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Second Quarter Business Results
for Fiscal 2013

November 8, 2013

President, Representative Director

Terukazu Kato



2Q Business Results for
Fiscal 2013, ending March 31, 2014

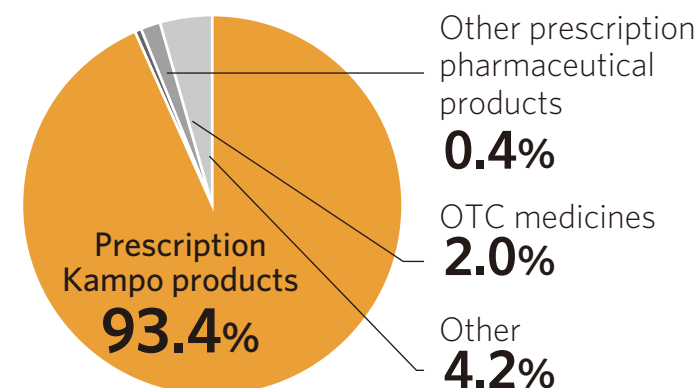
2Q Consolidated Performance for Fiscal 2013

(¥ million)

	Plan	FY2013 2Q	Vs. planned		Vs. FY2012 2Q	
			Amount	Difference	Amount	Change
Net sales	54,100	53,398	-701	-1.3%	2,349	4.6%
Operating profit	11,200	10,366	-833	-7.4%	-667	-6.0%
Recurring income	11,400	10,965	-434	-3.8%	-10	-0.1%
Net income	7,400	7,069	-330	-4.5%	184	2.7%

	Plan	FY2013 2Q	FY2012 2Q
Operating profit margin	20.7%	19.4%	21.6%
Dividends per share	¥32	¥32	¥30

Sales by product



Key Points in 2Q Performance

Posted growth in sales but decline in profits (operating income and recurring income) due to increase in raw materials costs exceeding growth in sales

The first half ended with both sales and profits falling below performance targets, but full-year performance forecasts have not been revised because of an expected improvement in sales in the second half based on strengthened MR activities

Consolidated net sales **¥53,398 million** Vs. planned **-1.3%** YoY **+4.6%**

- Core prescription Kampo product sales were down ¥1.7 billion compared with plan but up ¥1.52 billion YoY
- Net sales expanded by ¥0.93 billion because of impact of internal transaction adjustments due to exchange rate change

Operating profit **¥10,366 million** Vs. planned **-7.4%** YoY **-6.0%**

Operating profit margin **19.4%** Vs. planned **-1.3 pt** YoY **-2.2 pt**

- Sales cost ratio was 34.8%, up 0.6 pts compared with plan and 1.3 pts YoY → See slide 7, “Analysis of Sales Cost Ratio”
- SG&A expenses ratio was 45.8%, up 0.7 pts compared with plan and 0.9 pts YoY mainly because of increases in sales-related and research (Drug Fostering Program, US development program) expenses

Recurring income **¥10,965 million** Vs. planned **-3.8%** YoY **-0.1%**

- Gain on foreign exchange due to weakening yen (on loans to Chinese subsidiary) booked to non-operating income

Net income **¥7,069 million** Vs. planned **-4.5%** YoY **+2.7%**

Analysis of Sales

Sales contribution of 129 formulations of prescription Kampo products by sales channel

Hospital (HP) Hospitals with 100 beds or more (institution-employed physicians and physicians-in-training)	General practitioner (GP) Hospitals with less than 100 beds (institution-employed physicians) Clinics (family physicians)
Approximately 20%	Approximately 80%



- Business development potential is great at HP (particularly designated hospitals for clinical training)
- Physicians-in-training: promotion yields benefits when they become institution-employed physicians
- Because Tsumura deals in Kampo products, our MRs have the advantage of being able to approach all medical specialty fields

Measures to Strengthen Sales

1. Study groups for early-stage physicians-in-training at designated hospitals for clinical training and university hospitals
2. Kampo medical seminars for all medical specialty fields at designated hospitals for clinical training and university hospitals

Important activities that support future growth in Kampo market

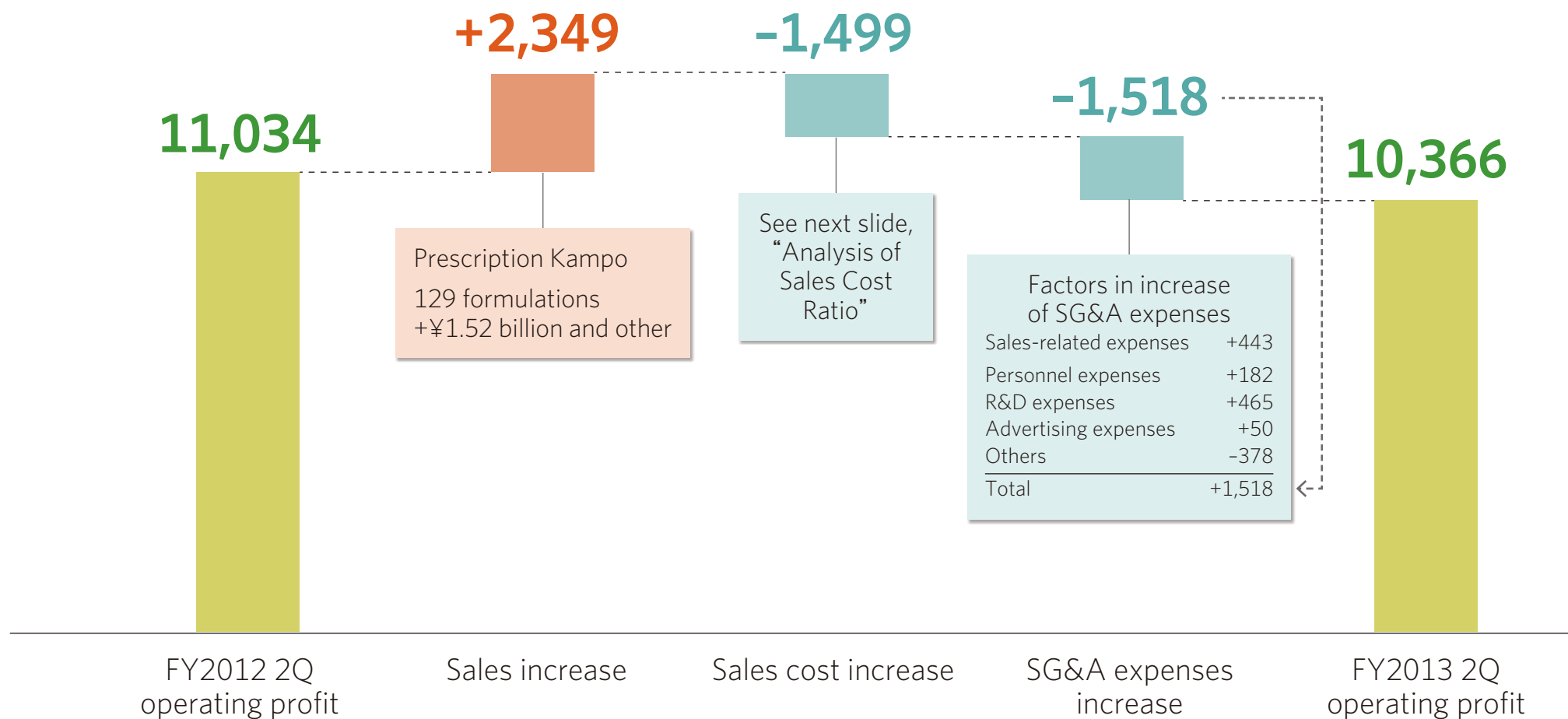


Result of activities: Sales increase in 2Q (actual sales basis)

- HP 4.1%
- GP 3.9%

Factors in Increase / Decrease of Operating Profit

(¥ million)



Analysis of Sales Cost Ratio

• Vs. plan Plan **34.2%** ▶ FY2013 2Q **34.8%** **+0.6 pt**

Up 0.6 pts because of internal transaction adjustments due to exchange rate change, unrealized gains, and other factors

Sales cost ratio excluding exchange rate change impact was 34.0% (within targeted range)

• YoY FY2012 2Q **33.5%** ▶ FY2013 2Q **34.8%** **+1.3 pt**

Factors

Factor	Effect
Jump in crude drug prices	+1.8 pt
Exchange rate impact	+1.0 pt
Others (increase in productivity, etc.)	-1.5 pt
Total	+1.3 pt

Analysis of Inventories Increase

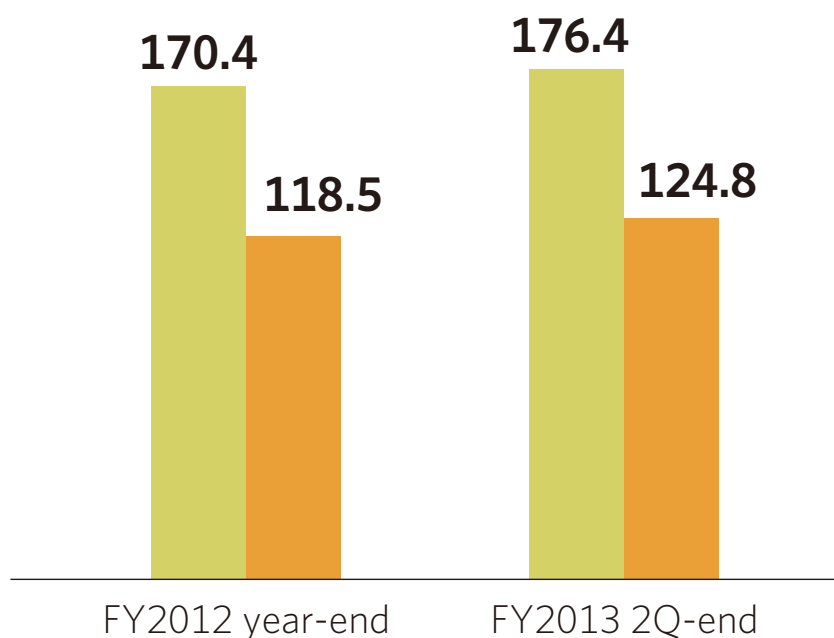
(¥ billion)

B/S	FY2012 year-end	FY2013 2Q-end	Impact of volume increase	Impact of crude drug prices	Impact of exchange rate	YoY change
Inventories	35.5	40.6	3.0	0.8	1.3	5.1
(Merchandise and finished goods)	6.8	8.2	1.1	0.3	0	1.4
(Work in process)	8.3	9.1	0.4	0.4	0	0.8
(Raw materials and supplies)	20.3	23.2	1.5	0.1	1.3	2.9

Financial Position

B/S

(¥ billion)



Total assets +5.97 billion

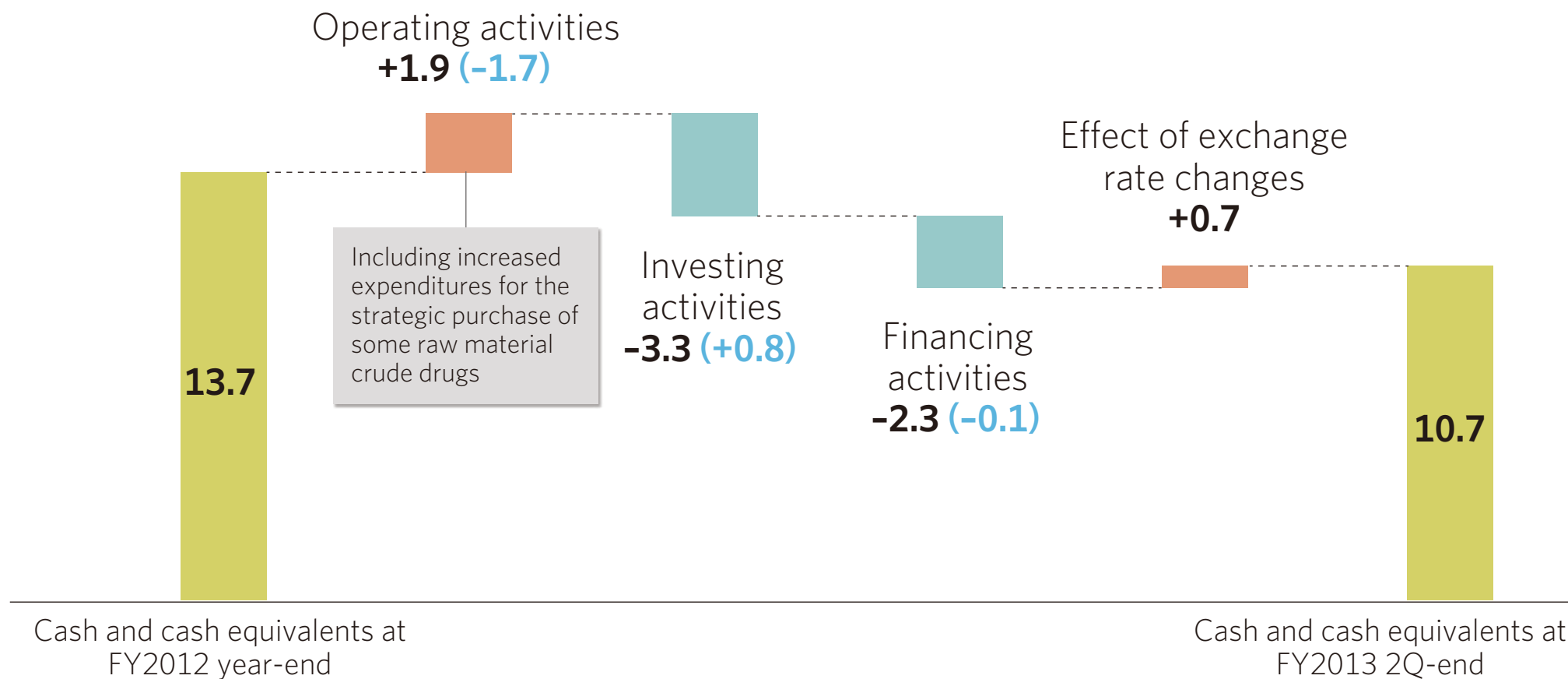
Factors in increase / decrease	
Cash and time deposits	-3.00
Trade notes and accounts receivable	-0.96
Inventories	+5.05
Advance payments	+2.81
Property, plant and equipment	+1.67


Equity ratio

FY2012 year-end	FY2013 2Q-end
68.6%	69.7%

Cash Flow Position

(¥ billion)
(Change)





Addressing Strategic Issues and Progress Status

1 Expanding the Kampo Medicine Market

2 Enhancing Earning Power

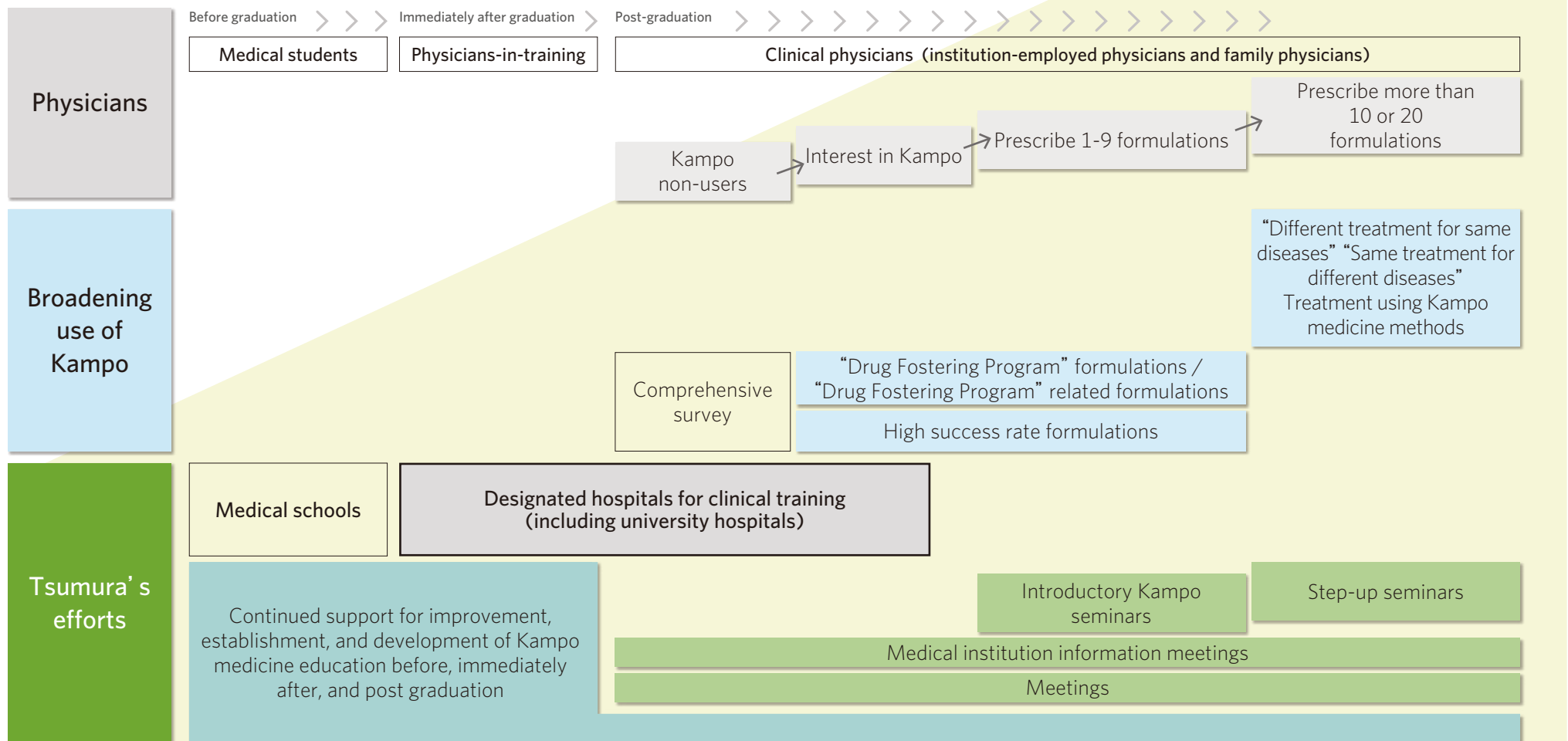
3 Executing Effective Financial and Capital Policies

1. Expanding the Kampo Medicine Market

Expanding Prescription Kampo Product Market in Japan

The “Kampo” Company

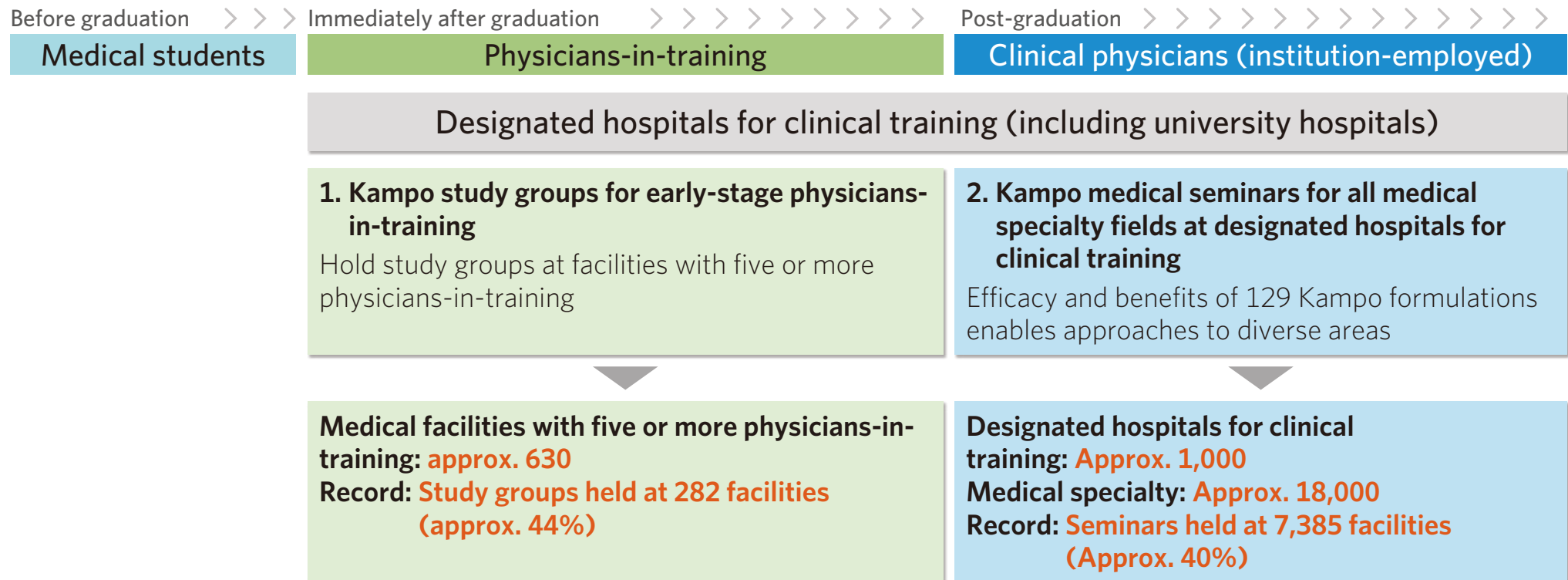
Contributing to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine where appropriate in any healthcare institution or medical specialty in Japan



Study Groups and Seminars for All Medical Specialty Fields at Designated Hospitals for Clinical Training

The “Kampo” Company

Contributing to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine where appropriate in any healthcare institution or medical specialty in Japan

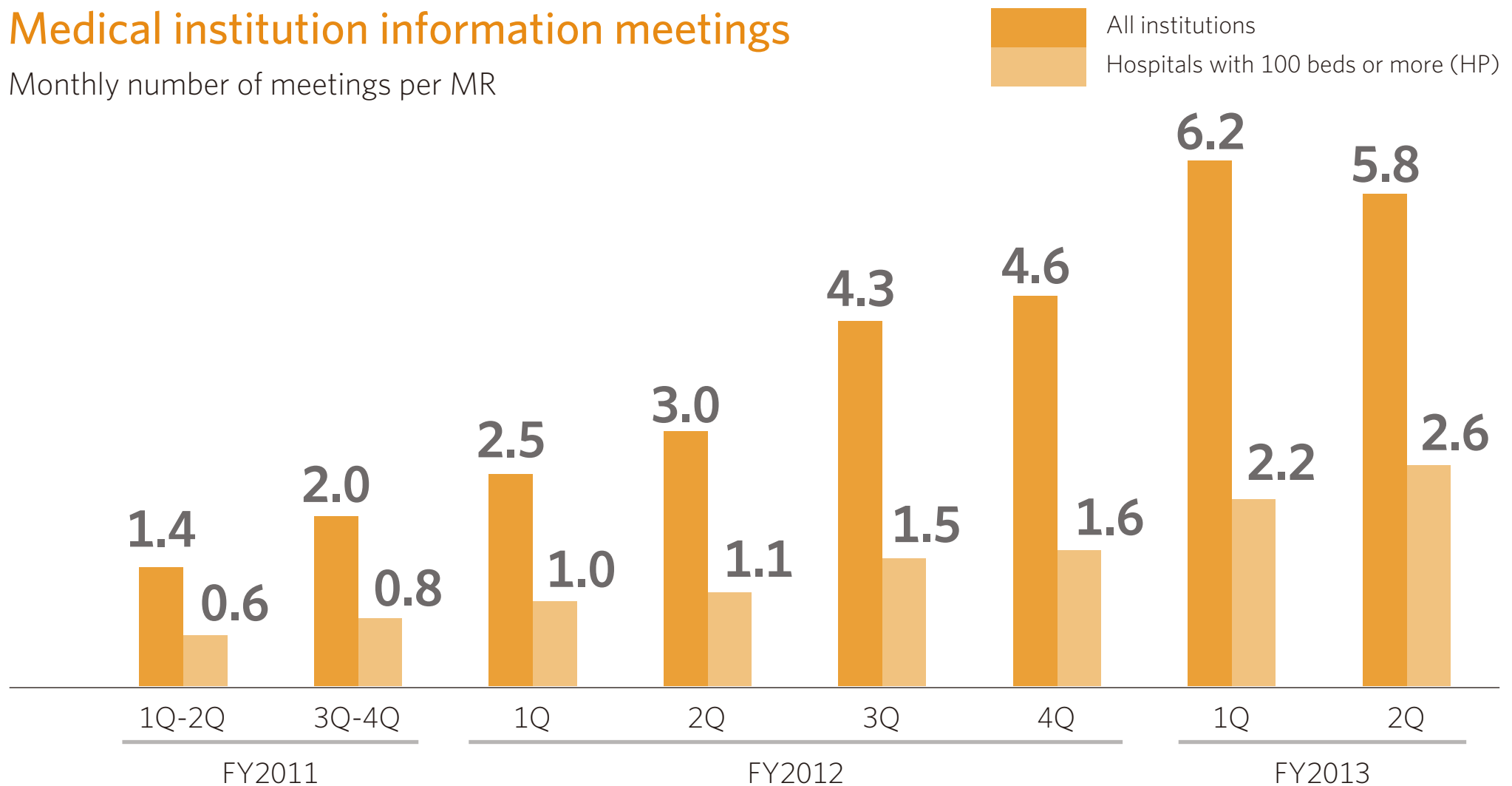


1. Expanding the Kampo Medicine Market

MR Activities (1)

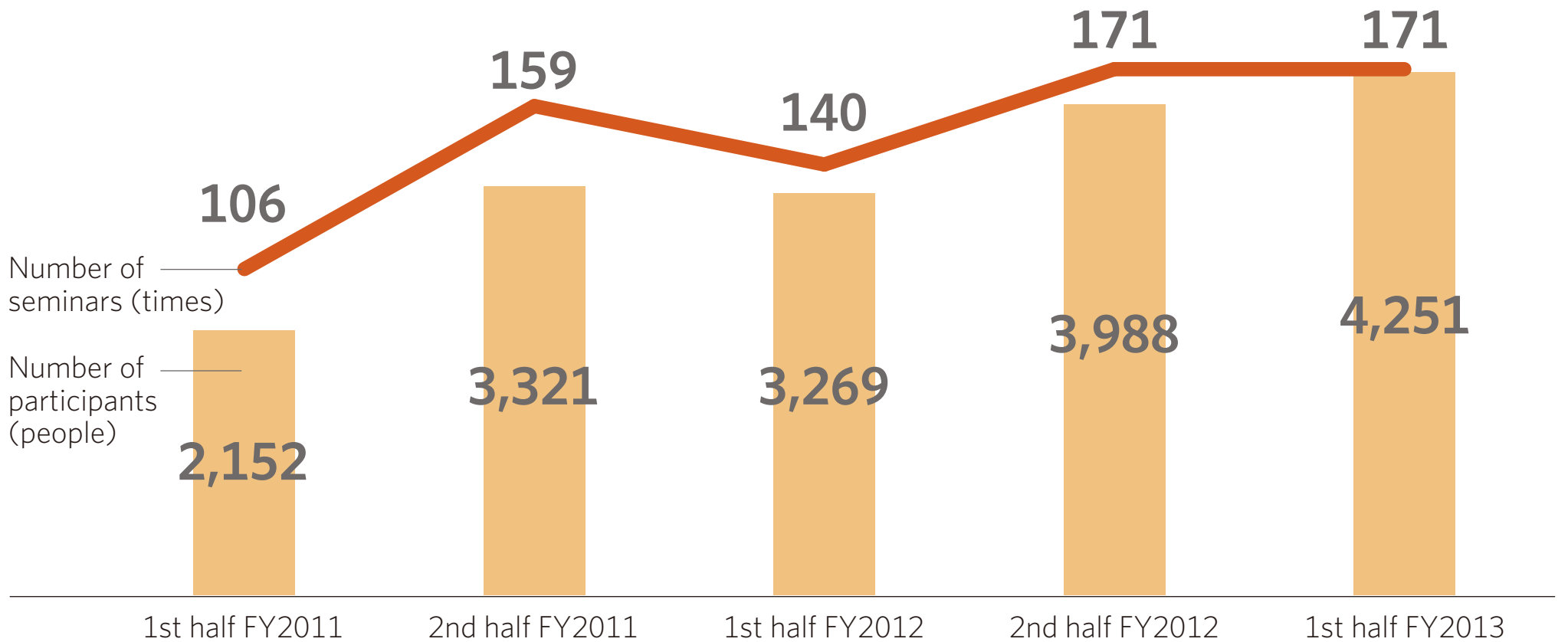
Medical institution information meetings

Monthly number of meetings per MR



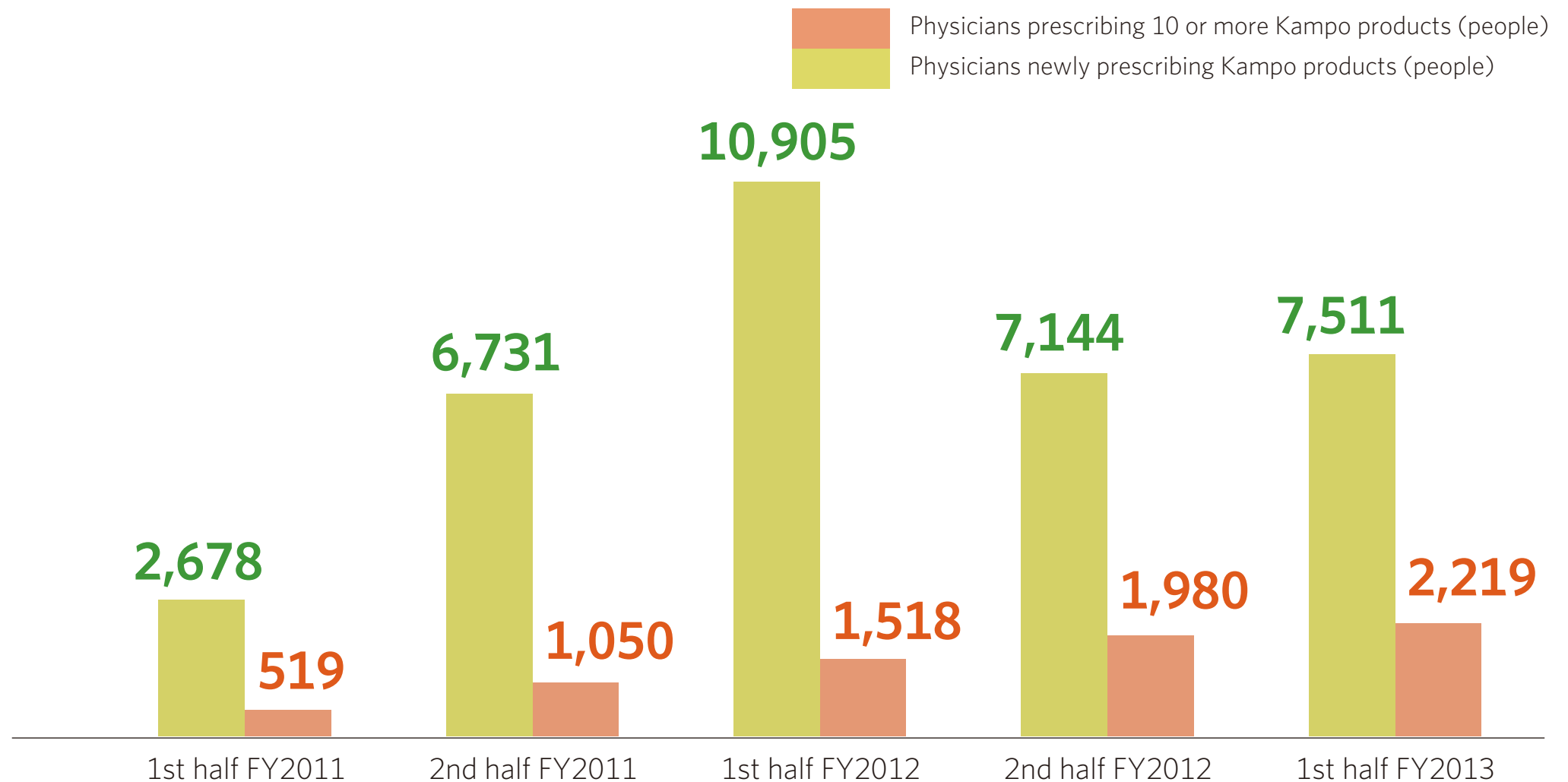
MR Activities (2)

Kampo medicine seminars



1. Expanding the Kampo Medicine Market

Growth in Physicians Prescribing Kampo Medicine (New addition)



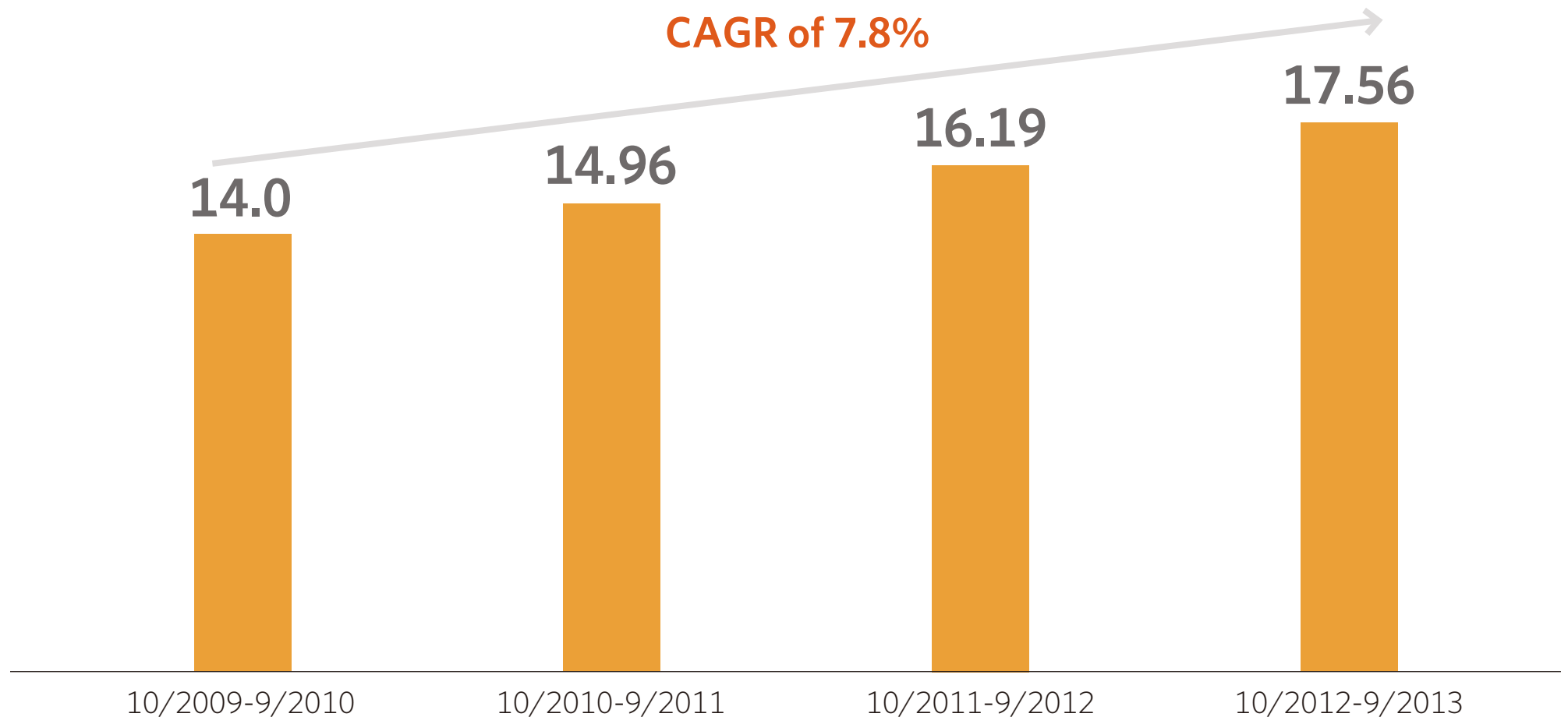
1. Expanding the Kampo Medicine Market

Actual Unit Sales for the Last 12 Months

Up 25.4% over three years

CAGR of 7.8%

(million units)



Progress with Production Cost Structure Reform

Building a foundation for decreasing the production cost in future through the pursuit of cost structure reform by improving current productivity and by considering and implementing new production technology

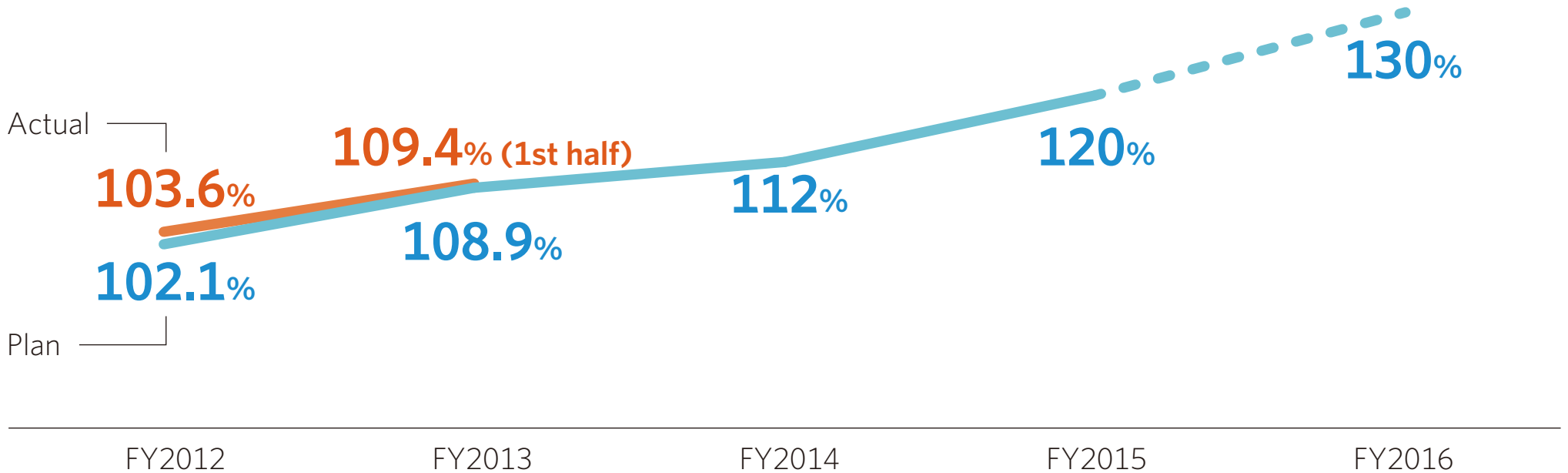
Labor productivity (Compared with FY2011)	In FY2012, actual increase was 3.6% In FY2013, actual increase forecast to be 8.9%
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Strengthening production capacity throughout, from production of powdered extract to granules and products

Increase the current manufacturing capacity	Pursuing improvements	<ul style="list-style-type: none"> Continue to carry out improvement activities for all processes
	Changes in operating structure	<ul style="list-style-type: none"> Granulation operations changed to two 12-hour working shifts from three 8-hour shifts as of FY2013 Packaging operations changed from three 8-hour shifts for all lines to two 12-hour shifts for 40% of packaging lines as of FY2012
Determine and introduce new production technology	Build a new manufacturing system that is more efficient and uses less manpower	<ul style="list-style-type: none"> New powdered extract production system <ul style="list-style-type: none"> → scheduled to come on stream in FY2016 (Ibaraki Plant) New granulation systems → In operation in FY2013 (Ibaraki Plant) <ul style="list-style-type: none"> → scheduled to come on stream in FY2015 (Shizuoka Plant) New packaging system <ul style="list-style-type: none"> → scheduled to come on stream in FY2015 (Shizuoka Plant) Increased use of robot technologies and other measures

Progress with Labor Productivity (Compared with FY2011)

Productivity was up 3.6% compared with FY2011 and is expected to improve to 8.9% in FY2013



Progress toward goal of 20% increase compared with FY2011 in productivity in FY2015 proceeding as planned

Newly Introduced Production Technology (New Granulation System)

Scheduled to come on stream in November 2013

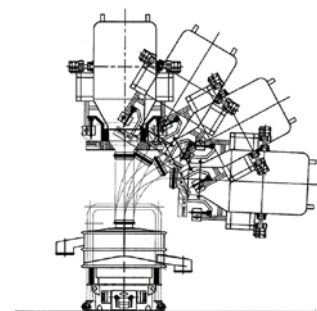
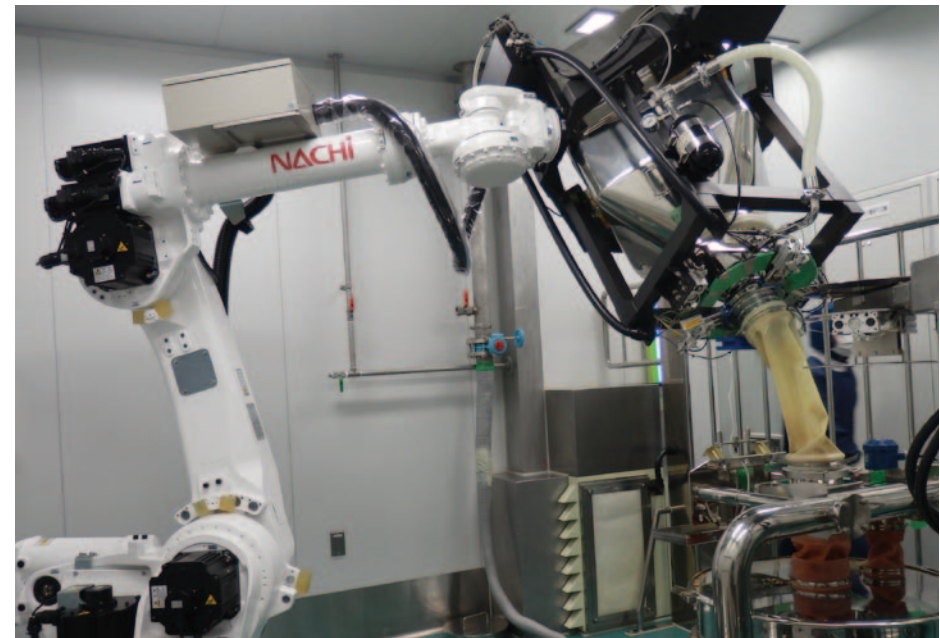
Container washer / dryer



With the introduction of the washer, container rotation and transport to dryer is all done by robots

- Since no transport or rotation mechanisms are required inside the machine, maintenance and degree of cleaning are improved
- Facilitates sanitation management inside the machine

Powdered extract rotation and removal equipment



- Equipment determines the correct level of the vibrating screen and controls the angle of the container while removing the product
- Degree of cleaning improved

Capital Investment Plan

*Planned capital investment for full fiscal year changed to ¥10.5 billion based on progress with introducing new manufacturing systems, including new technology for the new manufacturing facility at the Ibaraki Plant and the new granulation and packaging facility at the Shizuoka Plant

			← First Medium-Term Management Plan → Second Plan				
		Capital investment project	FY2012	FY2013	FY2014	FY2015	FY2016 and after
Production-related	Shizuoka Plant	New granulation and packaging facilities, etc.		*	→	☆	
		New crude drug warehouse		May			
		SD line-related					☆
	Ibaraki Plant	New granulation facility		November			
		New standard-based facilities, etc.		*	→		☆
	Technology quality	Production technology / Kampo medicine development					→
STP (Shanghai)	SD facility		October				
Production, other	Maintenance / renewal					→	
Crude drug-related	Ishioka	Ishioka Center reconstruction		December			
	STM (Shenzhen)	Warehouse	March				
	Yubari	Yubari Tsumura building				☆	
	Crude drugs, etc.	Maintenance / renewal					→

☆ Scheduled start of operations

Capital investment: ¥9.5 billion in FY2012

¥15.3 billion originally scheduled for FY2013

¥2.4 billion in 1st half FY2013

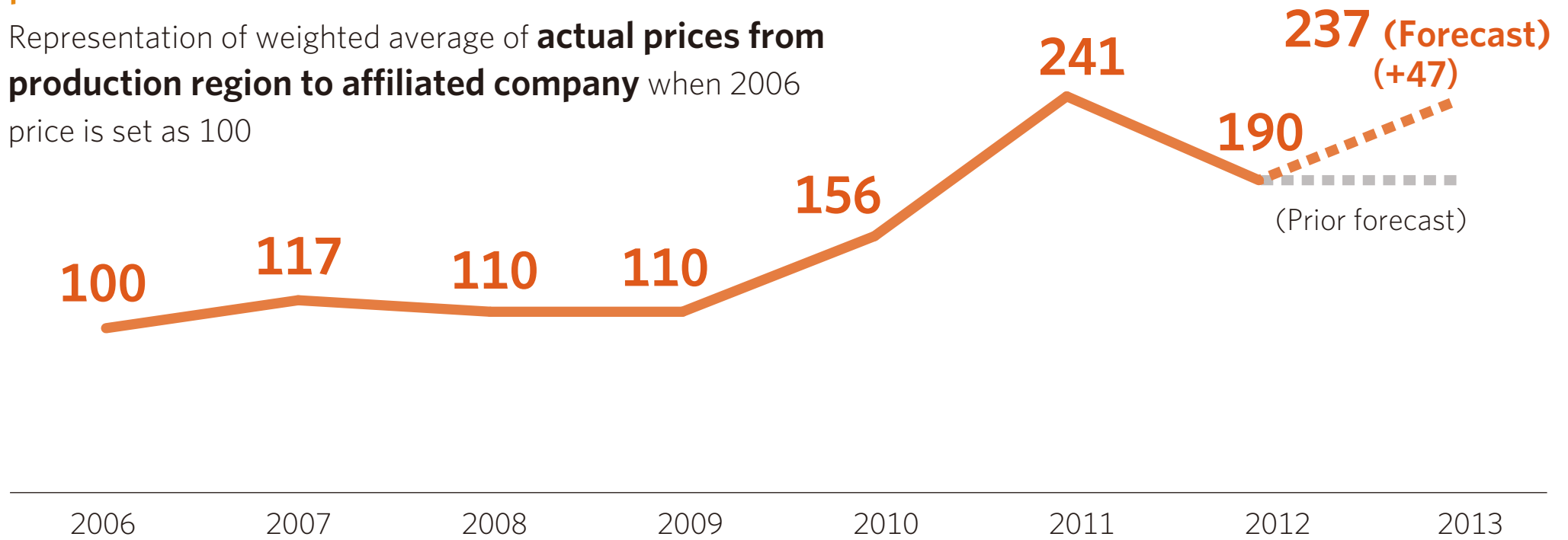
¥8.1 billion planned for 2nd half FY2013

¥10.5 billion planned for FY2013

Status of Crude Drug Prices (1)

Overall procurement price of crude drugs produced in China

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



(1) Local demand in China increased; (2) Unfavorable weather; (3) Speculative investment cornering market

Status of Crude Drug Prices (2)

Chinese raw material crude drugs price trends 2012→2013

Reasons for index increase in 47 → Due to purchase increase and price increase of ginseng

Purchase increase (ginseng)	9 (20%)
Price increase (ginseng)	38 (80%)
Total	47 (100%)

Price changes in top 20 items of 100 items procured from China

Top 20 purchased items by volume (78% of volume purchased from China)	
Cost increase	8 items
Cost decrease	11 items
Same price	1 item
Total	20 items

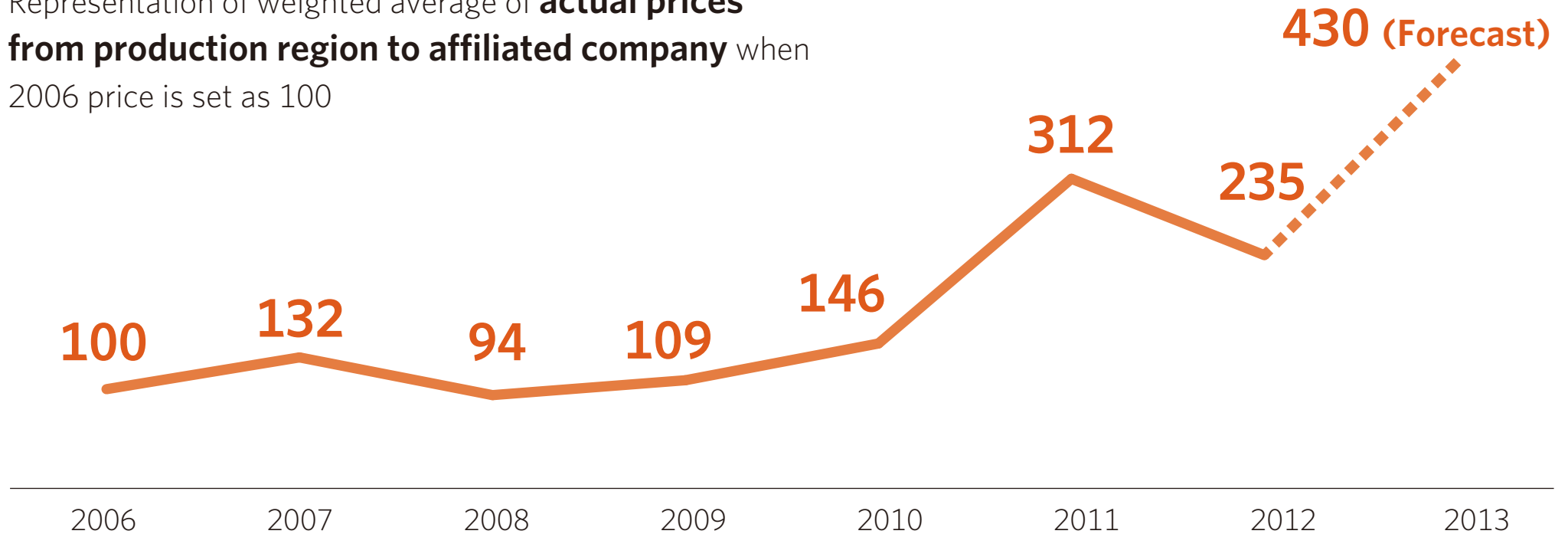
Status of Crude Drug Prices (3)

Procurement price of ginseng in production region

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

Reason for increase

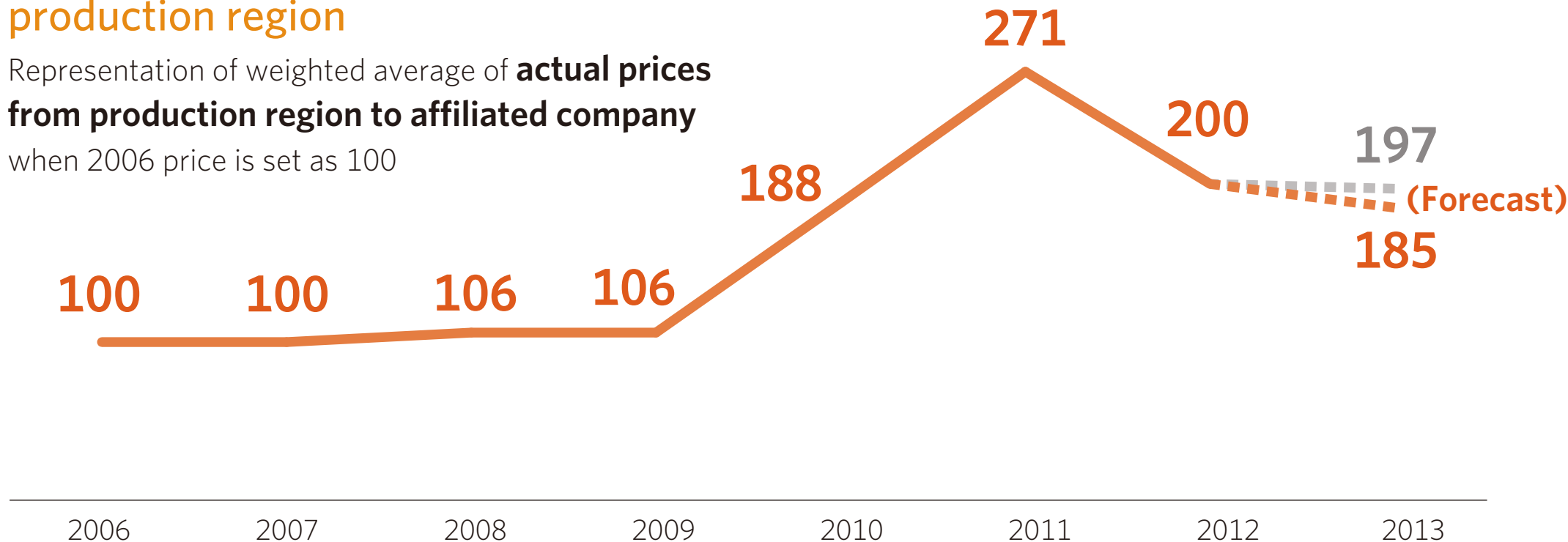
- Demand increase: development of domestic Chinese medicine market in China
- Unfavorable weather



Status of Crude Drug Prices (4)

Procurement price of paeoniae radix in production region

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



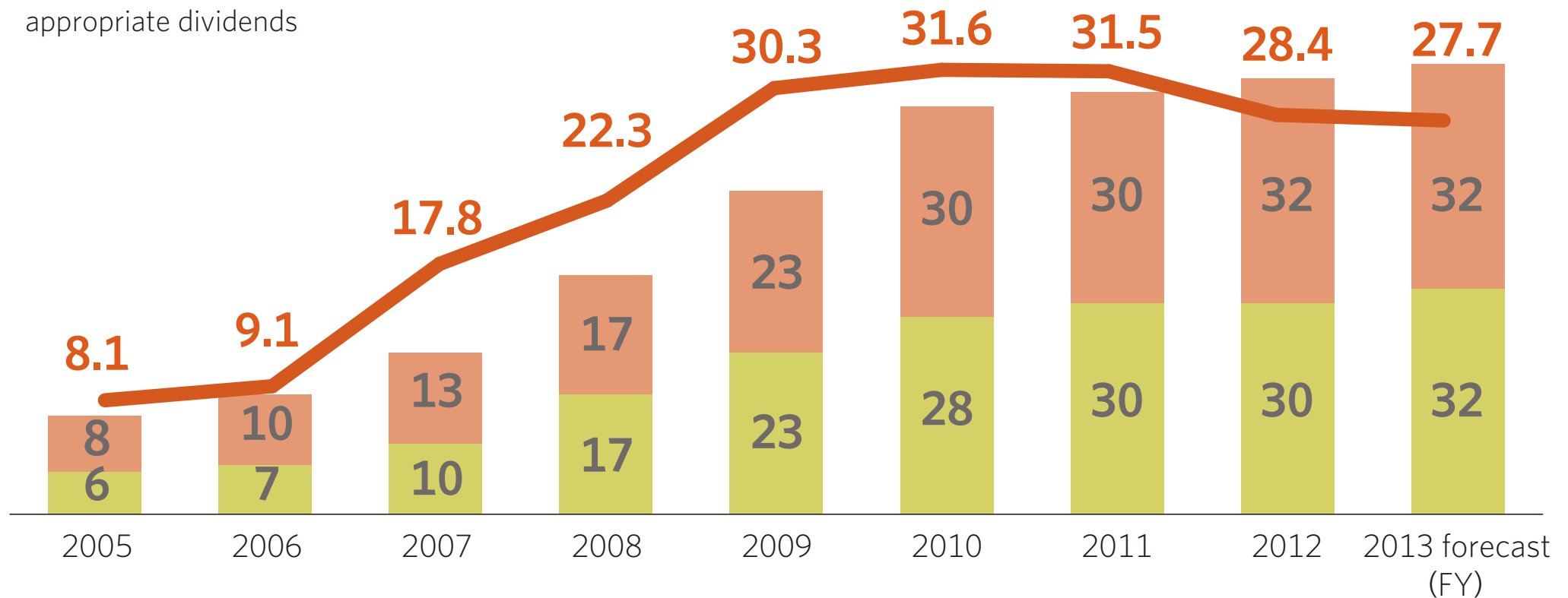
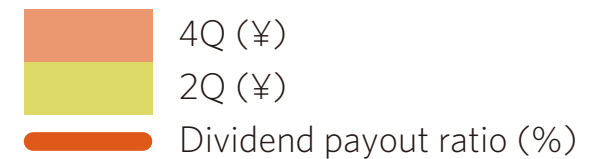
Index declined to 185 based on benefits from Cultivated Land under Own Management*


* Farms for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs and can set procurement prices (including farmland managed through partner companies)

Return of Profits to Shareholders

Dividend policy

- Increase corporate value by reinvesting in business to ensure sustained development and growth of Kampo business
- Keeping in mind medium- and long-term profit levels, pay out appropriate dividends





FY2013 (Year Ending March 2014)
Performance Forecasts

FY2013 (Year Ending March 2014) Performance Forecasts

(¥ million)

	FY2012	FY2013	YoY change	
Net sales	105,638	112,000	6,361	6.0%
Operating profit	23,124	24,700	1,575	6.8%
Recurring income	24,310	25,100	789	3.2%
Net income	15,373	16,300	926	6.0%

	FY2012	FY2013
Operating profit margin	21.9%	22.1%
Dividends per share	¥62	¥64
EPS	¥217.98	¥231.12
ROE	14.1%	13.3%



Further Information

Top 10 Kampo Products by Sales Amount

■ “Drug Fostering Program” formulations (¥ million)

	Product name	Main effectively treatable disorders	FY2013 2Q	FY2012 2Q	YoY change	
1	TJ-100 (Daikenchuto)	Abdominal pain / abdominal flatulence	4,811	4,460	351	7.9%
2	TJ-41 (Hochuekkito)	Reinforcement of physical strength after illness / anorexia	3,551	3,414	137	4.0%
3	TJ-54 (Yokukansan)	Neurosis / insomnia	3,267	3,000	266	8.9%
4	TJ-43 (Rikkunshito)	Gastritis / maldigestion / anorexia	3,258	3,021	236	7.8%
5	TJ-68 (Shakuyakukanzoto)	Pain accompanied by muscle spasms	2,127	1,947	179	9.2%
6	TJ-24 (Kamishoyosan)	Oversensitivity to cold / menstrual irregularity / climacteric disturbance	2,126	2,060	66	3.2%
7	TJ-107 (Goshajinkigan)	Leg pain / low back pain / numbness / dysuria	1,900	1,894	6	0.3%
8	TJ-29 (Bakumondoto)	Coughing / bronchitis / bronchial asthma	1,733	1,681	52	3.1%
9	TJ-114 (Saireito)	Acute gastroenteritis / swelling (edema)	1,726	1,710	15	0.9%
10	TJ-62 (Bofutsushosan)	Symptoms associated with hypertension / obesity / swelling / constipation	1,256	1,336	-80	-6.0%
—	TJ-14 (Hangeshashinto)	Fermentative diarrhea / neurotic gastritis / stomatitis	583	535	47	9.0%
Total sales of 129 prescription Kampo products			49,857	48,330	1,527	3.2%
Total sales of five “Drug Fostering Program” formulations			13,821	12,912	909	7.0%

Evidence Building for Drug Fostering Program Products (DB-RCT & Safety)

Formulation	Targeted disorder / researchers	Trial group / institution in-charge	Case collection period	Public announcements, etc.	Note
TJ-100 Daikenchuto	Postoperative ileus after colon cancer surgery	Kitasato University, others (DKT Forum, Colon Team)	Jan. 2009 - June 2011	Japan Surgical Society Annual Congress (Apr. 2013: Fukuoka)	
	Postoperative ileus after colon cancer surgery (Additional study)	Fujita Health University, others (DKT Forum, Clinical Pharmacology Team)	Jan. 2009 - June 2011	Japan Surgical Society Annual Congress (Apr. 2013: Fukuoka)	
	Postoperative ileus after liver cancer surgery	Kushiro Rosai Hospital, others (DKT Forum, Hepatic Surgery Team)	Feb. 2010 - May 2011	JDDW ¹ 2012 (Oct. 2012: Kobe) The American Association for the Study of Liver Diseases (Nov. 2012: Boston)	
	Postoperative ileus after gastric cancer surgery	Oita University, others (DKT Forum, Stomach and Esophagus Team)	Jan. 2011 - Dec. 2012	Analysis proceeding	
	JAPAN-PD STUDY (Postoperative ileus after pancreatic cancer surgery)	Wakayama Medical University, others (ECRIN)	Aug. 2012 - Aug. 2014	Analysis proceeding	
	Crohn's disease	Keio University, others	June 2012 - May 2014	Case collection ongoing	
TJ-43 Rikkunshito	Functional dyspepsia	Keio University, others	Feb. 2011 - Feb. 2013	Research overview on the Ministry of Health, Labour and Welfare website	*
	G-PRIDE STUDY (PPI resistant GERD)	Osaka City University, others (Waksman Foundation)	Aug. 2011 - Sept. 2012	DDW ² 2013 (May 2013: Orlando)	
TJ-54 Yokukansan	Schizophrenia	Shimane University, others	Mar. 2011 - Sept. 2012	U.S. Society of Biological Psychiatry Annual Meeting (May 2013: San Francisco)	*
	BPSD	Tohoku University, others	Feb. 2011 - Jan. 2013	Research overview on the Ministry of Health, Labour and Welfare website	*
TJ-107 Goshajinkigan	GENIUS STUDY (FOLFOX treatment peripheral neuropathy)	Kyushu University, others	Oct. 2011 - May 2012	Trial halted	*
TJ-14 Hangeshashinto	HANGESHA-C STUDY (Oral inflammation from chemotherapy for colon cancer)	National Hospital Organization Osaka National Hospital, others (ECRIN)	Oct. 2010 - May 2012	ESMO ³ (Oct. 2012: Vienna) Japan Society of Clinical Oncology (JSCO) (Oct. 2012: Yokohama)	
	HANGESHA-G STUDY (Oral inflammation from chemotherapy for stomach cancer)	Kanagawa Cancer Center, others (ECRIN)	Oct. 2010 - Sept. 2012	ECCO ⁴ (Oct. 2013: Amsterdam)	
TJ-100 Daikenchuto	Frequency investigation of adverse drug reactions	—	Apr. 2010 - Mar. 2012	Published in Progress in Medicine journal (Sept. 2012) Revision of package insert (Nov. 2012)	
TJ-54 Yokukansan	Frequency investigation of adverse drug reactions	—	Oct. 2012 - Mar. 2014	Ongoing	

1. Japan Digestive Disease Week 2. Digestive Disease Week 3. European Society for Medical Oncology 4. European Cancer Congress
*Grants-in-Aid for Scientific Research



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Cautionary items regarding forecasts

- The materials and information provided in this presentation contain so-called forward-looking statements. Readers should be aware that realization of these statements can be affected by a variety of risks and uncertainties and that actual results could differ significantly.
- Changes in the healthcare insurance systems or regulations set by medical treatment authorities on drug prices or other aspects of healthcare or in interest and foreign exchange rates could impact negatively on the Company's performance or financial position.
- In the unlikely event that sales of the Company's core products were halted or declined substantially due to a defect, unforeseen side effect or some other factor, it would have a major impact on the Company's performance or financial position.