



Integrated Report 2018

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

BASIC DIRECTION

Tradition and Innovation

TSUMURA'S BUSINESS

Tsumura's core business is the manufacture and sale of prescription Kampo products.

Guided by our corporate philosophy, "The Best of Nature and Science," we seek to fulfill our corporate mission—"To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." Our basic direction of "Tradition and Innovation" encapsulates our commitment to achieving ongoing growth by leveraging the Tsumura Group's strengths to create innovation.

The Tsumura Group will support health in Japan by providing a stable supply of its mainstay, high-quality Kampo products. We thereby aim to contribute to creating a healthcare environment in which all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan, with the goal of extending the life spans of the people of this country.

Editorial Policy

Integrated Report 2018 was prepared with the goal of communicating Tsumura's efforts to improve its corporate value from a medium-to-long-term perspective to a broad range of stakeholders. As this is our first integrated report, we look forward to making our future reports more insightful for stakeholders by gaining valuable input and information via interactions with them going forward.

Scope of Data Collection and Applicable Period

Performance data is from fiscal 2018.

- TSUMURA & CO.
LOGITEM TSUMURA CO., LTD.
YUBARI TSUMURA CO., LTD.
(From April 1, 2017 to March 31, 2018)
- Tsumura China Inc.
SHENZHEN TSUMURA MEDICINE CO., LTD.
SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.
TSUMURA USA, INC.
(From January 1, 2017 to December 31, 2017)

Notice will be provided in cases when the scope of data collection differs from the above.

Forward-Looking Statements and Precautions

The information provided in this integrated report contains forward-looking statements. Numerical projections represent the Company's best judgments and assumptions based on information available at the time of publication of this report and therefore contain a certain degree of risk and uncertainty. Accordingly, actual performance could differ materially from these forecasts. In addition, this report contains information on pharmaceuticals. However, this information is not meant to serve as advertisements or medical advice.

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GLOSSARY

Kampo Medicine

Kampo medicine is a form of traditional Japanese medicine that originated in China.

Crude Drugs

Crude drugs are materials with medical benefits from naturally derived sources, including plants, animals, minerals, and fungi, that have been dried, steamed, or otherwise processed.

Western Medicine

Western medicine is the medical tradition that originated in Ancient Greece and subsequently developed in Europe and the United States.

Granules

Granules are similar to powders but consist of either larger grains or large grains made by packing powder grains together. Compared to powders, granules are less likely to scatter.

Kampo Medicines

Kampo medicines are pharmaceuticals prescribed based on the practice of Kampo medicine. They generally consist of two or more crude drugs.

Value Chain

The value chain is a concept proposed by Michael E. Porter that entails systematically and comprehensively evaluating the process through which final value is created by all of a company's activities.

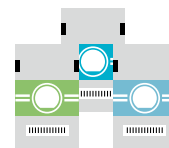
Tsumura's Business and History

Tsumura was founded in 1893 guided by its founder's belief that quality medicine was guaranteed to sell.

Ever since, the Tsumura Group has remained true to its founder's belief, always striving to produce and supply high-quality Kampo products boasting the efficacy needed for patients to use them with peace of mind.

In 2018, Tsumura celebrated the 125th anniversary of its founding. Going forward, we will continue to pursue further growth by contributing to people's health.

Tsumura's Business



Pharmaceutical Company Contributing to People's Health with Kampo

Tsumura is a pharmaceutical company that specializes in the Japanese medical tradition that is Kampo. Of the Company's sales, 95.2% come from prescription Kampo products that are prescribed by physicians, while 2.5% are attributable to over-the-counter pharmaceuticals.

Tsumura has developed a quality management system that applies stringent standards across all areas of the supply chain, spanning from the cultivation and procurement of naturally derived crude drugs to the production and sale of Kampo products. In addition, we are also optimizing this supply chain to increase earnings.

As Tsumura endeavors to secure stable supplies of safe crude drugs, reforms its production systems, and grows the domestic Kampo market, it is also expanding into overseas markets. Examples of this overseas expansion can be seen in its efforts to develop TU-100 (Daikenchuto) in the United States that have been ongoing since 2008 and in the capital and business alliance with major Chinese insurance company Ping An Insurance (Group) Company of China, Ltd., announced in September 2017.

(Fiscal Year)

1894

Tsumura Juntendo is founded, starting the manufacture and sale of Chujoto medicine for women.

1925

Tsumura Research Institute for Pharmaceutical Science and Tsumura Medicinal Plant Garden are opened.

1931

Bathclin aromatic bath salt is launched.

1937

TSUMURA JUNTENDO, INC. is established.

1965

Shizuoka Plant is completed.

1975

Sales of prescription Kampo products begin.

1977

A total of 33 prescription Kampo formulations are added to the National Health Insurance (NHI) drug price list.

1983

Tsumura's stock listing is upgraded to the First Section of the Tokyo Stock Exchange.

1984

The Ibaraki factory is completed and research facilities are moved thereto.

1991

SHENZHEN TSUMURA MEDICINE CO., LTD., is established

1989

Company name is changed to TSUMURA & CO.

1988

The total number of Kampo formulations listed on the NHI drug price list reaches 129.

2002

SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., is established.

An agreement is concluded for collaborative research on the cultivation of crude drugs in China.

2007

Household products business (Bathclin, etc.) is spun off to form Tsumura Lifescience Co., Ltd.

Share unit number is changed.

2009

Shares of stock in Tsumura Lifescience Co., Ltd., are transferred.

Expansion of the Kampo Market



Compound Annual Growth Rate of the Domestic Prescription Kampo Product Market

3.9%

Tsumura's Share of the Domestic Prescription Kampo Product Market

83.9%

Customers



General Practitioners, Clinics, etc.

74.8%

University Hospitals and Designated Hospitals for Clinical Training, etc.

25.2%

Over the past 10 years, Japan's prescription Kampo product market has displayed a compound annual growth rate of 3.9%,*¹ outpacing the rate of 2.6%*¹ seen for the overall domestic prescription product market during the same period. This strong growth can be attributed to various factors. Among these factors are the spread and establishment of Kampo medicine practices, progress in the development of scientific evidence on the efficacy of Kampo products and increased activity to promote this evidence, and higher Kampo prescriptions in the Company's three important domains of geriatric health, cancer (supportive care), and women's health, a trend accompanying the rapid rise in demand for pharmaceuticals.

Tsumura boasts a share of 83.9%*² of sales in the domestic prescription Kampo product market. We are therefore a leader in providing prescription Kampo products, which supply modern medicine with a form of value that is completely different from that offered by Western drugs. By meeting the needs of the medical field and of patients, we will expand the treatment domains for Kampo products and thereby further the growth and development of the market.

*¹ Copyright ©2018 IQVIA, estimated based on "JPM Mar. 2009 MAT–Mar. 2018 MAT," reprinted with permission

*² Copyright ©2018 IQVIA, based on "JPM Mar. 2018 MAT," reprinted with permission

Pharmaceutical manufacturers sell their products directly to pharmaceutical agencies. However, sales activities are targeted at the doctors and pharmacists who use these products.

A total of 74.8% of Tsumura's sales comes from the general practitioner and clinic market, which consists of community-rooted medical institutions, and the remaining 25.2% of sales derive from university hospitals and designated hospitals for clinical training*³ with 100 or more beds.

In Japan, there is no differentiation between Western medicine and Kampo medicine in terms of the licensing system for physicians. Accordingly, there are those physicians who prescribe both Western drugs and Kampo medicines. However, the level of interest in Kampo medicine and the proficiency at utilizing Kampo formulations can vary among physicians and physicians-in-training. To address this disparity, we hold Kampo training sessions for physicians and physicians-in-training working at university hospitals and designated hospitals for clinical training to provide them with the latest scientific evidence on Kampo products. Through these efforts, we aim to have our products employed by new facilities over the medium-to-long term. We also engage in sales activities aimed at increasing the number of Kampo formulations that physicians can use proficiently.

*³ Hospitals that provide two-year practical training to physicians who have graduated from medical departments and acquired their medical license

2010

YUBARI TSUMURA CO., LTD., is established.
LAO TSUMURA CO., LTD., is established.

2012

Tsumura establishes technology for cultivating licorice.
A local business in Laos is certified as a public-private partnership under Japan's program regarding partnerships that accelerate growth.
An agreement for the joint development of raw material crude drugs is concluded with the government of Baishan in China.

2016

A joint research agreement is signed with Hong Kong Baptist University.

2015

An agreement is signed for joint research on *Atractylodes lancea* rhizome with the China Academy of China Medical Sciences.
YUBARI TSUMURA CO., LTD., transitions to an agricultural production corporation.

2014

A sponsorship agreement is concluded for the University of Oxford Innovative Systems Biology Project.

2017

Journal of Japanese Botany celebrates its 100th anniversary.
SPH TSUMURA PHARMACEUTICALS CO., LTD., is established.
Tsumura enters into the traditional Chinese medicine compound granule business.
A business alliance agreement is concluded with Tianjin China Medico Technology Co., Ltd.
Tsumura China Inc. is established.

2018

Tsumura transitions to the Company with Audit and Supervisory Committee system.
A capital and business alliance is formed with Ping An Insurance (Group) Company of China, Ltd.

About Kampo

Kampo Products



Kampo products are therapeutic formulations created based on the principles of Kampo medicine, a traditional form of Japanese medicine. The raw materials for Kampo medicines are crude drugs derived mainly from plants.

Kampo medicines are basically made by combining more than two and sometimes up to 10 crude drugs. While, traditionally, Kampo medicines have entailed boiling and drinking crude drugs, most of the prescription Kampo products used in Japan today are powdered extracts, the active ingredients of which have been extracted from crude drugs.

Many of the raw material crude drugs for making Kampo formulations used in Japan today are imported from China. As the ingredients contained in crude drugs can vary based on their type or where they are grown, crude drugs that have not been grown in specific locations may not be suited to the production of Kampo products.

History of Kampo Medicine



The roots of Kampo medicine can be traced back to China, although its methods differ from those of traditional Chinese medicine or from those of Korean medicine, the latter of which shares similar roots. The predecessor of Kampo medicine was a medical approach created in ancient China that was introduced to Japan sometime in the fifth or sixth century. In the 17th century, the Kampo medical tradition was codified through accounts of treatments conducted over the course of its long history, and it then went on to evolve as a distinctive Japanese medical tradition.

Throughout a long portion of the history of Kampo medicine, a word for “Kampo” did not exist in Japan. The word “Kampo” would first come to be used to refer to traditional Japanese medicine in the middle of the Edo period, when the Western medicine introduced from the Netherlands came to be referred to as “Rampo.”

Differences between Kampo Medicine and Western Medicine



While Western medicine is scientific and theoretical in nature, Kampo medicine is philosophical and experimental at its heart.

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

Establishment of Scientific Evidence



Kampo medicines are made from naturally derived crude drugs and contain several active ingredients. Accordingly, it can be difficult to determine the mechanisms through which specific ingredients affect diseases. In recent years, however, steady progress has been made in elucidating the mechanism of Kampo medicine, and the effectiveness of Kampo medicines has been documented in numerous clinical trials and prominent medical journals.

Tsumura is also working to establish scientific evidence on the efficacy of Kampo medicine. Specifically, we have identified a total of 10 formulations on which we are focusing efforts to form a body of evidence. These include the five “drug fostering” program formulations identified in fiscal 2005, which have been demonstrating special efficacy for certain diseases in fields where medical treatment needs are high and that are difficult to treat with Western drugs. The other formulations are the five “growing” formulations that we identified in fiscal 2017 with the aim of having them listed in medical treatment guidelines by establishing scientific evidence in fields where treatment satisfaction and contributions from medicine are low.

Prescriptions of Kampo Products by Domestic Physicians



According to a 2011 survey by the Japan Kampo Medicines Manufacturers Association, 89% of Japan’s physicians had prescribed Kampo products to their patients.

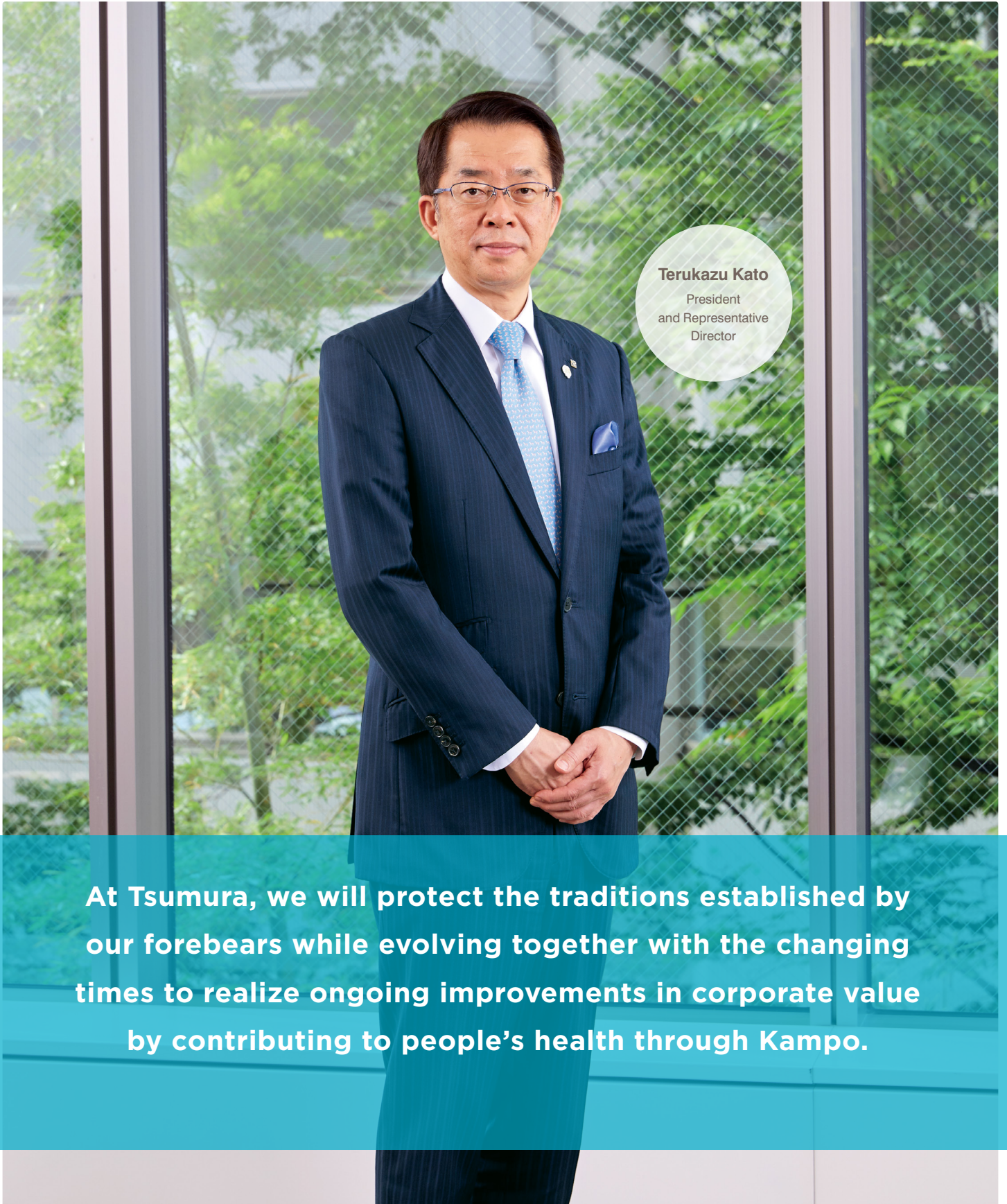
Reasons stated for prescribing Kampo products include their efficacy in treating ailments for which Western drugs are not effective, requests by patients, and academic reports on scientific evidence related to these products. In fact, the ability for a physician to combine Western medicine and Kampo medicine in order to treat patients by calling upon the strengths of both could be said to be a characteristic of Japanese medicine.

Coverage under the Japanese National Health Insurance Plan



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

To Our Stakeholders



Terukazu Kato

President
and Representative
Director

At Tsumura, we will protect the traditions established by our forebears while evolving together with the changing times to realize ongoing improvements in corporate value by contributing to people's health through Kampo.

Thanks to the support of all of its stakeholders, Tsumura was able to celebrate its 125th anniversary in 2018. We would not be here today if not for your support, for which I am sincerely grateful. In light of this momentous occasion, I feel that I am charged with the important responsibility of deepening my own understanding of the history forged by our founder and forebears and of the passion they held and passing on this understanding to others at the Company. Tsumura has faced many trials over its history, such as a deterioration in performance when we strayed too far from the area of strength that is Kampo and even the criminal prosecution of one of our former managers. No matter how much time should pass, our past scandals will never disappear. An overconcentration of power will lead to the corruption of the organization; this is a lesson we had to learn the hard way. We at Tsumura are committed to never repeating past mistakes, and we are therefore driven to develop strong and effective corporate governance systems.

After receiving approval at the 81st Ordinary General Meeting of Shareholders held in June 2017, Tsumura transitioned to the Company with Audit and Supervisory Committee system described in the Companies Act of Japan. At the same time, we changed the membership of the Board of Directors to consist of a majority of outside directors in order to reinforce our oversight and monitoring functions. We also delegated authority from the Board of Directors to the Executive Committee with the aim of expediting management decision-making and enabling the Board of Directors to devote more time to matters of greater importance. The new system has enabled us to receive an even wider range of opinions and advice from outside directors on topics such as the risks of not undertaking certain projects. In this manner, deeper and more meaningful and energetic discussions can now take place

at meetings of the Board of Directors without us becoming overly preoccupied with matters of execution.

Successes and Issues from Fiscal 2018

In fiscal 2018, net sales increased 2.5% year on year, to ¥117,879 million; operating profit was up 6.7%, to ¥17,050 million; and profit attributable to owners of parent rose 16.1%, to ¥14,504 million. With these increases in sales and profit also came a 0.6 percentage point improvement in the operating profit margin, which signaled an end to the downward trend in profit margins that had continued since fiscal 2015. Our ability to increase the operating profit margin was due in part to a decline in the prices of crude drugs. However, I feel that this accomplishment was more a success of the high awareness of costs and the sense of crisis shared among all employees on the front lines of procurement and manufacturing. In truth, the growth in net sales was slightly lower than our target. I therefore recognize the need to accelerate our initiatives in this regard.

Even with an aging population, declining birth rate, and accompanying shrinking of the population in Japan, I feel that the domestic Kampo product market is far from its peak. In fact, we continue to see growth in demand in the three important domains defined in the medium-term management plan, namely, geriatric health; cancer, supportive care in particular; and women's health. Conversely, rising social security costs are placing downward pressure on drug prices. We cannot deny that this is making for a difficult operating environment. Moreover, the accumulation of scientific evidence on the efficacy of Kampo medicines and the recent rise in recognition for Kampo medicines have made for a situation in which we will not be able to achieve growth of the desired speed if we stick purely to our previous sales and marketing approaches. We have

Fiscal 2018 Business Results

¥ million	Target	Fiscal 2018	Vs. target		YoY	
			Amount	%	Amount	%
Net sales	120,700	117,879	(2,820)	97.7%	2,924	2.5%
Operating profit	17,600	17,050	(549)	96.9%	1,067	6.7%
Profit attributable to owners of parent	12,700	14,504	1,804	114.2%	2,015	16.1%
Operating profit margin	14.6%	14.5%	(0.1) percentage point		+0.6 percentage point	

To Our Stakeholders

therefore begun to implement organizational and internal awareness reforms with the aim of driving the steady expansion of the Kampo product market called for in the medium-term management plan.

Organizational Reforms and Human Resource Development in Response to Operating Environment Changes

Tsumura recognizes that organizational and internal awareness reforms are a pressing task. This recognition is based on our understanding that adapting to current and future changes in Japan's medical field will be imperative to the Group's management. The rapid aging of the population of Japan will no doubt increase the number of people harboring concerns regarding their health. At the same time, the shortage of physicians, especially in rural areas, is growing ever more severe, causing many to seek options that differ from those found in the current medical field. Examples of such options can be seen in the increasing interest in preventive medicine, the advancement of alternative medicine and home health care, and the construction of the Comprehensive Regional Care System* advocated by the Ministry of Health, Labour and Welfare.

Furnishing accurate responses to such changes in the operating environment and growing the Kampo product market will require that all frontline employees develop a keen understanding of the circumstances in the medical field and of the needs of their respective regions. Based on this understanding, employees will need to act and make proposals in a manner that is finely tuned to the situation in their region. To facilitate this type of response to operating environment changes, we increased the number of regional branches from 12 to 21 and then allowed for greater

discretion to be practiced by frontline operations in fiscal 2018. Multifaceted support is provided to those employees who have newly found themselves in leadership positions as a result of the increase in the number of regional branches.

Furthermore, we plan to establish a program, to be called the Tsumura Academy, with the aim of cultivating management candidates as part of our frameworks for improving motivation and reinforcing our operations.

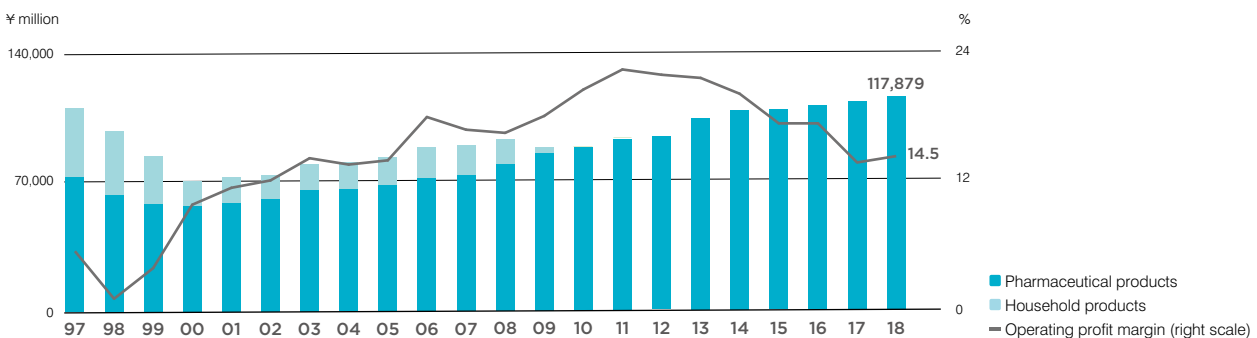
* The Comprehensive Regional Care System is a comprehensive support and service system set to be constructed by 2025 that is meant to help maintain the dignity of senior citizens and support them in leading independent lives by enabling them to continue living in the regions to which they have grown accustomed to the greatest extent possible.

Resolution of Social Issues through Business Activities and Future Challenges

The long value chain of our Kampo and crude drug procurement operations originates at the farms at which crude drugs are cultivated. Many crude drug producing areas in China were previously impoverished regions due to poor access from major transportation venues. After forming contracts with Tsumura, income in these areas often stabilizes, contributing to their development. In Japan as well, the use of idle land to develop crude drugs has helped invigorate local communities. This process of resolving social issues through our business also contributes to the accomplishment of the Sustainable Development Goals advocated by the United Nations and is incredibly meaningful for the Company itself.

Expanding the Kampo product market and securing stable supplies of crude drugs are issues of extreme importance to management. In relation to these issues, Japanese National Health Insurance (NHI) drug price revisions represent a challenge that will need to be

Net Sales / Operating Profit Margin



overcome if we are to continue to provide a consistent supply of high-quality Kampo products while maintaining mutually beneficial, win-win relationships with crude drug farmers and production companies through our business. All of Tsumura's 129 prescription Kampo products are covered under the NHI plan. Given the unique role these products play in modern medicine, it is important to prevent declines in the prices of these products. Tsumura has decided not to develop new drugs, but rather to continue to provide Kampo formulations based on traditional medical practices. For this reason, the NHI drug price revisions instituted once every two years have a significant impact on the Company. Moreover, as we use naturally grown crude drugs as our raw materials, the extent to which we can control costs is limited. This situation means that even a reduction of a few percent in the prices of our products can have a massive impact. We are thus committed to doing everything in our power to overcome this challenge so that we can continue to supply patients with the Kampo medicines they need while purchasing crude drugs from farmers and production companies at fair prices.

Advancement of Businesses in China

In September 2017, Tsumura announced that it had formed a capital and business alliance with Ping An, the holding company for a major Chinese insurance group, along with plans to strengthen its crude drug procurement systems and develop analytical research operations focused on traditional Chinese medicine. It is true that the power of Ping An's global brand and the network it has formed with medical institutions in China are appealing to the Company. However, the biggest factor leading to this alliance was that we both share similar ideals.

In the future, China is expected to experience population aging to a greater degree than even Japan, meaning that reducing medical spending will be of the utmost importance to this country going forward. Understanding this crisis brought on by this social issue, Ping An founder Ma Mingzhe felt it was his mission to develop a healthcare business, which he saw as representing a business model that was simultaneously beneficial to the public good and synergetic with Ping An's business.

Tsumura, meanwhile, has imported raw material crude drugs from China since its founding. As such, we have always held a strong desire to contribute to the health of people in China to return the favor for all the country has given us thus far. In order to maintain our strong relationship with China, I believe it is vital that we evolve from a company that merely conducts procurement and production in China to become a company that makes wide-reaching contributions to the people of China. Our alliance with Ping An will not only serve as an opportunity to explore a new market; it will also be a means through which we can further build upon the mutually beneficial, win-win relationships we have forged with crude drug farmers and production companies in China through our transactions up until this point.

Potential for Kampo Medicines as Japan Faces a Turning Point

Japan is currently facing a turning point. Amidst the declining population stemming from population aging and a falling birth rate, there is a call for the realization of a society with a bustling economy offering security and support for all through means such as mobilizing women in the workforce and raising the mandatory retirement age. Meanwhile, the widening gap between the average life span in Japan and the so-called healthy life span during which people are living in good health is becoming a serious social issue. Against this backdrop, I see Kampo as having the potential to assist people in living more empowered and healthier lives going forward.

Tsumura's corporate mission is "To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." Accordingly, the meaning for our existence is to help as many people as possible lead healthy lives by supplying them with Kampo medicines. Our quest to fulfill this mission knows no end. Looking to the future, we will continue to pursue further growth with the aim of making Tsumura into a company that its stakeholders always deem to be necessary. I hope we can look forward to your support as we tackle the challenges to come.

September 2018



The Kampo Value Chain and Tsumura's Business Model

Tsumura has developed a Kampo value chain that encompasses everything from the cultivation and the procurement of the crude drugs that serve as the raw materials for Kampo products to quality management, research, extract manufacturing, distribution, and even promoting the spread of Kampo medicine.

Tsumura's business model is characterized by its being founded on this Kampo value chain, through which the Company manages and integrates all its business activities, from upstream to downstream areas. This value chain is the source of our competitiveness in the stable supply of high-quality Kampo products.

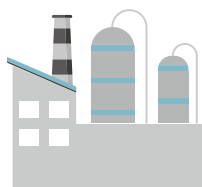


Enhancement of the Kampo Value Chain

Long-term commitment is crucial to the management and enhancement of the Kampo value chain. This value chain begins with raw material crude drugs. Tsumura procures 119 varieties of crude drugs to produce its 129 prescription Kampo products, some of which require seven or eight years or even longer to cultivate. We are therefore forming networks of crude drug farmers and production companies to ensure that we can secure a stable supply of raw

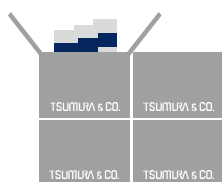
material crude drugs with the required quality. At the same time, Tsumura is developing production technologies and expertise while also working to establish scientific evidence regarding its Kampo medicines to encourage the widespread use of this traditional form of medicine in the medical field of today. Engaging in such initiatives on a continuous, long-term basis will create management resources that will be invaluable to Tsumura's business.

MANUFACTURE



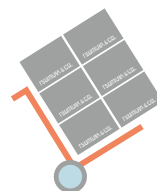
Raw material crude drugs are chopped and Tsumura's proprietary equipment is used to produce Kampo extracts that are the same as those prepared through traditional methods.

Extracts are made into powdered extracts through filtering; low-temperature, short-period condensation; and instant drying to prevent adverse impacts from heat.



Powdered extracts are mixed with diluting agents*¹ to form granules, which are packaged, boxed, and shipped as products.

SALE



Products shipped from factories are delivered to distribution centers, then pharmaceutical wholesalers, and finally medical institutions.

EDUCATION AND POPULARIZATION



Information necessary for the proper use of Kampo medicines is provided to medical practitioners and general users.

*1 Diluting agents are additives that are used when handling pharmaceuticals or to improve form or the convenience of use.

This integrated value chain is now forming the foundation underpinning our position as the market leader boasting a share of more than 80% of the prescription Kampo product market and simultaneously creating a high barrier for entry for other companies. Initiatives for enhancing our Kampo value chain will therefore be crucial to the ongoing growth of Tsumura. The Company intends to continuously allocate management resources to enhance functionality at each stage of the value chain as required. Specific initiatives will include expanding Cultivated Land under Own Management*²

to ensure a stable supply of crude drugs, developing quality management and traceability systems to ensure we can deliver reliable and high-quality products, and establishing scientific evidence and conducting education activities to grow the market.

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

Initiatives for Pursuing Ongoing Growth and Social Value Created by Tsumura

Tsumura believes that recognizing and responding to the opportunities and risks presented by social issues in the medical field and crude drug producing areas contribute to the ongoing growth of the Company as well as to the creation of social value. Our business activities begin with the cultivation and procurement of naturally derived crude drugs and end with the manufacture and sale of prescription Kampo products, and various stakeholders are involved in these activities. Tsumura aspires to make wide-ranging contributions to the accomplishment of the United Nations Sustainable Development Goals through its business activities.

	OPPORTUNITIES	RISKS
CULTIVATION AND PROCUREMENT	<ul style="list-style-type: none"> Improvement and dissemination of crude drug cultivation techniques Increased opportunities to cultivate crude drugs in collaboration with production sites seeking to energize the community Development of crude drug cultivation and selective breeding techniques 	<ul style="list-style-type: none"> Rising crude drug prices Foreign exchange rate movements Limited ability to diversify crude drug producing areas Changes in raw material crude drug cultivation environments and harvest volumes Decrease of agricultural workforce and population aging Climate change in crude drug producing areas
MANUFACTURING	<ul style="list-style-type: none"> Improvement of productivity and automation driven by advancement of industry technologies 	<ul style="list-style-type: none"> Rising energy prices Stricter regulations in response to environmental issues Concern regarding the transference of production technologies and expertise Labor shortfalls accompanying rise in production volumes
QUALITY MANAGEMENT	<ul style="list-style-type: none"> Development of more advanced analytical technologies 	<ul style="list-style-type: none"> Increase in number of items needing to be managed Stricter management standards
RESEARCH AND DEVELOPMENT, SALES, AND MARKETING	<ul style="list-style-type: none"> Increased need and expectations for Kampo medicine Rise in number of senior citizen patients with geriatric health issues Social issues related to polypharmacy* Higher number of Kampo formulations listed in treatment guidelines Accumulation of new scientific evidence 	<ul style="list-style-type: none"> Disparity in Kampo understanding and interest among medical practitioners Appearance of unexpected adverse drug reactions Drug price reductions Move to limit healthcare spending
OVERALL CORPORATE ACTIVITIES	<ul style="list-style-type: none"> Women's participation in the workforce Raising compliance awareness in the workplace 	<ul style="list-style-type: none"> Shrinking workforce in Japan Potential damage to corporate reputation due to compliance issues

* The act of using medicine to a greater degree than necessary or the appearance of adverse drug effects or other negative phenomena as a consequence of overuse.

MEASURES FOR RESPONDING TO OPPORTUNITIES AND RISKS	SOCIAL VALUE CREATED BY TSUMURA	RELEVANT UNITED NATIONS SUSTAINABILITY DEVELOPMENT GOALS
<p>Ongoing expansion of Cultivated Land under Own Management (→ page 21)</p> <p>Increased production of crude drugs in Japan (→ page 22)</p> <p>Research on the cultivation of crude drugs grown in the wild (→ page 23)</p>	<p>Invigoration of primary industry sectors and development of sextiary industry sectors* through the expansion of Cultivated Land under Own Management</p> <p>Invigoration of local communities through Cultivated Land under Own Management in Japan</p> <p>Creation of local employment opportunities, transference of cultivation techniques, and development of infrastructure in China and Laos</p> <p>Improvement of efficiency and preservation of biodiversity through development of crude drug cultivation techniques</p>	
<p>Energy conservation through introduction of new manufacturing systems and technologies (→ page 25)</p> <p>Reduction of labor requirements through introduction of robots in factories (→ page 25)</p>	<p>Improvement of energy efficiency</p> <p>Preservation of water resources and reduction of CO₂ emissions through promotion of recycling</p> <p>Improvement of labor productivity</p>	
<p>Enhancement of traceability (→ page 28)</p>	<p>Contribution to health through the provision of high-quality Kampo formulations</p> <p>Prevention of water pollution through reduced use of chemical substances</p>	
<p>Combination of Kampo medicine and Western medicine through the following:</p> <ul style="list-style-type: none"> • Enhancement of evidence collections (→ page 31) • Kampo medicine seminars and promotion activities targeting medical practitioners (→ page 32) • Kampo medicine education support for medical school students (→ page 32) <p>Reinforcement of geriatric health initiatives after defining as important domain (→ pages 15 and 29)</p> <p>Challenge of new businesses in China (→ pages 16–19)</p> <p>Sale of Kampo medicines at appropriate prices</p>	<p>Expansion of treatment options and improvement of treatment effectiveness through the combination of Kampo medicine and Western medicine</p> <p>Reduction of healthcare spending through the use of Kampo medicines with multiple effects</p> <p>Contributions to the health of people in China</p>	
<p>Facilitation of contributions of diverse human resources (→ pages 34–37)</p> <p>Promotion of compliance (→ page 46)</p>	<p>Contributions by diverse human resources</p>	

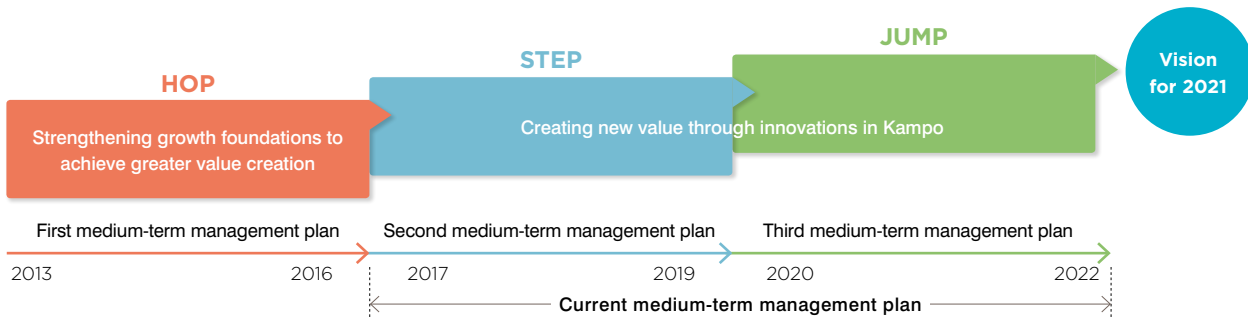
* Sectors that are characterized by business models in which primary industry sectors, such as agriculture and fishing, also take part in food processing and wholesale.

Medium-Term Management Plan

In fiscal 2017, Tsumura launched its six-year medium-term management plan. Formulated based on the Company’s Vision for 2021 long-term business vision, “Aim to be a value-creation company that contributes to people’s health through its Kampo business,” this plan is centered on the three elements of this vision: (1) The “Kampo” Company, (2) The “People” Company, and (3) The “Global Niche” Company. The theme of the medium-term management plan is “creating new value through innovations in Kampo,” and the plan identifies three strategic challenges: expansion and stable growth in the Kampo medicines market, continued reinforcement of profitability and maximization of cash flows, and challenge of new businesses in China.

Long-Term Business Vision :
Aim to be a value-creation company that contributes to people’s health through its Kampo business

The “Kampo” Company	We will contribute to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan.
The “People” Company	Kampo medicine is a pioneering field with no precedent to build on worldwide. Therefore, we shall evolve into a corporate group comprising people with professional skills who can independently pave the way forward for our Kampo business and who are trusted by all.
The “Global Niche” Company	Leveraging the technology and know-how of the Tsumura Group to their full extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.



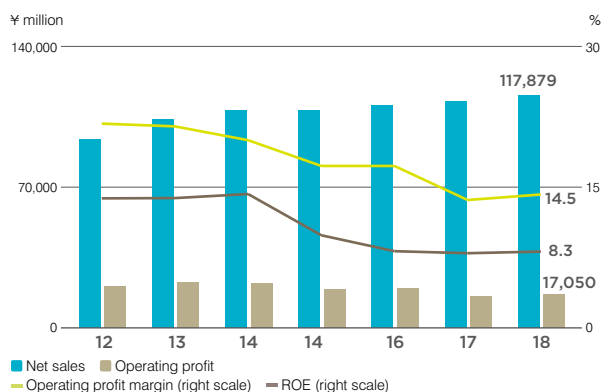
Seeking to accomplish its long-term business vision, Tsumura will continue its efforts to expand the Kampo market in pursuit of ongoing sales growth.

A downward trend in profit margins emerged during the period of first medium-term management plan as rising costs weighed heavier on profits due to higher raw material crude drug prices and low selling prices stemming from NHI drug price revisions. Regardless, year-on-year increases in net sales, operating profit, ordinary profit, and profit attributable to owners of parent were achieved in fiscal 2018. This accomplishment indicates that the prior declines in profit margins have come to an end, leading to an improvement in profit margins in fiscal 2018 resulting from lower crude drug-related costs as well as reduced processing expenses due to higher productivity.

Moving forward, Tsumura will continue to advance the measures put forth by the medium-term management plan

while responding to market changes in order to reinforce the Kampo value chain and thereby achieve further growth.

Seven-Year Performance Trends



STRATEGIC CHALLENGE

1

Expansion and Stable Growth in the Kampo Medicines Market

Japan is recently faced with a declining population stemming from population aging and a falling birth rate. Nonetheless, we see significant potential for the growth of the Kampo product market. In Japan's rapidly aging society,* the rise in diseases that become more common with age, such as dementia and cancer, is becoming an even more pressing social issue. At the same time, women are increasingly filling the gaps in the shrinking workforce, creating additional demand for the treatment of illnesses that are unique to women. Kampo has always demonstrated high effectiveness in relation to senior health, contribution to cancer treatments by alleviating the side effects of anticancer drugs and providing supportive care, and sex differences in medicine. In light of these strengths, Tsumura has identified the three important domains of geriatric health; cancer, supportive care in particular; and women's health. Meanwhile, the establishment of scientific evidence on the efficacy of Kampo products is serving to increase understanding of and interest in Kampo formulations among medical practitioners. We are therefore committed to growing the Kampo product market, and consequently our business, by accelerating efforts to establish scientific evidence and engaging in accurate marketing activities.

* According to the digest version of the fiscal 2017 edition of Annual Report on the Aging Society released by the Cabinet Office, 27.3% of Japan's population was over the age of 65 in October 2016, the highest level in the world.

STRATEGIC CHALLENGE

2

Continued Reinforcement of Profitability and Maximization of Cash Flows

Tsumura procures roughly 80% of the raw material crude drugs it uses to produce Kampo formulations from China. In this country, there is robust demand for traditional Chinese medicines, which are made from the same types of crude drugs used in Kampo formulations. As a result, the costs of crude drugs are rising continuously. Tsumura will also be forced to face declines in the selling prices of its Kampo products due to NHI drug price revisions in the future.

Accordingly, an important challenge needing to be overcome to achieve growth in the medium term will be reducing costs and improving profitability to an extent that offsets or exceeds the impacts of rising crude drug costs and falling selling prices. Tsumura is working to surmount this challenge by securing and increasing sources of stable supplies of crude drugs through the ongoing expansion of Cultivated Land under Own Management. In addition, we are boosting the fundamental production capacity of existing facilities, continuously introducing and broadening the scope of application of new production technologies to increase productivity, optimizing supply chains, heightening labor productivity, and implementing other measures.

STRATEGIC CHALLENGE

3

Challenge of New Businesses in China

Tsumura has fostered a strong relationship with China through its years of operation, and we have long received requests to provide high-quality crude drugs produced based on Tsumura's guidelines for use in the Chinese market. These requests prompted us to include the challenge of new businesses in China as one of the strategic challenges of the current medium-term management plan. By tackling this challenge, we hope to expand the Kampo product market and secure a stable supply of crude drugs and, more important, to contribute to the health of people in China, the country that has supplied us with crude drugs for so many years.

Concrete initiatives are already underway in China, with our commencing of both a crude drug pieces for decoction business and a traditional Chinese medicine compound granule business in fiscal 2017 and our embarking on a capital and business alliance with Ping An Insurance (Group) Company of China, Ltd., the holding company for a major Chinese insurance group, in fiscal 2018. We aim to grow the scale of these operations to produce net sales of a similar level as that currently seen in our domestic operations over the next decade.

Businesses in China

One of the strategic challenges described in Tsumura’s medium-term management plan is the challenge of new businesses in China. To this end, we commenced a business for selling crude drug pieces for decoction*1 to the Chinese market in fiscal 2017, and we have been advancing research and development on the production of traditional Chinese medicine compound granules.*2

Moreover, we formed a capital and business alliance with Ping An Insurance (Group) Company of China, Ltd., the holding company for a major Chinese insurance group, in September 2017 with the aim of furthering the expansion of our businesses in China. This alliance led to the establishment of joint-venture company Ping An Tsumura Inc. in June 2018.

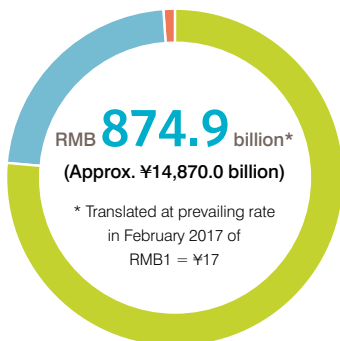
With the goal of cultivating the No. 1 traditional Chinese medicine*3 brand in the Chinese market, Ping An Tsumura will reinforce its crude drug procurement systems while developing a business related to analysis and research focused on traditional Chinese medicines along with businesses related to traditional Chinese medicines, health foods, and healthcare-related daily necessities. We look forward to contributing to the health of the people of China by leveraging the strengths of both parties in this alliance and heightening our corporate value as the “Global Niche” Company.

*1 Crude drug pieces for decoction are raw material crude drugs that have been chopped.

*2 Traditional Chinese medicine compound granules are granules used in preparing traditional Chinese medicines in a similar manner to crude drug pieces for decoction. These products are made by extracting a single crude drug from crude drug pieces for decoction and then submitting them to the separation, condensation, drying, mixing, and granulation processes.

*3 Traditional Chinese medicine is a medicinal formulation that is used as part of traditional Chinese medical practices.

Scale of Traditional Chinese Medicine Market in China (2016)



■ Traditional Chinese medical products ■ Crude drugs
■ Traditional Chinese medicine compound granules

Source: CFDA Southern Medicine Economic Research Institute, Ministry of Industry and Information Technology

Projected Sales of the Tsumura Group in China in Fiscal 2028

RMB **10.0** billion* (Approx. ¥170.0 billion)

* Translated at prevailing rate in February 2017 of RMB1 = ¥17

(The figures above represent the Company’s assumptions based on information available at the time of publication of this report and therefore contain a certain degree of risk and uncertainty.)

Business Categories



Details of Operations in Each Business Category

Traditional Chinese Medical Products*4, etc. (Over-the-counter drug, health foods, healthcare)	Crude Drugs (Raw material crude drugs, crude drug pieces for decoction)	Traditional Chinese Medicine Compound Granules	Analysis
Development, manufacture, and sale of traditional Chinese medical products and other products by applying formulation and product development technologies accumulated through Kampo and crude drug businesses	Procurement, processing, and sale of raw material crude drugs and crude drug pieces for decoction → Target development of new businesses that create markets by supplying high-quality crude drugs based on stringent standards	Participation in focus market of traditional Chinese medicine with system integrating everything from research and development to manufacturing and sales	Establishment of analysis institutions for developing standards for high levels of quality in traditional Chinese medicines → Create foundations for branding in each business through analysis operations

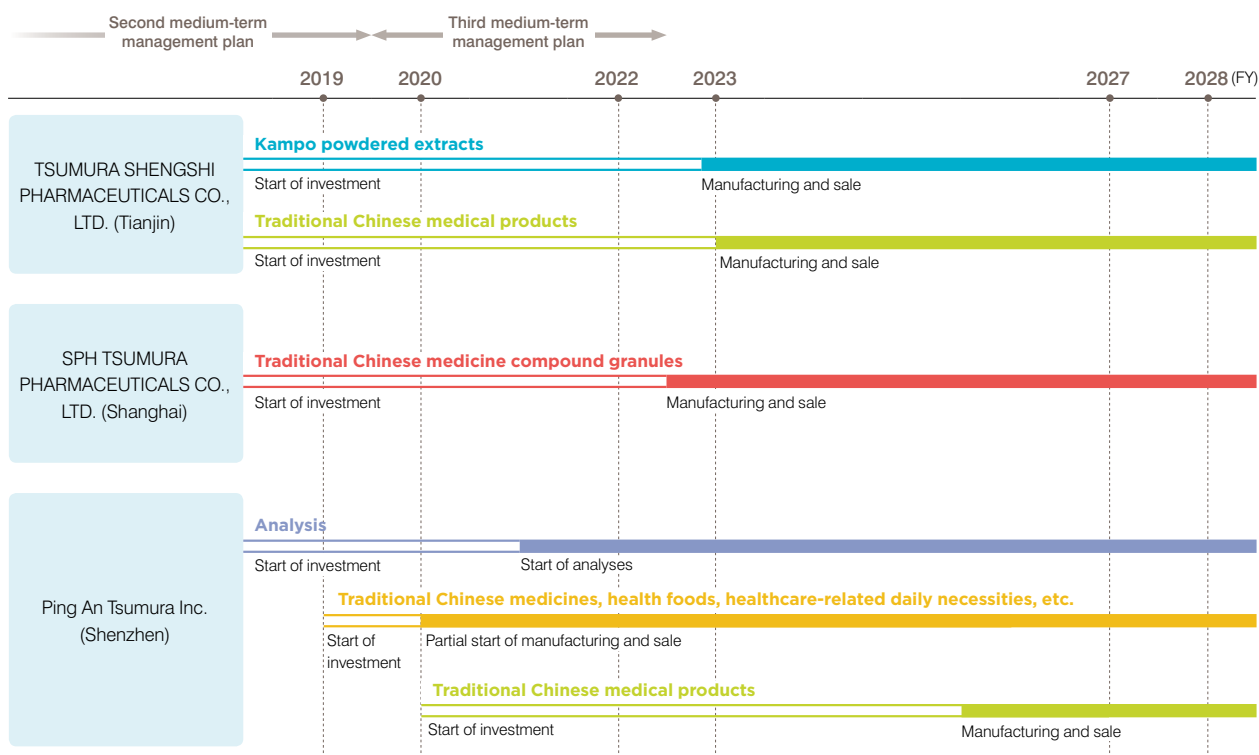
*4 Traditional Chinese medical products are traditional Chinese medicines that have been produced through industrial processes.

Overview of Businesses in China



* Currently, TSUMURA & CO. invests directly in SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., and SHENZHEN TSUMURA MEDICINE CO., LTD. In the future, however, the Company will transition to indirect investment through Tsumura China Inc.

Business Timetable for New Joint Ventures Established in Fiscal 2017 and Later



Message from Heads of Businesses in China



Managing Executive Officer
Chief Representative in China
In charge of China Coordination
Department
In charge of Botanical
Raw Materials Division

Koin Toda

Director
Managing Executive Officer
Head of Corporate Planning
Department

Susumu Adachi

Capital and Business Alliance Made Possible by Shared Ideals and Trustworthy Quality

Throughout its history, Tsumura has predominantly supplied its products to the Japanese market. For us, the challenge of new businesses in China described in the medium-term management plan was exactly that, a challenge. One reason for this challenge was the high bar for entry into the Chinese market. There were already many local Chinese companies competing in the traditional Chinese medicine market. We were therefore made keenly aware of the fact that it would be vital for us to form partnerships with prominent Chinese companies if we were to develop our businesses in China with greater impact and speed.

It was when we were pondering this situation that Ping An reached out to us. With the goal of strengthening its own healthcare operations, Ping An sought to partner with Tsumura. This decision on the part of Ping An was made out of recognition of the fact that we manufactured Kampo products, which are made using the same crude drugs as traditional Chinese medicines, and that we possessed sophisticated quality management and manufacturing technologies. This led to our forming a capital and business alliance. We were attracted by the brand image and financial base that Ping An had fostered in the Chinese market. However, perhaps an even greater factor behind our decision to form this alliance was that we both shared the same ideals, by which I mean a desire to contribute to people's health through businesses in the medical field. Another factor was that we were able to reach an agreement that Tsumura would handle everything on the manufacturing side of operations. This agreement was based on an understanding of the importance of the safety and uniformity of crude drugs to support Tsumura's competitiveness and of the costs and labor needed to realize these qualities.

Moreover, Ping An founder Ma Mingzhe is a big fan of Tsumura's Kampo products, apparently purchasing our products every time he comes to Japan. Chairman and CEO Mingzhe has praised Tsumura as a "craftsman's company," due to our ability to continue producing and selling high-quality Kampo products over the course of 125 years. He was passionate about bringing Tsumura's quality products to the Chinese market and also stated that our corporate value should be more highly rated.

Outlook for Business Merging the Strengths of Both Companies

Ping An Tsumura, the joint venture created through this alliance, will initially develop its operations centered on crude drugs, but we are eyeing traditional Chinese medical products for the future.

This company was established through 44% investment by Ping An and 56% investment by Tsumura, and a majority of the officers dispatched to this company come from Tsumura. Through this arrangement, Tsumura will guide the overall course of business while Ping An's strengths, specifically, its wealth of insight and robust network in the Chinese market, will be utilized in distribution and sales. We have particularly high expectations for Ping An's superior sales channels, which include Ping An Good Doctor,* China's largest Internet healthcare management platform. Another massive strength of Ping An is its breadth of information and extraordinary analytical capabilities, which can be used to determine the types of products that are in demand among specific customer groups and the best channel for supplying these products to these customer groups.

Meanwhile, the Tsumura Group's exceptional local employees will no doubt be a powerful asset for ensuring the success of this undertaking. SHENZHEN TSUMURA MEDICINE and SHANGHAI TSUMURA PHARMACEUTICALS have engaged in the procurement of raw material crude drugs and the manufacture of powdered extracts, an intermediate form of Kampo products, in China for many years. These companies have been promoting locally hired employees to management positions, and these managers are propelling us forward in our businesses in China. These individuals have a deep understanding of the idea of "management that is rooted in basic principles" preached by Tsumura and embody the commitment to quality and the product creation spirit of the Company. We plan to fully capitalize on the talents of these individuals in order to develop our businesses in China into a powerful growth driver for the entire Tsumura Group.

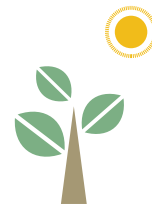
* Ping An Good Doctor is a website comprising a network of 1,000 online physicians employed by Ping An and over 60,000 partner physicians and 5,000 partner hospitals. With more than 150 million registered users, this website is used to process upward of 250,000 symptom reports a day.

The Tsumura Group's Long-Term Vision for Its Businesses in China

The Tsumura Group has built a strong relationship with China over the course of 40 years. We hope to maintain this relationship into the future as we pursue further growth while making wide-reaching contributions to the health of the people of China.

Since fiscal 2017, we have established three subsidiaries in China—Tsumura China, TSUMURA SHENGSHI PHARMACEUTICALS, and Ping An Tsumura—while also founding SPH TSUMURA PHARMACEUTICALS. We are now driven by our commitment to ensuring the success of our new businesses in China through a Groupwide effort calling on the technologies, expertise, and human resources we have cultivated in our Kampo and crude drug businesses to date and fully utilizing the assets of our local partners. Our ultimate goal in these businesses is to become a group that is viewed as necessary by the people of China by supplying this country's market with high-quality traditional Chinese medicines.

Moreover, we expect that the interaction between our Japanese and Chinese employees will prove mutually stimulating and spur their ongoing development as we similarly seek to rapidly grow the Group through synergies.



Cultivation and Procurement of Raw Material Crude Drugs

The ability to secure supplies of quality raw material crude drugs is imperative to the manufacture of Kampo products.

Tsumura sources roughly 80% of the raw material crude drugs used in its Kampo products from China, approximately 15% from Japan, and around 5% from Laos, among other countries. We have developed and are enacting a medium-to-long-term plan designed to guarantee our ability to stably procure crude drugs of the required quality. Based on long-term, Kampo product demand projections, this plan targets the expansion of crude drug production sites in Japan and overseas and the augmentation of our capabilities in relation to preparation and processing, selection and processing,*

and quality management. The recent rise in crude drug prices is having a heavy impact on the Company's earnings. For this reason, controlling procurement costs is a matter of urgency. Measures for addressing this task are centered on the expansion of Cultivated Land under Own Management.

At the same time, Tsumura recognizes that it is dependent on naturally derived crude drugs. We are therefore committed to preserving the natural environment through efforts to protect the biodiversity of crude drug producing areas while also protecting and nurturing crude drugs that are grown in the wild.

* Selection and processing is the process of removing foreign particles and conducting final inspections of crude drugs after preparation and processing.

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

- Expanding the area of Cultivated Land under Own Management
- Enhancing and streamlining procurement systems based on competition principles
- Controlling crude drug inventory

Social Value Created by Tsumura

- Invigoration of primary industry sectors and development of sextiary industry sectors through the expansion of Cultivated Land under Own Management
- Invigoration of local communities through Cultivated Land under Own Management in Japan
- Creation of local employment opportunities, transference of cultivation techniques, and development of infrastructure in China and Laos
- Improvement of efficiency and preservation of biodiversity through development of crude drug cultivation techniques

Relevant United Nations Sustainability Development Goals



Reliable Crude Drug Procurement Based on Contracts

Tsumura procures 119 varieties of raw material crude drugs for use in manufacturing its 129 prescription Kampo products.

These raw materials are not purchased from the crude drug market. Rather, we adopt a procurement approach of concluding contracts with crude drug production associations and production companies to continuously strengthen our procurement network, which stretches throughout China, Japan, and Laos. In addition to deciding upon procurement volumes and prices in advance, these contracts enable us to assure quality by requiring crude drug production processes to adhere to production standards documents that stipulate the permissible cultivation methods and agricultural chemicals, among other factors, based on the TSUMURA Good Agricultural and Collection Practice (GACP, see page 28) for crude drugs.

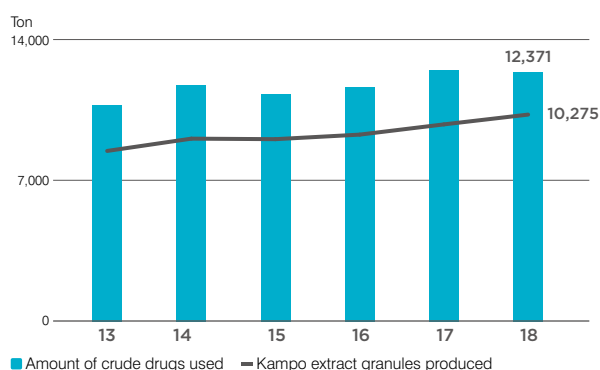
Expansion of Cultivated Land under Own Management

Cultivated Land under Own Management refers to land with regard to which Tsumura provides cultivation guidance and has an understanding of cultivation costs based on which it can set crude procurement prices. Expanding the area of such land is a measure of crucial importance in ensuring reliable crude drug procurement and controlling procurement costs. Meanwhile, the contracts we form with regard to Cultivated Land under Own Management provide the benefit of stable income to farmers and production associations.

Crude Drug Prices

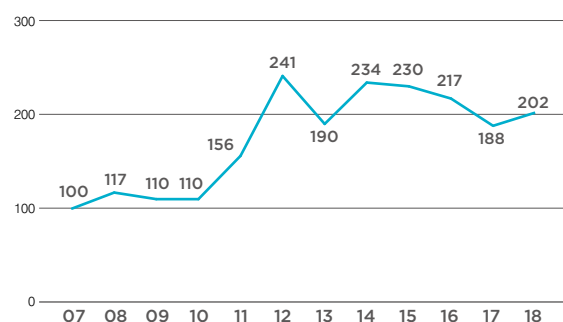
The prices of crude drugs went through a decline after the price of ginseng, which is relatively expensive and frequently used, peaked in fiscal 2014, but these prices took an upturn in fiscal 2018. The overall price of all the crude drugs purchased in China with local currency in fiscal 2018 was slightly lower than initially anticipated, due in part to the favorable outcomes of negotiations with producers. However, we cannot expect a significant decrease in the price of crude drugs over the medium-to-long term given the robust demand for traditional Chinese medicines, which are made from the same crude drugs as Kampo products. Accordingly, we will continue efforts to stabilize crude drug prices by expanding Cultivated Land under Own Management, building upon our ability to negotiate prices, and selecting procurement locations offering more beneficial purchasing prices.

Amount of Crude Drugs Used and Kampo Extract Granules Produced



Overall Procurement Price of Crude Drugs Produced in China

Representation of weighted average of actual prices from producing regions to affiliated companies when fiscal 2007 price is indexed to 100



From fiscal 2017, figures are calculated based on use volumes as opposed to volumes arranged for procurement.

Our Progress

Initiatives for Expanding Domestic Crude Drug Production

Currently, approximately 15% of the raw material crude drugs procured by Tsumura are produced in Japan. We are moving forward with initiatives for expanding the amount of crude drugs produced in regions in Japan in order to address the growing demand for Kampo medicines and mitigate risks arising from the geographic concentration of production.

One major region of Japan in which we produce crude drugs is Hokkaido, where we cultivate around 600 tons of Cnidii Rhizoma, Perillae Herba, Angelicae Radix, Aconiti Tuber, and other crude drugs per annum. In the future, we are planning to enlarge our cultivation areas throughout Hokkaido to 1,000 hectares to expand production volumes to around 2,000 tons a year.

On Honshu, Japan's main island, we are concentrating our production activities and establishing consolidated processing factories.

Furthermore, Tsumura formed a capital and business alliance with MYFARM Inc., a company that possesses a network with producers in Japan as well as cultivation technologies and know-how pertaining to produce such as vegetables, in April 2018. We will seek to forge a strong, long-term, strategic partnership with this company in order to expand raw drug cultivation in Japan going forward.

COLUMN Initiatives with Temiru Farm

Temiru Farm, which is located in Ishikari City, Hokkaido Prefecture, is an agriculture company established in 2010 primarily by the social welfare corporation Harunire no Sato. This company seeks to expand general employment opportunities for differently abled individuals. In April 2010, Group company YUBARI TSUMURA CO., LTD., began contracting Temiru Farm to cultivate crude drugs, and today this company is producing Perillae Herba for the Tsumura Group. In addition, we commenced joint research with Temiru Farm on indoor cultivation of Hoelen in 2010. In China, Hoelen is cultivated over the period of a year using Japanese red pine trees. Indoor cultivation of this crude drug is anticipated to reduce the amount of work required for cultivation while also realizing stable levels of quality that are not influenced by weather. Moreover, as cultivation of Poria sclerotium requires work to be conducted year-round, this undertaking will contribute to ongoing employment. In the future, we plan to engage in other such new business ventures through collaboration with Temiru Farm and Ishikari City.



Perillae Herba



Preservation of Biodiversity

Tsumura's business is based on the manufacture and sale of Kampo products, which are made from naturally derived crude drugs. For this reason, we see the development of cyclical processes for achieving harmony with nature and the preservation of biodiversity as important responsibilities.

Guided by the Tsumura Environmental Policy, which states that we are to "conduct appropriate procurement of raw material crude drugs with regard to biological diversity, in order to enjoy nature's bounty in the future years," we are engaged in various activities, including preserving the biodiversity of crude drug producing areas and cultivating and protecting the wild-grown crude drugs that function as raw materials for Kampo medicines to ensure a sustainable supply into the future.

Biodiversity of Crude Drug Producing Areas

It is said that modern agriculture places an excessive burden on the environment through its reliance on agricultural chemicals. For this reason, we practice caution in our use of such chemicals in the cultivation of crude drugs. For example, we instruct production associations and companies on the appropriate types and use amounts of agricultural chemicals. As another part of our eco-friendly management practices, we have stipulated rules on the method of use of these chemicals, such as preventing the scattering of chemicals so as to avoid adverse effects on living organisms in the areas surrounding cultivation sites.

Protection of Genetic Resources

As the step prior to cultivation, we have proceeded to investigate the natural habitats in which crude drugs are grown and identify their species. We have also long been engaged in the genetic analysis of the medicinal plants that are fundamental to Kampo medicines. Wild plants consist of groups with individual variations in diverse characteristics, such as external form, component substances, and resistance to diseases and pests. Such individual variations reflect diversity at the genetic level. It is therefore important to preserve genetic diversity for the sustainable use of wild plants.

Research on the Cultivation of Crude Drugs Grown in the Wild

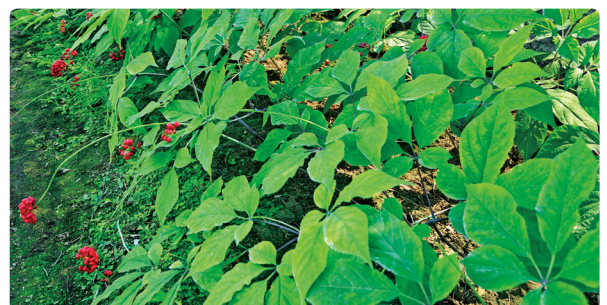
Research on the cultivation of crude drugs grown in the wild is important for the steady production of the raw material crude drugs needed to maintain a stable supply of Kampo medicines.

Growth, crop yield, and quality are known to be affected by such environmental factors as climate, soil, years of cultivation, and timing of harvest, as well as by genetic factors and post-harvest drying and processing conditions. Because cultivating wild-grown crude drugs means changing these

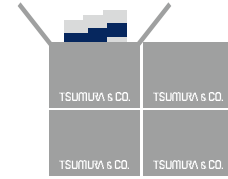
conditions, we are conducting research on crude drugs with a focus on both cultivation and quality.

Crude drugs that do not conform to Japanese Pharmacopoeia and the Japanese Standards for Non-pharmaceutical Crude Drugs cannot be used as raw materials for the production of Kampo medicines. For this reason, we have been conducting research on morphological characteristics and genetic testing techniques and, based on this research, we are proceeding with our own cultivation research using medicinal plants of the correct origin.

Increasing productivity is another important goal of cultivation research. We are therefore examining the introduction of large-scale cultivation techniques that employ machinery and researching means of enhancing said techniques. It is also vital to achieve uniform levels of germination and growth by refining selective breeding and seed production techniques. For efficient weeding and prevention of diseases and pests, keeping the use of agrichemicals to a minimum is necessary. Accordingly, we are conducting research on the selection of optimal agrichemicals from the perspectives of chemical hazards, effectiveness, residue amounts, and other factors. Based on the outcomes of these research projects, we have been registering agrichemicals in accordance with the Agricultural Chemicals Control Act through collaboration with relevant research organizations in Japan.



Ginseng Radix



Manufacturing and Distribution

Tsumura's business model, which specializes in the manufacture and sale of prescription Kampo products, is not found anywhere else in the world. With this distinctive business model, we have accumulated internal expertise pertaining to manufacturing technologies while constructing highly unique production equipment. Presently, Tsumura is engaged in ongoing reforms to its production systems and the continuous development of human resources to staff production floors. Based on medium-to-long-term demand projections, these efforts are aimed at reinforcing the Company's frameworks for providing stable supplies of its products in response to steady growth in the sales of prescription Kampo products.

Under the current medium-term management plan, we have earmarked approximately ¥55.0 billion to be used in capital investments over the six-year period leading up to fiscal 2022. We also intend to boost our production capabilities and efficiency through awareness reforms at production sites. To date, we have augmented the production capabilities of the existing equipment at our principal Shizuoka Plant, Ibaraki Plant, and Shanghai Plant. The construction of a new manufacturing building is also underway at the Ibaraki Plant. Going forward, we will continue to fully utilize the production capabilities of each factory while simultaneously heightening production capabilities through a policy of systematic and phased capital investments.

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

- Improving the production capabilities of existing equipment
- Continuously introducing and expanding use of new technologies for production
- Revising capital investment plans and timing

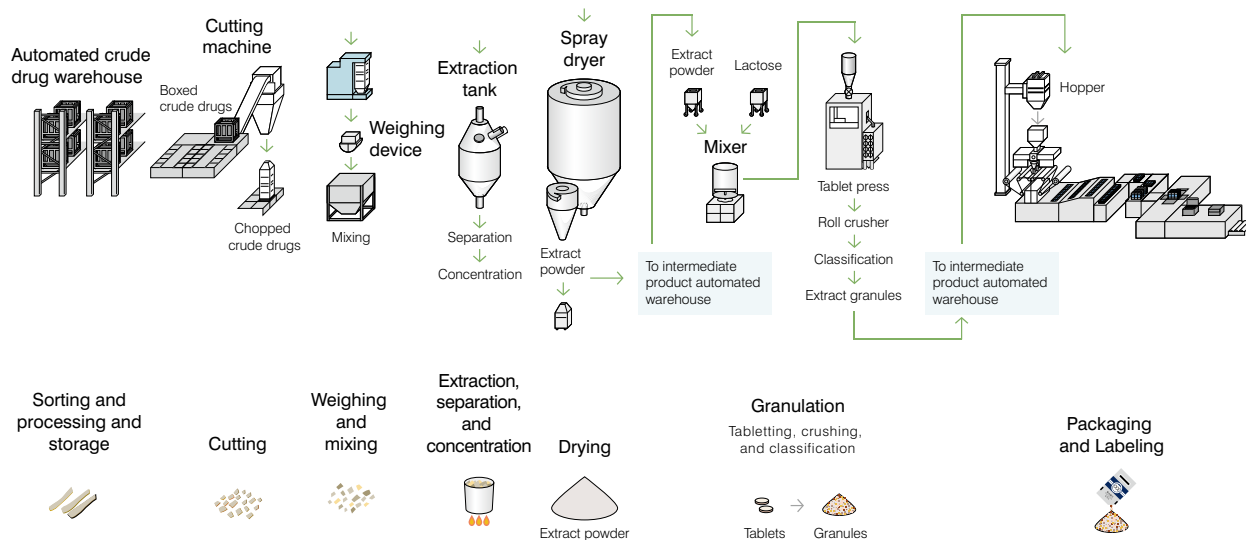
Social Value Created by Tsumura

- Improvement of energy efficiency
- Preservation of water resources and reduction of CO₂ emissions through promotion of recycling
- Improvement of labor productivity

Relevant United Nations Sustainability Development Goals



Kampo Product Manufacturing Process

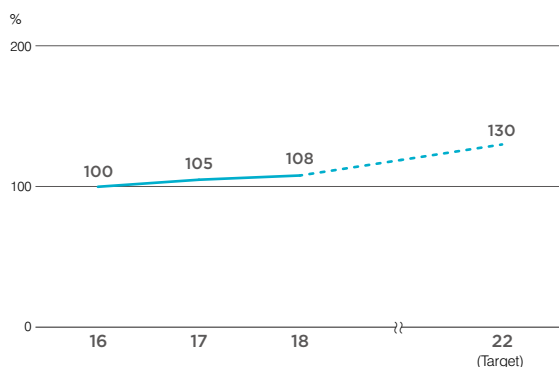


Improvement in Labor Productivity

Robots and other new technologies are being introduced at production sites in an ongoing effort to reduce labor requirements. In addition, we are calculating the per-hour profitability of each subdivision with the aim of heightening cost awareness among all frontline employees.

Under the current medium-term management plan, Tsumura is targeting a 30% improvement in labor productivity in comparison with fiscal 2016's level by fiscal 2022. In fiscal 2018, labor productivity was 8% higher than in fiscal 2016, representing progress in line with plans.

Improvement in Labor Productivity from Fiscal 2016



Energy Conservation and Global Warming Countermeasures

Tsumura is implementing global warming countermeasures focused on the basic principle of energy conservation. These countermeasures include introducing highly efficient equipment and revising operating procedures.

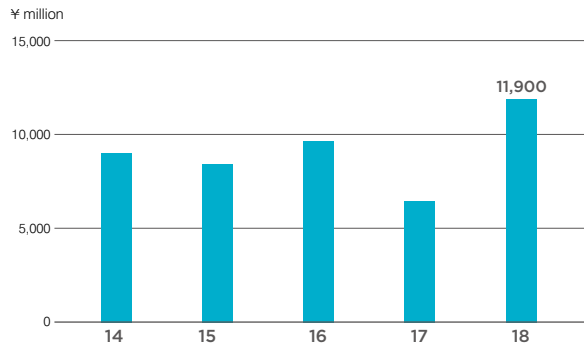
Production divisions endeavor to reduce energy consumption by revising operation control procedures through the use of energy management systems and upgrading to highly efficient equipment. In Kampo extract manufacturing processes, we work to reduce the use of electricity and steam by adjusting the temperature of the water used in processes and introducing a vapor compression system to efficiently collect steam produced from concentrated liquid in concentrating devices. Meanwhile, offices and distribution divisions are making efforts to save energy used for air-conditioning and lighting in addition to replacing all fleet vehicles with hybrid vehicles and utilizing fuel-efficient tires on trucks used for long-distance driving.

Our Progress

Capital Investment

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

Capital Investment



Optimization of the Group's Supply Chain

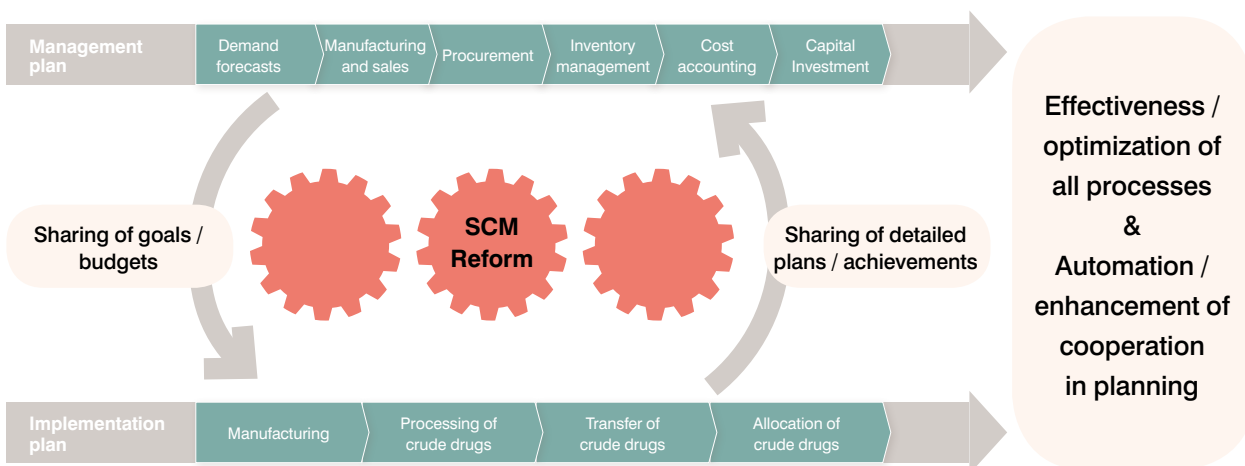
Kampo products are produced through many processes beginning with the procurement of crude drugs through cultivation or other means. Accordingly, we monitor processes across the entire supply chain of the Kampo and crude drug businesses, including individual processes and the stages between those processes within the Group as well as crude drug procurement sites outside of the Tsumura Group and product sales, and work process reforms are implemented based on this monitoring.

For further improvement, we will continue to execute management incorporating the concept of supply chain

management (SCM),* a reform method for realizing further efficiency and optimization. Through SCM reforms, we will improve efficiency and achieve optimization throughout all processes and pursue automation and increased coordination in plan formulation.

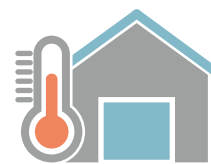
* Tsumura aims to build an SCM system to automate and speed up processes by coordinating sales plans, production plans; raw material crude drug cultivation, allocation, procurement, processing, and transporting; and inventory plans based on demand forecasts.

SCM Reform Overview



- Identify future risks at an early stage through prompt planning and shortening of the rolling cycle
- Optimize the entire supply chain by strengthening coordination between management and work sites and among divisions and bases

Quality Management



With its mission of “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine,” product quality management is of utmost importance to Tsumura. In order to manufacture and sell Kampo products with consistent quality, Tsumura has developed a proprietary integrated system to control the entire process of producing Kampo products. This includes everything from the procurement of raw material crude drugs and the establishment of manufacturing methods and suitable manufacturing equipment for producing Kampo extracts to the management of manufacturing, implementation of quality control, and release onto the market. By implementing a rigorous quality management system, we ensure the quality of finished Kampo products.

Acting in accordance with Tsumura's quality policy, we have established the Tsumura Quality Management System to further improve the quality assurance system, and we promote initiatives that prioritize quality. The Tsumura Quality Management System is a comprehensive system encompassing the entire Tsumura Group, and this system has clarified the role of management in controlling quality. Also, the system is formulated to facilitate appropriate responses to revisions of laws and regulations and globalization (including PIC/S* compliance).

* The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S) is a framework for advancing the internationalization of standards such as good manufacturing practices.

Quality Policy

The Tsumura Group has formulated a quality policy consisting of the following principles in line with its aim of becoming a value-creation company that contributes to people's health through its Kampo business:

- Providing a stable supply of high-quality, reliable products
- Complying with laws and regulations related to pharmaceuticals
- Listening to customer feedback and striving to continuously improve the quality of our products
- Realizing stable procurement of safe crude drugs
- Offering appropriate training to all our executives and employees, and cultivating human resources distinguished by a high degree of awareness
- Adequately allocating our management resources to help achieve these principles

Social Value Created by Tsumura

- Contribution to health through the provision of high-quality Kampo formulations
- Prevention of water pollution through reduced use of chemical substances

Relevant United Nations Sustainability Development Goals



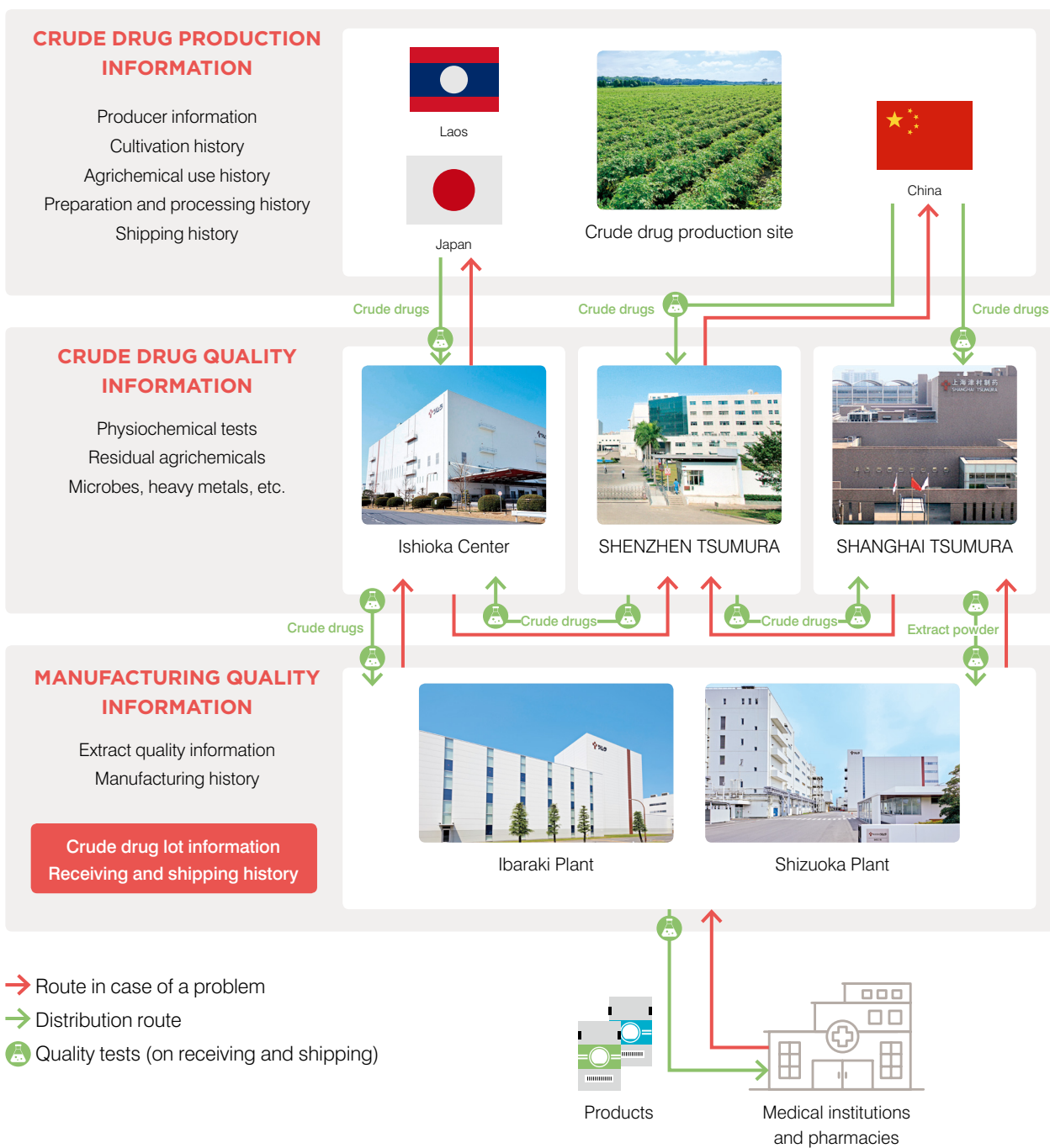
Our Progress

TSUMURA GACP for Crude Drugs

Regulations pertaining to the TSUMURA Good Agricultural and Collection Practice Traceability linking Kampo products to crude drug producing areas have been implemented to further solidify the Company's crude drug safety and quality assurance system.

The TSUMURA GACP for crude drugs includes adhering to guidelines for these practices, utilizing documents pertaining to crude drug production standards, maintaining a traceability system for crude drugs, conducting training and audits, and bestowing certifications. Tsumura's traceability system for

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





Research and Development, Sales, and Marketing

We aim to contribute to creating a healthcare environment in which all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan. To this end, Tsumura's medical representatives (MRs) provide medical practitioners with the latest scientific evidence and other information on its Kampo formulations. In addition to supplying evidence to physicians, MRs plan and hold Kampo medicine seminars for physicians and support education on Kampo medicine at medical schools and universities. MRs thereby work to cultivate understanding with regard to the concept of Kampo medicine itself.

As our basic strategy for expanding the Kampo product market, we have identified three important domains in which to focus our activities: geriatric health, cancer (supportive care), and women's health. On an ongoing basis, we provide information in these domains on basic and clinical evidence, treatment guidelines referencing Kampo medicine, and how to use different formulations based on Kampo medicine.

Looking ahead, we will continue efforts to promote understanding of Kampo medicine and Kampo formulations among medical practitioners while effectively utilizing the latest scientific evidence in a bid to expand the Kampo product market.

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

- Narrowing down important domains and formulations
- Increasing demand and sales forecast accuracy

Social Value Created by Tsumura

- Expansion of treatment options and improvement of treatment effectiveness through the combination of Kampo medicine and Western medicine
- Reduction of healthcare spending through the use of Kampo medicines with multiple effects
- Contributions to the health of people in China

Relevant United Nations Sustainability Development Goals



Our Progress

Establishment of Scientific Evidence

Since fiscal 2005, Tsumura has been concentrating its resources on the establishment of scientific evidence for its Kampo formulations in its research activities. This policy was deployed to recognize the fact that, if Kampo formulations are to become a trusted treatment option in the Japan of today, it will be necessary for these formulations to be understood through the framework of Western medicine. As a product of these efforts, theses on such scientific evidence published in domestic and overseas academic journals have been contributing to a noted change in the perception of medical practitioners with regard to Kampo formulations and Kampo medicine as a whole.

Marketing Activities Utilizing Scientific Evidence

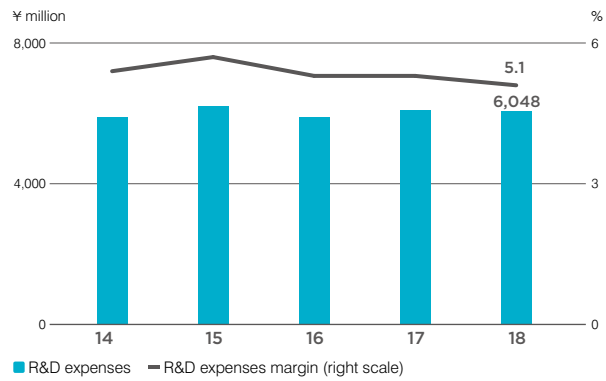
Since fiscal 2005, Tsumura has been working on the establishment of scientific evidence on the efficacy and safety of Kampo formulations, namely, the five “drug fostering” program formulations,*¹ which have been demonstrating special efficacy for certain diseases in fields where medical treatment needs are high and that are difficult to treat with Western drugs. In addition, we defined five “growing” formulations*² in fiscal 2017. Since then, we have been advancing research with the goal of having these formulations listed in medical treatment guidelines.

Through the ongoing supply of such basic and clinical evidence as well as information on how to use different formulations based on Kampo medicine, we have been successful in expanding the Kampo product market. However, the growth of the five “drug fostering” program formulations has started to taper in recent years. Nevertheless, we aim to reignite the growth of these formulations through sales strategies focused on new scientific evidence pertaining to Rikkunshito that was announced in fiscal 2018.

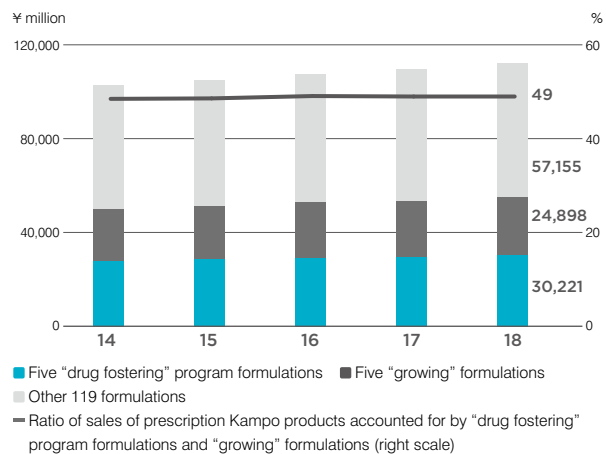
*¹ Daikenchuto, Yokukansan, Rikkunshito, Goshajinkigan, and Hangeshashinto

*² Hochuekkito, Shakuyakukanzoto, Bakumondoto, Kamishoyosan, and Goreisan

R&D Expenses / R&D Expenses Margin



Sales of Prescription Kampo Products (Strategic Formulations)



Enhancement of Evidence Collections

Tsumura is in the process of enhancing its complete evidence collections for the “drug fostering” program formulations and the “growing” formulations. These collections encompass clinical evidence-based medicine; action mechanisms; adverse drug reaction frequency surveys; information on absorption,

distribution, metabolism, and excretion (ADME) as pertinent to pharmacokinetics and pharmacology; and medical economic data. At the same time, we are deploying strategies aimed at achieving the listing of these formulations in medical treatment guidelines through the accumulation of evidence.

Establishment of Scientific Evidence

	Formulation name	Product number	Meta-analysis	RCT* ¹	Action mechanisms	Adverse drug reaction frequency surveys	ADME	Medical economic data	Listing in medical treatment guidelines
“Drug fostering” program formulations	Daikenchuto	TJ-100	1	26	○	○	○	○	Pediatric chronic functional constipation disease, systemic sclerosis, dementing illnesses, chronic constipation
	Yokukansan	TJ-54	3	14	○	○	○	○	Dementing illnesses, use of psychotropic drugs for BPSD* ² for primary care physicians (2nd edition)
	Rikkunshito	TJ-43	—	19	○	Ongoing	○	—	Functional gastrointestinal diseases, the diagnosis and treatment of psychosomatic diseases, gastroesophageal reflux disease, systemic sclerosis
	Goshajinkigan	TJ-107	—	14	○	—	○	—	Overactive bladder syndrome, the pharmacologic management of neuropathic pain, male lower urinary tract illness symptoms, benign prostatic hyperplasia, female lower urinary tract symptoms, diseases in obstetrics and gynecology
	Hangeshashinto	TJ-14	—	6	○	—	—	—	—
“Growing” formulations	Hochuekkito	TJ-41	—	10	○	—	—	—	Female lower urinary tract symptoms
	Shakuyakukanzoto	TJ-68	—	11	○	○	○	—	Amyotrophic lateral sclerosis
	Bakumondoto	TJ-29	—	5	—	—	—	—	Cough, overactive bladder syndrome
	Kamishoyosan	TJ-24	—	4	—	—	—	—	Diseases in obstetrics and gynecology, the treatment and diagnosis of psychosomatic disorders
	Goreisan	TJ-17	—	4	—	—	—	○	Chronic headache, overactive bladder syndrome

Note: Relevant theses exist for areas marked with an ○

*1 Randomized Controlled Trial

*2 Behavioral and Psychological Symptoms of Dementia

(As of May 2018)

Our Progress

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

We have organized a system to link the technologies and know-how that we have developed through our Kampo and crude drug businesses as well as our latest basic and clinical research data in Japan through our “drug fostering” program with product development in the United States. We are now working toward acquiring product approval and launching TU-100 as a prescription pharmaceutical in the United States.

Until now, we have reported the results of adverse drug reaction frequency surveys in Japan to the U.S. Food and Drug Administration (FDA) in response to its inquiries on the safety of plant products. We have also reached a certain level of agreement with the FDA in regard to the scientific quality evaluation method to be used for plant-based medicines made using multiple crude drugs. Meanwhile, the Phase IIa clinical studies for irritable bowel syndrome, postoperative ileus (POI), and Crohn’s disease were completed prior to the end of fiscal 2018.

Through these efforts, we have found that POI is a disorder for which significant unmet medical needs* still remain and that the unique characteristics of the U.S. medical industry are creating substantial demand for means of shortening hospitalization periods and avoiding complications. In addition, TU-100 has indicated significant potential for treating POI. Accordingly, Tsumura has chosen to narrow the scope of its efforts to develop TU-100 for the U.S. market in fiscal 2019 and beyond to target POI. We will coordinate with medical specialists in the United States as well as with our advisory team comprising statistical analysis specialists in order to draft strategies and clinical study plans as we move forward.

* Unmet medical needs refer to needs associated with conditions for which no satisfactory method of diagnosis, prevention, or treatment.

Information Provision Activities for Medical Practitioners

Since fiscal 1998, Tsumura has been engaged in activities aimed at making Kampo medicine more widespread. As part of these activities, we have provided the latest scientific evidence to increase trust in Kampo medicines while also holding various seminars for medical practitioners. Examples of these seminars include introductory Kampo medicine seminars and step-up seminars that take a systematic approach toward learning about Kampo medicine as well as training sessions and lectures for specific fields.

In recent years, team-based medical approaches, which entail wide-ranging coordination among dentists, pharmacists, nurses, etc., are becoming increasingly more important. Accordingly, we continue to conduct information provision activities such as our Kampo luncheon seminars for academic associations for team medical staff and our Kampo medicine seminars for medical staff for catering to the rising demand.

COLUMN Spread of Kampo Medicine in the Education Field

In 1997, only 24 medical colleges and university medical departments in Japan offered courses on Kampo medicine. However, the Ministry of Education, Culture, Sports, Science and Technology included Kampo medicine in the model core curriculum for medical education in 2001, causing education on this subject to spread, which resulted in all medical education institutions in Japan providing Kampo medicine courses in 2004. Today, almost all universities require medical students to take eight Kampo medicine courses in order to graduate. Moreover, the term “*Wakan-yaku* (Kampo product)” was included in the model core curriculum for dentistry and nursing science education in 2017. Including the existing references in curricula for medical and pharmaceuticals studies, the term now appears in four model core curricula. We thus anticipate that, in the future, Kampo medicine education will be promoted.

Message from the Head of Sales & Marketing Division



Flexible Marketing Measures Based on Regional Characteristics

The systems for providing medical services in Japan are undergoing a substantial transformation due to demographic changes and the government drive to construct a Comprehensive Regional Care System. The basic policy of Tsumura's business strategies is to maintain an understanding of the needs of specific regions and to address these needs with finely tuned measures. For example, the ratio of senior citizens and the level of regional coordination between large hospitals and smaller clinics can vary significantly by region. As such, we must alter our sales measures and the formulations on which we focus by region. This was one of the reasons behind the organizational reform instituted in April 2017, which increased the number of regional branches from 12 to 21 and delegated greater authority for sales measures to branch managers. This move has made it easier to implement area strategies tailored to each region and has resulted in greater speed with regard to information dissemination within branches. Moreover, by adopting an approach that is mindful of the circumstances of each hospital, we have witnessed a gradual increase in instances of Tsumura's products being included in clinical paths.*¹ We will continue our proactive advance on this course going forward. One year has passed since the institution of the new organizational structure, and we are seeing increased speed in the execution of strategies and policies by branches. We plan to sustain this momentum as we move forward in fiscal 2019 and beyond.

*1 Clinical paths are standard treatment plans developed by individual hospitals for specific illnesses.

*2 Double-blind, placebo-controlled trials are a type of clinical study in which both patients and doctors are unable to know what treatment method they are administering.

Expansion of Kampo Medicine Market through Effective Utilization of New Evidence

New scientific evidence pertaining to Kampo medicine emerges on a daily basis. There have even been cases in which the superior efficacy and safety of Tsumura's Kampo products have been confirmed through multicenter, double-blind, placebo-controlled trials.*² The establishment of scientific evidence is an effective means of expanding the Kampo product market. At the same time, however, medical practitioners are increasingly expecting even higher-quality evidence. In light of this trend, Tsumura is developing internal MR education programs and strategically prioritizing the institutions MRs should visit to ensure that we are able to make proposals that accurately meet the needs of practitioners at the optimal timing. When new evidence emerges, for example, we may set aside a period of months in which MRs are submitted to extensive education to acquire the necessary specialized knowledge. When positioning the latest evidence as the core of our sales strategies, it is important for us to develop different means of approaching physicians who act as opinion leaders and physicians who treat numerous patients. We therefore exercise flexibility in deciding the specific medical institutions as well as the number of institutions that MRs will visit based on the needs of each institution as well as the relationships between physicians and MRs.

Human Resources

The Kampo business is a pioneering field with no precedent to build upon anywhere in the world. For this reason, human resources are the most important resource to the ongoing growth of Tsumura. It is crucial for Tsumura to be able to cultivate professional human resources who can exercise autonomy in blazing new trails.

Accordingly, we have implemented various training programs to cultivate the professional human resources who will support Tsumura’s ongoing growth.

Tsumura is also proactive in its efforts to support the contributions of diverse human resources.

Relevant United Nations Sustainability Development Goals



Vision for Ideal Human Resources*

The ideal human resources Tsumura envisions are keenly aware of the fact that the growth of the Company is dependent on the growth of individual employees. These employees should be universally trusted; exhibit aspirations, passion, and responsibility; and be able to act with professionalism, independence, and altruism.

* Human resources: The Tsumura Group considers all members of its workforce and management team to be its "treasure," and writes the Japanese word for "human resources" with the character meaning "treasure," rather than using the conventional character meaning "material."

BEING TRUSTWORTHY



ASPIRATIONS, PASSION

Engaging in one’s own work with strong aspirations and passion

RESPONSIBILITY

Recognizing one’s assigned role with a spirit of commitment to completing their mission

PROFESSIONALISM

Mastering outstanding technology with expert knowledge and performing on the job

INDEPENDENCE

Thinking and acting independently

ALTRUISM

Serving others with a caring spirit

Human Resource Development

With the goal of becoming “the ‘People’ Company,” the Tsumura Group is promoting the development of employees who embody its vision for ideal human resources. To support the growth of our employees, we are providing education programs based on level, role, and career as well as specialized education at the divisional level to help employees acquire skills and expertise. Groupwide employee education programs are used to bestow the basic knowledge required by all employees. We also offer training programs and

e-learning programs for managers to help them reaffirm their role in creating suitable work environments and developing their subordinates in addition to their work responsibilities of managing day-to-day tasks and achieving Company goals. Furthermore, to refresh and maintain the skills and knowledge acquired in past training programs, we involve supervisors in the training process in order to improve their ability to guide and develop their subordinates.

Overall Training Scheme for Fiscal 2019

Category Job grade	On-the-job training (OJT)	Off-the-job training													
		Groupwide employee education	Rank-based education		Career-based education	Promotion of women's contributions	Support for voluntary learning	Group company education	Specialty education						
			Rank-based education	Role-based education											
Responsible organization	Employees of corresponding job grade (Especially managers)	Personnel Department									Divisions / departments				
K3	OJT Coordination	Compliance, Tsumura code, education on medication, insider and other information management	Training for employees promoted to K3 K3 follow-up training	Division manager education	Compulsory education for managers and specialists (e-learning)	Career design seminar I	Career design seminar II	Career design seminar III	Life planning seminar	Revitalization seminar	In-house internship and other career-related education	Seminars for supervisors, support for voluntary learning, training for female leaders, and networking events for female employees	e-learning and textbook, video- and DVD-based learning	Education programs at Group companies in Japan and overseas	Specialized education for divisions and departments
K2 P2				New evaluator training											
K1 P1			Training for employees promoted to K1 K1 follow-up training	New section manager training											
S-E5															
S-E4			Training for employees promoted to SE4												
S-E3															
S-E2 S-E1			3rd year follow-up training												
			2nd year follow-up training												
			1st year follow-up training												
			General training for new employees												

Continuous Cultivation of Management Personnel

The Tsumura Academy, an educational institution for educating directors, executive officers, and other management personnel, is scheduled to be established in fiscal 2019 to codify our programs for cultivating management personnel capable of exercising Tsumura's corporate philosophy. This move will be one facet of our efforts to strengthen our organization and improve motivation so that we can continue to be a team of people who are universally trusted and capable of exercising autonomy in blazing new trails in the Kampo business, which has no precedent to build upon anywhere in the world. We

thereby aim to become “the ‘People’ Company,” one of the elements of Tsumura's Vision for 2021 long-term business vision. By further expanding our education programs, we will endeavor to quickly develop a platform for continuously cultivating candidates for future management positions.

Education for Group Companies

The Tsumura Group aims to be an organization in which all employees are united under a shared philosophy, passionate toward accomplishing their mission, and committed to working together as teams to realize greater accomplishments. We

Human Resources

are actively educating employees across the Group with this goal in mind. Since fiscal 2015, we have been moving forward with an effort to codify training programs, particularly those for managers and mid-level employees, and enhance education systems. This effort is being advanced while coordinating with educators at domestic Group companies. In fiscal 2018, we instituted leader training sessions and manager training sessions for local and other management staff at overseas Group company LAO TSUMURA CO., LTD. We will continue



Training at Group company

to accelerate such coordination in education going forward as we strive to create robust foundations and spur the ongoing development of the Tsumura Group.

Global Human Resource Development

Today, the companies and institutions that Tsumura partners with are not limited to Japan; they can be found in China, Europe, the United States, and other parts of the world. It can only be expected that we will continue to further develop our operations on the global stage going forward. For this reason, in fiscal 2019, we will be stepping up efforts to develop human resources who can excel globally. Our first step in this process is to offer language acquisition support for learning English or Chinese while holding cultural sensitivity training sessions for employees who have been with the Company for between one and three years. We will move ahead with the phased development of systems for training global human resources going forward.

Specialized Training for MRs

Role of Tsumura's Medical Representatives

In addition to the traditional roles of providing, collecting, and transmitting information pertaining to a company's pharmaceutical products, Tsumura's medical representatives (MRs) are unique due to their responsibility to promote the spread of Kampo medicine itself. These MRs plan and hold Kampo medicine seminars for physicians, support education on Kampo medicine for medical school students and physicians-in-training, and fulfill a wide range of other roles. Tsumura implements various programs to enhance the knowledge and skills of all MRs to ensure that they can fulfill these roles.

Training for MRs

Training for MRs at Tsumura consists of two types: introductory and ongoing.

Introductory training is designed to help MRs acquire and

build upon the qualities required in their position. Introductory training for new graduates takes place over a period of six months after they join the Company. This training program helps participants acquire the basic ethical standards, knowledge, and skills that Tsumura requires of its MRs and comprises a curriculum designed to help them pass the MR certification examination*; education on the Company's products (Kampo medicines), driving skills, and a wide variety of other topics; and field training.

The goal of ongoing training is to help MRs maintain and improve the qualities expected of their position. This training is provided continuously and systematically on a yearly basis after the completion of introductory training. Specifically, MRs are required to undergo a program that consists of 75 hours of training each year.

* The MR certification examination is a test administered by the MR Education & Accreditation Center of Japan since 1997 with the aim of improving the quality of MRs.

Average Number of Training Hours per MR per Year

	(Hours)				
	Philosophy / policies	Product knowledge	MR activities	Field training	Preparation for MR certification examination
Introductory training for new employees	63	81	47	152	327
Syllabus for first-year training	16	8	8		
Syllabus for second-year training	10	54			
Syllabus for third-year training	10	54			
Syllabus for fourth-year training		16			
Syllabus for fifth-year training		16			
	Ethics	Overview of pharmaceuticals	Information on pharmaceuticals	Diseases and treatments	Product education
Ongoing training	10	10	11	24	31

Note: In addition to the above, various group training sessions are conducted at branches.

Training Sessions to Provide Latest Evidence

As more scientific evidence on the efficacy of Kampo products emerges, physicians are becoming increasingly interested in the latest trends and information pertaining to Kampo. It is therefore absolutely essential for Tsumura's MRs to always remain up-to-date on the latest Kampo evidence to ensure that they are able to respond to this interest by providing accurate information in a timely manner. We therefore invite

university professors and employees from research divisions to hold Companywide and branch-level training in order to help MRs efficiently absorb accurate and highly detailed information. These training sessions, as well as other forums, also serve as opportunities for brisk exchanges of information between MRs, and thus help improve MR motivation by enabling them to acquire new ideas for sales approaches and other information through such exchanges.

Utilization of Diverse Human Resources

Promotion of Employee Diversity

The Tsumura Group aims to be an organization that harnesses the diversity of its employees and in which employees can exercise their full potential to succeed. We have implemented various initiatives to accomplish this objective, including efforts to develop human resource systems and a corporate culture that are blind to gender and nationality. These initiatives earned Tsumura Platinum Kurumin certification in October 2017, signifying it as a company offering high-level support for employees raising children. Also as a result of these initiatives, we received Eruboshi certification in November of the same year for exhibiting excellence based on the Act on Promotion of Women's Participation and Advancement in the Workplace.

Furthermore, the promotion of employment of differently abled individuals has been positioned as a task to be addressed on a Groupwide basis. As a result, we have continuously exceeded the legally mandated ratio of differently abled employees of 2.2% in Japan; our ratio was 2.9% on March 31, 2018.

Appointment of Female Officers and Managers

	Female officers	Female managers
TSUMURA & CO.	2 outside directors	43 managers (of 778 total managers)
SHENZHEN TSUMURA	1 vice president	14 managers (of 39 total managers)
SHANGHAI TSUMURA	1 president 1 vice president	13 managers (of 29 total managers)

(As of March 31, 2018)

Appointment of Non-Japanese Officers and Local Employment Opportunities Overseas

	Locally hired officers	Ratio of locally hired managers
Tsumura China	—	100.0%
SHENZHEN TSUMURA MEDICINE CO., LTD.	2 vice presidents	88.9%
SHANGHAI TSUMURA	1 president 1 vice president	80.0%
LAO TSUMURA	—	71.4%

(As of December 31, 2017)

Health Management

We at Tsumura are responsible for contributing to people's health. It is therefore crucial that we maintain our own health. It is only when people are in good health that they are able to exercise their skills and individuality and to feel energized in their work. Accordingly, we believe energizing employees will enable them to realize high productivity, which in turn will invigorate the organization and boost corporate value. We thus seek to make employees aware of their responsibility to maintain their own health while also providing various support systems to help employees remain mindful of their health and work to improve it.



Corporate Governance

Directors

(As of June 28, 2018)



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

Name**Position**

Year appointed

Number of Company shares owned

Career summary

Terukazu Kato**President and Representative Director
President and Executive Officer****2011****16,900 shares**

Apr. 1986 Joined the Company
Aug. 2001 President and Representative Director, TSUMURA USA, INC.
Jan. 2006 Head of Public Relations Department
Apr. 2007 General Manager of the Company, Head of Corporate Communications Department
Jun. 2011 Director and Executive Officer of the Company, Head of Corporate Communications Department
Jun. 2012 President and Representative Director of the Company
Jun. 2015 President and Representative Director of the Company, President and Executive Officer (incumbent)

Susumu Adachi**Director
Managing Executive Officer****2018****5,100 shares**

Apr. 1987 Joined the Company
Apr. 2013 Head of Corporate Planning Department of the Company
Apr. 2015 General Manager, Head of Corporate Planning Department of the Company
Apr. 2016 Executive Officer, Head of Corporate Planning Department of the Company
Apr. 2018 Managing Executive Officer, Head of Corporate Planning Department of the Company
Jun. 2018 Director and Managing Executive Officer, Head of Corporate Planning Department of the Company (incumbent)

Yasunori Fuji**Director
Senior Executive Officer****2011****22,100 shares**

Apr. 1979 Joined The Mitsubishi Bank, Ltd. (currently MUFG Bank, Ltd.)
Nov. 2008 Advisor to the Company
Apr. 2009 Executive Officer of the Company, Head of the CSR Advancement Department
Jun. 2011 Director of the Company, Head of the CSR Advancement Department
Apr. 2013 Director of the Company, Head of the Internal Control Department
Jun. 2015 Director and Senior Executive Officer of the Company, Head of Compliance Control Department (incumbent)

Shigeru Sugimoto**Director (Outside Director)****2012****4,500 shares**

Apr. 1982 Joined Housing & Urban Development Corporation (currently Urban Renaissance Agency)
Oct. 1985 Joined Ohta Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)
Jun. 1987 Registered as Real Estate Appraiser
Jul. 1988 Representative of Sakura Horwath & Co. (incumbent)
Feb. 1989 Registered as Certified Public Accountant
Mar. 1992 Registered as Certified Public Tax Accountant
Dec. 1995 Representative of Sakura Horwath LLC (currently Sakura Horwath Audit Corporation) (incumbent)
Jun. 2012 Outside Director of the Company (incumbent)
Nov. 2013 Supervisory Officer of Hulic Reit, Inc. (incumbent)

Kenichi Matsui**Director (Outside Director)****2015****1,900 shares**

Apr. 1972 Joined Idemitsu Kosan Co., Ltd.
Jun. 2001 Head of Accounting Department at Idemitsu Kosan Co., Ltd.
Apr. 2003 Executive Officer & Head of Accounting Department at Idemitsu Kosan Co., Ltd.
Jun. 2004 Managing Executive Officer & Head of Accounting Department at Idemitsu Kosan Co., Ltd.
Jun. 2005 Managing Director at Idemitsu Kosan Co., Ltd.
Jun. 2010 Executive Vice President & Representative Director at Idemitsu Kosan Co., Ltd.
Jun. 2014 Outside Director of The Mie Bank, Ltd.
Jun. 2015 Outside Director of the Company (incumbent)
Apr. 2018 Outside Director (Audit and Supervisory Committee Member), The Mie Bank, Ltd. (incumbent)

Hiroshi Miyake**Director (Outside Director)****2018****0 shares**

Apr. 1973 Joined Mitsubishi Corporation
Oct. 2000 General Manager, Paper & Packaging Raw Materials Division, Mitsubishi Corporation
Apr. 2001 Deputy Division COO, General Merchandise Division, Mitsubishi Corporation
Apr. 2003 Deputy General Manager, Kansai Branch, Mitsubishi Corporation
Apr. 2005 Senior Vice President, Mitsubishi Corporation President, Mitsubishi International GmbH, and Deputy Regional CEO for Europe
May 2009 Advisor, Tokai Pulp & Paper Co., Ltd.
Jun. 2009 Managing Executive Officer, Tokushu Tokai Holdings Co., Ltd.
Jun. 2010 Senior Managing Executive Officer, Tokushu Tokai Paper Co., Ltd.
Jun. 2014 Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.
Jun. 2015 Representative Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.
Jun. 2016 Advisor, Tokushu Tokai Paper Co., Ltd.
Oct. 2016 Advisor, Nippon Tokai Industrial Paper Supply Co., Ltd.
Jun. 2018 Outside Director of the Company (incumbent)

Kimikazu Okochi**Director
Audit and Supervisory Committee Member
(Full-Time)****2017****5,000 shares**

Apr. 1981 Joined the Company
Apr. 2010 Head of Accounting Department
Apr. 2014 General Manager of the Company, Head of Accounting Department
Apr. 2017 General Manager of the Company, Audit and Supervisory Board Office
Jun. 2017 Director & Full-Time Audit and Supervisory Committee Member of the Company (incumbent)

Kiyomi Haneishi**Director (Outside Director)
Audit and Supervisory Committee Member****2017****1,000 shares**

Dec. 1993 Joined Ohta Showa Ernst and Young (currently Ernst & Young Tax Co.)
Jan. 1997 Joined Sakura Horwath & Co. Assigned to Sakura Horwath LLC (currently Sakura Horwath Audit Corporation)
Apr. 2000 Registered as Certified Public Accountant
Nov. 2000 Joined Asahi Auditing Co., Ltd. (currently KPMG AZSA LLC)
Oct. 2005 Entered the Ministry of Agriculture, Forestry and Fisheries (as a fixed-term National Public Servant)
Oct. 2009 Joined KPMG AZSA LLC
Mar. 2012 Entered the Consumer Affairs Agency (as a fixed-term National Public Servant)
Sep. 2013 Chief Manager of the Kiyomi Haneishi Certified Public Accountancy (currently Haneishi Kiyomi Certified Public Accountancy and Tax Account Firm) (incumbent)
Nov. 2013 Registered as Certified Public Tax Accountant
Jun. 2015 Auditor of the Company
May 2016 Outside Director of MAXVALU CHUBU CO., LTD.
Jun. 2017 Outside Director & Audit and Supervisory Committee Member of the Company (incumbent)

Mitsutoshi Matsushita**Director (Outside Director)
Audit and Supervisory Committee Member****2017****200 shares**

Apr. 1997 Registered as Lawyer
Joined Kajitani Law Offices (incumbent)
Jun. 2016 Outside Auditor of Pacific Systems Corporation (incumbent)
Jun. 2017 Outside Director & Audit and Supervisory Committee Member of the Company (incumbent)

Corporate Governance

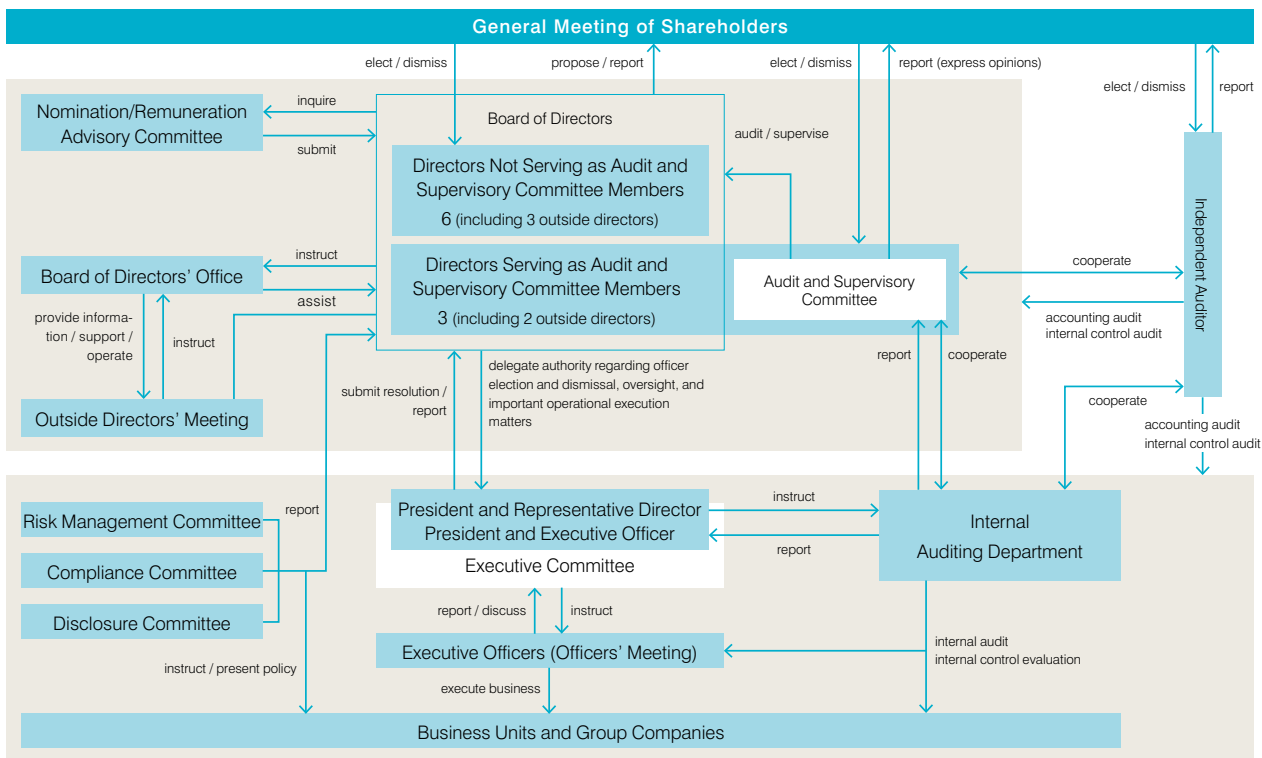
Basic Policy

The basic principles of Tsumura are encapsulated in its corporate philosophy of “The Best of Nature and Science” and in its corporate mission of “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” Guided by these principles, we adhere to a policy of implementing continuous improvements to corporate governance in order to realize ongoing growth and medium-to-long-term increases in corporate value.

After receiving approval at the Ordinary General Meeting of Shareholders held in June 2017, Tsumura transitioned from

the Company with Company Auditor(s) system described in the Companies Act of Japan to the Company with Audit and Supervisory Committee system. Under this system, Tsumura will enhance its management supervision function and innovate its management structure by separating the supervision function from the executive function and by appointing a majority of outside directors to the Board of Directors. These measures will be implemented to continuously establish the systems that will enable the Company to ensure the transparency, improve the efficiency, and maintain the soundness of management.

Corporate Governance Structure



Overview of Corporate Governance System

Board of Directors

As management’s top decision-making body, the Board of Directors, which is composed of a majority of outside directors, makes decisions required by law and the articles of incorporation and about other important matters regarding Tsumura’s business while overseeing the execution of duties by directors. Number of directors: 9 (including 5 outside directors)

Nomination/Remuneration Advisory Committee

The Nomination/Remuneration Advisory Committee is a voluntarily established advisory body to the Board of Directors.

The committee is composed of a majority of outside directors who have also been designated as independent directors as stipulated by the Tokyo Stock Exchange (including one outside director who is a member of the Audit and Supervisory Committee). These outside directors provide advice on matters related to the nomination and compensation of directors and executive officers based on inquiries by the Board of Directors and also submit reports to the Board of Directors on these subjects. Suggestions are made to the Board of Directors as necessary. Number of Nomination/Remuneration Advisory Committee members: 5

Audit and Supervisory Committee

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

Number of Audit and Supervisory Committee members: 3

Outside Directors' Meeting

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

Number of Outside Directors' Meeting members: 5

Executive Committee

The Executive Committee is composed of executive directors, executive officers at the level of managing executive officer or above, and the executive officers responsible for the Accounting Department and the Personnel Department. This committee is responsible for deliberating and making decisions on important items related to operational execution with regard to general management and for discussing matters to be presented to the Board of Directors prior to meetings.

Number of Executive Committee members: 6

Corporate Governance Activities in Fiscal 2018

Item	Details
Annual number of Board of Directors' meetings	20 times
Board of Directors' meetings attended by outside directors (excluding outside directors serving as Audit and Supervisory Committee members)	Shigeru Sugimoto 20 times Kenichi Matsui 20 times Yayoi Masuda 20 times
Board of Directors' meetings attended by outside directors serving as Audit and Supervisory Committee members	Kiyomi Haneishi 14 times Mitsutoshi Matsushita 14 times
Board of Directors' meetings attended by outside Audit & Supervisory Board members	Kuniko Ouchi 6 times Kiyomi Haneishi 6 times
Annual number of Audit & Supervisory Board meetings	10 times
Audit & Supervisory Board meetings attended by outside Audit & Supervisory Board members	Kuniko Ouchi 10 times Kiyomi Haneishi 10 times
Annual number of Audit & Supervisory Committee meetings	17 times
Audit and Supervisory Committee meetings attended by outside directors serving as Audit and Supervisory Committee members	Kiyomi Haneishi 17 times Mitsutoshi Matsushita 16 times
Standards for determination of independence of outside directors	Contained in the Notice of the 82nd Ordinary General Meeting of Shareholders held on June 28, 2018, available through our corporate cite
Audit corporation	PricewaterhouseCoopers Aarata LLC
Audit corporation compensation	¥46 million

Notes:

1. Upon receiving approval at the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, Tsumura transitioned from the Company with Company Auditor(s) system to the Company with Audit and Supervisory Committee system.
2. Figures pertaining to the Audit & Supervisory Board are for prior to the 81st Ordinary General Meeting of Shareholders held on June 29, 2017.

Corporate Governance

Director and Audit & Supervisory Board Member Compensation in Fiscal 2018

Category	Total compensation (¥ in millions)	Basic compensation (¥ in millions)	Stock compensation (¥ in millions)	Number of officers compensated (people)
Directors (excluding directors serving as Audit and Supervisory Committee members) (excluding outside directors)	179	160	19	3
Outside directors	30	30	—	3
Directors (excluding directors serving as Audit and Supervisory Committee members) Total	209	190	19	6
Directors serving as Audit and Supervisory Committee members (excluding outside directors)	18	18	—	1
Outside directors	15	15	—	2
Directors serving as Audit and Supervisory Committee members Total	33	33	—	3
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	11	11	—	2
Outside Audit & Supervisory Board members	3	3	—	2
Audit & Supervisory Board members Total	15	15	—	4

Notes:

- Upon receiving approval at the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, Tsumura transitioned from the Company with Company Auditor(s) system to the Company with Audit and Supervisory Committee system.
- Figures for directors (excluding directors serving as Audit and Supervisory Committee members) include data pertaining to individuals who were directors prior to the transition to the Company with Audit and Supervisory Committee system.
- Figures for compensation paid to Audit & Supervisory Board members are for prior to the transition to the Company with Audit and Supervisory Committee system. Figures for compensation paid to directors serving as Audit and Supervisory Committee members are for after the transition to the Company with Audit and Supervisory Committee system.
- Figures for compensation paid to directors (excluding directors serving as Audit and Supervisory Committee members) do not include employee salaries paid to directors who also serve as employees of the Company.
- Figures for stock compensation represent the amount of related expenses recorded in fiscal 2018.
- Based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, the upper limit for compensation (basic compensation) for directors (excluding directors serving as Audit and Supervisory Committee members) is ¥600 million per annum (not including employee salaries). Prior to the transition to the Company with Audit and Supervisory Committee system, the upper limit for compensation (basic compensation) for directors was ¥50 million per month (not including employee salaries) based on a resolution of the 70th Ordinary General Meeting of Shareholders held on June 29, 2006.
- Based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, the upper limit for compensation (basic compensation) for directors serving as Audit and Supervisory Committee members is ¥72 million per month.
- Based on a resolution of the 69th Ordinary General Meeting of Shareholders held on June 29, 2005, the upper limit for compensation (basic compensation) for Audit & Supervisory Board members is ¥6 million per month.

Methods of Determining Compensation for Directors and Executive Officers

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

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

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

- Monetary basic compensation is paid as an annual sum of no more than ¥600 million,*¹ and the amount paid to each director is decided on an individual basis. For the representative and other directors with operational execution authority, basic compensation is determined based on standards that account for roles, duties, and rank, and a portion of this

compensation is adjusted to reflect the Company's business results and the degree of accomplishment of performance goals set for each director in the respective fiscal year. Outside directors and other directors without operational execution authority receive a fixed amount of basic compensation based on their roles in supervising operational execution.

- The Company has introduced a performance-linked stock compensation plan with the aim of enhancing awareness among directors toward contributing to the sustained growth of the Company through the improvement of its medium-to-long-term performance in accordance with the medium-term management plan and to increased corporate value.

Overview of the Performance-Linked Stock Compensation Plan

The performance-linked stock compensation plan is available to directors, excluding directors serving as Audit and Supervisory Committee members and non-operating directors, as well as to executive officers with whom the Company has concluded delegation agreements (referred to collectively as "directors, etc." hereinafter). In this incentive plan, directors, etc. are granted common shares of the Company's stock based on the degree of achievement of targets set for designated performance indices in accordance with their roles, duties, and rank. Common shares of the Company's stock are scheduled to be granted to directors, etc. after the conclusion of the period defined below.

Framework of the Performance-Linked Stock Compensation Plan

As described in "Period of the Performance-Linked Stock Compensation Plan" below, the plan will cover a period of three fiscal years, after which common shares of the Company's stock will be granted to directors, etc. based on the degree of achievement of targets set for designated performance indices in the final fiscal year of the applicable period in accordance with their roles, duties, and rank. The delivery of common shares of the Company's stock to directors, etc. will be conducted through the issuance of new shares by the Company or through the allocation of existing treasury stock, and the

specific directors, etc., to whom common shares will be delivered and the number of common shares to be delivered will be decided by the Board of Directors after the conclusion of the period of the plan. In delivering common shares, the Company will grant directors, etc. monetary compensation claims, and the directors, etc., will acquire common shares by making an in-kind contribution of the monetary compensation claims at the time of the issuance of shares or the disposal of treasury shares. The upper limit of the total amount of monetary compensation claims shall be ¥300 million (based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017). The amount of the monetary compensation claims will be determined by the Board of Directors to the extent that it is not unduly favorable to directors, etc. that will receive allotments of its common shares. As the amount of common shares of the Company's stock to be allocated is to be determined based on the degree of achievement of targets set for designated performance indices in the disclosed medium-term management plan, it has not yet been decided whether common shares will be granted, to which directors, etc. these shares will be granted, and the number of common shares that will be granted.

Period of the Performance-Linked Stock Compensation Plan

The period for the performance-linked stock compensation plan shall be the three-year period covered by the medium-term management plan (from fiscal 2017 to fiscal 2019). In addition, after the end of the initial period for the plan, the Board of Directors may resolve to continue the plan, within the scope approved at 81st Ordinary General Meeting of Shareholders, to cover the three-year period spanning from fiscal 2020 to fiscal 2022.

Number of Shares to Be Granted to Directors, etc., through the Performance-Linked Stock Compensation Plan

The Company calculates the number of common shares to be granted to individual directors, etc., by multiplying the number of reference deliverable shares (determined according to the criteria of compensation based on roles, duties, and rank of individual directors, etc.) by the achievement ratios of the targets for consolidated net sales, consolidated operating profit, and consolidated ROE set for fiscal 2019, which are defined in the medium-term management plan, in accordance with the applicable numerical target allocation ratios. The number of deliverable shares will be rounded down to the nearest trading unit.

Calculation Formulas

Reference deliverable shares

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

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

Number of shares to be issued to individual directors, etc.

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

* "Achievement ratios for numerical targets" is determined based on the achieved degree, within the range of 0% to 120%, with the level corresponding to the numerical target set at 100%.

Numerical Targets for Fiscal 2019

Net sales: ¥120.0 billion

Operating profit: ¥14.0 billion

ROE: 6%

The upper limit of the total number of common shares the Company will grant to directors, etc. shall be equivalent to 60,000 shares during the period of the plan (based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017), provided, however, that, if the total number of issued shares of the Company increases or decreases as a result of stock consolidations, stock splits, gratis allotments issued of shares, etc., this upper limit and the number of issued shares to be granted to directors, etc. shall be reasonably adjusted according to the consolidation ratio, split ratio, allotment ratio, etc. pertaining to shares.

Requirements for Allocation of Common Stock through the Performance-Linked Stock Compensation Plan

Under the performance-linked stock compensation plan, the Company shall grant common shares of its stock to directors, etc., after the conclusion of the period on condition that the requirements described below are satisfied:

- The individual was a director, etc. during the plan period
- The individual has not been engaged in wrongful or illegal conduct
- The individual meets other conditions set by the Company that are deemed consistent with the purposes of the plan

- 1) Directors, etc., who retire from office during the plan period will receive allocations of common shares prorated to the number of years they held office prior to the time of retirement.

- 2) Directors, etc., who are newly appointed during the plan period will receive allocations of common shares prorated to the number of years in office.
- 3) If a director, etc., passes away during the plan period, the individual entitled to the inheritance of the director, etc., will receive an amount of money calculated by multiplying the market price of the common shares of the Company at the point of the passing of the director, etc., by the number of reference deliverable shares prorated to the number of years in office, without accounting for the achievement ratio of numerical targets of the director, etc.

Directors Serving as Audit and Supervisory Committee Members

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

Evaluations of the Board of Directors' Effectiveness

For the purpose of improving the effectiveness of the Board of Directors, all nine directors, of whom five are outside directors, were asked to fill out surveys on the effectiveness of the Board of Directors in fiscal 2018. The results of those surveys were discussed at a meeting of the Board of Directors held in May 2018 along with the issues identified and the measures for addressing those issues. The results of the discussions are described below. The Company will continue to implement a unique PDCA cycle going forward with the aim of realizing further improvements in the effectiveness of its Board of Directors.

1. Areas Evaluated

- (1) Composition of the Board of Directors
- (2) Roles and duties of the Board of Directors
- (3) Proceedings of the Board of Directors
- (4) Enhancement of discussions at meetings of the Board of Directors and of related information provision
- (5) Relationship between the Board of Directors and shareholders and other stakeholders
- (6) Others (policies regarding issues identified by individual directors)

2. Overview of Evaluation Results

The Board of Directors was found to generally be functioning appropriately and to be effective overall.

Highly Evaluated Areas

- Appropriate number of directors with a majority of those directors being outside directors
- Strong oversight of effectiveness of management and of the Board of Directors
- Proceedings managed well at Board of Directors' meetings to create an atmosphere that is conducive to frank and open discussions
- Appropriate leadership exercised at meetings of the Board of Directors by the chairman, making for smooth progress regarding the agenda

Issues and Response Measures

- Provision of training opportunities to endow directors with the insight and knowledge necessary for carrying out new business ventures and other enhancements to systems
- Decision of succession plan for president after enhancing functionality of Nomination/Remuneration Advisory Committee and engaging in constructive discussions at meetings of the Board of Directors
- Further improvement of provision of information regarding background for major agenda items, discussion history, and other factors

Message from an Outside Director



Shigeru Sugimoto

Director
(Outside Director)

In-Depth Discussions at Outside Directors' Meeting

Tsumura transitioned to the Company with Audit and Supervisory Committee system described by the Companies Act of Japan on June 30, 2017, at which point the Board of Directors came to be membered by a majority of outside directors. A significant amount of authority was also delegated to the Executive Committee, allowing the Board of Directors to focus on a more carefully selected range of proposals. I became an outside director at the Company in June 2012, six years ago. I feel as though, now more than ever, I am expected to provide highly valuable advice, and I am devoted to living up to this expectation.

Tsumura has in place the frameworks needed to reinforce corporate governance, and those frameworks are of a very high quality. For example, the Outside Directors' Meeting, which is attended by only outside directors, has been convened almost every month since 2015. One of the functions of this meeting is to address gaps in our understanding. These gaps can arise from a lack of specialized knowledge or an inability to grasp the entirety of the discussion process at internal meetings. It is important to make sure that these gaps do not go unaddressed. The Outside Directors' Meeting provides a forum where outside directors can state the areas about which they are unclear to gain a better understanding of the matters at hand prior to meetings of the Board of Directors. This approach allows for more lively and meaningful discussions to take place at Board meetings. The proposals presented to the Board of Directors do not only come from inside the Company; there are also cases in which proposals are submitted by outside directors. As outside directors offer such input based on their own unique experience, discussions at Board meetings can become very vigorous.

Quantitative Verification of Worst-Case Scenarios and Implementation of PDCA Cycle

I believe that Tsumura has always been a company that takes a logical approach in its activities. This inclination to logic can be seen in its corporate philosophy of "The Best of Nature and Science." With my background as a certified public accountant, I too see myself as a very number-oriented person. When making decisions, I like to evaluate the pros and cons of each option based on numerical data as much as possible. Such a logical approach was adopted during the discussions leading up to the commencement of the capital and business alliance with Ping An. We, of course,

considered the investment amount and the intended business scheme. The examination did not stop there, however. We looked at the synergies that could be expected with Ping An, its corporate values, and otherwise examined the advantages and disadvantages of the alliance from a variety of perspectives. Similarly multifaceted examinations were carried out with regard to risks, which entailed verification of worst-case scenarios. This process of identifying issues, discussing measures for addressing those issues, and then implementing those measures has made for an effective PDCA (plan-do-check-act) cycle.

Succession Plans

The Nomination/Remuneration Advisory Committee was established in July 2017. This committee is responsible for discussing such matters as the nomination, dismissal, and compensation of officers as well as the succession plans for the current president and other high-ranking officers. Over the course of these discussions, a variety of opinions are exchanged largely in relation to three topics: the qualities required in members of senior management, the process for leading up to the replacement of such managers, and development plans for cultivating management candidates within the Company.

I personally believe that the most important quality members of senior management need to possess is the ability to exercise Tsumura's corporate philosophy—"The Best of Nature and Science"—in management and to encourage all Group employees, both in Japan and overseas, to also act based on this philosophy. President Terukazu Kato is very consistent in his management, and his commitment to the corporate philosophy and the corporate mission has resulted in domestic employees following suit. The number of overseas Group companies has been increasing in conjunction with the recent expansion of businesses in China. Accordingly, Tsumura's next leader will need to be someone who can effectively portray the corporate philosophy and corporate mission, which could be said to represent the Company's core mind-set, to an even wider range of employees. In fiscal 2019, we will launch the Tsumura Academy program aimed at developing future management candidates. The initial policy for the program has been decided: to encourage management to take action to promote the corporate philosophy and corporate mission and practice rigorous governance, and expectations are high with regard to this program.

Expectations for Tsumura's Contributions to People's Health

As a certified public accountant, I have had the opportunity to view various companies from the outside. Tsumura stands out in the love of its employees for its products and the pride they have in working for the Company. The social component of Tsumura's business, by which I mean the fact that it manufactures and sells Kampo medicines to contribute to people's health, is a great source of motivation for employees and consequently a major strength of the Company. I too share this affection. Several years prior to my becoming an outside director at Tsumura, I was able to avoid surgery by taking Kampo medicines. I have been a fan of Tsumura's Kampo products ever since.

Investment based on environmental, social, and governance (ESG)* perspectives and contributions to the accomplishment of the United Nations Sustainable Development Goals are topics that have been garnering attention as of late. The principles driving these trends have always been embodied by Tsumura. The Company has continued to expand the range of areas in which it provides value, from contributing to people's health to utilizing idle land to cultivate raw material crude drugs in Japan and developing new businesses in China, and there is still much room for further expansion. I look forward to supporting the growth of Tsumura to my fullest going forward.

* ESG is an acronym for environment, social, and governance. ESG investment refers to an approach toward investment that involves considering non-financial ESG information in addition to the cash flow, profit margin, and other quantitative financial information on which investment decisions have traditionally been based when selecting investment targets.

Compliance and Risk Management

Compliance Promotion Frameworks and Systems

Based on the Tsumura Code of Conduct, which is our guiding principle for the way we conduct business activities, we have formulated the Tsumura Compliance Program Regulations.

Policies for promoting compliance at the Tsumura Group are examined and set by the Compliance Committee based on the findings of annual surveys and compliance incidents that have occurred inside and outside of the Group. After the policies set by the committee are reported to the Board of Directors, these policies are presented with accompanying instructions to business units and Group companies so that they can be implemented at workplaces.

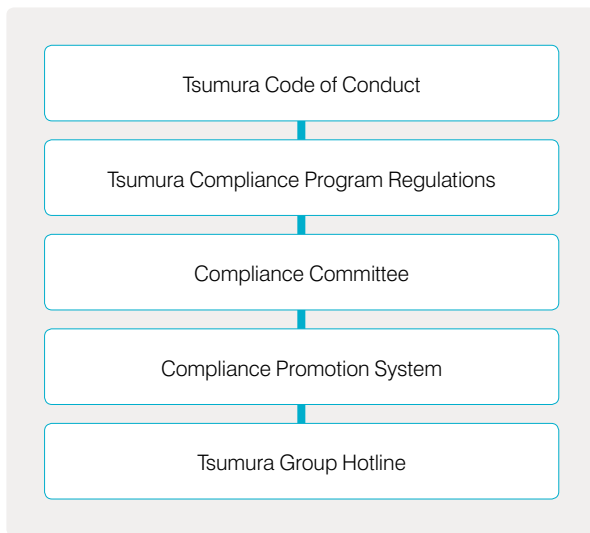
As part of our efforts to ensure thorough compliance throughout the Group, we hold regular forums for exchanging

relevant information among representatives from domestic and overseas Group companies. In addition, we have implemented an internal whistle-blowing system with the aim of quickly identifying and correcting any compliance issues that may arise within the Group. Reports made through this system are periodically reported to the president, who is also the chief compliance officer, as well as to the Audit and Supervisory Committee. Furthermore, directors in charge of compliance monitor the status of the Group's compliance initiatives and make regular reports to the Board of Directors.

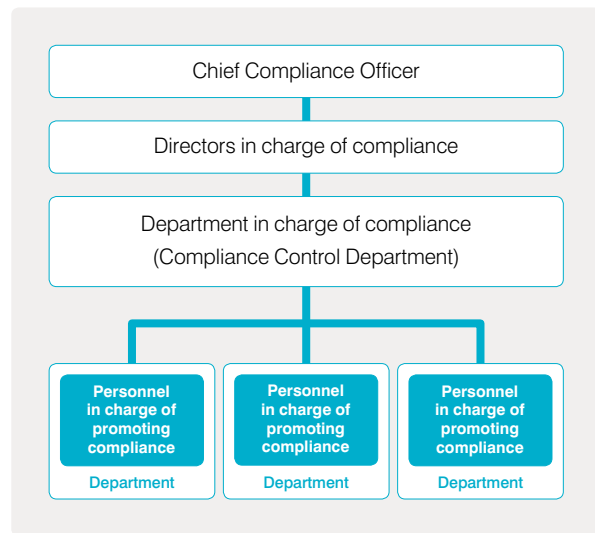
Relevant United Nations Sustainability Development Goals



Tsumura Compliance Program



Compliance Promotion System



Risk Management Systems

Provisions Related to Information Management

The Group communicates the Basic Information Management Regulations and other internal rules regarding information management throughout its organization in order to ensure the appropriate and effective management of information assets. Specific provisions for enhancing information management include information management and information security training for officers and employees as well as compulsory printing of unique identification numbers on all printed materials.

Provisions Related to Risk Management

In its risk management practices, the Group takes steps to confirm the status of initiatives for addressing management risks as well as the necessary measures for responding to risks that may materialize in the future. Such confirmation is

carried out through risk meetings between the division responsible for risk management (the General Affairs Department) and relevant operating divisions and members of senior management at Group companies and through meetings of the Risk Management Committee and the Risk Management Promotion Committee. The Group has also established a business continuity plan (BCP) to further strengthen crisis management initiatives and to ensure that operations can be restored in the event of an emergency. The BCP describes its purpose and basic policies, the scope of application for management under the plan, provisions pertaining to strategies and evaluations of the impacts of emergency situations, business continuity measures, and business restoration procedures. In addition, the Group continuously updates its disaster response and portable disaster preparedness manuals, which are used in disaster preparedness drills conducted at Group bases.

Risk Factors

(1) Medical Systems

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

(2) Competition

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

(3) Product Supply

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

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

(4) Product Safety and Adverse Reactions

In the manufacturing of the Group's products, we strictly adhere to the quality control standards of the countries and regions in which we operate as well as to our own original standards for crude drugs. However, we cannot completely

guarantee that there will not be a defect or safety problem, including undetected pesticide residue on a crude drug used in a Kampo product. In addition, should consumers experience unexpected adverse reactions from a pharmaceutical product marketed by the Tsumura Group, the existing methods of use may be restricted, and a loss of confidence in the Group and its pharmaceutical products may result in a drop in the dispensation of our medicines or in patients' refusal to take them.

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

(5) Research and Development

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

(6) International Business

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

(7) Financial Condition

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

(8) Intellectual Property

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

(9) Exchange Rate Fluctuations

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

Eleven-Year Selected ESG Data

TSUMURA & CO. and subsidiaries

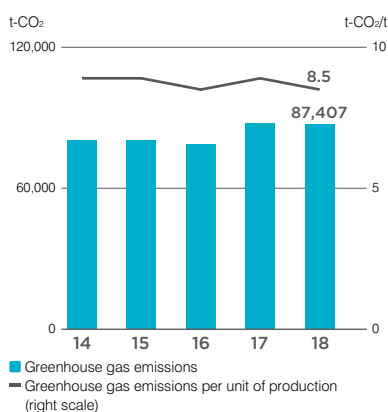
	Unit	2008	2009	2010
Environmental*1				
(Years ended March 31)				
Energy consumption	TJ	1,176	1,160	1,257
Energy consumption per unit of production	GJ/t	212.9	182.6	183.8
Greenhouse gas emissions	t-CO ₂	62,900	63,400	65,900
Greenhouse gas emissions per unit of production	t-CO ₂ /t	11.4	10.0	9.6
Water consumption	Thousands of tons	1,595	1,601	1,728
Volume of discharged water	Thousands of tons	1,466	1,455	1,483
Water consumption per unit of production	t/t	289	252	253
Social				
(Years ended March 31)				
Number of Kampo medicine seminars for physicians	Times	317	286	269
Number of participants of Kampo medicine seminars for physicians	People	5,454	5,683	5,261
(As of end of March, each year)				
Number of employees	People	2,773	2,631	2,702
Number of managers*2	People	—	—	—
Number of female managers*2	People	—	—	—
Governance				
(As of end of June, each year)				
Internal directors (Men)	People	8	8	8
Outside directors designated as independent directors (Men)	People	0	0	0
Outside directors designated as independent directors (Women)	People	0	0	0
Internal directors (Audit & Supervisory Committee members)*3	People	2	2	2
Independent outside directors (Audit & Supervisory Committee members)*3 (Men)	People	1	1	1
Independent outside directors (Audit & Supervisory Committee members)*3 (Women)	People	1	1	1
(Years ended March 31)				
Outside directors' rate of attendance at Board of Directors' meetings	%	—	—	—
Outside Audit & Supervisory Committee members' rate of attendance at Audit & Supervisory Committee meetings*3	%	100.0	100.0	100.0
Outside Audit & Supervisory Committee members' rate of attendance at Board of Directors' meetings*3	%	100.0	100.0	97.5

*1 Figures for items under the "Environmental" category represent the total of figures from TSUMURA & CO. and certain Group companies (LOGITEM TSUMURA CO., LTD.; SHENZHEN TSUMURA MEDICINE CO., LTD.; SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.; YUBARI TSUMURA CO., LTD. (from 2012); and non-consolidated subsidiary LAO TSUMURA CO., LTD. (from 2014)).

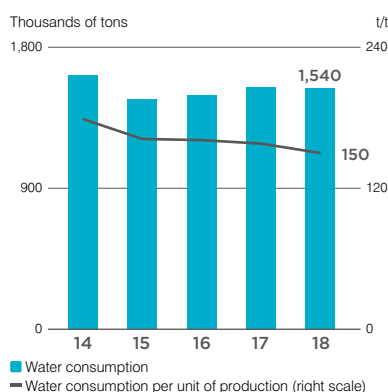
*2 Figures represent the total of figures from TSUMURA & CO.; SHENZHEN TSUMURA MEDICINE CO., LTD.; and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. Figures from SHENZHEN TSUMURA MEDICINE CO., LTD., and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., are as of December 31 of the preceding year.

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

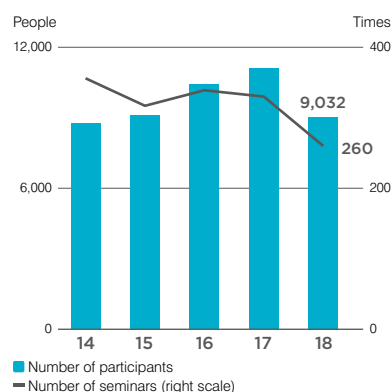
Greenhouse Gas Emissions / Greenhouse Gas Emissions per Unit of Production



Water Consumption / Water Consumption per Unit of Production

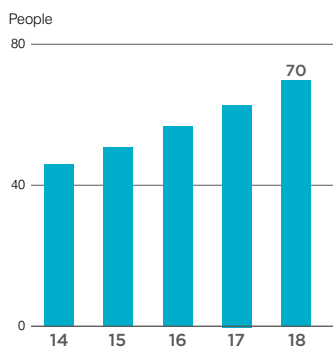


Kampo Medicine Seminars for Physicians



	2011	2012	2013	2014	2015	2016	2017	2018
	1,269	1,357	1,343	1,473	1,395	1,428	1,580	1,568
	179.5	166.2	158.5	162.2	154.1	153.9	161.4	152.6
	65,885	69,707	73,820	80,414	80,404	78,948	87,502	87,407
	9.3	8.5	8.7	8.9	8.9	8.5	8.9	8.5
	1,379	1,565	1,528	1,622	1,466	1,492	1,547	1,540
	1,132	1,274	1,228	1,353	1,312	1,304	1,339	1,288
	195	192	180	179	162	161	158	150
	249	265	311	356	317	339	330	260
	5,099	5,473	7,257	8,758	9,115	10,411	11,089	9,032
	2,717	2,784	2,831	2,898	3,335	3,242	3,331	3,453
	—	—	834	873	843	828	831	846
	—	—	40	46	51	57	63	70
	9	9	9	7	3	3	3	3
	0	1	1	1	2	2	2	3
	0	0	0	0	1	1	1	0
	2	2	2	2	2	2	1	1
	1	1	1	1	0	0	1	1
	1	1	1	1	2	2	1	1
	—	—	100.0	100.0	100.0	98.2	94.7	100.0
	98.1	98.2	100.0	100.0	96.0	100.0	100.0	98.5
	97.2	100.0	100.0	100.0	93.0	100.0	100.0	100.0

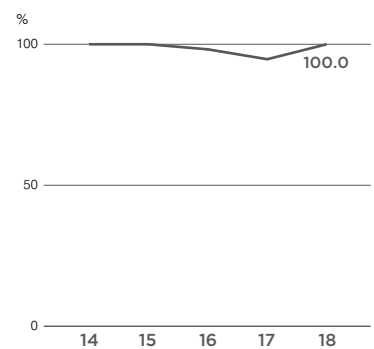
Number of Female Managers



Composition of the Board of Directors



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



Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries
Years ended March 31

	2008	2009	2010
For the year			
Net sales	¥ 94,799	¥ 90,016	¥ 90,933
Cost of sales*	31,609	29,028	28,518
Gross profit	63,190	60,987	62,414
Selling, general and administrative expenses	47,369	44,504	43,475
Operating profit	15,820	16,483	18,938
Ordinary profit	15,258	16,622	19,071
Profit before income taxes	14,605	17,940	18,710
Profit attributable to owners of parent	9,139	10,777	10,704
At year-end			
Inventories	¥ 19,651	¥ 19,810	¥ 22,335
Property, plant and equipment, net	40,251	38,754	40,857
Non-current liabilities	14,440	8,970	8,773
Total liabilities	62,734	52,855	50,944
Total net assets	72,411	73,968	83,752
Total assets	135,146	126,824	134,697
Other selected data			
Capital investment for property, plant and equipment	¥ 3,124	¥ 5,479	¥ 5,237
R&D expenses	4,368	3,958	3,770
Depreciation	3,396	3,298	3,225
Free cash flow	1,309	7,293	5,864
Cash flows from operating activities	5,358	10,634	12,019
Cash flows from investing activities	(4,049)	(3,341)	(6,155)
Cash flows from financing activities	(7,419)	(6,354)	(5,085)
Cash and cash equivalents at end of period	13,718	14,596	15,381
Per share data (yen)			
Profit attributable to owners of parent	¥ 129.57	¥ 152.80	¥ 151.77
Dividends	23.00	34.00	46.00
Net assets	1,015.46	1,037.76	1,175.04
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	66.7%	67.8%	68.6%
Selling, general and administrative expenses	50.0	49.4	47.8
Operating profit	16.7	18.3	20.8
Ordinary profit	16.1	18.5	21.0
Profit before income taxes	15.4	19.9	20.6
Profit attributable to owners of parent	9.6	12.0	11.8
ROE	13.0	14.9	13.7
ROA	11.4	12.6	14.5
Current ratio	142.3	157.2	173.8

* Including credit (debit) for allowance for sales returns.

¥ in millions

	2011	2012	2013	2014	2015	2016	2017	2018
	¥ 94,778	¥ 95,450	¥ 105,638	¥ 110,057	¥ 110,438	¥ 112,625	¥ 114,954	¥ 117,879
	29,435	29,944	35,927	38,787	41,859	45,055	49,454	49,603
	65,342	65,505	69,711	71,269	68,578	67,569	65,499	68,275
	43,789	44,271	46,586	48,808	49,087	47,743	49,516	51,224
	21,553	21,233	23,124	22,461	19,491	19,826	15,983	17,050
	21,725	21,783	24,310	23,966	21,583	19,494	16,399	17,914
	21,058	22,448	24,062	28,118	20,078	18,898	17,184	20,284
	12,945	13,431	15,373	18,050	14,075	12,557	12,488	14,504
	¥ 22,057	¥ 30,570	¥ 35,565	¥ 43,424	¥ 50,716	¥ 52,348	¥ 52,138	¥ 49,994
	42,154	44,869	50,657	57,148	60,624	62,822	64,686	71,329
	8,587	8,093	9,448	9,126	23,339	23,063	32,727	48,402
	50,394	49,633	51,929	54,305	64,706	66,765	64,611	97,168
	91,154	102,240	118,537	133,318	150,947	155,702	157,397	196,533
	141,549	151,874	170,466	187,623	215,654	222,468	222,008	293,701
	¥ 5,264	¥ 6,425	¥ 9,328	¥ 8,991	¥ 8,428	¥ 9,638	¥ 6,438	¥ 11,900
	4,123	4,565	4,904	5,949	6,252	5,968	6,087	6,048
	3,453	3,850	4,049	4,871	5,387	5,059	5,629	6,157
	5,232	1,972	3,988	4,214	(5,691)	10,109	14,614	(2,288)
	12,047	7,314	12,011	5,908	4,992	17,570	21,065	21,066
	(6,815)	(5,342)	(8,022)	(1,694)	(10,683)	(7,461)	(6,451)	(23,354)
	(3,355)	(5,272)	(4,275)	(4,575)	10,408	(4,608)	(9,572)	50,305
	17,198	13,906	13,762	14,418	19,343	25,128	29,901	78,313
	¥ 183.55	¥ 190.45	¥ 217.98	¥ 255.94	¥ 199.58	¥ 178.06	¥ 179.46	¥ 200.55
	58.00	60.00	62.00	64.00	64.00	64.00	64.00	64.00
	1,274.06	1,430.94	1,658.88	1,860.14	2,103.04	2,169.13	2,250.34	2,532.11
	68.9%	68.6%	66.0%	64.8%	62.1%	60.0%	57.0%	57.9%
	46.2	46.4	44.1	44.3	44.4	42.4	43.1	43.5
	22.7	22.2	21.9	20.4	17.6	17.6	13.9	14.5
	22.9	22.8	23.0	21.8	19.5	17.3	14.3	15.2
	22.2	23.5	22.8	25.5	18.2	16.8	14.9	17.2
	13.7	14.1	14.6	16.4	12.7	11.1	10.9	12.3
	15.0	14.1	14.1	14.5	10.1	8.3	8.1	8.3
	15.6	14.5	14.3	12.5	9.7	9.1	7.2	6.6
	189.1	207.8	222.5	240.6	310.6	305.9	422.4	394.5

Management’s Discussion and Analysis

TSUMURA & CO. and subsidiaries
 Years ended March 31

REVIEW OF OPERATIONS FOR FISCAL 2018

PHARMACEUTICAL MARKET AND OPERATING ENVIRONMENT

Growth of Prescription Kampo Product Market

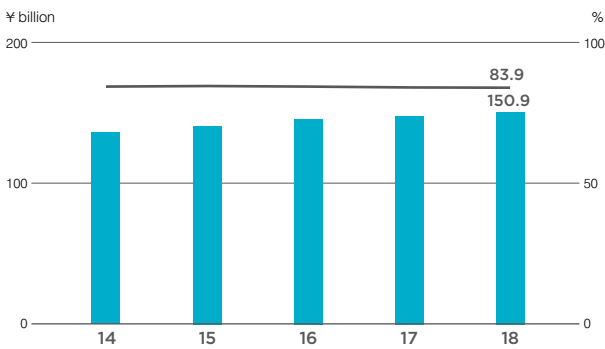
In fiscal 2018, the scale of the domestic prescription product market was ¥10,500.0 billion*1 on a monetary basis, and the scale of the prescription Kampo product segment of this market was ¥150.9 billion.*1 Looking at the 10-year period from March 31, 2009, to March 31, 2018, the compound annual growth rate for the prescription Kampo product market was 3.9%*2, representing strong growth that exceeded the rate of 2.6%*2 seen for the overall domestic prescription product market during the same period.

Drug Prices

In Japan, the official prices of all prescription pharmaceuticals covered by the Japanese National Health Insurance (NHI) plan are revised once every two years, in principle, to reflect market prices. The most recent revision took place in April 2018 and resulted in an average reduction of 7.48% in overall pharmaceutical prices. All 129 prescription Kampo products provided by Tsumura are covered under the NHI plan, and the most recent price revision resulted in a 3% decrease in the official prices of these products on average.

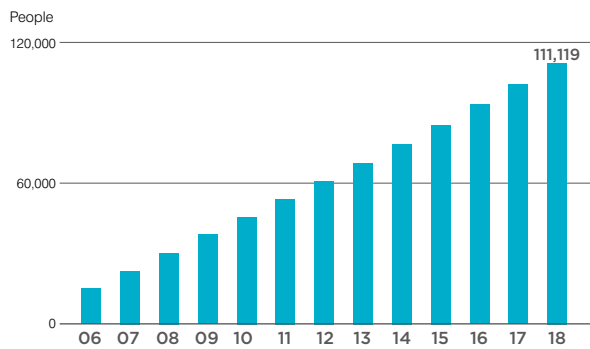
*1 Copyright ©2018 IQVIA, based on "JPM Mar. 2018 MAT," reprinted with permission
 *2 Copyright ©2018 IQVIA, estimated based on "JPM Mar. 2009 MAT–Mar. 2018 MAT," reprinted with permission

Japanese Market Size for Prescription Kampo Products (NHI listed price)



■ Overall market — Tsumura's share (right scale)
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Cumulative Total of Medical Students Passing the National Examination for Medical Practitioners



In fiscal 2005, Kampo medicine education was implemented at all medical colleges and universities in Japan. The numbers are the cumulative total since fiscal 2006.

Use of Prescription Kampo Products by Physicians

Kampo products are widely used in the healthcare workplace in Japan today. As of February 2017, more than 100,000 medical students have passed the Japanese national examination for medical practitioners since fiscal 2006, the year following the fiscal 2005 implementation of Kampo medicine education at all of the 80 medical colleges and university medical departments nationwide. According to a recent survey by the Ministry of Health, Labour and Welfare,* as of December 2016, the number of registered medical practitioners in Japan was 319,480, and it is estimated that one in three of these practitioners has received Kampo medicine education. In addition to providing support for Kampo medicine education at medical education institutions, we are encouraging increased use of prescription Kampo products by providing

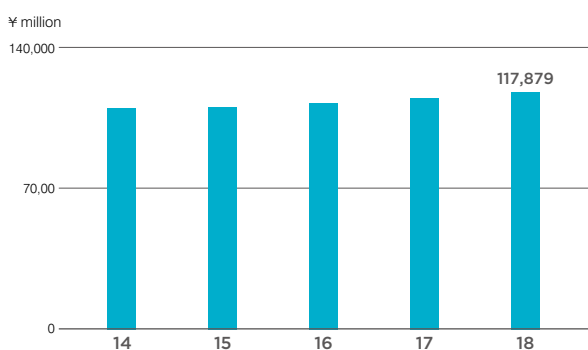
information and training opportunities for newly graduated and practicing physicians.

* Survey of Physicians, Dentists and Pharmacists 2016, the Ministry of Health, Labour and Welfare, 2016

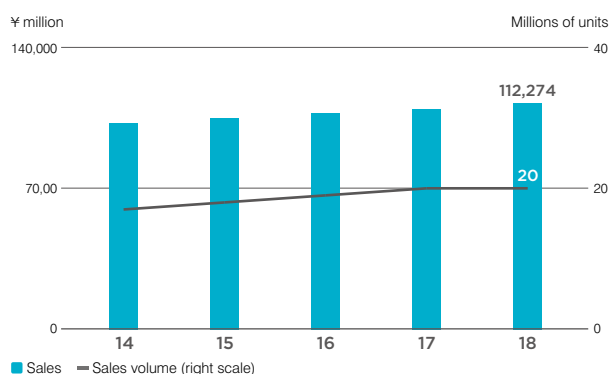
INCOME STATEMENT

¥ in millions, except ratios	FY2017	FY2018
Net sales	¥114,954	¥117,879
Gross profit	65,499	68,275
Gross profit margin	57.0%	57.9%
Operating profit	15,983	17,050
Operating profit margin	13.9%	14.5%
Ordinary profit	16,399	17,914
Profit before income taxes	17,184	20,284
Profit attributable to owners of parent	12,488	14,504

Net Sales



Sales and Sales Volume of Tsumura's 129 Prescription Kampo Products



Leading Kampo Products by Sales Amount

Formulation No. / Product name	Main effectively treatable disorders	¥ million			
		FY2017	FY2018	Difference	YoY change
1 TJ-100 Daikenchuto	Abdominal pain associated with chills, abdominal bloating	¥ 10,328	¥ 10,584	¥ 256	2.5%
2 TJ-54 Yokukansan	Neurosis, insomnia, etc.	7,330	7,571	240	3.3%
3 TJ-41 Hochuekkito	Reinforcement of physical strength after illness, anorexia, etc.	6,947	7,098	151	2.2%
4 TJ-43 Rikkunshito	Gastritis, maldigestion, anorexia, etc.	6,863	7,044	181	2.6%
5 TJ-68 Shakuyakukanzoto	Pain accompanying sudden muscle spasms, etc.	4,853	5,031	177	3.7%
6 TJ-24 Kamishoyosan	Oversensitivity to cold, menstrual irregularity, menopausal disorders, etc.	4,465	4,534	68	1.5%
7 TJ-29 Bakumondoto	Coughing accompanying persistent phlegm, bronchitis, bronchial asthma	4,511	4,511	(0)	(0.0)%
8 TJ-17 Goreisan	Edema, diarrhea, headache, heat stroke, etc.	3,363	3,722	358	10.7%
9 TJ-107 Goshajinkigan	Leg pain, low back pain, numbness, dysuria, etc.	3,733	3,686	(47)	(1.3)%
10 TJ-1 Kakkonto	Cold, head cold, early-stage excitable disposition, stiff shoulders, etc.	3,277	3,405	128	3.9%
21 TJ-14 Hangeshashinto	Fermentative diarrhea, nervous gastritis, stomatitis, neurosis, etc.	1,276	1,334	58	4.6%
Total sales of 129 prescription Kampo products		109,647	112,274	2,626	2.4%

Management’s Discussion and Analysis

Net Sales

In fiscal 2018, consolidated net sales increased 2.5% year on year, to ¥117,879 million. Amidst the government’s drive to limit healthcare spending, the number of Kampo formulations for which sales showed year-on-year increases fell to 63. Regardless, total sales of Tsumura’s 129 prescription Kampo products edged up 2.4% year on year. Of this, sales of the five “drug fostering” program formulations increased 2.3%, to ¥30,221 million, and sales of the five “growing” formulations increased 3.1%, to ¥24,898 million.

In fiscal 2018, the total scale of the prescription Kampo product market on a monetary basis was ¥150,900 million,* and the Company’s share of this market was 83.9%.*

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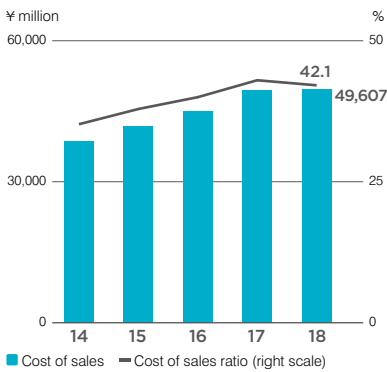
Cost of Sales

Cost of sales rose 0.3% year on year, to ¥49,607 million, but the cost of sales ratio decreased 0.9 percentage point, to 42.1%. Reasons behind the decrease in the cost of sales ratio included reduced costs related to crude drugs and processing.

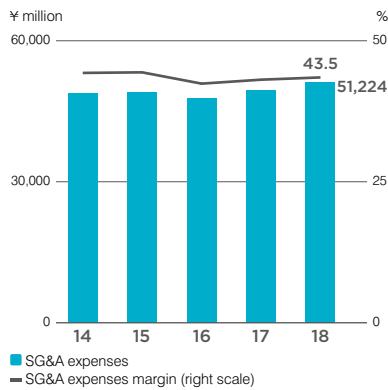
Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 3.5% year on year, to ¥51,224 million, and the SG&A expenses margin rose 0.4 percentage point, to 43.5%, as we were unable to absorb the impacts of our failure to achieve sales targets. This margin exceeded our target by 0.5 percentage point. Among major expenses, personnel expenses were up 1.6%, to ¥30,002 million; depreciation climbed 9.4%, to ¥6,157 million; and R&D expenses decreased 0.6%, to ¥6,048 million.

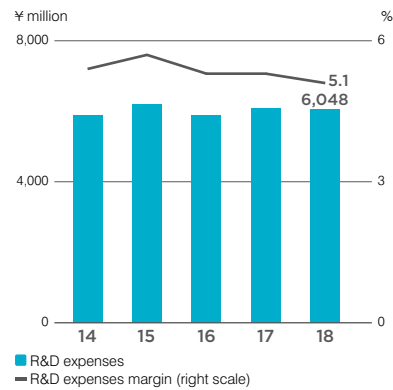
Cost of Sales / Cost of Sales Ratio



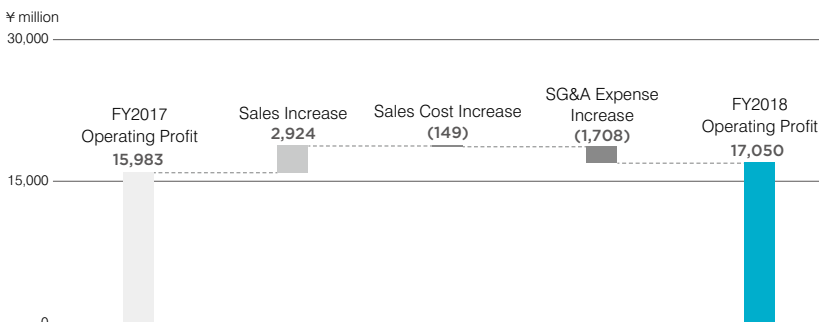
SG&A Expenses / SG&A Expenses Margin



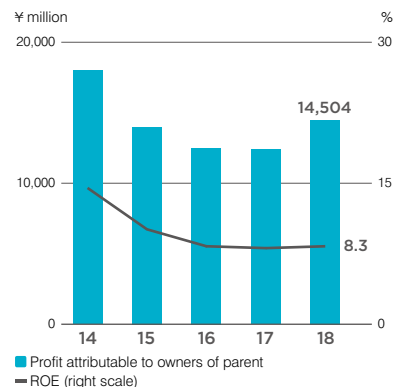
R&D Expenses / R&D Expenses Margin



Factors behind Increase / Decrease of Operating Profit



Profit Attributable to Owners of Parent / ROE



¥ in millions	FY2017	FY2018
Personnel expenses	¥29,535	¥30,002
Depreciation	5,629	6,157
Sales promotion expenses	3,920	4,075
Advertising costs	710	871
R&D expenses	6,087	6,048

Operating Profit

Operating profit increased 6.7% year on year, to ¥17,050 million, while the operating profit margin rose 0.6 percentage point, to 14.5%.

Ordinary Profit

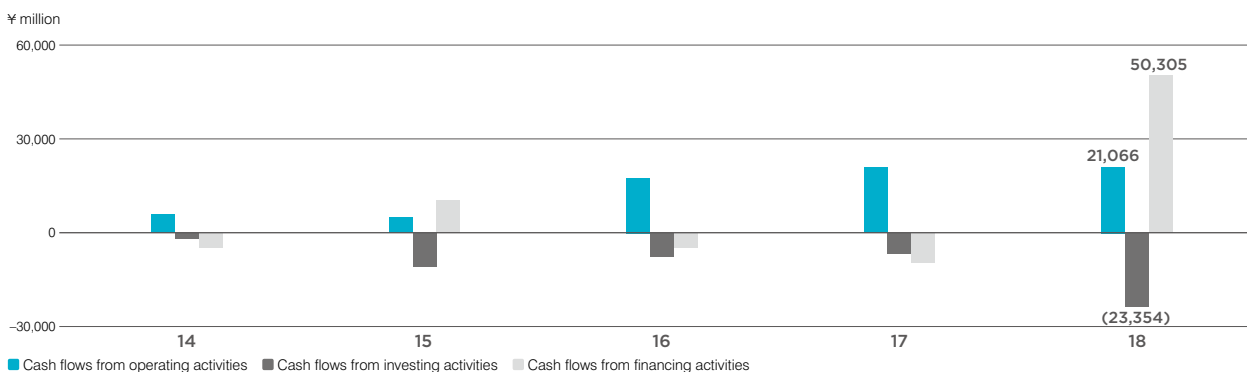
Ordinary profit was up 9.2%, to ¥17,914 million, while foreign exchange losses decreased to ¥25 million from ¥381 million in the previous fiscal year.

Profit Attributable to Owners of Parent

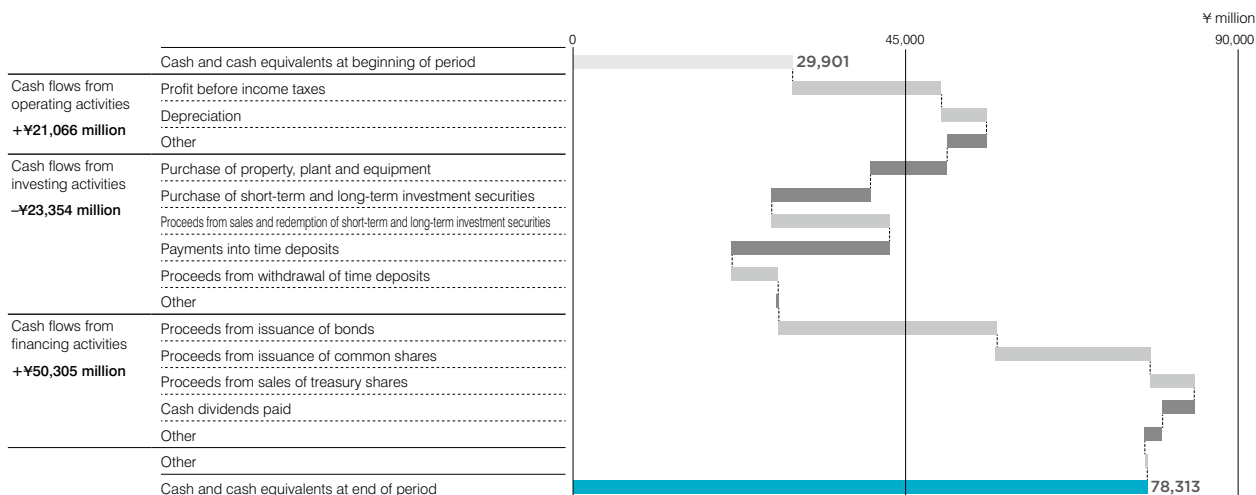
Profit attributable to owners of parent grew 16.1% year on year, to ¥14,504 million. This percent increase in this item exceeded the figure for the operating profit margin as a result of recording gain on sales of investment securities of ¥1,498 million and subsidy income of ¥1,000 million under extraordinary income.

Following an increase in capital through a third-party allotment conducted in fiscal 2018, the number of shares of common stock on March 31, 2018, rose to 76,758 thousand, 5,986 thousand higher than a year earlier. As a result, profit attributable to owners of parent per share increased ¥21.09, to ¥200.55.

Cash Flows



Changes in Cash Flows



Management's Discussion and Analysis

CASH FLOWS

¥ in millions	FY2017	FY2018
Cash flows from operating activities	¥ 21,065	¥ 21,066
Cash flows from investing activities	(6,451)	(23,354)
Cash flows from financing activities	(9,572)	50,305
Cash and cash equivalents at end of period	29,901	78,313

Net cash provided by operating activities amounted to ¥21,066 million, relatively unchanged year on year. This outcome was a result of a decrease in inventories of ¥2,144 million and an increase in profit before income taxes of ¥3,099 million being counterbalanced by higher working capital stemming from an increase in notes and accounts receivable–trade and a decrease in notes and accounts payable–trade.

Net cash used in investing activities amounted to ¥23,354 million, an increase of ¥16,902 million year on year. Although there was a rise in inflows from proceeds from sales and redemption of short-term and long-term investment securities, this rise was greatly outweighed by higher outflows for purchase of short-term and long-term investment securities and payments into time deposits.

Net cash provided by financing activities amounted to ¥50,305 million, compared with net cash used in financing activities of ¥9,572 million in the previous fiscal year. This outcome can be attributed to proceeds from issuance of bonds and proceeds from issuance of common shares.

As a result, the balance of cash and cash equivalents at the end of the fiscal year under review was ¥78,313 million, up ¥48,412 million year on year.

BALANCE SHEET

¥ in millions	As of March 31, 2017	As of March 31, 2018
Total assets	¥222,008	¥293,701
Total liabilities	64,611	97,168
Interest-bearing debt*	37,088	64,876
Total net assets	157,397	196,533

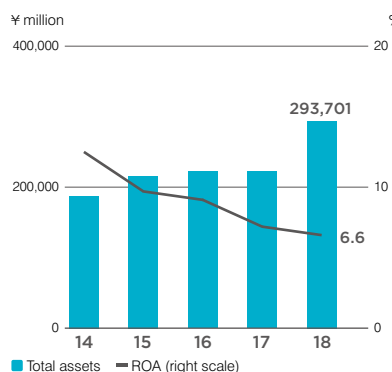
* Interest-bearing debt includes lease obligations

Assets

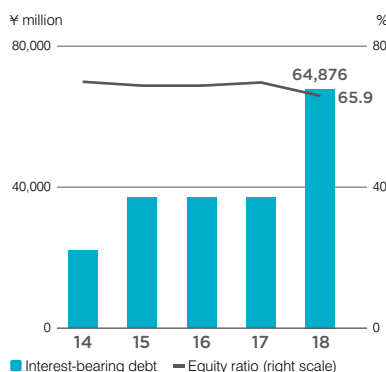
On March 31, 2018, current assets stood at ¥192,401 million, up ¥57,722 million from a year earlier. This increase was a reflection of higher cash and deposits and securities, which counteracted a decrease in work in process. At the same time, non-current assets increased ¥13,970 million, coming to ¥101,300 million on March 31, 2018, as property, plant and equipment rose in conjunction with capital investments.

As a result of the above, total assets amounted to ¥293,701 million on March 31, 2018, an increase of ¥71,692 million from the previous fiscal year-end.

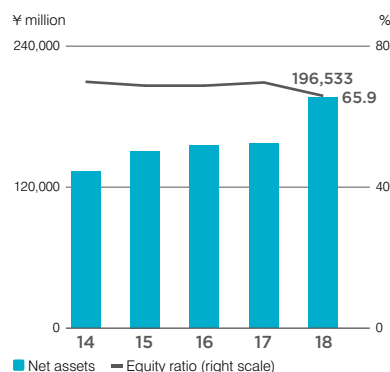
Total Assets / ROA



Interest-Bearing Debt / Equity Ratio



Net Assets / Equity Ratio



Liabilities

Current liabilities rose ¥16,882 million compared with the previous fiscal year-end, to ¥48,766 million. This increase was attributable to a rise in current portion of long-term loans payable, which offset decreases in notes and accounts payable–trade and short-term loans payable. Non-current liabilities increased ¥15,674 million, to ¥48,402 million, primarily due to the issuance of new bonds. Interest-bearing debt was up ¥27,787 million, to ¥64,876 million.

Consequently, total liabilities at the end of the fiscal year under review increased ¥32,556 million from the previous fiscal year-end, to ¥97,168 million.

Net Assets

Total net assets amounted to ¥196,533 million at the fiscal year-end, climbing ¥39,135 million from a year earlier. This increase was a result of the issuance of new shares and disposal of treasury shares by way of third-party allotment.

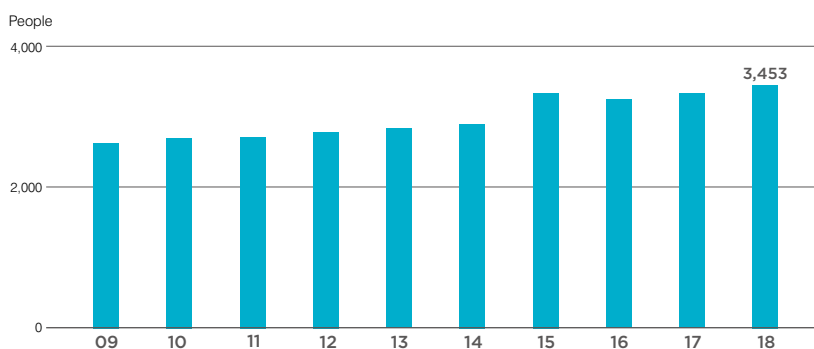
NON-FINANCIAL CAPITAL

Human Capital

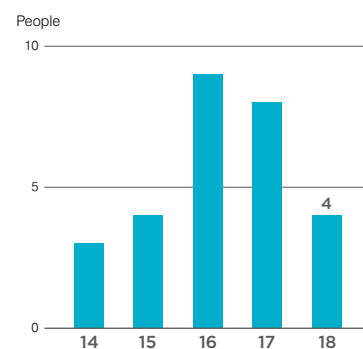
Tsumura views human capital as one of the most important forms of non-financial capital. Based on this belief, we have defined three elements of our Vision for 2021 long-term business vision: (1) The “Kampo” Company, (2) The “People” Company, and (3) The “Global Niche” Company.

On March 31, 2018, the Company had 3,453 employees on a consolidated basis, 854 of whom were employees of overseas Group companies. To achieve our vision of making Tsumura “The ‘People’ Company,” we provide various training programs to employees working at domestic bases while giving employees at overseas bases the opportunity to undergo training similar to that conducted in Japan. Furthermore, we believe that the diversity of human resources energizes the organization and thus serves as a driving force behind growth. Accordingly, we seek to foster diversity by promoting female employees to management roles and selecting officers and managers at overseas Group companies from among locally hired staff.

Number of Employees



Number of Foreign Executive Officers of the Group



Management’s Discussion and Analysis

Social and Relationship Capital

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

Natural Capital

The raw materials for Kampo medicines are crude drugs derived mainly from plants. In fiscal 2018, the total amount of raw material crude drugs used was 12,371 tons, 124 tons less than in the previous fiscal year. Seeking to ensure a sustainable supply of crude drugs in light of projected growth in Kampo product demand, Tsumura strives to preserve the biodiversity of crude drug producing regions while also protecting and nurturing crude drugs that are grown in the wild and advancing research on their cultivation.

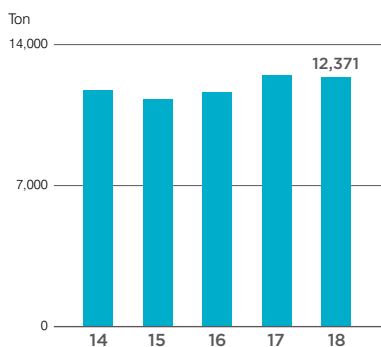
DIVIDEND POLICY

%	FY2017	FY2018
ROE	8.1%	8.3%
ROA	7.2	6.6
Equity ratio	69.7	65.9
Debt-to-equity ratio (times)	0.24	0.34
Dividend payout ratio	35.7	31.9

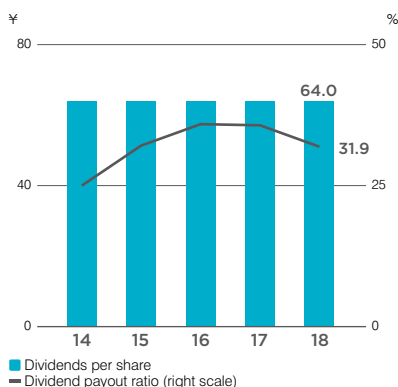
Financial Indicators

Emphasizing shareholder value, Tsumura’s management has positioned return on equity (ROE) as a key performance indicator. In fiscal 2018, shareholders’ equity rose following the issuance of new shares and disposal of treasury shares by way of third-party allotment. However, profit attributable to owners of parent also increased. As a result, ROE was up 0.2 percentage point year on year, to 8.3%. Return on assets (ROA), meanwhile, decreased 0.6 percentage point, to 6.6%, due to a rise in liabilities stemming from the issuance of bonds. The equity ratio declined 3.8 percentage points year on year, to 65.9%.

Raw Material Crude Drugs



Dividends per Share / Dividend Payout Ratio



Shareholder Returns

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

issue stable dividend payments after taking into consideration medium-to-long-term earnings levels and cash flow trends. Based on this policy, Tsumura paid a total annual dividend of ¥64.0 per share in fiscal 2018, the same as in fiscal 2017, and the consolidated dividend payout ratio was 31.9%.

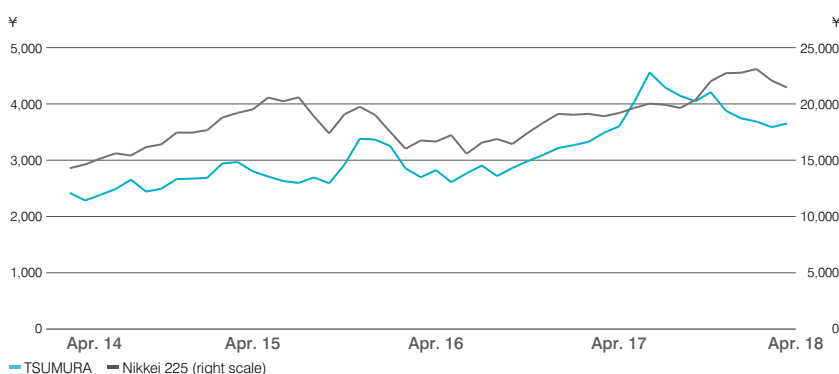
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Stock price (As of March 31 each year)	¥2,485	¥2,550	¥2,715	¥2,610	¥2,391	¥3,475	¥2,480	¥2,971	¥2,702	¥3,490	¥3,655
Total annual dividend (Years ended March 31)	¥23.0	¥34.0	¥46.0	¥58.0	¥60.0	¥62.0	¥64.0	¥64.0	¥64.0	¥64.0	¥64.0

PERFORMANCE FORECASTS FOR FISCAL 2019

In fiscal 2019, net sales are forecast to increase 2.2% year on year, to ¥120,500 million, as a result of ongoing growth in prescription Kampo product sales. In addition, operating profit is projected to rise 2.6%, to ¥17,500 million, and ordinary profit is slated to increase 0.5%, to ¥18,000 million. Profit attributable to owners of parent, meanwhile, is expected to decline 11.8%, to ¥12,800 million, as a result of the absence of the ¥2,509 million in extraordinary income recorded in fiscal 2018.

¥ in millions, except ratios	FY2019 (Forecast)	YoY change (%)
Net sales	¥120,500	+2.2
Operating profit	17,500	+2.6
Operating profit margin	14.5%	+0.0 pt.
Ordinary profit	18,000	+0.5
Profit attributable to owners of parent	12,800	(11.8)

Stock Price



Consolidated Balance Sheets

TSUMURA & CO. and consolidated subsidiaries
March 31, 2017 and 2018

Assets	2017	US\$ in thousands (Note 3)	
		¥ in millions	2018
Current assets			
Cash and deposits	¥ 29,931	¥ 83,520	\$ 786,144
Notes and accounts receivable–trade	40,347	42,906	403,859
Securities	–	3,500	32,944
Merchandise and finished goods	8,122	8,008	75,376
Work in process	14,547	12,797	120,453
Raw materials and supplies	29,467	29,188	274,736
Deferred tax assets	1,325	1,512	14,231
Other	10,941	10,971	103,266
Allowance for doubtful accounts	(4)	(4)	(37)
Total current assets	134,679	192,401	1,811,003
Non-current assets			
Property, plant and equipment			
Buildings and structures (Note 4 (d))	64,429	64,778	609,732
Machinery, equipment and vehicles (Note 4 (d))	47,920	50,559	475,894
Tools, furniture and fixtures (Note 4 (d))	10,139	10,502	98,851
Land (Note 4 (a))	9,052	9,052	85,203
Construction in progress	3,880	11,879	111,812
Other	308	334	3,143
Accumulated depreciation	(71,044)	(75,776)	(713,253)
Total property, plant and equipment	64,686	71,329	671,394
Intangible assets	266	526	4,951
Investments and other assets			
Investment securities (Note 4 (b))	17,530	14,179	133,461
Net defined benefit asset	1,058	1,908	17,959
Deferred tax assets	43	36	338
Other (Note 4 (b))	3,743	13,319	125,367
Allowance for doubtful accounts	(0)	(0)	(0)
Total investment and other assets	22,376	29,443	277,136
Total non-current assets	87,329	101,300	953,501
Total assets	¥222,008	¥293,701	\$2,764,504

Liabilities	¥ in millions		US\$ in thousands (Note 3)
	2017	2018	2018
Current liabilities			
Notes and accounts payable–trade	¥6,696	¥5,507	\$51,835
Short-term loans payable	12,581	10,314	97,082
Current portion of long-term loans payable	–	15,000	141,189
Accounts payable–other	6,020	7,823	73,635
Income taxes payable	1,901	3,538	33,301
Provision for sales returns	13	10	94
Other	4,670	6,573	61,869
Total current liabilities	31,883	48,766	459,017
Non-current liabilities			
Bonds payable	–	30,000	282,379
Long-term loans payable	24,376	9,376	88,253
Deferred tax liabilities	1,733	2,210	20,801
Deferred tax liabilities for land revaluation (Note 4 (a))	1,179	1,179	11,097
Net defined benefit liability	84	88	828
Other	5,353	5,547	52,211
Total non-current liabilities	32,727	48,402	455,591
Total liabilities	64,611	97,168	914,608
Net assets			
Shareholders' equity			
Capital stock	19,487	30,142	283,716
Capital surplus	1,940	14,027	132,031
Retained earnings	129,937	140,040	1,318,147
Treasury shares	(5,393)	(814)	(7,661)
Total shareholders' equity	145,972	183,396	1,726,242
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	3,845	4,748	44,691
Deferred gains or losses on hedges	925	323	3,040
Revaluation reserve for land (Note 4 (a))	2,673	2,673	25,160
Foreign currency translation adjustment	1,470	2,301	21,658
Remeasurements of defined benefit plans	(102)	157	1,477
Total accumulated other comprehensive income	8,811	10,203	96,037
Non-controlling interests	2,613	2,933	27,607
Total net assets	157,397	196,533	1,849,896
Total liabilities and net assets	¥222,008	¥293,701	\$2,764,504

See notes to consolidated financial statements.

Consolidated Statements of Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2018

	¥ in millions		US\$ in thousands (Note 3)
	2017	2018	2018
Net sales	¥114,954	¥117,879	\$1,109,553
Cost of sales (Note 5 (a))	49,457	49,607	466,933
Gross profit before provision for sales returns	65,496	68,272	642,620
Reversal of provision for sales returns	3	3	28
Gross profit	65,499	68,275	642,648
Selling, general and administrative expenses (Notes 5 (b) and (c))	49,516	51,224	482,153
Operating profit	15,983	17,050	160,485
Non-operating income			
Interest income	64	166	1,562
Dividend income	385	382	3,595
Share of profit of entities accounted for using equity method	31	324	3,049
Other	481	498	4,687
Total non-operating income	962	1,371	12,904
Non-operating expenses			
Interest expenses	144	190	1,788
Bond issuance cost	–	143	1,346
Share issuance cost	–	108	1,016
Foreign exchange losses	381	25	235
Other	20	39	367
Total non-operating expenses	546	507	4,772
Ordinary profit	16,399	17,914	168,618
Extraordinary income			
Gain on sales of non-current assets (Note 5 (d))	3	10	94
Gain on sales of investment securities	873	1,498	14,100
Subsidy income (Note 5 (e))	–	1,000	9,412
Total extraordinary income	876	2,509	23,616
Extraordinary losses			
Loss on sales of non-current assets (Note 5 (f))	43	13	122
Loss on retirement of non-current assets (Note 5 (g))	40	60	564
Loss on disaster (Note 5 (h))	7	–	–
Environmental expenses (Note 5 (i))	–	66	621
Total extraordinary losses	92	140	1,317
Profit before income taxes	17,184	20,284	190,926
Income taxes—current	4,342	5,440	51,204
Income taxes—deferred	103	49	461
Total income taxes	4,446	5,489	51,666
Profit	12,738	14,794	139,250
Profit attributable to non-controlling interests	249	289	2,720
Profit attributable to owners of parent	¥12,488	¥14,504	\$136,521

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2018

	¥ in millions		US\$ in thousands (Note 3)
	2017	2018	2018
Profit	¥12,738	¥14,794	\$139,250
Other comprehensive income			
Valuation difference on available-for-sale securities	9	902	8,490
Deferred gains or losses on hedges	445	(601)	(5,657)
Revaluation reserve for land	159	–	–
Foreign currency translation adjustment	(2,342)	902	8,490
Remeasurements of defined benefit plans, net of tax	383	260	2,447
Share of other comprehensive income (loss) of entities accounted for using equity method	(49)	13	122
Total other comprehensive income (loss) (Note 6)	(1,393)	1,477	13,902
Comprehensive income	¥11,344	¥16,271	\$153,153
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥11,408	¥15,896	\$149,623
Comprehensive income attributable to non-controlling interests	(64)	374	3,520

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2018

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

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

See notes to consolidated financial statements.

	¥ in millions				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2017	¥19,487	¥ 1,940	¥129,937	¥(5,393)	¥145,972
Changes of items during period					
Issuance of new shares	10,654	10,654			21,309
Dividends of surplus (Note 7 (d))			(4,402)		(4,402)
Profit attributable to owners of parent			14,504		14,504
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		1,432		4,580	6,012
Net changes of items other than shareholders' equity					
Total changes of items during period	10,654	12,087	10,102	4,579	37,423
Balance at March 31, 2018	¥30,142	¥14,027	¥140,040	¥ (814)	¥183,396

	¥ in millions							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	¥3,845	¥ 925	¥2,673	¥1,470	¥(102)	¥ 8,811	¥2,613	¥157,397
Changes of items during period								
Issuance of new shares								21,309
Dividends of surplus								(4,402)
Profit attributable to owners of parent								14,504
Purchase of treasury shares								(1)
Disposal of treasury shares								6,012
Net changes of items other than shareholders' equity	902	(601)	–	830	260	1,392	319	1,712
Total changes of items during period	902	(601)	–	830	260	1,392	319	39,135
Balance at March 31, 2018	¥4,748	¥ 323	¥2,673	¥2,301	¥ 157	¥10,203	¥2,933	¥196,533

	US\$ in thousands (Note 3)				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2017	\$183,424	\$ 18,260	\$1,223,051	\$(50,762)	\$1,373,983
Changes of items during period					
Issuance of new shares	100,282	100,282			200,574
Dividends of surplus (Note 7 (d))			(41,434)		(41,434)
Profit attributable to owners of parent			136,521		136,521
Purchase of treasury shares				(9)	(9)
Disposal of treasury shares		13,478		43,109	56,588
Net changes of items other than shareholders' equity					
Total changes of items during period	100,282	113,770	95,086	43,100	352,249
Balance at March 31, 2018	\$283,716	\$132,031	\$1,318,147	\$ (7,661)	\$1,726,242

	US\$ in thousands (Note 3)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2017	\$36,191	\$ 8,706	\$25,160	\$13,836	\$ (960)	\$82,934	\$24,595	\$1,481,522
Changes of items during period								
Issuance of new shares								200,574
Dividends of surplus								(41,434)
Profit attributable to owners of parent								136,521
Purchase of treasury shares								(9)
Disposal of treasury shares								56,588
Net changes of items other than shareholders' equity	8,490	(5,657)	–	7,812	2,447	13,102	3,002	16,114
Total changes of items during period	8,490	(5,657)	–	7,812	2,447	13,102	3,002	368,364
Balance at March 31, 2018	\$44,691	\$ 3,040	\$25,160	\$21,658	\$1,477	\$96,037	\$27,607	\$1,849,896

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TSUMURA & CO. and consolidated subsidiaries
For the years ended March 31, 2017 and 2018

	¥ in millions		US\$ in thousands (Note 3)
	2017	2018	2018
Cash flows from operating activities			
Profit before income taxes	¥17,184	¥ 20,284	\$ 190,926
Depreciation	5,629	6,157	57,953
Increase (decrease) in allowance for doubtful accounts	(2)	0	0
Interest and dividend income	(449)	(548)	(5,158)
Interest expenses	144	190	1,788
Bond issuance cost	–	143	1,346
Share issuance cost	–	108	1,016
Share of (profit) loss of entities accounted for using equity method	(31)	(324)	(3,049)
Loss (gain) on sales and retirement of property, plant and equipment	82	74	696
Decrease (increase) in notes and accounts receivable–trade	1,465	(2,529)	(23,804)
Decrease (increase) in inventories	(1,123)	2,566	24,152
Increase (decrease) in notes and accounts payable–trade	1,255	(1,304)	(12,274)
Loss (gain) on sales of short-term and long-term investment securities	(873)	(1,498)	(14,100)
Decrease (increase) in net defined benefit asset	(281)	(422)	(3,972)
Increase (decrease) in net defined benefit liability	(89)	(47)	(442)
Other	3,272	1,715	16,142
Subtotal	26,182	24,565	231,221
Interest and dividend income received	470	537	5,054
Interest expenses paid	(142)	(161)	(1,515)
Income taxes paid	(5,444)	(3,875)	(36,474)
Net cash provided by operating activities	21,065	21,066	198,286
Cash flows from investing activities			
Purchase of property, plant and equipment	(8,211)	(10,463)	(98,484)
Proceeds from sales of property, plant and equipment	29	19	178
Purchase of intangible assets	(88)	(318)	(2,993)
Purchase of short-term and long-term investment securities	(18)	(13,510)	(127,164)
Proceeds from sales and redemption of short-term and long-term investment securities	1,874	16,154	152,051
Payments for investments in capital of subsidiaries and affiliates	(238)	–	–
Payments of loans receivable	(3)	(4)	(37)
Collection of loans receivable	4	4	37
Payments into time deposits	(34)	(21,569)	(203,021)
Proceeds from withdrawal of time deposits	36	6,383	60,080
Other	197	(49)	(461)
Net cash used in investing activities	(6,451)	(23,354)	(219,823)
Cash flows from financing activities			
Decrease in short-term loans payable	–	(2,267)	(21,338)
Proceeds from issuance of bonds	–	29,856	281,024
Proceeds from issuance of common shares	–	21,201	199,557
Purchase of treasury shares	(5,001)	(1)	(9)
Proceeds from sales of treasury shares	–	6,012	56,588
Cash dividends paid	(4,478)	(4,404)	(41,453)
Dividends paid to non-controlling interests	(49)	(49)	(461)
Other	(43)	(43)	(404)
Net cash provided by (used in) financing activities	(9,572)	50,305	473,503
Effect of exchange rate change on cash and cash equivalents	(588)	394	3,708
Net increase (decrease) in cash and cash equivalents	4,453	48,412	455,685
Cash and cash equivalents at beginning of period	25,128	29,901	281,447
Increase in cash and cash equivalents from newly consolidated subsidiary	290	–	–
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	28	–	–
Cash and cash equivalents at end of period (Note 8)	¥29,901	¥ 78,313	\$ 737,132

See notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

TSUMURA & CO. and consolidated subsidiaries
March 31, 2017 and 2018

1 Summary of Significant Accounting Policies

(a) Basis of presentation

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

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

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

(b) Consolidation

(1) Scope of consolidation

1) Number of consolidated subsidiaries: six (of which, four companies are located overseas) for the year ended March 31, 2018

Names of consolidated subsidiaries:

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

Effective from the year ended March 31, 2018, the Company included Tsumura China Inc., which was previously a non-consolidated subsidiary, in the scope of consolidation upon the completion of investment.

2) Name of major non-consolidated subsidiaries:

- LAO TSUMURA CO., LTD. and another company

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

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

(2) Equity method

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

- SICHUAN CHUANCUN TRADITIONAL CHINESE MEDICINES CO., LTD.

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

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

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

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

4) Special notes to application of equity method accounting

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

(c) Fiscal year-end of consolidated subsidiaries

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

(d) Accounting policies

(1) Basis and method to measure significant assets

1) Securities

Available-for-sale securities

With readily determinable market value

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

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

Without readily determinable market value

Stated at cost determined by the moving-average method.

2) Inventories

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

3) Derivatives

Stated at fair value.

(2) Depreciation methods of significant depreciable assets

1) Property, plant and equipment, excluding leased assets
Straight-line method
The estimated useful lives of the major depreciable assets are as follows:

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

2) Intangible assets, excluding leased assets
Straight-line method
Cost of software purchased for internal use is amortized by the straight-line method over the internal useful life of five years.

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

(3) Accounting treatment of significant deferred assets
Bond issuance cost and share issuance cost are charged to expenses when incurred.

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

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

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

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

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

(6) Translation of foreign currencies

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

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

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

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

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

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

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

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

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

2 New Accounting Standards Not Yet Applied

- ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition" (issued on March 30, 2018)
- ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition" (issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in the US conducted a joint project to clarify the comprehensive principles for recognizing revenues and published the "Revenues from Contracts with Customers" (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 will be applied from a fiscal period beginning on or after January 1, 2018 and Topic 606 will be applied from a fiscal period beginning on or after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive

accounting standard for revenue recognition and published a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 in order to enhance comparability of financial statements, which is one of the benefits of ensuring consistency with IFRS 15. In addition, for any practical issue to be considered in Japan, ASBJ is supposed to add alternative treatment to the extent that comparability is not impaired.

(2) Scheduled date of application

The Company will apply the new standard and guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Effect from the application of the new accounting standard and guidance

The effect from the application of the new accounting standard and guidance is currently under evaluation.

3 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 ¥106.24=US\$1.00, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2018. 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.

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of translation into U.S. dollars, they have been rounded down to the nearest 1 thousand dollars).

4 Notes to the Consolidated Balance Sheets

(a) Land revaluation

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

- Method of revaluation

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

- Date of revaluation – March 31, 2002

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Difference between fair value of land at the year end and carrying value after the revaluation	¥(2,537)	¥(2,542)	\$ (23,926)

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

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Investments and other assets:			
Investment securities (stocks)	¥ 10	¥ –	\$ –
Investments in capital	1,217	1,485	13,977

(c) Guarantee obligations

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

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Tianjin China Medico Technology Co., Ltd.	¥1,920	¥1,920	\$18,072
China Medico Corporation	1,080	1,080	10,165
Total	¥3,000	¥3,000	\$28,237

(d) Reduction entry

Reduction entry is an accounting treatment to defer taxation, which has an effect to reduce tax burden for the year when a company acquires property, plant and equipment with proceeds such as subsidies by recording loss to lower the acquisition cost. Among property, plant and equipment acquired in previous years, amounts of reduction entry due to national subsidies and the breakdown are as follows:

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Buildings and structures	¥134	¥134	\$1,261
Machinery, equipment and vehicles	89	89	837
Tools, furniture and fixtures	1	1	9
Total	¥225	¥225	\$2,117

5 Notes to the Consolidated Statements of Income

(a) Inventories at the balance sheet date are stated at the lower of cost or net selling value. Loss on valuation of inventories included in cost of sales for the years ended March 31, 2017 and 2018 are as follows:

2017	¥ in millions	US\$ in thousands
	2018	2018
¥127	¥137	\$1,289

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

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Sales promotion expenses	¥ 3,920	¥ 4,075	\$ 38,356
Sales rebates	9,519	9,798	92,225
Salaries and allowances	17,280	17,994	169,371
Research and development expenses	6,087	6,048	56,927
Retirement benefit expenses	1,246	1,037	9,760
Provision of allowance for doubtful accounts	0	0	0

(c) Research and development expenses included in selling, general and administrative expenses and cost of sales for the years ended March 31, 2017 and 2018 are as follows:

2017	¥ in millions	US\$ in thousands
	2018	2018
¥6,087	¥6,048	\$56,927

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

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Buildings and structures	¥ –	¥1	\$ 9
Machinery, equipment and vehicles	3	6	56
Tools, furniture and fixtures	0	2	18

(e) Subsidy income

For the year ended March 31, 2017

Not applicable.

For the year ended March 31, 2018

The Company received a subsidy of ¥1,000 million (\$9,412 thousand) for a new industrial development project from Shizuoka Prefecture and recognized subsidy income under extraordinary income.

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

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Machinery, equipment and vehicles	¥25	¥13	\$122
Land	18	–	–

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

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Buildings and structures	¥16	¥35	\$329
Machinery, equipment and vehicles	19	21	197
Tools, furniture and fixtures	4	4	37

(h) Loss on disaster

For the year ended March 31, 2017

Loss on disaster consisted of a ¥5 million loss on product damage incurred from the Kumamoto Earthquake and a ¥2 million loss from typhoon damage in Hokkaido.

For the year ended March 31, 2018

Not applicable.

(i) Environmental expenses

For the year ended March 31, 2017

Not applicable.

For the year ended March 31, 2018

Since an oil spill accident occurred in Takigawa Farm owned by YUBARI TSUMURA CO., LTD., the Company recognized ¥66 million (US\$621 thousand) of environmental expenses under extraordinary losses including estimated costs to decontaminate the soil and to prevent damages from spreading on a reasonable basis.

6 Notes to the Statements of Comprehensive Income

Reclassifications and adjustments and income tax effects attributable to other comprehensive income (loss) for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 877	¥ 2,802	\$ 26,374
Reclassifications and adjustments	(873)	(1,498)	(14,100)
Before income tax effects	4	1,304	12,274
Income tax effects	5	(401)	(3,774)
Valuation difference on available-for-sale securities	¥9	¥ 902	\$ 8,490
Deferred gains or losses on hedges:			
Amount arising during the year	¥ 641	¥ (869)	\$ (8,179)
Income tax effects	(196)	267	2,513
Deferred gains or losses on hedges	¥ 445	¥ (601)	\$ (5,657)
Revaluation reserve for land:			
Income tax effects	¥ 159	¥ -	\$ -
Revaluation reserve for land	¥ 159	¥ -	\$ -
Foreign currency translation adjustment:			
Amount arising during the year	¥(2,342)	¥ 902	\$ 8,490
Foreign currency translation adjustment	¥(2,342)	¥ 902	\$ 8,490
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year	¥ 256	¥ 103	\$ 969
Reclassifications and adjustments	295	271	2,550
Before income tax effects	552	375	3,529
Income tax effects	(169)	(114)	(1,073)
Remeasurements of defined benefit plans, net of tax	¥ 383	¥ 260	\$ 2,447
Share of other comprehensive income (loss) of entities accounted for using equity method			
Amount arising during the year	¥ (49)	¥ 13	\$ 122
Share of other comprehensive income (loss) of entities accounted for using equity method	(49)	13	122
Total other comprehensive income (loss)	¥(1,393)	¥ 1,477	\$ 13,902

7 Notes to Consolidated Statements of Changes in Equity

For the year ended March 31, 2017

(a) Type and number of issued shares

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

(b) Type and number of treasury shares

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

Reason for changes in number of shares:

The major breakdown of increase is as follows:

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

(c) Subscription rights to shares

Not applicable.

(d) Dividends

(1) Dividends paid

Resolution	Type of share	Total amount of dividend (¥ in millions)	Dividend per share (¥)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2016	Common stock	¥2,256	¥32.00	March 31, 2016	June 30, 2016
Board of Directors' meeting held on November 9, 2016	Common stock	2,219	32.00	September 30, 2016	December 5, 2016

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

Resolution	Type of share	Source of dividend	Total amount of dividend (¥ in millions)	Dividend per share (¥)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2017	Common stock	Retained earnings	¥2,201	¥32.00	March 31, 2017	June 30, 2017

For the year ended March 31, 2018

(a) Type and number of issued shares

Type	Thousands of shares			
	Beginning of the year	Increase	Decrease	End of the year
Common stock	70,771	5,986	–	76,758

Reason for changes in number of shares:

The major breakdown of increase is as follows:

Increase due to a third-party allotment	5,986 thousand shares
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(b) Type and number of treasury shares

Type	Thousands of shares			
	Beginning of the year	Increase	Decrease	End of the year
Common stock	1,989	0	1,689	300

Reason for changes in number of shares:

The major breakdown of increase is as follows:

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

The major breakdown of decrease is as follows:

Decrease due to disposal of treasury shares through a third-party allotment 1,689 thousand shares

(c) Subscription rights to shares

Not applicable.

(d) Dividends

(1) Dividends paid

Resolution	Type of share	Total amount of dividend (¥ in millions)	Dividend per share (¥)	Total amount of dividend (US\$ in thousands)	Dividend per share (US\$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 29, 2017	Common stock	¥2,201	¥32.00	\$20,717	\$0.30	March 31, 2017	June 30, 2017
Board of Directors' meeting held on November 8, 2017	Common stock	2,201	32.00	20,717	0.30	September 30, 2017	December 5, 2017

(2) Dividends whose effective date is subsequent to March 31, 2018

Resolution	Type of share	Source of dividend	Total amount of dividend (¥ in millions)	Dividend per share (¥)	Total amount of dividend (US\$ in thousands)	Dividend per share (US\$)	Record date	Effective date
Ordinary general meeting of shareholders held on June 28, 2018	Common stock	Retained earnings	¥2,446	¥32.00	\$23,023	\$0.30	March 31, 2018	June 29, 2018

8 Notes to Consolidated Statements of Cash Flows

The reconciliation of cash and cash equivalents in the consolidated statements of cash flows at March 31, 2017 and 2018 to the accounts and amounts on the accompanying balance sheets is summarized as follows:

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Cash and deposits	¥29,931	¥83,520	\$786,144
Less: Time deposits with a maturity in excess of three months	(30)	(5,207)	(49,011)
Cash and cash equivalents	¥29,901	¥78,313	\$737,132

9 Leases

LESSEE

(a) Finance leases

Finance lease transactions that do not transfer ownership

1) Details of leased assets

Leased assets consist of forklifts in factories.

2) Depreciation method of leased assets

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

(b) Operating leases

Future minimum lease payments for non-cancellable operating leases

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Within one year	¥ 57	¥51	\$480
Over one year	47	30	282
Total	¥105	¥81	\$762

10 Financial Instruments

(a) Status of financial instruments

(1) Policy on financial instruments

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

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

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

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

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

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

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

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

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

The Group utilizes derivative financial instruments such as forward exchange contracts and non-deliverable forward (NDF) to hedge the foreign currency fluctuation risk of forecasted transactions denominated in foreign currencies. Please refer to Note 1. "Summary of Significant Accounting Policies, (7) Significant hedge accounting" for hedging instruments, hedged items, hedge policy and method of evaluating hedge effectiveness.

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

Operating payables and loans are exposed to liquidity risk. The Group manages the risk by preparing the cash management plans monthly.

(3) Supplemental explanation regarding fair value of financial instruments

The contract amounts and other information regarding derivative transactions described in Note 12. "Derivatives" do not indicate market risk related to derivative transactions.

(b) Fair value of financial instruments

The following table summarizes carrying value reported on the consolidated balance sheets, fair value, and their differences. The financial instruments whose fair value is extremely difficult to determine are not included in the table. Please see "2. The carrying value of financial instruments whose fair value is extremely difficult to determine" on page 76.

As of March 31, 2017

	¥ in millions		
	Carrying value	Fair value	Difference
(1) Cash and deposits	¥29,931	¥29,931	¥ -
(2) Notes and accounts receivable–trade	40,347	40,347	-
(3) Investment securities			
Available-for-sale securities	17,423	17,423	-
Total assets	¥87,701	¥87,701	¥ -
(1) Notes and accounts payable–trade	¥6,696	¥ 6,696	¥ -
(2) Short-term loans payable	12,581	12,581	-
(3) Accounts payable–other	6,020	6,020	-
(4) Income taxes payable	1,901	1,901	-
(5) Long-term loans payable	24,376	24,326	(49)
Total liabilities	¥51,575	¥51,526	¥(49)
Derivative transactions *1	¥ 1,335	¥ 1,335	¥ -

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

As of March 31, 2018

	¥ in millions			US\$ in thousands		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
(1) Cash and deposits	¥ 83,520	¥ 83,520	¥ -	\$ 786,144	\$ 786,144	\$ -
(2) Notes and accounts receivable–trade	42,906	42,906	-	403,859	403,859	-
(3) Securities and investment securities						
Available-for-sale securities	17,582	17,582	-	165,493	165,493	-
Total assets	¥144,008	¥144,008	¥ -	\$1,355,496	\$1,355,496	\$ -
(1) Notes and accounts payable–trade	¥ 5,507	¥ 5,507	¥ -	\$ 51,835	\$ 51,835	\$ -
(2) Short-term loans payable	10,314	10,314	-	97,082	97,082	-
(3) Current portion of long-term loans payable	15,000	15,000	-	141,189	141,189	-
(4) Accounts payable–other	7,823	7,823	-	73,635	73,635	-
(5) Income taxes payable	3,538	3,538	-	33,301	33,301	-
(6) Bonds payable	30,000	29,968	(32)	282,379	282,078	(301)
(7) Long-term loans payable	9,376	9,330	(45)	88,253	87,820	(423)
Total liabilities	¥ 81,558	¥ 81,481	¥(77)	\$ 767,676	\$ 766,952	\$(724)
Derivative transactions *1	¥ 465	¥ 465	¥ -	\$ 4,376	\$ 4,376	\$ -

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

Notes:

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

Assets

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

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

(3) Securities and investment securities

The fair value of stocks is based on the quoted market prices. The fair value of bonds is based on the price provided by the counterparty financial institutions. Please refer to Note 11. "Investment Securities" for information regarding securities by holding purposes.

Liabilities

(1) Notes and accounts payable–trade, (2) Short-term loans payable, (3) Current portion of long-term loans payable, (4) Accounts payable–other, and (5) Income taxes payable
The carrying value is deemed as the fair value since these items are scheduled to be settled in a short period of time.

(6) Bonds payable

The fair value of bonds payable is measured at market values.

(7) Long-term loans payable

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

Derivative transactions

Please refer to Note 12. "Derivatives."

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

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Unlisted stocks	¥107	¥97	\$913

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

3. The redemption schedule of monetary assets and securities with maturity dates

As of March 31, 2017

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

As of March 31, 2018

	¥ in millions			
	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	¥ 83,501	¥-	¥-	¥-
Notes and accounts receivable-trade	42,906	-	-	-
Securities and investment securities:				
Available-for-sale securities with maturity dates (Jointly operated designated money trust)	3,500	-	-	-
Total	¥129,907	¥-	¥-	¥-

	US\$ in thousands			
	Within one year	Over one year within five years	Over five years within 10 years	Over 10 years
Cash and deposits	\$ 785,965	\$-	\$-	\$-
Notes and accounts receivable-trade	403,859	-	-	-
Securities and investment securities:				
Available-for-sale securities with maturity dates (Jointly operated designated money trust)	32,944	-	-	-
Total	\$1,222,769	\$-	\$-	\$-

4. The aggregate annual maturities of bonds payable, long-term loans payable, lease obligations, and other interest-bearing debt subsequent to the fiscal year-end

As of March 31, 2017

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

As of March 31, 2018

	¥ in millions					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	¥10,314	¥ -	¥ -	¥ -	¥ -	¥ -
Bonds payable	-	-	-	-	-	30,000
Long-term loans payable	15,000	-	-	9,376	-	-
Lease obligations	40	38	34	27	24	20
Total	¥25,354	¥38	¥34	¥9,403	¥24	¥30,020

	US\$ in thousands					
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years
Short-term loans payable	\$ 97,082	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds payable	-	-	-	-	-	282,379
Long-term loans payable	141,189	-	-	88,253	-	-
Lease obligations	376	357	320	254	225	188
Total	\$238,648	\$357	\$320	\$88,507	\$225	\$282,567

11 Investment Securities

(a) Available-for-sale securities

As of March 31, 2017

	¥ in millions		
	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost			
Stocks	¥17,264	¥11,817	¥5,446
Subtotal	¥17,264	¥11,817	¥5,446
Securities with book value not exceeding their acquisition cost			
Stocks	¥ 158	¥ 169	¥ (11)
Subtotal	¥ 158	¥ 169	¥ (11)
Total	¥17,423	¥11,987	¥5,435

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

As of March 31, 2018

	¥ in millions			US\$ in thousands		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
Securities with book value exceeding their acquisition cost						
Stocks	¥13,825	¥ 7,062	¥6,763	\$130,129	\$ 66,472	\$63,657
Subtotal	¥13,825	¥ 7,062	¥6,763	\$130,129	\$ 66,472	\$63,657
Securities with book value not exceeding their acquisition cost						
Stocks	¥ 256	¥ 280	¥ (23)	\$ 2,409	\$ 2,635	\$ (216)
Jointly operated designated money trust	3,500	3,500	–	32,944	32,944	–
Subtotal	¥ 3,756	¥ 3,780	¥ (23)	\$ 35,353	\$ 35,579	\$ (216)
Total	¥17,582	¥10,842	¥6,739	\$165,493	\$102,051	\$63,431

(Note) Unlisted stock with carrying value of ¥97 million (US\$913 thousand) is not included in the table above since it is extremely difficult to determine the fair value due to no market quotes.

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

For the year ended March 31, 2017

	¥ in millions		
	Proceeds from sales	Gain on sale	Loss on sale
Stocks	¥1,874	¥873	¥–
Total	¥1,874	¥873	¥–

For the year ended March 31, 2018

	¥ in millions			US\$ in thousands		
	Proceeds from sales	Gain on sale	Loss on sale	Proceeds from sales	Gain on sale	Loss on sale
Stocks	¥6,154	¥1,498	¥–	\$57,925	\$14,100	\$–
Total	¥6,154	¥1,498	¥–	\$57,925	\$14,100	\$–

12 Derivatives

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

Not applicable.

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

Currency-related

As of March 31, 2017

Hedge accounting method	Transaction	Hedged item	¥ in millions		
			Contract amount	Contract amount over one year	Fair value
Allocation method	Forward exchange contracts	Forecast transactions denominated in foreign currencies			
	Buy-USD		¥17,270	¥5,104	¥1,402
	Buy-CNY		12,219	4,843	(12)
	Non-deliverable forward contracts (NDF)				
	Buy-CNY		4,917	–	(54)
Total			¥34,407	¥9,947	¥1,335

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

As of March 31, 2018

Hedge accounting method	Transaction	Hedged item	¥ in millions			US\$ in thousands		
			Contract amount	Contract amount over one year	Fair value	Contract amount	Contract amount over one year	Fair value
Allocation method	Forward exchange contracts	Forecast transactions denominated in foreign currencies						
	Buy-USD		¥14,743	¥2,049	¥ (20)	\$138,770	\$19,286	\$ (188)
	Buy-CNY		11,233	2,717	725	105,732	25,574	6,824
	Non-deliverable forward contracts (NDF)							
	Buy-CNY		8,673	–	(239)	81,635	–	(2,249)
Total			¥34,650	¥4,767	¥ 465	\$326,148	\$44,870	\$ 4,376

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

13 Employees' Retirement Benefits

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

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

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

Under the lump-sum payment plan (unfunded), employees who terminate their employment are entitled to lump-sum benefits

based on their length of service and level of compensation at the time of the termination.

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

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

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

(b) Defined benefit plan

(1) The changes in retirement benefit obligations for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Balance at beginning of year	¥15,653	¥15,942	\$150,056
Service cost	873	855	8,047
Interest cost	61	62	583
Actuarial gain or loss	(70)	43	404
Benefit paid	(586)	(372)	(3,501)
Other	10	9	84
Balance at end of year	¥15,942	¥16,541	\$155,694

(2) The changes in plan assets for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Balance at beginning of year	¥15,709	¥16,917	\$159,233
Expected return on plan assets	543	585	5,506
Actuarial gain or loss	186	146	1,374
Employer's contribution	1,056	1,072	10,090
Benefit paid	(583)	(360)	(3,388)
Other	4	(0)	(0)
Balance at end of year	¥16,917	¥18,360	\$172,816

(3) The reconciliation between the year-end balances of retirement benefit obligations and plan assets and the amounts of asset and liability related to retirement benefits on the consolidated balance sheets as of March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Funded retirement benefit obligations	¥ 15,892	¥ 16,494	\$ 155,252
Plan assets	(16,917)	(18,360)	(172,816)
	(1,024)	(1,866)	(17,564)
Unfunded retirement benefit obligations	50	46	432
Net liability (asset) on the consolidated balance sheet	(974)	(1,819)	(17,121)
Net defined benefit liability	84	88	828
Net defined benefit asset	(1,058)	(1,908)	(17,959)
Net liability (asset) on the consolidated balance sheet	¥ (974)	¥ (1,819)	\$ (17,121)

(4) The components of retirement benefit expenses for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Service cost	¥ 873	¥ 855	\$ 8,047
Interest cost on benefit obligation	61	62	583
Expected return on plan assets	(543)	(585)	(5,506)
Amortization of actuarial gain or loss	289	265	2,494
Amortization of prior service cost	6	6	56
Other	22	29	272
Retirement benefit expenses	¥ 708	¥ 633	\$ 5,958

(5) The components of remeasurements of defined benefit plans (before income tax effect) in other comprehensive income for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Prior service cost	¥ 6	¥ 6	\$ 56
Actuarial gain or loss	546	368	3,463
Total	¥552	¥375	\$3,529

(6) The components of remeasurements of defined benefit plans (before income tax effect) in accumulated other comprehensive income as of March 31, 2017 and 2018 are as follows:

For the years ended March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Unrecognized prior service cost	¥ 6	¥ -	\$ -
Unrecognized actuarial gain or loss	118	(250)	(2,353)
Total	¥125	¥(250)	\$(2,353)

(7) The components of plan assets as of March 31, 2017, and 2018 are as follows:

1) The components of plan assets

For the years ended March 31,	2017	2018
Bonds	29%	31%
Stocks	33%	30%
General accounts	35%	35%
Other	3%	4%
Total	100%	100%

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

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

(8) The assumptions used for the years ended March 31, 2017 and 2018 are as follows:

For the years ended March 31,	2017	2018
Discount rate	0.4%	0.4%
Expected long-term rate of return on plan assets	3.5%	3.5%

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

(9) Simplified method

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

(c) Defined contribution plan

The required contributions to the defined contribution plan (including the multi-employer pension plan accounted for in the same way as the defined contribution plan) are ¥932 million and ¥644 million (US\$6,061 thousand) for the years ended March 31, 2017 and 2018, respectively.

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

(1) The overall funding status as of March 31, 2017 and 2018 is as follows:

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Plan assets	¥531,916	¥549,912	\$5,176,129
Total of actuarial obligation and minimum actuarial reserve	538,160	547,838	5,156,607
Difference	¥ (6,243)	¥ 2,074	\$ 19,521

(Note) The amounts in the above table are provided based on the most recently available information (as of March 31, 2016 and 2017 for fiscal 2017 and 2018, respectively).

(2) The contribution ratios of the Company to the entire plan during the years ended March 31, 2017 and 2018 are 3.90% and 4.03%, respectively.

(3) Supplemental information

As of March 31, 2017, the difference described in (1), ¥(6,243) million, was calculated by the sum of the balance of the unamortized prior service cost of ¥(34,540) million, deficient amount carry forward of ¥(21,454) million, and voluntary reserve of ¥49,751 million.

As of March 31, 2018, the difference described in (1), ¥2,074 million (US\$19,521 thousand), was calculated by the sum of the balance of the unamortized prior service cost of ¥(28,872) million (US\$(271,762) thousand), earnings of the fund of ¥2,650 million (US\$24,943 thousand), and voluntary reserve of ¥28,296 million (US\$266,340 thousand).

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 five years and zero months as of March 31, 2017.

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

14 Stock options

Not applicable.

15 Income Taxes

(a) The significant components of deferred tax assets and liabilities as of March 31, 2017 and 2018 are as follows:

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Deferred tax assets:			
Net defined benefit liability	¥ 24	¥ 27	\$ 254
Accrued bonuses	697	731	6,880
Accrued business office taxes	124	247	2,324
Consigned research expenses	604	646	6,080
Loss on valuation of inventories	96	59	555
Other	611	598	5,628
Total deferred tax assets	2,159	2,311	21,752
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(1,590)	(1,991)	(18,740)
Deferred gains or losses on hedges	(410)	(146)	(1,374)
Net defined benefit asset	(324)	(584)	(5,496)
Other	(199)	(250)	(2,353)
Total deferred tax liabilities	(2,524)	(2,972)	(27,974)
Net deferred tax assets (liabilities)	¥ (365)	¥ (661)	\$ (6,221)

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

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Current assets—deferred tax assets	¥ 1,325	¥ 1,512	\$ 14,231
Non-current assets—deferred tax assets	43	36	338
Non-current liabilities—deferred tax liabilities	(1,733)	(2,210)	(20,801)

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

As of March 31,	2017	2018
Statutory tax rate	30.9%	30.9%
Effect of:		
Inhabitants per capita taxes	0.5%	0.4%
Permanent differences (non-deductible) such as entertainment expenses	0.3%	0.4%
Permanent differences (non-taxable) such as dividend income	(0.2)%	(0.3)%
Tax credit for research and development expenses	(2.8)%	(2.5)%
Tax credit for taxation scheme to promote production facilities investment	(0.3)%	—%
Decrease in valuation allowance	(1.1)%	—%
Other	(1.4)%	(1.8)%
Actual effective tax rate	25.9%	27.1%

16 Asset Retirement Obligations

Disclosure omitted due to insignificance.

17 Segment Information

(Segment information)

Information by reportable segments for the years ended March 31, 2017 and 2018 is omitted since the Group has categorized its reportable segments into a single segment, pharmaceutical products operation.

(Related information)

(1) Information by products and services

Information by products and services for the years ended March 31, 2017 and 2018 is omitted since more than 90% of sales and services to external customers consisted of single category of product and service.

(2) Information by geographical areas

1) Sales

Information on sales by geographical area for the years ended March 31, 2017 and 2018 is omitted since sales to external customers in Japan exceeded 90% of net sales in the consolidated statements of income.

2) Property, plant and equipment

Information on property, plant and equipment by geographical area for the years ended March 31, 2017 and 2018 is as follows:

As of March 31, 2017

¥ in millions			
Japan	China	Other	Total
¥54,540	¥10,145	¥0	¥64,686

As of March 31, 2018

¥ in millions				US\$ in thousands			
Japan	China	Other	Total	Japan	China	Other	Total
¥60,371	¥10,957	¥0	¥71,329	\$568,251	\$103,134	\$0	\$671,394

(3) Information on major customers

For the years ended March 31,	Related segment	¥ in millions		US\$ in thousands
		2017	2018	2018
Sales to:				
Alfresa Holdings Corporation	Pharmaceutical products	¥28,065	¥29,852	\$280,986
MEDIPAL HOLDINGS CORPORATION	Pharmaceutical products	25,050	25,806	242,902
SUZUKEN CO., LTD.	Pharmaceutical products	19,642	20,016	188,403
TOHO HOLDINGS CO., LTD.	Pharmaceutical products	14,478	13,899	130,826

(Related party information)

For the year ended March 31, 2017

Not applicable.

For the year ended March 31, 2018

Classification	Name of the company	Location	Chinese yuan in millions	Type of business	% of voting rights (owned)	Business relationship	Type of transaction	¥ in millions	US\$ in thousands	Account title	¥ in millions	US\$ in thousands
			Stated capital					Transaction amount	Balance at the end of the year			
Major shareholder	Ping An Life Insurance Company of China, Ltd.	Guangdong, China	¥33,800	Life insurance	Direct 10.04 (Owned)	Capital and business alliance (Note 2)	Issuance of new shares (Note 1)	¥21,309	\$200,574	-	-	-
							Disposal of treasury shares (Note 1)	6,012	56,588	-	-	-

Notes:

- Ping An Life Insurance Company of China, Ltd. subscribed the Company's shares at ¥3,559.5 (US\$33.50) per share upon the Company's issuance of new shares and disposal of treasury shares through a third-party allotment. The issue price was determined by negotiation with reference to the market price.
- The capital and business alliance agreement has been concluded on September 22, 2017.

18 Amounts per Share

	¥ in millions		US\$ in thousands
	2017	2018	2018
Net assets per share	¥2,250.34	¥2,532.11	\$23.83
Profit per share	179.46	200.55	1.88

Notes:

- Diluted profit per share is not stated since there are no dilutive shares.

2. Basis of calculation

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

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Total net assets	¥157,397	¥196,533	\$1,849,896
Amounts to be deducted from total net assets	2,613	2,933	27,607
[Of which, non-controlling interests]	[2,613]	[2,933]	[27,607]
Amounts attributable to shareholders of common stock	¥154,783	¥193,599	\$1,822,279
Number of shares outstanding at the end of the year (Shares in thousands)	68,782	76,457	

- The basis of calculation of profit per share is as follows:

As of March 31,	¥ in millions		US\$ in thousands
	2017	2018	2018
Profit attributable to owners of parent	¥12,488	¥14,504	\$136,521
Amounts not attributable to owners of parent	-	-	-
Amounts attributable to owners of parent related to common stock	¥12,488	¥14,504	\$136,521
Weighted-average number of shares outstanding (Shares in thousands)	¥69,592	¥72,324	

19 Subsequent Events

Not applicable.

20 Supplemental Information

(1) Corporate Bonds

Issuer	Type of issue	Issue date	Interest rate (%)	Redemption period	¥ in millions		US\$ in thousands
					2017	2018	2018
TSUMURA & CO.	The 1st unsecured corporate bond with limited inter-bond pari passu clause	June 2, 2017	0.2	May 31, 2024	¥-	¥15,000	\$141,189
TSUMURA & CO.	The 2nd unsecured corporate bond with limited inter-bond pari passu clause	June 2, 2017	0.3	June 2, 2027	¥-	15,000	141,189
Total					¥-	¥30,000	\$282,379

Note:

The annual redemption schedule for five years after the balance sheet date is as follows:

	¥ in millions				
	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
	¥-	¥-	¥-	¥-	¥-

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

As of March 31,	Average interest rates (%)	Maturity due	¥ in millions		US\$ in thousands
			2017	2018	2018
Short-term loans payable	0.4	-	¥12,581	¥10,314	\$ 97,082
Current portion of long-term loans payable	0.3	-	-	15,000	141,189
Current portion of lease obligations	-	-	34	40	376
Long-term loans payable excluding current portion	0.3	September 2021 April 2019 to January 2025	24,376	9,376	88,253
Lease obligations excluding current portion	-	-	97	145	1,364
Other interest-bearing debt	-	-	-	-	-
Total	-	-	¥37,088	¥34,876	\$328,275

Notes:

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

	¥ in millions			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	¥ -	¥ -	¥9,376	¥ -
Lease obligations	38	34	27	24

	US\$ in thousands			
	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
Long-term loans payable	\$ -	\$ -	\$88,253	\$ -
Lease obligations	357	320	254	225

(3) Details of Asset Retirement Obligations

Not Applicable.

21 other

Quarterly information

(Year-to-date)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales (millions)	¥29,068	¥58,282	¥90,911	¥117,879
Profit before income taxes (millions)	4,561	9,238	17,140	20,284
Profit attributable to owners of parent (millions)	3,194	6,614	12,302	14,504
Profit per share (yen)	46.45	96.16	173.06	200.55

(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (yen)	¥46.45	¥49.71	¥76.31	¥28.81

(Year-to-date)	First quarter	Second quarter	Third quarter	Fiscal year
Net sales (thousands)	\$273,606	\$548,588	\$855,713	\$1,109,553
Profit before income taxes (thousands)	42,931	86,954	161,332	190,926
Profit attributable to owners of parent (thousands)	30,064	62,255	115,794	136,521
Profit per share (dollar)	0.43	0.46	0.71	0.27

(Quarterly)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (dollar)	\$0.43	\$0.46	\$0.71	\$0.27

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of TSUMURA & CO.

We have audited the accompanying consolidated financial statements of TSUMURA & CO. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2018, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

PricewaterhouseCoopers Aarata LLC
Otemachi Park Building, 1-1-1 Otemachi, Chiyoda-ku, Tokyo 100-0004, Japan
T: +81 (3) 6212 6800, F: +81 (3) 6212 6801, www.pwc.com/jp/assurance



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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

PricewaterhouseCoopers Arata LLC

September 26, 2018

Corporate Data

As of March 31, 2018

Corporate Name

TSUMURA & CO.

Head Office

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

Founded

April 10, 1893

Incorporated

April 25, 1936

Capital Stock

¥30,142 million

Number of Employees

3,453 (Consolidated)

Closing Date of Accounts

March 31

Stock Exchange Listing

Tokyo (Stock Code: 4540)

Shareholder Register Agent for Common Stock in Japan

Mitsubishi UFJ Trust and Banking Corporation
PO Box 29, Shin-Tokyo Post Office 137-8081

Independent Auditor

PricewaterhouseCoopers Aarata LLC

Authorized Common Stock

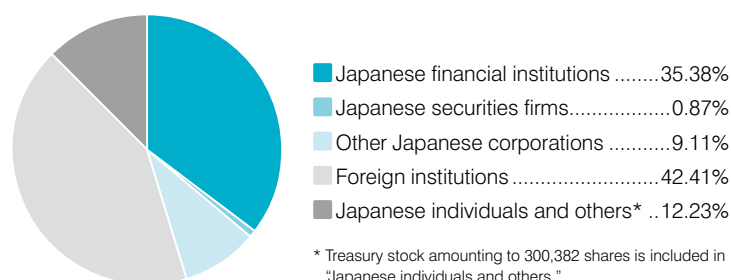
250,000,000

Issued Common Stock

76,758,362 (Including 300,382 shares of treasury stock)

Number of Shareholders

12,437

Ownership and Distribution of Shares**Major Shareholders**

	No. of shares (thousands)	% of equity
BANK OF CHINA (HONG KONG) LIMITED-PING	7,675	10.04
AN LIFE INSURANCE COMPANY OF CHINA, LIMITED		
Japan Trustee Services Bank, Ltd. (Trust Account)	5,038	6.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,732	6.19
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,169	4.15
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,197	2.87
THE BANK OF NEW YORK 133524	1,892	2.47
Employees' Stockholding	1,769	2.31
BRIGHT RIDE LIMITED	1,692	2.21
JP MORGAN CHASE BANK 385632	1,423	1.86
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,366	1.79

Notes:

- The Company holds treasury stock 300,382 shares, it is excluded from the above list of major shareholders. The % of equity above is calculated after deducting treasury stock.
- The Bank of Tokyo-Mitsubishi UFJ, Ltd., has changed its name to MUFG Bank, Ltd., as of April 1, 2018.

The Tsumura Group

(As of June 30, 2018)

Domestic Bases



TSUMURA & CO.



Shizuoka Plant



Ibaraki Plant



Ishioka Center



Research Laboratories

21 branches and 69 sales offices



YUBARI TSUMURA CO., LTD.

Production, procurement, preparation and processing, and storage of raw material crude drugs in Hokkaido
Established in July 2009



LOGITEM TSUMURA CO., LTD.

Logistics operations for supporting stable product supply
Established in April 1973

Overseas Affiliates



SHENZHEN TSUMURA MEDICINE CO., LTD.

Procurement, selection and processing, quality management, and storage of raw material crude drugs in China
Established in March 1991



SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts in China using same equipment as that used in Japan
Established in July 2001

Tsumura China Inc.

Regional oversight functions for Group companies in China
Established in December 2016

TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts, traditional Chinese medical products, and traditional Chinese medicine powdered extracts in China
Established in March 2018

Ping An Tsumura Inc.

Reinforcement of crude drug procurement systems, analysis and research centered on traditional Chinese medicines, development of traditional Chinese medicines, health foods, healthcare-related products, and other operations in China
Established in June 2018



LAO TSUMURA CO., LTD.

Cultivation and preparation and processing of raw material crude drugs in Laos
Established in February 2010

TSUMURA USA, INC.

Development of pharmaceutical products in the United States
Established in August 2001

TSUMURA & CO.

Corporate Communications Department
2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
TEL: 81-3-6361-7101
FAX: 81-3-5574-6630

The contents of this report can be viewed
on Tsumura's corporate website.



The cover photograph shows *Angelica acutiloba*, an Apiaceae family plant from which the roots are used as raw material crude drugs for producing Kampo products (photograph was taken in Hokkaido).



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