New Medium-Term Management Plan (Fiscal 2016–Fiscal 2021)

Creating New Value Through Innovations in Kampo

May 13, 2016

President, Representative Director  Terukazu Kato
Philosophy-Based Management

- Corporate Philosophy: Basic value/beliefs
  The Best of Nature and Science
- Corporate Mission: Aim to continue to be a necessary company for Society
  To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine
- Vision for 2021: Long-term business vision
  The “Kampo” Company
  The “People” Company
  The “Global Niche” Company
- New medium-term management plan
  Creating new value through innovations in Kampo
- Organizational foundation
  Organization comprising people that share Tsumura’s beliefs and mission, follow the same direction as the Company’s vision, and strive for self-fulfillment
Long-Term Business Vision “Vision for 2021”

Aim to be a value-creation company that contributes to people’s health through its Kampo business

**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.

**The “People” Company**

“Kampo” medicine is a pioneering field with no previous examples to build on worldwide. Therefore, we shall evolve into a corporate group comprised of “people” with professional skills that can independently pave the way forward for our Kampo business and is 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.
Fiscal 2012–Fiscal 2015
Overview of the Previous Medium-Term Management Plan
## Outline and Quantitative Reflection

### 1. Expanding the Kampo Medicine Market
Expand the prescription Kampo product market in Japan

### 2. Enhancing Earning Power
Reform the Company’s cost structure through the introduction of new technology and other measures

### 3. Executing Effective Financial and Capital Policies
Increase corporate value by executing effective financial and capital policies

<table>
<thead>
<tr>
<th>Consolidated: ¥ billion</th>
<th>Fiscal 2015 target</th>
<th>FY 2012 results</th>
<th>FY 2013 results</th>
<th>FY 2014 results</th>
<th>Fiscal 2015 results</th>
<th>Compared to initial plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>123.0</td>
<td>105.6</td>
<td>110.0</td>
<td>110.4</td>
<td>112.6</td>
<td>-10.4</td>
</tr>
<tr>
<td>Operating profit</td>
<td>29.5</td>
<td>23.1</td>
<td>22.4</td>
<td>19.4</td>
<td>19.8</td>
<td>-9.7</td>
</tr>
<tr>
<td>Operating profit margin (%)</td>
<td>24.0</td>
<td>21.9</td>
<td>20.4</td>
<td>17.6</td>
<td>17.6</td>
<td>-6.4</td>
</tr>
<tr>
<td>Net income</td>
<td>19.0</td>
<td>15.3</td>
<td>18.0</td>
<td>14.0</td>
<td>12.5</td>
<td>-6.5</td>
</tr>
<tr>
<td>EPS (Yen)</td>
<td>269</td>
<td>217</td>
<td>255</td>
<td>199</td>
<td>178</td>
<td>-91</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>14.0</td>
<td>14.1</td>
<td>14.5</td>
<td>10.1</td>
<td>8.3</td>
<td>-5.7</td>
</tr>
<tr>
<td>Sales of 129 Kampo formulations</td>
<td>118.0</td>
<td>99.4</td>
<td>102.6</td>
<td>105.1</td>
<td>107.5</td>
<td>-10.5</td>
</tr>
<tr>
<td>Of which, five “drug fostering program” formulations</td>
<td>38.6</td>
<td>26.2</td>
<td>28.0</td>
<td>28.5</td>
<td>29.1</td>
<td>-9.5</td>
</tr>
</tbody>
</table>
Reasons for Failing to Reach Planned Targets

1. **Slowdown in growth of “drug fostering program” formulations**
   - Insufficient emphasis and concentration on promotion of medical specialists in the “drug fostering program” domain
   - Ineffective utilization of new scientific evidence (turning evidence into marketable materials, etc.)

2. **Worsening costs due to the reoccurring rise in crude drug prices**
   - Rise in cost of raw materials for crude drugs from 2013 and on brought about by higher prices for ginseng and other materials starting from 2011

3. **Worsening costs due to foreign exchange of depreciating yen**
   - Rise in procurement costs for raw material crude drugs in China due to the rapid weakening of the yen from 2013 and on
Changes in the Operating Environment

✓ Reoccurring rise in price for certain raw material crude drugs
✓ Volatile foreign exchange rate and rapid depreciation of the yen

Impact on cost of sales ratio (disparity from plan)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude drug price (rising unit cost)</td>
<td>+3.5 pts</td>
</tr>
<tr>
<td>Crude drug price (foreign exchange rate)</td>
<td>+1.6 pts</td>
</tr>
<tr>
<td>Other (increasing production efficiency, reducing production volumes, etc.)</td>
<td>+0.2 pts</td>
</tr>
<tr>
<td>Total</td>
<td>+5.3 pts</td>
</tr>
</tbody>
</table>
### Fiscal 2012–Fiscal 2015  Overview of the Previous Medium-Term Management Plan

#### Quantitative Results and Issues in Three Strategic Challenges

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Expanding the Kampo Medicine Market</th>
<th>Enhancing Earning Power</th>
<th>Executing Effective Financial and Capital Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Results</strong></td>
<td>&gt; Actively implemented Kampo medicine seminars, lectures, and briefings&lt;br&gt; &gt; Promoted clinical research through double-blind, placebo-controlled studies at multiple institutions as well as basic research, produced high-quality scientific evidence&lt;br&gt; &gt; Created scientific quality evaluation method for TU-100 (Daikenchuto)</td>
<td>&gt; Established new manufacturing system that uses less manpower and is more efficient&lt;br&gt; &gt; Expanded Cultivated Land under Own Management area&lt;br&gt; &gt; Controlled sales, general and administrative expenses by increasing business efficiency</td>
<td>&gt; Revised non-operating assets&lt;br&gt; &gt; Carried out a stable dividend&lt;br&gt; &gt; Strategically stockpiled raw material crude drugs</td>
</tr>
<tr>
<td><strong>Remaining issues</strong></td>
<td>• Utilization of evidence in the “drug fostering program” formulations, especially TJ-43 (Rikkunshito)&lt;br&gt; • Implementation of Phase II clinical tests for TU-100</td>
<td>• Marketing efficiency improvements&lt;br&gt; • Cultivating crude drugs Technological development and actual production for raw material crude drugs</td>
<td>• Yet to achieve ROE of 14%&lt;br&gt; • Inventory control for raw material crude drugs</td>
</tr>
</tbody>
</table>
Fiscal 2016–Fiscal 2021
Outline of New Medium-Term Management Plan
Fiscal 2016–Fiscal 2021   Outline of New Medium-Term Management Plan

Issues and Opportunities Tsumura Faces within the New Plan

### Issues
Impact of fluctuating foreign exchange rates and rising crude drug prices on profits, drug price revisions

### Opportunities
Rapidly aging society, longer healthy life expectancies, countermeasures for dementia, countermeasures for cancer, promotion of the active role of females in the workplace

→ Changes in disease structure (diseases of the elderly, diseases specific to women)

**Measures by the Ministry of Health, Labour and Welfare**

- *Kenko Nippon 21 (second stage)*  
  Healthy life expectancies, prevention of outbreak and worsening of lifestyle diseases

- *New Orange Plan*  
  Promotion of measures to care for dementia

- *Comprehensive Regional Care System*  
  Promotion of general physicians and home healthcare

- *Comprehensive Strategy to Strengthen the Pharmaceutical Industry*
  ➔ Strategy states that there is a need for the stable provision of high-quality products in regard to the essential and traditional pharmaceuticals that support medical treatment, such as vaccines, intravenous pharmaceuticals, Kampo products, and external-use pharmaceuticals.

- *Plan to Accelerate Countermeasures for Cancer*
  ➔ Strategy states the importance of promoting research related to supportive care that uses nutritional therapy, rehabilitation, and Kampo medicine from the perspective of reducing postoperative complications and prognostic symptoms
Fiscal 2016–Fiscal 2021  Outline of New Medium-Term Management Plan

Themes of the New Medium-Term Management Plan and Roadmap to Realizing Long-Term Vision

HOP

Creating New Value Through Innovations in Kampo

Vision for 2021

STEP

JUMP

Strengthening the growth base to achieve greater value creation

First Medium-Term Management Plan  
2012

Second Medium-Term Management Plan  
2016

Third Medium-Term Management Plan  
2019

New Medium-Term Management Plan

2021
Aim for stable growth in the Kampo business despite expectations of the adverse impact of drug price revisions

While the influence from soaring raw material crude drug prices will continue, aim for recovery in regard to profits after levels bottom out in fiscal 2018 and growth at a gradual speed thereafter

Numerical targets for fiscal 2021 are slated to be announced again at the start of the third stage of the medium-term management plan (fiscal 2019) based on changes in the operating environment

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### Numerical Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2018</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥120 billion</td>
<td>¥135 billion</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥14 billion</td>
<td>¥19 billion</td>
</tr>
<tr>
<td>Operating profit margin</td>
<td>11.5%</td>
<td>14%</td>
</tr>
<tr>
<td>Net income</td>
<td>¥10 billion</td>
<td>¥13 billion</td>
</tr>
<tr>
<td>EPS</td>
<td>¥140</td>
<td>¥185</td>
</tr>
<tr>
<td>ROE</td>
<td>6%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Preconditions**

- Foreign exchange rates: ¥115 = 1 US$
Fiscal 2016–Fiscal 2021   Outline of New Medium-Term Management Plan

Strength to Turn Adverse Operating Conditions into Growth

Resilience

Initial plan for growth

Actual growth

Long-Term Business Vision

Aim to be a value-creation company that contributes to people’s health through its Kampo medicine business

The “Kampo” Company

The “People” Company

The “Global Niche” Company

Planning (starting point)
Strategic Challenges 1-3

1. Expansion and stable growth in the Kampo market

2. Continued reinforcement of profitability and maximization of cash flow

3. Taking on the challenge of new businesses in China
Strategic Challenge 1:
Expansion and Stable Growth in the Kampo Market
Appropriate provision of information such as scientific evidence, guidelines, and proper use of different formulations based on the Kampo medicine style
(Basic activities: interviews, briefings, and Kampo seminars)

1. Geriatric health
2. Cancer domain (supportive care)
3. Women’s health

HP market (university hospitals, designated hospitals for clinical training, etc.)
Promotion activities centered on scientific evidence
Focus on medical specialists in important domains ➔ Develop demand for new formulations

GP market (general practitioners, clinics, etc.)
Promotion activities based on the Kampo medicine style
Enhance the Kampo proficiency level of GPs, primarily with existing clients
⇒ Increase quantity of formulations, have GPs prescribe multiple formulations
Fiscal 2016–Fiscal 2021 Outline of New Medium-Term Management Plan < Strategic Challenge 1: Expansion and Stable Growth in the Kampo Market

Expansion of “Drug Fostering Program” Formulations and “Growing” Formulations

Prioritize unmet medical needs
BPSD, frailty, supportive care for cancer (postoperative dysfunction, loss of appetite, stomatitis), menopausal disorders, etc

Aim to have three formulations, TU-100 (Daikenchuto), TJ-54 (Yokukansan), and TJ-43 (Rikkunshito), with over ¥10.0 billion in sales by fiscal 2021

*1 Looking at the recent structure of disease, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and that Kampo products have demonstrated special efficacy for. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicine.

*2 A growth driver that aims to be listed in medical treatment guidelines as a strategic formulation following the five “drug fostering” program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.
Fiscal 2016–Fiscal 2021   Outline of New Medium-Term Management Plan < Strategic Challenge 1: Expansion and Stable Growth in the Kampo Market

Enhancement of Evidence Collection

Establish evidence of safety and efficacy ➔ Enhance package inserts

Further develop “Drug fostering program” formulations followed by “Growing” formulations ➔ Publish medical treatment guidelines

Collect clinical EBM, action mechanisms, side effect frequency surveys, ADME, and health economic data

<table>
<thead>
<tr>
<th>Meta-analysis</th>
<th>RCT</th>
<th>Action mechanisms</th>
<th>Side effect frequency surveys</th>
<th>ADME</th>
<th>Publish guidelines (include recommendations for Kampo medicine)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TJ-100 (Daikenchuto)</td>
<td>Paper submitted</td>
<td>23</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>TJ-54 (Yokukansan)</td>
<td>1</td>
<td>12</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td>TJ-43 (Rikkunshito)</td>
<td>—</td>
<td>16</td>
<td>○</td>
<td>Ongoing</td>
<td>○</td>
</tr>
<tr>
<td>TJ-107 (Goshajinkigan)</td>
<td>—</td>
<td>14</td>
<td>△</td>
<td>—</td>
<td>○</td>
</tr>
<tr>
<td>TJ-14 (Hangeshashinto)</td>
<td>—</td>
<td>5</td>
<td>○</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>
New Approach for Establishing Evidence

Leverage new technologies (IT, new analysis methods, network analysis, etc.) to accelerate research on Kampo medicine and Kampo formulations

- System biology
- Metabolomics
- Intestinal bacteria
- Big data

Kampo action mechanism clarification
Kampo health economic effects, etc.

Improve trust toward Kampo medicine, contribute to establishing Kampo medicine in the medical setting

System biology: University of Oxford’s Innovative Systems Biology
The Systems Biology Institute (SBI)

Metabolomics: Kobe University’s Division of Metabolomics Research

Intestinal bacteria: University of Chicago’s Digestive Diseases Center

Big data: University of Tokyo’s Health Services Research Course
### Fiscal 2016–Fiscal 2021 Outline of New Medium-Term Management Plan

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

#### Supporting Education Related to Kampo Medicine for Doctors and Providing Information to Consumers

**Supporting Kampo medicine education before, immediately after, and post-graduation**

<table>
<thead>
<tr>
<th>Before graduation</th>
<th>Immediately after graduation</th>
<th>Post-graduation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Improvement, establishment, and evolution of Kampo medicine education</strong></td>
<td><strong>Kampo Medicine Seminars</strong></td>
<td><strong>Clinical physicians</strong></td>
</tr>
<tr>
<td><strong>At university medical departments, medical colleges</strong></td>
<td><strong>Designated hospitals for clinical training, and other medical institutions</strong></td>
<td><strong>Introductory training</strong></td>
</tr>
<tr>
<td><strong>Medical students</strong></td>
<td><strong>Physicians-in-training</strong></td>
<td><strong>Follow-up</strong></td>
</tr>
<tr>
<td>• Lectures (introductions to Kampo)</td>
<td>• Kampo studies geared toward physicians-in-training</td>
<td><strong>Advanced training</strong></td>
</tr>
<tr>
<td>• Clinical training (hospital wards, outpatient care)</td>
<td></td>
<td><strong>Instructor training</strong></td>
</tr>
<tr>
<td>• Workshop on professor/lecturer training at schools</td>
<td></td>
<td><strong>Aim for increasing physicians who prescribe over 10 formulations</strong></td>
</tr>
<tr>
<td>• Study groups at schools (school club, etc.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Changes in the external environment for medical education**
- Significant revisions to the medical education curriculum in Japan inspired by the World Federation for Medical Education’s global standards
- Increase in the amount of clinical teaching accompanying qualitative improvements in medical education
- Clinical teaching on Kampo medicine being implemented at all medical faculties and schools in Japan

**Transmission of information to consumers**
- Activities geared toward the elderly
- Activities targeting cancer patients
- Activities geared toward females
### Development of TU-100 (Daikenchuto) in the U.S.

#### Outline of New Medium-Term Management Plan

<table>
<thead>
<tr>
<th>Quality control</th>
<th>Previous medium-term management plan</th>
<th>New medium-term management plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Through meetings with FDA, agree on quality evaluation methods using biological assessments and HPLC-FP</td>
<td>• Agree on quality control systems • Establish database for crude drug quality</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Efficacy and safety</th>
<th>IBS</th>
<th>POI</th>
<th>Crohn’s disease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endpoint search clinical trials (IBS patients)</td>
<td>Scheduled to be completed in fiscal 2016</td>
<td>POI (early stage)</td>
<td></td>
</tr>
<tr>
<td>Endpoint search clinical trials (patients with laparoscopic colectomy)</td>
<td>Scheduled to be completed in fiscal 2017</td>
<td>POI (early stage)</td>
<td></td>
</tr>
<tr>
<td>Responder trials (patients with Crohn’s disease)</td>
<td>Fiscal 2011–fiscal 2014</td>
<td>POI (early stage)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Safety, etc.</th>
<th>Side effects¹</th>
<th>ADME²</th>
</tr>
</thead>
</table>

¹ Submit results of surveys on the frequency of side effect manifestation to the FDA
² Submit clinical pharmacokinetic results on healthy U.S. citizens to the FDA

**PII (early stage)**

- **Fiscal 2016–Fiscal 2021 Outline of New Medium-Term Management Plan**
  - **Strategic Challenge 1**: Expansion and Stable Growth in the Kampo Market

**IBS**: Irritable bowel syndrome,
**POI**: Postoperative Ileus

**Notes**

- IBS: Irritable bowel syndrome, POI: Postoperative Ileus
Strategic Challenge 2:
Continued Reinforcement of Profitability and Maximization of Cash Flow
### Strategic Challenge 2: Continued Reinforcement of Profitability and Maximization of Cash Flow

#### Improvement of Profits Seen in Supply Chain / Overview of Cash Flow Maximization

<table>
<thead>
<tr>
<th>Procurement</th>
<th>Production</th>
<th>Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issues</strong></td>
<td><strong>Countermeasures</strong></td>
<td><strong>Issues</strong></td>
</tr>
<tr>
<td>Soaring crude drug prices</td>
<td>Expansion of Cultivated Land under Own Management area</td>
<td>Impact of drug price revisions</td>
</tr>
<tr>
<td>Impact of fluctuating foreign exchange rates</td>
<td>Reinforcement and streamlining of purchasing structure based on the principle of competition</td>
<td></td>
</tr>
<tr>
<td>Rising inventory, worsening turnover rate</td>
<td>Crude drug inventory control</td>
<td></td>
</tr>
</tbody>
</table>

- **Procurement**
  - Issues:
    - Soaring crude drug prices
    - Impact of fluctuating foreign exchange rates
    - Rising inventory, worsening turnover rate
  - Countermeasures:
    - Expansion of Cultivated Land under Own Management area
    - Reinforcement and streamlining of purchasing structure based on the principle of competition
    - Crude drug inventory control

- **Production**
  - Countermeasures:
    - Improve production capacity at existing facilities
    - Continually introduce and expand new production technologies
    - Revise capital investment projects and timing

- **Sale**
  - Issues:
    - Impact of drug price revisions
  - Countermeasures:
    - Narrow down important domains and formulations
    - Improve accuracy of demand and sales estimations

#### Optimization of the Group’s supply chain

- **Management indicators**
  - Crude drug prices
  - Inventory turnover rate
  - Labor productivity
  - Sales, general and administrative expenses ratio
Innovations in Crude Drug Procurement that Realize Stable Prices and Enhanced Quality Assurance

Continuous expansion of Cultivated Land under Own Management area

<table>
<thead>
<tr>
<th>Year</th>
<th>Result</th>
<th>Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>43%</td>
<td></td>
</tr>
</tbody>
</table>

Aim for a Cultivated Land under Own Management-Produced volume ratio of 50% in fiscal 2021

Reinforce and streamline purchasing structure based on the principle of competition

Pursue crude drug quality and further enhancement of systems to ensure safety

* Includes negotiated cultivation in China and contract cultivation in Japan
Innovations in Manufacturing Systems that Realize Improved Production Capacity

Establishment of foundation where the effects of cost reductions can be anticipated through the introduction of automated equipment that uses less manpower in the previous medium-term management plan

Expanded introduction of new production technologies

- Improvement of basic production capabilities at existing facilities
  - Optimization of operating systems for production (revise number of operating days, non-operating times, etc.)
  - Reduction of difficulties and waste

- Continuous introduction and expansion of new production technologies
  - Development of new granulation systems and high-speed filling machines → Gradual introduction to new manufacturing buildings
  - Support for PIC/S GMP
  - Further improvement of granule and product quality
  - Promotion of automatization and reduced manpower

Effect of improved labor productivity (throughout all processes)
Aim for 30% increase in fiscal 2021 compared to fiscal 2015

- Capital investment

Scheduled average amount for fiscal 2016–fiscal 2018: ¥10 billion a year
Scheduled average amount for fiscal 2019–fiscal 2021: ¥8 billion a year
> Accelerate plan formation, work to shorten rolling periods, promptly anticipate future risks
> Optimize the entire supply chain by bolstering cooperation between both “management and factory floor” and “divisions and bases”
Effective Allocation of Resources

Allocate resources in a way that reflects the intention of management from a medium- to long-term perspective

**Research and development expenses**
Total amount for fiscal 2016-fiscal 2021 (six-year period): ¥45.0 billion
Basic/clinical research in Japan, development in the U.S., research on crude drug cultivation, etc.
Concentrated investment in the necessary projects for future growth

**Enhanced cost efficiency**
Continued promotion of optimizing primarily fixed costs, which occurred in the first medium-term management plan

Aim for a sales, general and administrative expense ratio of less than 40% in fiscal 2021
Strategic Challenge 3:
Taking on the Challenge of New Businesses in China
1. Entering the business for traditional Chinese medicine compound granules (single crude drug extract granules)
   - Establish a joint venture with Shanghai Traditional Chinese Medicine Co., Ltd., a subsidiary of Shanghai Pharmaceuticals Holding Co., Ltd.
   - Build a procurement structure for raw material crude drugs centered on SHENZEN TSUMURA MEDICINE CO., LTD. and China Medico Corporation

2. Entering a business collaboration agreement with China Medico Co., Ltd.
   - Strengthen the Company’s supply and procurement relationship for raw material crude drugs used in Kampo preparation
   - Strengthen the Company’s technical support to China Medico Corporation
   - Conduct joint research on ginseng and other key crude drugs, manage production sites for such crude drugs, and establish a stable, long-term supply structure
   - Engage in joint development of a Chinese crude drug pieces business (Jointly implementing businesses with SHENZEN TSUMURA MEDICINE, a 100% subsidiary of the Company)
   - Continually explore strategy for new joint businesses
   - Bolster relationship with China Medico Corporation by dispatching directors from Tsumura to the China Medico Group (scheduled to begin during fiscal 2016)

3. Entering into the crude drug pieces business
   - Engage in sale of crude drug pieces to external customers in China through SHENZEN TSUMURA MEDICINE, a 100% subsidiary of the Company
   - Cooperate with China Medico Corporation in the mutual supply and processing of raw material crude drugs

4. Planning the establishment of a holding company in China
   - Control and management of supply chain, human resources, and capital in China spanning from existing businesses to new businesses, such as production of traditional Chinese medicine compound granules and export of crude drugs and extracts to Japan

> Contributing to China, where the Company procures crude drugs, and the health of Chinese people
> Taking on the challenge of entering the Chinese market
Fiscal 2016–Fiscal 2021  Outline of New Medium-Term Management Plan
The Tsumura Group’s Point of View on ESG

Tsumura Group’s Distinctive Initiatives Related to ESG
Tsumura Group contributes to building sustainable society through its mainstay “Kampo and crude drug” business

| Environment | • Initiatives for protecting crude drug raw materials and the natural environment  
Continuous research on the cultivation of wild-grown crude drugs  
• Initiatives toward the environment in order to realize a recycling-oriented society  
Maintain zero emissions (100% recycling rate of industrial waste)  
• Establish and implement environmental targets that are based on the Tsumura Environmental Policy and Tsumura Environmental Principle |
| --- | --- |
| Society | • Contribute to the revitalization of the primary industry through crude drug cultivation (utilization of unused agricultural land and expansion of Cultivated Land under Own Management area, etc.)  
• Contribute to medical care in such social issue domains as geriatric health, cancer treatment (supportive care, palliative care), and women’s health  
• Promote diversity among Group directors and employees and create opportunities for the employment of persons with disabilities |
| Governance | • Establish and operate a highly effective corporate governance system  
• Give consideration to the establishment of a nomination/compensation advisory committee  
• Director remuneration  
   Performance-linked stock compensation  
• Dialogue with shareholders and other investors  
   Promote a policy to continuously and proactively engage in dialogue with shareholders and other investors (including dialogue with outside directors) through the Company’s IR activities in order to establish long-term, trust-based relationships with them |
Guided by the stable business strategy of the Tsumura Group, the Company secures a solid financial structure while actively conducting business investments that contribute to the improvement of corporate value over the medium to long term.

### Cash Flows

<table>
<thead>
<tr>
<th>Fiscal 2016–fiscal 2021 (six-year period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Capital investments:  ¥55.0 billion</td>
</tr>
<tr>
<td>• Investments and loans (new company related to China):  ¥6.0 billion</td>
</tr>
<tr>
<td>• Shareholder returns (dividends):  ¥27.0 billion</td>
</tr>
<tr>
<td>• Expecting ¥96.0 billion in cash flows from operating activities</td>
</tr>
</tbody>
</table>

In total, expecting roughly ¥88.0 billion in cash outflows

### Major Capital Investments

<table>
<thead>
<tr>
<th>Fiscal 2016–fiscal 2021 (six-year period)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ibaraki Plant Standard-based facility (first term, second term):  Approx. ¥17.0 billion</td>
</tr>
<tr>
<td>• Shizuoka Plant New granulation and packaging facilities, etc.:  Approx. ¥4.2 billion</td>
</tr>
<tr>
<td>• Facilities related to cultivation:  Approx. ¥4.0 billion</td>
</tr>
</tbody>
</table>

### Shareholder Returns

• Promote a policy to improve corporate value through capital investments in order to realize the continuous development and growth of “Kampo”
• Promote a policy to consider medium- to long-term profit levels and cash flows as well as carry out a stable dividend
• Promote a policy to acquire treasury stock in a flexible manner after making efforts in shareholder returns based on examinations and revisions for an optimal capital structure as well as giving comprehensive consideration to market trends, etc.

### Efficiency

• The Tsumura Group evaluates each individual investment giving consideration to risks and profitability that accompany the investment. At the same time, the Group works to maintain and improve investment efficiency
• Aim for ROE of 8% by fiscal 2021
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

2011
(1) Local demand in China increased;
(2) Unfavorable weather;
(3) Speculative investment cornering market

2013
Price increase of ginseng, etc

2015
Drop in ginseng prices that exceeded expectations
1. Declining trend of purchases for speculative gains
2. Increase in supply to market
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.