fiscal 2015 and 2014, respectively).

(2) The contribution ratios of the Company to the entire plan during the years ended March 31, 2015 and 2014, are 3.76% and 3.78%, respectively.

¥35,440 million (U.S.\$294,922 thousand) and ¥17,618 million, respectively.

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 8 years and 0 months and 9 years and 0 months as of March 31, 2014 and 2013, respectively.

(3) Supplemental information

As of March 31, 2015 and 2014, the difference described in (1) above was calculated by the sum of the balance of the unamortized prior service cost of ¥(45,242) million (U.S.\$(376,483) thousand) and ¥(49,513) million, respectively, and earnings of the fund of

The ratios in (2) above 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 (U.S.\$24,393 thousand) and ¥2,649 million as of March 31, 2015 and 2014, respectively.

11 Amounts per Share

Net assets per share as of March 31, 2015 and 2014, were ¥2,103.04 (U.S.\$17.50) and ¥1,860.14, respectively.

Net income per share for the years ended March 31, 2015 and 2014, was ¥199.58 (U.S.\$1.66) and ¥255.94, respectively.

As discussed in Note 1(r), the Company has applied the Accounting Standard for Retirement Benefits and others and has followed the transitional treatment in Article 37 of the standard.

The effects on net assets per share and net income per share are insignificant.

The basis for calculation of basic total net assets per share as of March 31, 2015 and 2014, is as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Basic total net assets per share:			
Total net assets	¥ 150,947	¥ 133,318	\$ 1,256,120
Less: Minority interests in consolidated subsidiaries	2,631	2,131	21,900
Amounts attributable to shareholders of common stock	¥ 148,316	¥ 131,187	\$ 1,234,219
Number of shares outstanding at the end of the periods	70,524,779	70,525,381	70,524,779

FINANCIAL SECTION

The basis for calculation of basic net income per share for the years ended March 31, 2015 and 2014, is as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Basic net income per share:			
Net income	¥ 14,075	¥ 18,050	\$ 117,127
Less: Amounts not attributable to shareholders of common stock	—	—	—
Amounts attributable to shareholders of common stock	¥ 14,075	¥ 18,050	\$ 117,127
Weighted-average number of shares outstanding	70,524,999	70,525,823	70,524,999

Basic net income per share is computed based on the net income and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income 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, 2015 and 2014, has not been presented

because there were no potentially dilutive securities at March 31, 2015 and 2014, 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 246,883 and 246,281 shares of treasury stock at March 31, 2015 and 2014, respectively.

12 Major Expenses

Major expenses included in selling, general and administrative expenses for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Sales promotion expenses	¥ 4,249	¥ 4,477	\$ 35,358
Sales rebates	9,155	7,904	76,189
Salaries and allowances	17,279	17,171	143,788
Research and development expenses	6,252	5,949	52,031
Provision for employees' retirement and severance benefits	1,012	1,086	8,423
Provision of allowance for doubtful accounts	0	—	3

Research and development expenses included in general and administrative expenses and cost of sales for the years ended March 31, 2015 and 2014, amounted to ¥6,252 million (U.S.\$52,031 thousand) and ¥5,949 million, respectively.

13 Cash and Cash Equivalents

A reconciliation of cash and cash equivalents at March 31, 2015 and 2014, to the accounts and amounts in the accompanying balance sheets is summarized as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Cash and time deposits	¥19,379	¥14,445	\$161,268
Less: Time deposits with a maturity in excess of three months	(36)	(27)	(299)
Cash and cash equivalents	¥19,343	¥14,418	\$160,968

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, 2015 and 2014, 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, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Acquisition cost	¥61	¥61	\$509
Accumulated depreciation	60	54	505
Net book value	¥0	¥6	\$3

2) Future minimum lease payments at March 31, 2015 and 2014, are summarized as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Payments in one year or less	¥0	¥5	\$3
Payments after one year	–	0	–
Total	¥0	¥6	\$3

3) Lease payments and pro-forma depreciation charges for the years ended March 31, 2015 and 2014, are analyzed as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Lease payments	¥5	¥8	\$49
Pro-forma depreciation charges	5	8	49

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, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Payable in one year or less	¥61	¥52	\$514
Payable after one year	15	30	128
Total	¥77	¥82	\$642

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, 2015 and 2014, are as follows:

Currency related

			¥ in millions			US\$ in thousands		
			2015					
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	¥27,563	¥ 7,935	¥4,303	\$229,373	\$66,033	\$35,812
	CNY (Buying)		9,448	4,899	990	78,623	40,769	8,238
Total			¥37,011	¥12,834	¥5,293	\$307,996	\$106,803	\$44,050
			2014					
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 currency	¥28,101	¥11,639	¥858			

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 for the years ended March 31, 2015 and 2014, are as follows:

	¥ in millions		US\$ in thousands
	2015	2014	2015
Unrealized holding gain (loss) on other securities, net of taxes:			
Gains arising during the year	¥ 694	¥ 2,007	\$ 5,780
Reclassifications and adjustments	–	(4,416)	–
Before income tax effects	694	(2,408)	5,780
Income tax effects	(123)	875	(1,024)
Unrealized holding gain (loss) on other securities, net of taxes	¥571	¥(1,533)	\$ 4,755
Deferred gain (loss) on hedges, net of taxes:			
Gains (losses) arising during the year	¥ 4,434	¥ (734)	\$ 36,904
Income tax effects	(1,428)	299	(11,885)
Deferred gain (loss) on hedges, net of taxes	¥ 3,006	¥ (434)	\$ 25,019
Unrealized revaluation gain on land, net of taxes:			
Income tax effects	¥ 146	¥ –	\$ 1,215
Unrealized revaluation gain on land, net of taxes	¥ 146	¥ –	\$ 1,215
Translation adjustments:			
Adjustments arising during the year	¥ 2,192	¥ 3,447	\$ 18,241
Translation adjustments	¥ 2,192	¥ 3,447	\$ 18,241
Remeasurements of defined benefit plans, net of taxes:			
Adjustments arising during the year	¥ 1,569	¥ –	\$ 13,062
Reclassifications and adjustments	58	–	490
Before income tax effects	1,628	–	13,553
Income tax effects	(549)	–	(4,570)
Remeasurements of defined benefit plans, net of taxes	¥ 1,079	¥ –	\$ 8,983
Share of other comprehensive income of affiliates accounted for using equity method:			
Gains arising during the year	¥ 63	¥ 94	\$ 525
Share of other comprehensive income of affiliates accounted for using equity method	¥ 63	¥ 94	\$ 525
Total other comprehensive income	¥ 7,058	¥ 1,574	\$ 58,740

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, 2015 and 2014, is as follows:

				¥ in millions
				2015
Japan	China	Other	Total	
¥47,995	¥12,627	¥0	¥60,624	
				¥ in millions
				2014
Japan	China	Other	Total	
¥45,600	¥11,547	¥0	¥57,148	
				US\$ in thousands
				2015
Japan	China	Other	Total	
\$399,400	\$105,081	\$5	\$504,487	

(3) Information about major customers for the years ended March 31, 2015 and 2014, is as follows:

Name of major customers	Sales		Segment
	¥ in millions	US\$ in thousands	
			2015
Alfresa Holdings Corporation	¥28,046	\$233,390	Pharmaceutical products
MEDIPAL HOLDINGS CORPORATION	24,220	201,552	Pharmaceutical products
Suzuken Co., Ltd.	17,417	144,936	Pharmaceutical products
TOHO HOLDINGS CO., LTD.	13,433	111,785	Pharmaceutical products
			2014
			Segment
Alfresa Holdings Corporation	¥28,325		Pharmaceutical products
MEDIPAL HOLDINGS CORPORATION	22,278		Pharmaceutical products
Suzuken Co., Ltd.	16,926		Pharmaceutical products
TOHO HOLDINGS CO., LTD.	13,314		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, 2015 and 2014, was omitted.

18 Impairment Losses

(Fiscal 2015)

For the year ended March 31, 2015, the Company and its consolidated subsidiaries recognized ¥973 million (U.S.\$8,101 thousand) 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 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. The recoverable amount utilized in the calculation was 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.

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.

Impairment losses of ¥973 million (U.S.\$8,101 thousand) consist of ¥365 million (U.S.\$3,039 thousand) for land, ¥525 million (U.S.\$4,370 thousand) for buildings and structures, ¥73 million (U.S.\$612 thousand) for machinery and equipment, and ¥9 million (U.S.\$78 thousand) for tools, furniture and fixtures for the year ended March 31, 2015.

(Fiscal 2014)

For the year ended March 31, 2014, no impairment losses on fixed assets were recognized.

19 Note to Consolidated Statements of Changes in Net Assets

Issued stock and treasury stock as of March 31, 2015, 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, 2014	Increase	Decrease	At March 31, 2015
Common stock	246,281	602	–	246,883

Dividends from surplus as of March 31, 2015, 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 27, 2014	Common Stock	¥2,256	¥32	\$18,780	\$0.27	March 31, 2014	June 30, 2014
Board of Directors' meeting held on November 6, 2014	Common Stock	2,256	32	18,780	0.27	September 30, 2014	December 5, 2014

(2) Dividends whose effective date is subsequent to March 31, 2015

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 26, 2015	Common Stock	Retained earnings	¥2,256	¥32	\$18,780	\$0.27	March 31, 2015	June 29, 2015

20 Subsequent Event

At the shareholders' meeting held on June 26, 2015, the following appropriation from unappropriated retained earnings of the Company was approved by the shareholders:

	¥ in millions	US\$ in thousands
Cash dividends, ¥32.00 (U.S.\$0.27) per share	¥2,256	\$18,780

Report of Independent Auditors



Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011
Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

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 26, 2015
Tokyo, Japan

Corporate Data

As of March 31, 2015

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: 3,335 (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, 2015

Stock Exchange Listing: Tokyo
Stock Code: 4540
Paid-in Capital: ¥19,487 million
Net Assets: ¥150,947 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: 14,123

Major Shareholders

	% of equity
Japan Trustee Services Bank, Ltd. (Trust Account)	5.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	4.22
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	3.12
Employees' Stockholding	2.80
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2.56
SAJAP	2.33
JUNIPER	2.30
JP MORGAN CHASE BANK 385632	2.26
BNYML-NON TREATY ACCOUNT	2.24
DAIICHI SANKYO COMPANY, LIMITED	2.16

Ownership and Distribution of Shares

%



TSUMURA & CO.

2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan



Printed in Japan