

INTEGRATED REPORT 2023

TSUMURA & CO.

TSUMURA
THE BEST OF NATURE AND SCIENCE



130th
ANNIVERSARY
since 1893

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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.

The Tsumura Group is a pharmaceutical company that contributes to the well-being of everyone through products and services based on Kampo medicine and traditional Chinese medicine.* Under its Corporate Value of "The Best of Nature and Science," the Tsumura Group takes a scientific approach to pursuing safety, efficacy, and consistency in its pharmaceutical products, and it continues to grow as a leading company in prescription Kampo formulations.

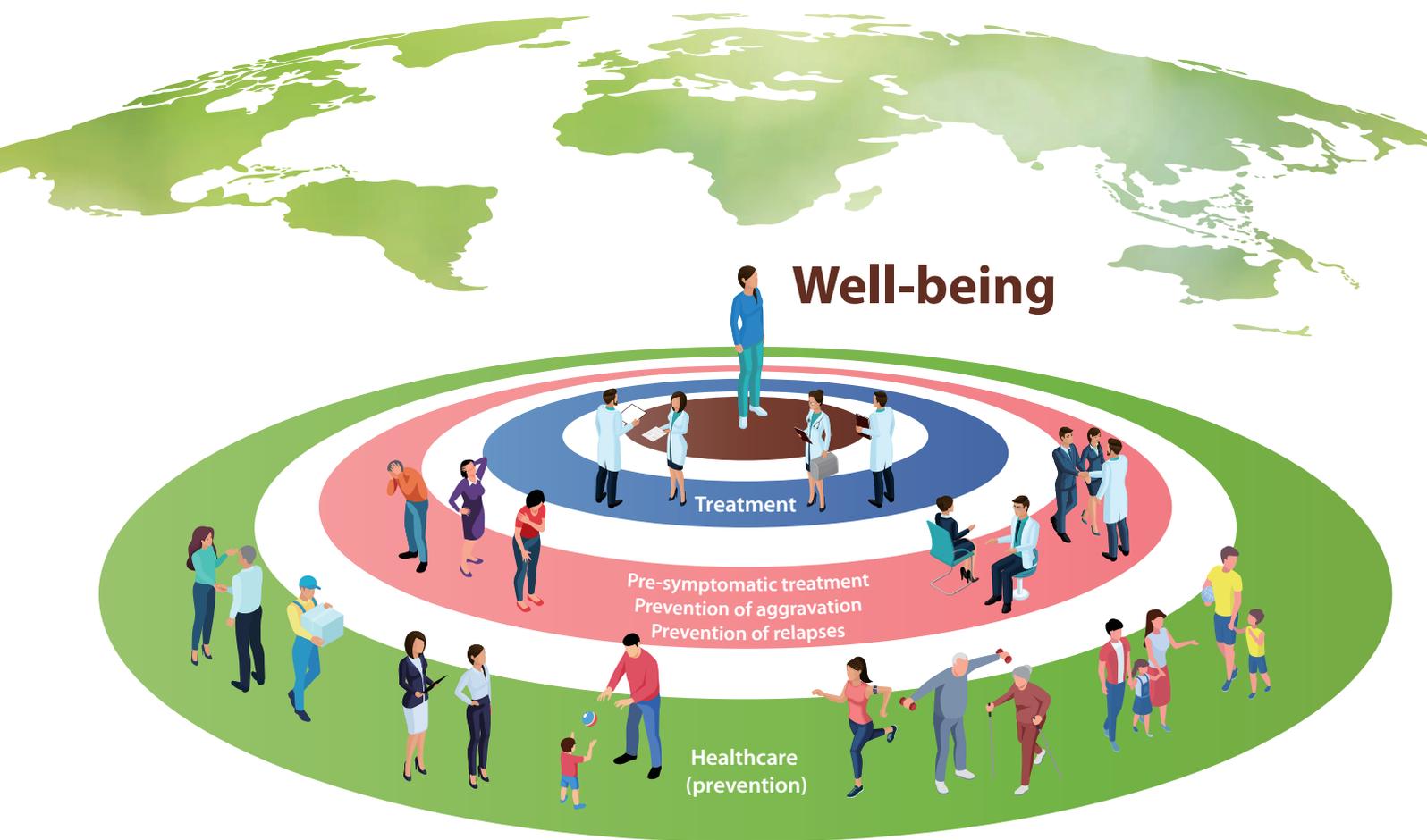
In April 2023, the Tsumura Group marked its 130th founding anniversary. The first president, Jusha Tsumura, bequeathed the following words: "With this belief constantly in mind, I precisely selected raw materials and carefully prepared them, while conducting numerous studies based on scientific principles with the goal of progressively refining accurate medicinal effects. Though I faced difficulties of all sizes, I gathered my courage and persisted tenaciously to achieve my initial objective, striving to execute sincere management." Jusha's aim was to create a meaningful business that contributes to the good of society. With this founding spirit, we looked ahead 50 to 100 years into the future, and formulated our Corporate Purpose, "Lively Living for Everyone," as the Business Commitment we intend to ultimately achieve. By applying the Tsumura Group's products and services to personalized treatment based on scientific evidence, we aim to apply science to the area of pre-symptomatic disease and spread next-generation healthcare. Moreover, we will strive to contribute to the well-being of the earth itself, by maintaining a good balance between our lifestyles, our society and the natural environment so that they form a healthy cycle.

*Granular or pill-type formulation of raw material crude drugs (traditional Chinese medicinal products) and chopped crude drugs used in traditional Chinese medicine.

Lively Living for Everyone

The Tsumura Group is committed to contributing to the healthy lives of individuals throughout their life stages by bringing together nature's wisdom and science.





Benefit of General Consumers

Through the three Ps (PHC, PDS, and PAD),* the Tsumura Group aims to create a future that achieves “Cho-WA” (a well-balanced state) between mind and body and between individuals and society. Taking an evidence-based approach, we will contribute to people’s well-being by providing them with Kampo medicines, traditional Chinese medicines and other products and services tailored to their life stage, symptoms, genetic makeup and living environment.

*For details, see page 7 *Message from the Group CEO*



Contribution to Medical Care and Medical Science

In order to expand the Kampo market in Japan, we have positioned the areas of “geriatric health,” “cancer (supportive care)” and “women’s health” as our three priority areas and have been focusing our activities accordingly. We will provide information about these areas, such as basic and clinical evidence of Kampo prescriptions, treatment guidelines on Kampo formulations, and how to prescribe different Kampo formulations, with the aim of continuously expanding the Kampo market.



Social Impact

The Tsumura Group takes a scientific approach to pursuing safety, efficacy, and consistency in its pharmaceutical products, an approach which has seen it grow as a leading company in prescription Kampo formulations. We are committed to realizing health in mind, body, and the global environment in order to pass on to future generations the knowledge of Kampo medicine that has been developed in Japan for over 1,400 years, as well as the abundant natural environment that is at the heart of our business.

We will expand the value of Kampo medicine and traditional Chinese medicine from “treatment” to “three preventive measures for pre-symptomatic diseases” and “healthcare (prevention)”.

By expanding the value of Kampo medicine and traditional Chinese medicine that contribute to the healthy lives of individuals throughout their life stages, we contribute to the creation of a well-being society, where people live healthy and lively lives through a well-balanced state of mind and body that brings forth their innate human life force.

Three Preventive Measures for Pre-Symptomatic Diseases



Treatment
Kampo medicine is a holistic form of medicine that is based on the view that the mind and body are one. We harness the advantages of both Kampo medicine and Western medicine to deliver optimal treatments for each individual.



Pre-symptomatic treatment
(prevention of pre-symptomatic diseases)
We identify pre-symptomatic disease from minor changes in physical condition and subjective symptoms, and prevent the development of disease.



Prevention of aggravation
(prevention of disease progression)
When disease occurs, we prevent it from becoming serious by early identification, progress prediction, and swift, appropriate treatment.



Prevention of relapses
(post-healing care)
We improve prognosis and QOL for disease treatment, and prevent relapses to enable rehabilitation.

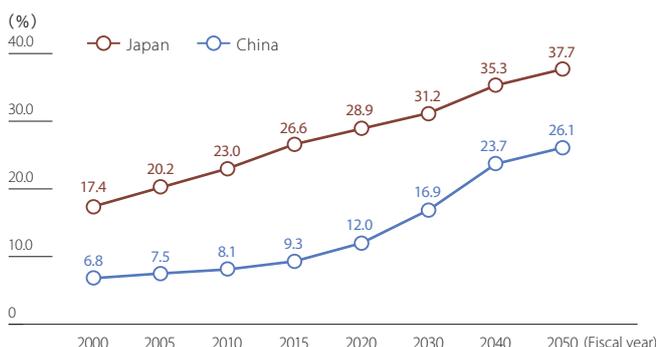


Healthcare
(prevention)
By correcting factors such as nutrition (diet), exercise, sleep, and stress level, we increase the body's innate natural healing power, and promote health.

We help each person to live a healthy life and foster a future where each individual can reach their potential.

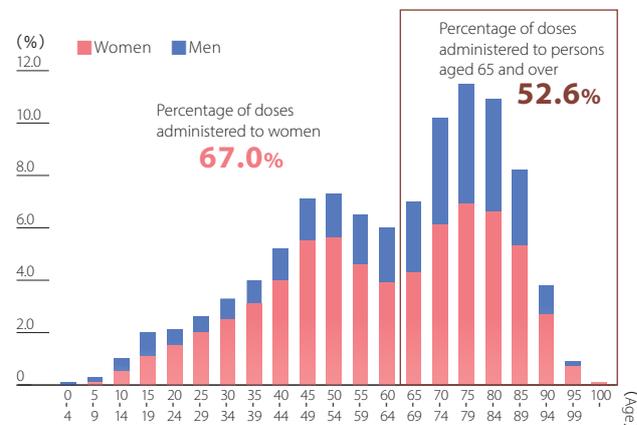
Kampo medicine and traditional Chinese medicine treat the mind and body comprehensively, as a method for achieving a well-balanced state for the whole body. Through our efforts in these areas, we contribute to treatments that extend healthy lives, curing general malaise, and improving pre-symptomatic disease. These products are manufactured by combining a number of crude drugs, which are natural substances, primarily plants. Since they combine multiple components, a single prescription can be expected to demonstrate efficacy toward multiple symptoms. For over 1,400 years, the wisdom and science of Kampo medicine have developed to suit the physical characteristics and diseases of Japanese people. The Tsumura Group is merging the clinical and basic research that provide evidence for Kampo formulations in a focused effort to realize a bright future for everyone, where people do not have to retire because of aging.

Proportion of the Population Aged 65 and Over



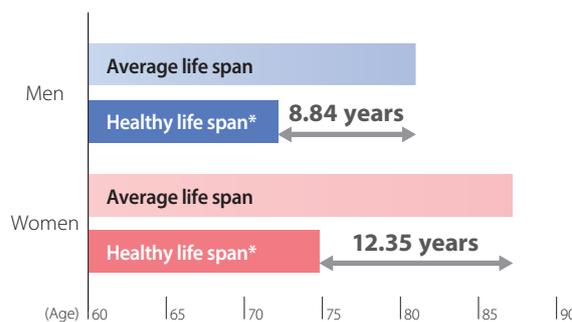
Source: Graph prepared by the Company from the Cabinet Office “Annual Report on the Aging Society 2020” Chart 1-1-2 and “Medical International Expansion Country Report: China” (March 2022, Ministry of Trade, Economy and Industry)

Ratio of Prescription Kampo Formulations Administered



Source: Graph prepared by the Company from the Ministry of Health, Labour and Welfare's NDB data

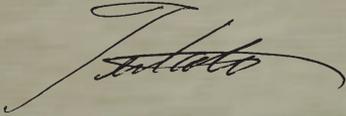
Disparity between Average Life Span and Healthy Life Span



*Average period of unrestricted daily living
Source: Graph prepared by the Company from the Ministry of Health, Labour and Welfare “White Paper on Social Security and Work Styles in the Reiwa 2nd year” Chart 1-2-6.

Message from the Group CEO

President and Representative Director CEO



As a corporate group that delivers the value of products of naturally available ingredients, we continually refine our business model and practice our Purpose of “Lively Living for Everyone.”

A Society Tsumura Seeks to Help Build

A Society That Provides Evidence-Based Health Care Tailored to Each Individual

Beginning with its founding 130 years ago, the Tsumura Group primarily offers pharmaceuticals made from crude drugs derived from plants and other natural products. The purpose of our business is to help people with health issues, as in the cases we often hear in academic conventions and the like: people who have seen no improvement in their health after consulting multiple healthcare organizations turned to Kampo treatment as a last resort, and returned to good health within a year or two. The cases clearly illustrate the value we offer and why we maintain our business.

Hippocrates, often cited as the father of modern medicine, said that there are a hundred fine physicians in everyone’s body. Those fine physicians are our immune systems and their natural healing power. Since the COVID-19 pandemic, this innate human power has gained new focus in public attention. In other words, we’ve entered a new era in which the public truly demands Kampo and traditional Chinese medicine for their abilities to address the fundamental causes of physical and mental disorder while enhancing our own natural healing power. In 2018 the World Health Organization released the first major revision of its “International Classification of Disease” guidelines in about three decades, and included a new chapter on traditional medicine. It’s highly significant that this created an international framework for verifying the efficacy and safety of traditional medicine. We consider this a positive boost for our Group in pursuing research and training personnel.

Digital technology is also contributing to our effort to do business under the Group’s Corporate Value, “The Best of Nature and Science,” and we are exploring ways to best apply this rapidly developing technology. In our core prescription Kampo business, achieving progress with personalized medicine has been difficult, because the diagnostic methods (identification of “patterns”) of Kampo medicine are unique and there are important challenges to overcome, including the influence of the proficiency level of each practitioner in diagnosis, and the increasing need for greater consultation time (medical costs). Advances in digital technology are

making it easier to gather and analyze personal health information, and the ability to identify and provide the optimum treatment for each individual is coming into view. As it becomes standard procedure to obtain everyday vital data, physicians will be able to apply that data for diagnosis and treatment. In addition, if we can establish ways to scientifically define and diagnose a given disorder before symptoms show, pre-symptomatic treatment will become more possible. We can expand our business through healthier habits and methods for preventing disease even before the pre-symptomatic stage.

In our Chinese operation we have recently been preparing to build a platform for local production and sales of traditional Chinese medicinal products while expanding our existing business platform, mainly for marketing raw material crude drugs and drug pieces (chopped crude drugs). Kampo medicines and traditional Chinese medicines have different histories of development, but we can project synergies among them because they have many factors in common, like their natural ingredients and how they are administered. Developing personnel to play central roles in our Chinese affiliated companies has reinforced our organizational foundation.

With the recent business environment in mind, to make the most of our unique strengths and build higher value, in April 2022 the Tsumura Group announced a new long-term management vision, TSUMURA VISION “Cho-WA” 2031.



Long-Term Management Vision

Realizing the Meaning of the Three Ps, We Support Well-being for Everyone

The Japanese term “Cho-WA (chowa)” in our long-term management vision carries a nuance somewhat different from “harmony,” the most common English translation of the word. It fuses *cho* (“adjustment”) and *wa* (“sense of peace”) to describe an optimal state for body and mind as well as for individuals and society. For us it also means “the Combination of Kampo medicine and Western medicines,” as stated in our Corporate Mission, extending to mean a well-balanced state among our businesses, society and environment. We render this vision in Roman characters rather than *kanji* so it will be correctly understood by the personnel of our affiliated firms abroad. When I’ve explained to them the importance of the meaning of *wa*, an idea born in Japan, along with the commitment and values of our founders, they get it, and it’s a valuable vision we all should advocate.

Our management candidates, the people who will be moving this Group forward ten years from now, participated in the process of creating this vision. They completed the Basic Management Course, designed to train future managers and offered by Tsumura Academy, which opened in 2019. They led the discussion on what the Group hopes to become in ten to twenty years, and built the foundation for this long-term vision, the basic principles of which we express as the three Ps. First is Personalized Health Care (PHC in the diagram below), which expresses our resolve to provide through our

products and services value that contributes to well-being in a broad sense, including treatment of health issues, preventing pre-symptomatic diseases and healthcare (prevention), for every stage of life. Kampo treatment sees the big picture in each case, looking at both the physical and mental factors for a given person in their health condition. Through this we believe we can help as many people as possible by offering value through pharmaceuticals. We want to help create a healthcare environment in which anyone can receive Kampo treatment suited for them individually at any hospital or clinic. So we have instituted a business strategy to increase the ratio of physicians who prescribe ten or more Kampo prescriptions to at least 50% by fiscal 2024, and to have 50% or more of physicians writing basic prescriptions in all treatment areas based on Kampo medicine by fiscal 2031. To make that happen as soon as possible, we are dramatically increasing DX solutions for providing information.

The next P stands for Pre-symptomatic Disease and Science (PDS in the diagram). Because there is no pre-symptomatic concept common to all disorders, we currently focus on geriatric and women’s health in partnership with academics and other experts. A case in point is frailty in the context of aging. We capture the many changes that aging causes within the body, scientifically define a pre-symptomatic state, establish biomarker*1 applications and

Long-Term Management Vision (Fiscal 2022-2031)

TSUMURA VISION “Cho-WA” 2031

Under the title TSUMURA VISION “Cho-WA” 2031 we are working to fulfill the potential of our three Ps as we live in greater balance with nature and welcome an era in which we support well-being for every individual, using the power of nature and science, mainly in traditional medicine, with Kampo and traditional Chinese treatments at its core.

PHC

Personalized Health Care

This means contributing to well-being through evidence-based provision of Kampo and traditional Chinese treatments and other products and services tailored to the individual’s life stage, symptoms, genetic makeup and living environment.

PDS

Pre-symptomatic Disease and Science

With this we contribute to building a healthier society by establishing diagnostic methods and systems to address a given pre-symptomatic disease, defined based on evidence.

PAD

Potential-Abilities Development

This describes a corporate culture that employs dialogue to encourage every employee to make the most of their potential, making us a trustworthy organization as we explore Kampo and traditional Chinese medicine business, for which there is no other model in the world.

with emphasis on product quality as the starting point for marketing.

At the same time we have had to address the problem of limited shipments of prescription Kampo formulations, a major event. In the spring of 2022 the city of Shanghai was locked down, which obliged us to suspend operations at our Shanghai Plant for seventy days. Following our own business continuity plan (BCP), we set up alternate production in Japan, and we managed the situation for a while. In the summer, however, demand for Kampo medicines outstripped our projections and production pace due to the worldwide spread of the COVID-19 Omicron variant, adding to a surge in seasonal prescriptions due to extreme heat. But putting high priority on the reliable supply of products that have no alternative prescriptions, we limited shipment of some products. I'd like to express my sincere apology again for the major inconvenience this caused to anyone in need of medication,

as well as medical professionals. We will further reinforce our supply system by expanding production capacity, mainly with our Tianjin Plant, which awaits government approval for manufacturing, to begin production and shipment soon.

In the field of treatment research, we made progress with clinical research in new disorder categories, with the example of clarifying Goreisan's mechanism for regulating water metabolism in cases of cardiac failure. Our latest results of various research on pre-symptomatic disease and Kampo recently made headlines in a special edition of the illustrious Gene magazine. It specifically included new biomarkers, Kampo medicine responder makers, a new frailty-assessment scale, and KAMPOMics**3, our methodology for approaching complex Kampo medicine, helping make progress with our PDS initiative.

*3 Read "Strategic Challenges 2" on page 51.

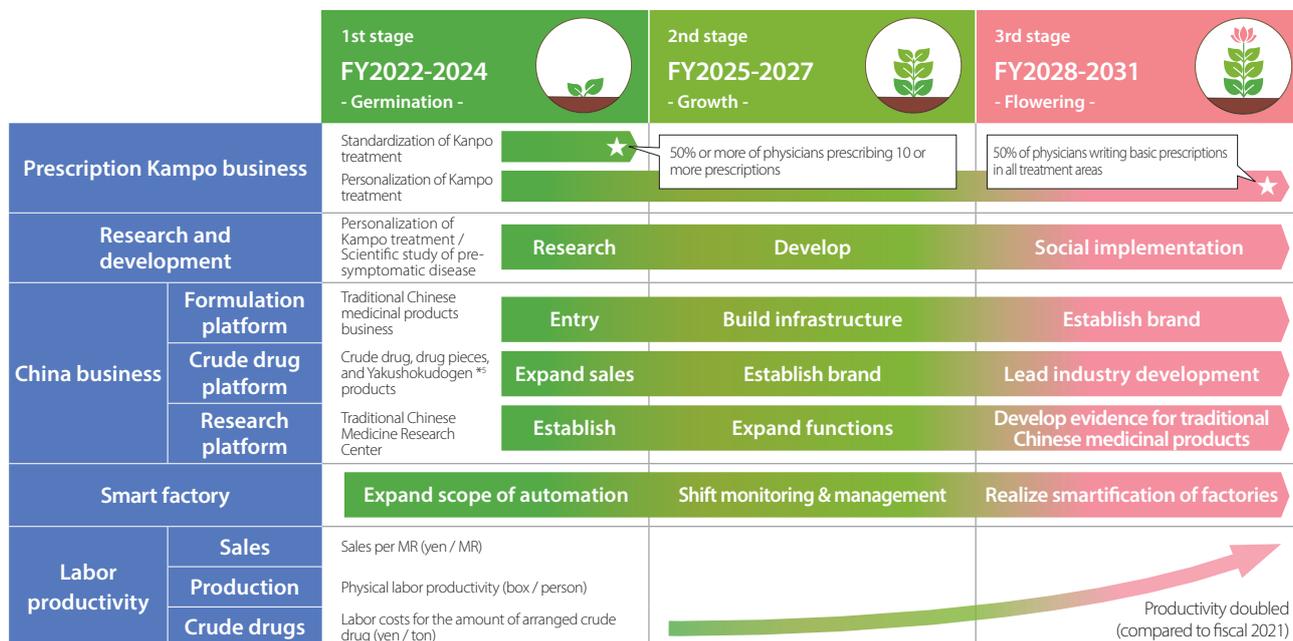
Prospects

Building Corporate Value to Enhance Organizational Structure with Urgency and Insight

For the Tsumura Group to make sustainable growth in times of VUCA*4, which make the future more difficult to predict, urgency and insight are essential. For example, with the Shanghai lockdown and limited shipments, we discussed various options, resulting in a mix of success and setback, following the BCP and handling the situation well in some

areas and succumbing to the overwhelming situation in other areas. From this series of challenges we gained a fresh realization of the importance of good decisions by the people closest to the operation venue. To adapt to this environment of rapid, substantial change, our ideal is a system that allows each employee to correctly grasp the implications of a given

Roadmap for achieving the TSUMURA VISION "Cho-WA" 2031



*5: Chinese dietary philosophy that considers natural foodstuffs as medicines and encourages their intake in balanced combination for positive health effect.



situation, analyze the change, make decisions with keen insight, and take initiative in involving others in urgent action. I will continue practicing the kind of management that encourages each employee to take initiative.

One of our responsibilities on the management team is to build up the foundation of corporate value along with investment decisions to reinforce our organizational framework, train personnel and grow our business, regardless of how quickly society may change. We'd like to make it easy to visualize both financial and pre-financial values, such as organization and human capital, and our future value that will result from the three Ps we outlined in our long-term management vision, and reflect them in our investor relations. On top of that we will raise the profitability of our business in Japan and abroad and increase returns to shareholders.

In the spring of 2022 the Tsumura Group established its ultimate Purpose: "Lively Living for Everyone." One hundred and thirty years ago our founder aimed to do "meaningful business that becomes part of the public interest." In our

Purpose we express our desire to support well-being for everyone, amid the world's rapid digital revolution, while honoring the legacy of our founder's spirit. The Tsumura Group cannot reliably supply Kampo products to those who need them on our own, making it essential to work in tandem with industry organizations and business partners. As part of the government drug-price revision of April 2023, 40 Tsumura Group products*⁶ were made eligible for reevaluation as money-losing products. As the industry leader, the Tsumura Group, in cooperation with government and industry organizations, will work to become an example for sustainable Kampo business from the global standpoint.

Our core markets today are in Japan and China. However, naturally derived pharmaceuticals have the potential to play a major role in the health care of people in Southeast Asia as well. We work to support the well-being of the society at large by letting the entire world know about traditional Chinese and Japanese treatments and creating value that contributes to everyone's well-being.

*4: Volatility, uncertainty, complexity and ambiguity; condition in which predicting the future of society and business is hard because of extremely high variability.

*6: A rule that allows, at the time of drug-price revision, reassessment of prices of certain pharmaceuticals that are facing difficulty continuing production and sales because prices have fallen too far.

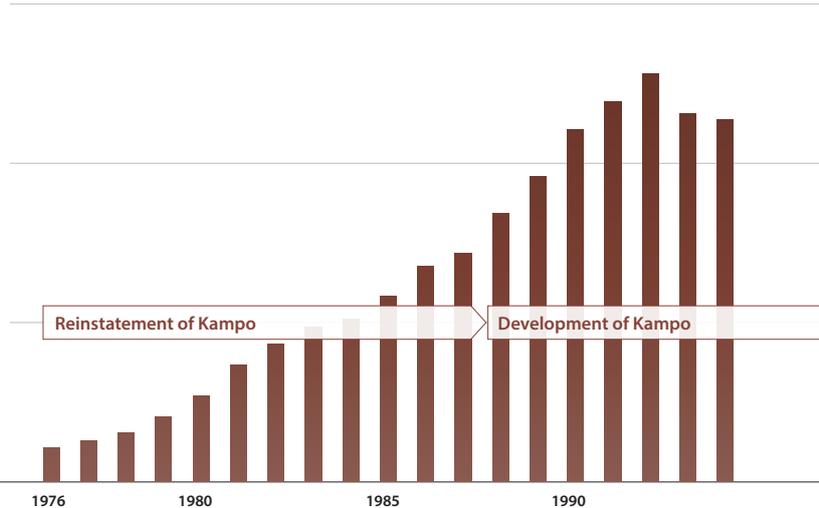


CEO Kato giving a lecture and talking with Academy students

Socializing with employees in management posts in China

Our Value Creation Journey

In 1893, our founder, Jusha Tsumura, began selling Chujoto, a medicine for women. The Tsumura Group has worked to popularize and scientifically clarify prescription Kampo formulations with the aim of fusing Kampo medicine and Western medicine. The Group's journey has been nothing less than a history of continuous innovation to popularize Kampo medicine while protecting its traditions. Looking ahead, in addition to Kampo medicines, the Group will invest management resources also in traditional Chinese medicinal products and drug pieces, upholding its social responsibility as a company that is trusted in China's traditional Chinese medicine industry.



Consolidated net sales

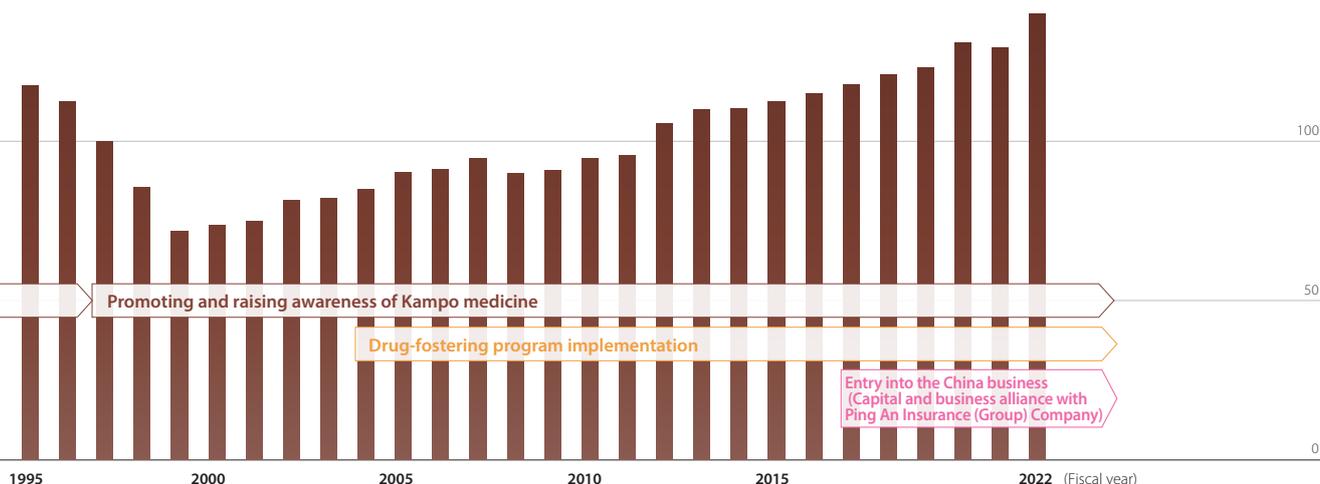
Note: The "Accounting Standard for Revenue Recognition" has been applied since fiscal 2021

Changes in the Kampo value chain

Year	Event
1874	Meiji government establishes a new healthcare system, with medical licenses only issued for Western medicine (decline of Kampo medicine).
1879	Kampo physicians such as Sohaku Asada start the Kampo continuation movement.
1893	Tsumura Juntendo founded. Manufacture and sale of Chujoto medicine for women begin.
1895	Imperial Diet vetoes a request to continue licensing for Kampo medicine (proposed revision of the law).
1916	"The Journal of Japanese Botany" founded.
1919	Meguro Plant constructed (for manufacturing Chujoto).
1924	Tsumura Research Institute for Pharmaceutical Science and Tsumura Medicinal Plant Garden opened.
1936	Tsumura Juntendo, Inc. established.
1950	Japan Society for Oriental Medicine established.
1957	Chujoto Building Clinic opened.
1959	"Kampo Tomonokai" launched.
1960	Herbal medicines listed in the Japanese Pharmacopoeia included in the NHI drug price list.
1974	Sale of prescription Kampo formulations begins.
1976	Total of 33 Tsumura prescription Kampo formulations added to the National Health Insurance (NHI) drug price list (reinstatement of Kampo medicine).
1924	Tsumura Research Institute for Pharmaceutical Science and Tsumura Medicinal Plant Garden opened.
1926	Tsumura Research Institute for Pharmaceutical Science takes over publication of "The Journal of Japanese Botany."
1991	Double-blind testing performed after receiving a directive to reevaluate eight Kampo formulations.
1973	Purchase of crude drugs from a "friendly trading company" designated by the Chinese government starts.
1978	Second president Jusha visits China for the first time to negotiate for a stable supply of raw material crude drugs.
1981	Direct purchase of crude drugs from Chinese state-owned enterprises starts. Long-term crude-drug supply contract concluded with China Souvenirs and Livestock Company.
1988	System for direct purchase from a joint venture company and base for the procurement of raw material crude drugs for the Company's use are established.
1991	SHENZHEN TSUMURA MEDICINE CO., LTD. established as a supply base of raw material crude drugs in China.
1964	Shizuoka Plant newly established.
1983	Ibaraki Plant newly established and the research laboratory relocated to the site.
1999	Heavy metal testing method established.
1893	Manufacture and sale of Chujoto medicine for women begin.
1976	Total of 33 Tsumura prescription Kampo formulations added to the NHI drug price list.
1987	Further additions to the NHI drug price list bring the number to 129.
1991	Sales of prescription Kampo formulations surpass 100 billion yen.
1996	Media reports side effect of interstitial pneumonia caused by Shosaikoto.
1997	MR*1 certification system introduced.
1999	Kampo medical seminars begin.

*1 Medical Representatives

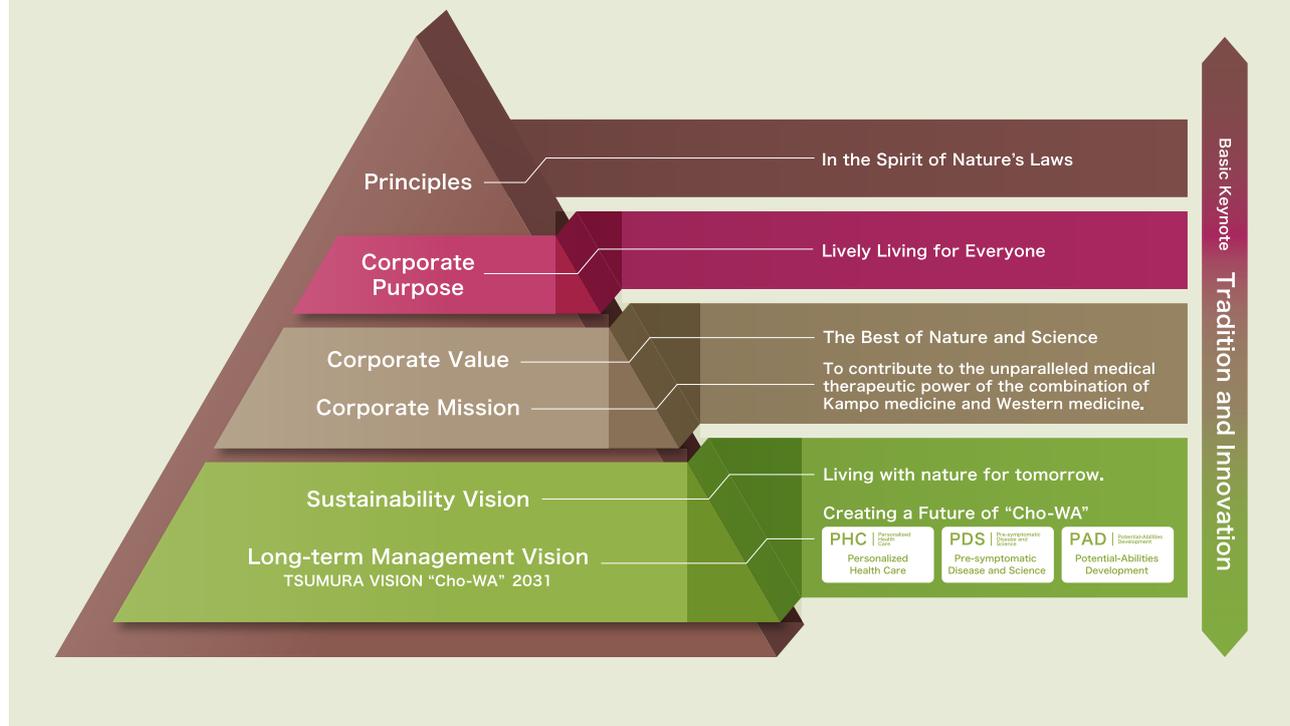
*2 Good Agricultural and Collection Practice: A guideline for good agricultural practice of plants for medicinal use formulated by the WHO and others, detailing aspects from cultivation to shipment.



Foundation for value creation

<p>2001 TSUMURA USA, INC. established as a pharmaceutical development base in the United States.</p> 	<p>2004 R&D policy changed to specialize in Kampo medicine and crude drugs. Drug-fostering program advanced by establishing evidence of efficacy of Kampo formulations.</p>	<p>2005 Investigational new drug (IND) approval for Daikenchuto obtained from the Food and Drug Administration (FDA) in the United States and clinical testing (TU-100) started.</p> <p>2007 DKT Forum set up to establish clinical evidence for Daikenchuto.</p>	<p>2016 "Growing" formulations set for Kampo formulations. 100th anniversary of "The Journal of Japanese Botany."</p> 	<p>2017 TU-100 phase II clinical trials completed, and focus on postoperative ileus (POI) as an indication announced.</p> <p>2018 Trademark registered for Tsumura's proprietary research package (KAMPOMics®).</p>	<p>Kampo treatment standardized through accumulation of evidence</p> <p>Multi-component Kampo formulation research method established</p>
<p>2007 Operation of crude-drug traceability system starts.</p> <p>2009 YUBARI TSUMURA & CO., LTD. established as a base for the cultivation, procurement, preparation and processing, sorting and processing, and storage of raw material crude drugs in Hokkaido.</p>	<p>2010 Formulation and start of implementation of Tsumura GACP for crude drugs. LAO TSUMURA CO., LTD. established as a base for the cultivation, procurement, preparation and processing, sorting and processing, and storage of raw material crude drugs in Laos.</p> 	<p>2011 Memorandum of Understanding concluded with the Baishan City Government in China for joint research on crude drugs as raw material.</p>	<p>2012 Expansion of cultivated land under our management to stabilize procurement prices of crude drugs as raw material.</p> <p>2014 Joint research agreement concluded with the China Academy of Chinese Medical Sciences on sojutsu (Atractylodes lancea rhizome).</p>	<p>2015 Letter of Intent concluded for joint research with Hong Kong Baptist University.</p> <p>2019 Capital and business alliance agreement concluded with Tianjin China Medico Technology Co., Ltd. (currently Ping An Tsumura Medicine Co., Ltd.)</p>	<p>Tsumura GACP*2 structure established</p> <p>System for stable procurement of raw material crude drugs established</p>
<p>2001 SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. established as a manufacturing base for extract powder (intermediate product) in China.</p> 	<p>2005 Container exchange and conveyor robot introduced (realized reduced-labor manufacturing and 24-hour operation through the utilization of robotics).</p> <p>2007 Industrial robot receives excellence award at The Robot Award 2007.</p>	<p>2013 West Japan and East Japan Distribution Centers completed.</p>	<p>2018 TIANJIN TSUMURA PHARMACEUTICALS CO., LTD. established as a manufacturing base for extract powder in China.</p> 	<p>2020 Robot technology deployed in all manufacturing processes of the No. 3 SD Building at the Ibaraki Plant.</p> <p>2023 Tsumura enters capital and business alliance with Robit Inc. to realize early automation of raw material crude drug selection and manufacturing processes.</p>	<p>Quality assurance system for all lots</p> <p>Automation of all processes</p>
<p>2001 Kampo medical symposium held.</p> 	<p>2004 Kampo medicine education implemented at all university medical departments and medical colleges nationwide.</p>	<p>2007 Sponsorship of dementia forums begins.</p> 	<p>2019 Application of the "Guidelines for Provision of Sales Information on Prescription Drugs" begins. E-promotions such as Mega Web Seminars begin.</p>	<p>2020 Project to establish presence in the area of cardiovascular diseases begins.</p>	<p>Education and popularization of Kampo medicine</p> <p>Proposal of therapies that combine Kampo medicine and Western medicine</p>

TSUMURA GROUP DNA Pyramid



Tsumura's Decision Criteria

The environment surrounding the pharmaceutical industry is constantly changing. By contrast, the Tsumura Group's Principles, "In the Spirit of Nature's Laws," have been unchanged since the Group's founding. The reference to nature's laws is from the ancient Chinese classic, the I Ching, and means that one should "Obey the will of heaven." We interpret "heaven" to refer to nature in the broadest sense, and consider it important to strive to conduct business correctly in accordance with the principles of nature. Tsumura's point of origin was the commercialization of a medicine for women called "Chujoto," which was designed to meet the needs of women, who had limited access to healthcare during the Meiji Era of the late 19th century and early 20th century. Since its foundation, the Company has been dedicated to growth that brings benefits to the public by helping to create a lively society through a well-balanced state of mind and body or well-being, of each individual.

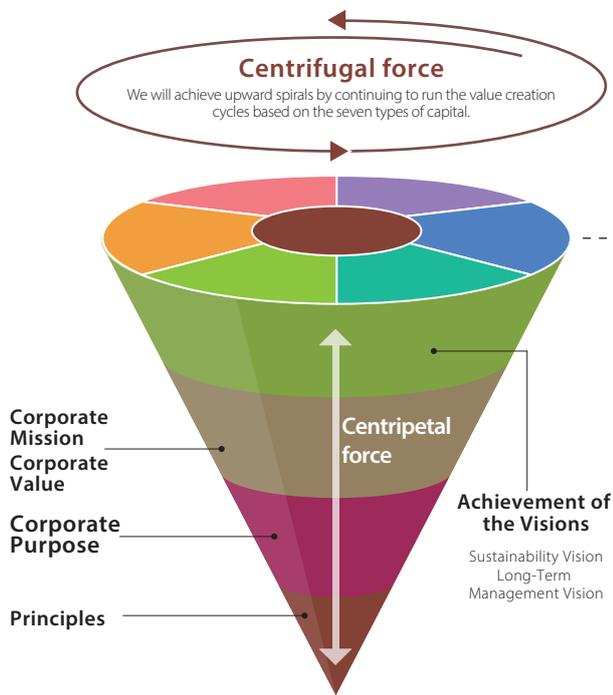
In April 2022, the Group renewed its philosophical system, the TSUMURA GROUP DNA Pyramid. Looking ahead to healthcare some 50 to 100 years in the future, the Group formulated its Corporate Purpose as "Lively Living for Everyone,"

a social mission that links back to the origin of its foundation, and this is positioned in the upper part of the pyramid together with "In the Spirit of Nature's Laws." In addition, the Group's Corporate Value, "The Best of Nature and Science," and its Corporate Mission, are positioned in the middle of the pyramid, where they form the basis of the Group's management practices. At the same time, the Tsumura Group formulated its Sustainability Vision, "Living with nature for tomorrow," and its ten-year Long-Term Management Vision, "TSUMURA VISION 'Cho-WA' 2031." We are committed to continuous innovation while upholding our 130-year tradition, aiming to be a corporate Group that can realize a future in which individuals and society enjoy mental and physical well-being, and where individuals and society are in "Cho-WA" (a well-balanced state).

Through our daily operations, as we make various decisions based on the above Principles, Corporate Purpose, Corporate Philosophy, and Visions, we strive to create social value such as the expansion of access to healthcare and the extension of healthy life spans.

Please see our corporate website for details. "Corporate Purpose, Corporate Value, Corporate Mission and Vision" <https://www.tsumura.co.jp/english/corporate/policy/index.html>

Value Creation Cycle



A Kampo medicine-inspired organization, in which new value is created through the well-balanced collaboration of willing workers striving to fulfill their potential
→ Each employee is motivated to energetically engage in their work. As a result, their full potential is realized.

Know-how and intellectual property pertaining to Kampo and crude drugs, which have been accumulated since the Company's founding
→ Various knowledge related to Kampo medicines and crude drug businesses is accumulated and digitalized.

Cultivation research and environmental preservation measures aimed at protecting the natural environment in crude drug production areas
→ Tsumura values the natural environment more than any other company, and we have established a sustainable system based on our belief that the quality of Kampo products depends on the plants growing in the fields.



 **Fostering a culture of discussion**

Approach to Increasing Corporate Value

To create social value through the Tsumura Group's products and services, we place organization capital* at the center of management, based on our philosophy. We harness this organization capital to increase centripetal force, aiming to realize our Sustainability Vision and Long-Term Management Vision as the autonomous activities of our employees accumulate to form a great centrifugal force.

Furthermore, we nurture human resources who can reflect our Visions and Corporate Philosophy in their daily activities and make appropriate decisions, creating a cooperative and collaborative organization in an effort to generate a virtuous cycle for all of the capitals. Our approach to this is to engage in activities that promote understanding of our philosophy, such as having dialogues focused on the purpose of work and creation of value. Through these activities, we maintain an organizational culture that encourages the expression of employees' latent potential, while aiming to be a pioneering corporate group opening up new pathways in a Kampo and traditional Chinese medicine business that is unique in the world.

*The International Integrated Reporting Council's "International Integrated Reporting Framework" presents six capitals as a concept for examining an organization's approach to inherent value creation. To these, the Tsumura Group has added "organization capital" as a seventh capital. This capital is our own original concept. Just as Kampo medicines are composed of a combination of several crude drugs, we aim to create an organization that brings together many people with unique capabilities and individuality in a well-balanced state to create our ideal social value.

Process for Value Creation

Fiscal 2022 results



1. Organization capital

- Organization mechanism analogous to Kampo medicines
- **130** th anniversary of founding
- Corporate philosophy survey: **4.06** pt



2. Human capital

- Number of employees (consolidated): **4,032**
- Education expense per person (parent): ¥ **126** thousand
- Percentage of employees with disabilities: **2.58** %



3. Intellectual capital

- R&D expenses: ¥ **7,594** million
- Raw Materials for Crude Drug Traceability System based on Tsumura GACP
- Tsumura Quality Management System to ensure the uniform quality of Kampo formulations
- Tsumura's proprietary research package (KAMPOmics®)



4. Natural capital

- Energy used: **2,063** TJ
- Water used: **2,064,946** t
Water recycling rate (Ibaraki, Shizuoka and Shanghai): **56.0** % on average
- Percentage of industrial waste recycled: **99.9** % (Parent)
- Countries supplying raw material crude drugs: China approx. **90** %; Japan, Laos and others approx. **10** %
- Percentage of cultivated land under the Group's own management: **78** %



5. Manufacturing capital

- Selection and processing, quality management: **2** sites in Japan, **2** sites in China
- Manufacturing plants: **2** sites in Japan, **2** sites in China
- Research centers: **1** site in Japan, **1** site in China
- Capital expenditure: ¥ **11,172** million



6. Social and relationship capital

- Percentage of physicians prescribing 10 or more Kampo prescriptions: **32** % (approx. 100,000 physicians)
- Kampo medicine education being implemented at all university medical departments and medical colleges
- Number of consultations at customer consultation desk: **41,534**



7. Financial capital

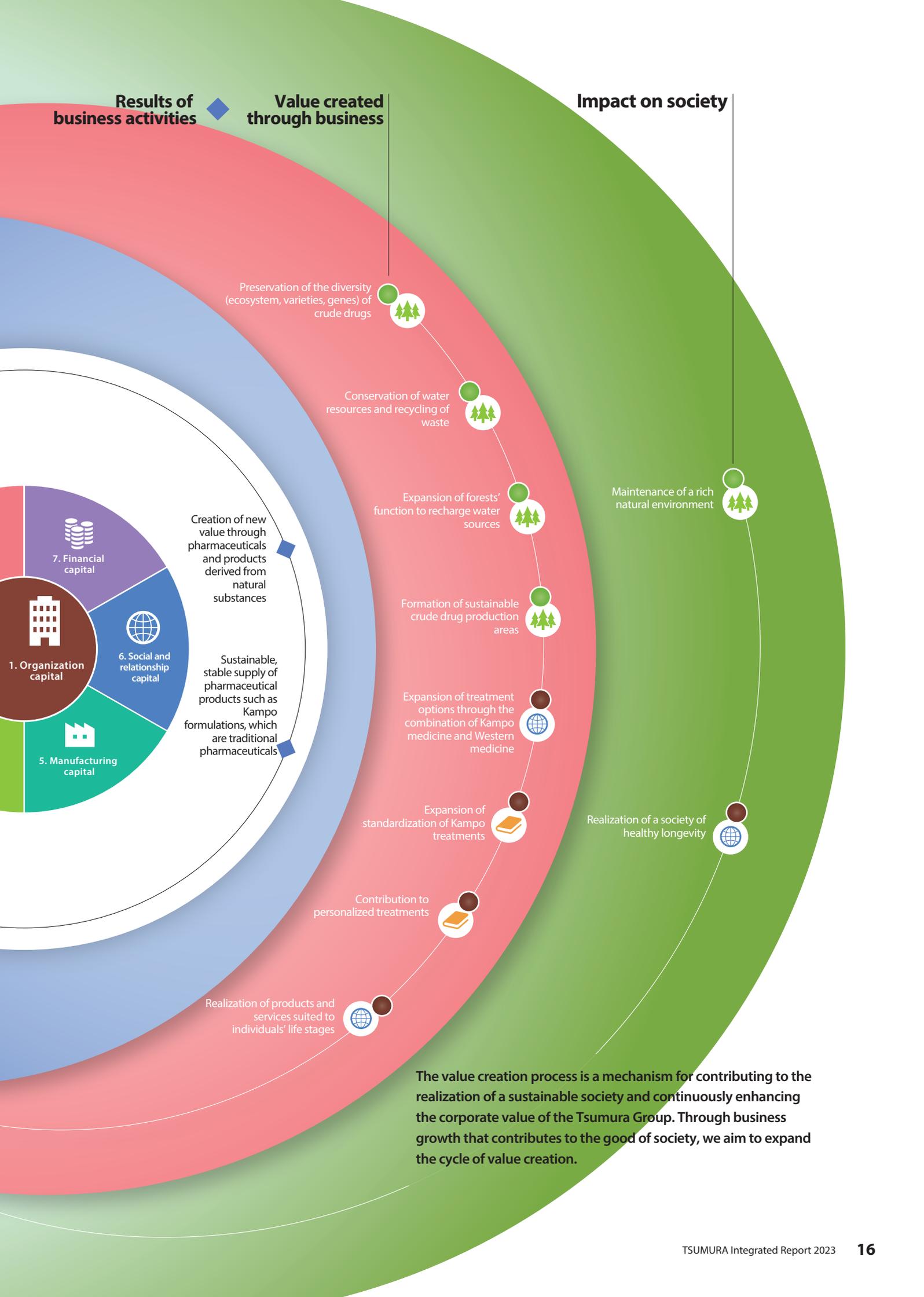
- Net sales: ¥ **140,043** million
- Operating profit: ¥ **20,916** million
- Free cash flow: ¥ **959** million
- Total assets: ¥ **396,813** million
- Shareholders' equity: ¥ **252,046** million



Results of business activities

Value created through business

Impact on society



The value creation process is a mechanism for contributing to the realization of a sustainable society and continuously enhancing the corporate value of the Tsumura Group. Through business growth that contributes to the good of society, we aim to expand the cycle of value creation.

The Tsumura Group's CSV

The Tsumura Group is engaged in business reforms that will expand the value of pharmaceuticals and products derived from natural substances, aiming to create a diverse society and realize a future where each individual can reach their potential. Our efforts are guided by our founding spirit, a focus on the future, and our Corporate Purpose, "Lively Living for Everyone," which shapes the Business Commitment that we aim to ultimately accomplish. The Group has grown through the scientific study of Nature's wisdom, and we therefore consider efforts on creating shared value (CSV) based on a sustainable society and natural environment as the key to enhancing our competitive advantages and contributing to increased corporate value.

Creation of shared value with society

Creation of new value through pharmaceuticals and products derived from natural substances

In TSUMURA VISION "Cho-WA" 2031, we aim to contribute to people's health and create a future of a well-balanced state between mind and body, and between individuals and society, by providing new value through pharmaceuticals and products derived from natural substances to suit individuals' life stages, in the treatment, pre-symptomatic disease, and healthcare (prevention) domains.

Pharmaceuticals Derived from Natural Substances

Kampo formulations are pharmaceuticals derived from natural substances. They are multi-component formulations with several thousand types of low-content components, composed of multiple crude drugs. Unlike synthetic drugs, Kampo formulations have indications for multiple symptoms, rather than a disease name. The Company is working to elucidate mechanisms of action and build evidence for new disease symptoms.

Products Made from Yakushokudogen Crude Drugs

Some of the crude drugs used as raw materials for medicine can also be used as ingredients for food. We will develop health food and functional food products using these ingredients (Yakushokudogen products) to contribute to maintaining and promoting health in the healthcare (prevention) domain.

Sustainable, stable supply of pharmaceutical products such as Kampo formulations, which are traditional pharmaceuticals

Kampo medicine is Japan's traditional medicine, developed uniquely to suit Japan's culture and climate, as well as the constitution of Japanese people, for over 1,400 years. To pass it on to future generations, we will carry out our Corporate Mission, "to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." We will provide a stable supply of Kampo formulations based on scientific evidence, pursuing safety, efficacy, and consistency.

Building a Stable Procurement System for Raw Material Crude Drugs

Kampo medicines use over 100 types of crude drug, such as plants, and they have various cultivation periods ranging from one year to over 10 years. Since crude drugs are affected by climate and soil, we select appropriate areas, such as natural habitats, and work with skilled producers through crude drug cultivation contracts to ensure reliability, safety, and high quality, in order to carry out systematic, stable procurement.

Pursuit of Safety, Efficacy, and Consistency

By pursuing the safety, efficacy, and consistency of pharmaceutical products based on scientific evidence, we have grown to become a leading company in prescription Kampo formulations. Our credibility and track record built up in the front lines of medicine and our research capabilities backed by advanced technologies are the source of Tsumura's competitive strength.

Science

Materiality

Sustainable procurement of raw materials (research on cultivation of crude drugs, etc.)

Recycling use of resources (recycling of water and crude drug residue)

Preservation of biodiversity (restoration of forests, soil, water sources)

Climate change countermeasures (realization of carbon neutrality)

Nature

Expansion of access to high-quality pharmaceuticals and products derived from natural substances

Expansion of the standardization of Kampo treatments and building of evidence

Initiatives for personalized Kampo treatments through cutting-edge technology

Contribution to health suitable for each individual's life stage (treatment, pre-symptomatic disease, healthcare (prevention))

Health

To enable the creation of long-term shared value with all of our stakeholders, we have organized the Tsumura Group's CSV based on our Corporate Purpose, and identified it as our materiality (priority issues) *. As the result of our business activities, we seek to carry out "Creation of new value through pharmaceuticals and products derived from natural substances" and "Sustainable, stable supply of pharmaceutical products such as Kampo formulations, which are traditional pharmaceuticals," at a high level. To achieve this, we have established a strategic, future-oriented approach, and we will further refine our unique strengths while responding to changes in the business environment.

*Please see page 19 "Sustainability" for details.

Strategic approach	Current strengths	Risks and responses	Reference page
<ul style="list-style-type: none"> ● Continuous contract cultivation based on the Tsumura Procurement Policy ● Percentage of cultivated land under the Group's own management maintained at approx. 80% ● Sustainable crude drug cultivation that can adapt to the environment 	<ul style="list-style-type: none"> ● Establishment of Tsumura GACP system ● Stabilization of quality, volume and prices of crude drugs by making use of cultivated land under Tsumura's own management ● Development of multiple production areas and production countries (China, Japan, Laos, etc.) ● Research on crude drug cultivation to adapt to the environment 	<ul style="list-style-type: none"> ● Procurement risk due to unforeseen weather conditions, natural disasters, etc., changes in the scope of legal restrictions on imports and exports, or unexpected changes in political and economic conditions ➔ Securing of sufficient inventory volume; expansion of range of suppliers of crude drugs domestically and overseas; continued expansion of cultivated land under own management; establishment of purchasing structure involving multiple suppliers 	
<ul style="list-style-type: none"> ● Realization of a recycling society, including effective use of all crude drug residues as raw material for compost and soil improvers 	<ul style="list-style-type: none"> ● Use of recycled water and steam ● Recycling of crude drug residue (biomass power generation fuel, raw material for compost/soil improver) 	<ul style="list-style-type: none"> ● Risk of large fluctuations in the exchange rate relevant to the import of raw material crude drugs and Kampo powdered extract from China ➔ Stabilization of costs through tools such as forward exchange contracts while taking into account exchange rate trends 	<ul style="list-style-type: none"> ➔ P25 Main measures ➔ P29 "The Best of Nature and Science"--Tsumura's Value Creation Capability
<ul style="list-style-type: none"> ● Preservation of diversity (ecosystems, varieties, genes) ● Expansion of forests' function to recharge water sources in which fallen leaves turn into humus 	<ul style="list-style-type: none"> ● Research on preservation and cultivation of crude drug seedlings ● Planting of Amur cork tree, a medicinal plant (Yubari City, Hokkaido Prefecture) ● Tree planting activities at Tosa Tsumura Forest (Ochi Town, Takaoka District, Kochi Prefecture) 	<ul style="list-style-type: none"> ● Risk of occurrence of problems with product quality or safety ➔ Thorough management of raw material crude drugs in accordance with the Regulations on the Tsumura GACP Policy 	
<ul style="list-style-type: none"> ● Increase in water and energy circulation efficiency through introduction of energy-saving technologies ● Absorption of CO₂ through cultivation of tree-type crude drugs 	<ul style="list-style-type: none"> ● Introduction of energy-saving technology ● Cultivation of tree-type crude drugs over a large area 	<ul style="list-style-type: none"> ● Risk of loss of production and distribution functions due to natural disasters, fires, power outages, etc. ➔ Decentralization of manufacturing and product supply bases; introduction of seismic isolation and earthquake-resistant structures for production facilities 	
<ul style="list-style-type: none"> ● Lifestyle involving daily use of Kampo formulations and Yakushokudogen products 	<ul style="list-style-type: none"> ● Supporting long-term Kampo medicine education in school for students, trainee physicians and experienced practitioners ● Prescription of Kampo formulations in a wide range of hospital departments ● Track record of supplying to the largest medical institutions and pharmacies in the industry ● Superior raw material crude drugs in the Chinese market (ginseng) 	<ul style="list-style-type: none"> ● Risks related to administrative developments such as government policies to curb healthcare spending ➔ Nurturing understanding of the value of Kampo formulations; cooperation with industry bodies and recommendations to relevant ministries and agencies 	<ul style="list-style-type: none"> ➔ P49 Strategic Challenge 1
<ul style="list-style-type: none"> ● Kampo value chain reform due to promotion of DX 	<ul style="list-style-type: none"> ● Whole-lot quality assurance system ● Computer control in accordance with formulation design for each Kampo formulation ● Development and introduction of robot technology for all manufacturing processes 	<ul style="list-style-type: none"> ● Risk of tighter domestic/overseas regulations concerning the development and manufacture of pharmaceutical products ➔ Establishment of evidence of efficacy of prescription Kampo formulations; activities to raise profile of prescription Kampo formulations ● Risk of unexpected side effects ➔ Promoting proper use of products by promptly and appropriately collecting safety information on products and strengthening the dissemination of information on adverse drug reactions 	<ul style="list-style-type: none"> ➔ P29 "The Best of Nature and Science"--Tsumura's Value Creation Capability ➔ P57 Strategic Challenge 4
<ul style="list-style-type: none"> ● Expansion of the standardization of Kampo treatments based on evidence ● Contribution to realizing a society of healthy longevity 	<ul style="list-style-type: none"> ● Increase in number of listings and level of recommendation in treatment guidelines ● Finding scientific basis for "patterns," unique diagnosis performed in Kampo medicine ● Responder marker research based on KAMPOMics®, development of AI Kampo diagnosis support system, scientific elucidation of pre-symptomatic disease ● Cooperation framework with research institutes and partner companies 	<ul style="list-style-type: none"> ● Risk of being unable to achieve growth or maintain/improve performance in the future ➔ Periodic verification of feasibility (return on investment and business feasibility assessment) of R&D plans in Japan and overseas ➔ Expansion of business target areas in Japan (beyond the medical-use domain to include the total healthcare domain) 	<ul style="list-style-type: none"> ➔ P51 Strategic Challenge 2
<ul style="list-style-type: none"> ● Provision of value suited to each individual's life stage ● Contribution to popularization of pre-symptomatic disease treatment through scientific study of pre-symptomatic diseases 		<ul style="list-style-type: none"> ● Risk of occurrence of problems with product quality or safety ➔ Compliance with the quality control standards in the country or region; promotion of initiatives for quality of all products, including not only those manufactured in-house but also those manufactured by CMOs 	<ul style="list-style-type: none"> ➔ P3 Purpose Driven Value Creation

Sustainability Vision and Materiality

For the Tsumura Group, sustainability management is none other than the embodiment of our Sustainability Vision.

Since we are promoting a business that uses crude drugs, which are substances provided by nature, and leading it into the future, we need to be extremely sensitive to changes in the natural environment as well as any potential crises it may face. Our commitment to making fullest use of the gifts of nature and continuing to contribute to human health and medicine is embedded in our Sustainability Vision, "Living with nature for tomorrow." Throughout the Kampo value chain, we aim to realize sustainability for people, society, and the global environment. We will work to realize a recycling society in our own way, by ensuring that all resources, not only crude drugs but also water and air, are returned to nature.

As we strive to achieve our Business Commitment, "Lively Living for Everyone," we are incorporating the Group's Sustainability Vision, which upholds our Corporate Value, "The Best of Nature and Science," into our concrete activities through our Long-Term Management Vision.

The Long-Term Management Vision, TSUMURA VISION

"Cho-WA" 2031, takes the theme of "Cho-WA: Creating a Future in a Well-Balanced State," and aims to create a future that achieves "Cho-WA" (a well-balanced state) between mind and body, between individuals and society, and between Kampo medicine and Western medicine through the three Ps.

Revision of Materiality

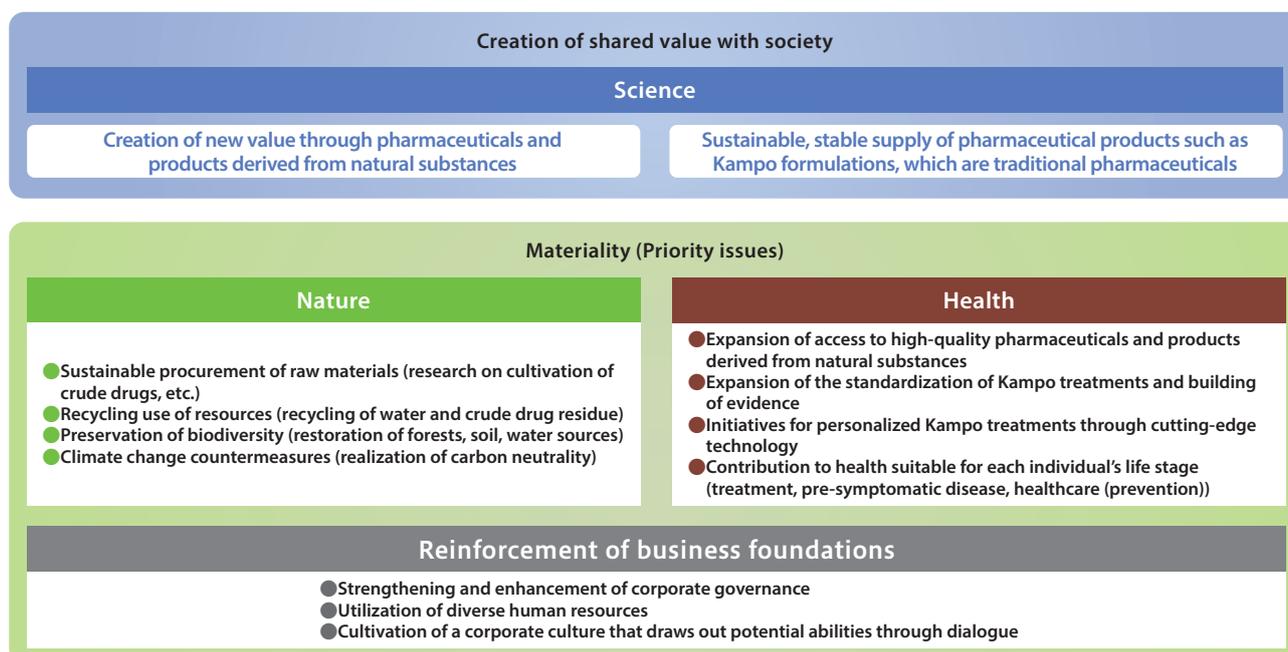
In September 2023, the Group redefined its priority issues (materiality) based on its Corporate Purpose, in order to contribute to solving global issues through its business activities and realize an increase in its corporate value.

This review involved changing from the previous bottom-up formulation process to a top-down process based on the commitment of the CEO. The objective in doing so is to communicate our social and economic value creation story in a clear way both inside and outside the Company. Looking ahead, we will promote dialogue and co-creation with our stakeholders by promoting information disclosure based on materiality.

Sustainability Vision — Living with nature for tomorrow.

The Tsumura Group's New Materiality

The Tsumura Group's materiality (priority issues) refers to its initiatives for business to embody its Corporate Purpose, "Lively Living for Everyone," and its Corporate Value, "The Best of Nature and Science." All values related to nature and health that are created by the Tsumura Group's business lead to the creation of shared value with society.



Process for Formulation of New Materiality



* Three methods (levers) for realizing CSV (Creating Shared Value) advocated by management scholar Michael Porter. ((1) Creation of next-generation products and services, (2) Improvement of productivity across the entire value chain, and (3) Building local ecosystems)

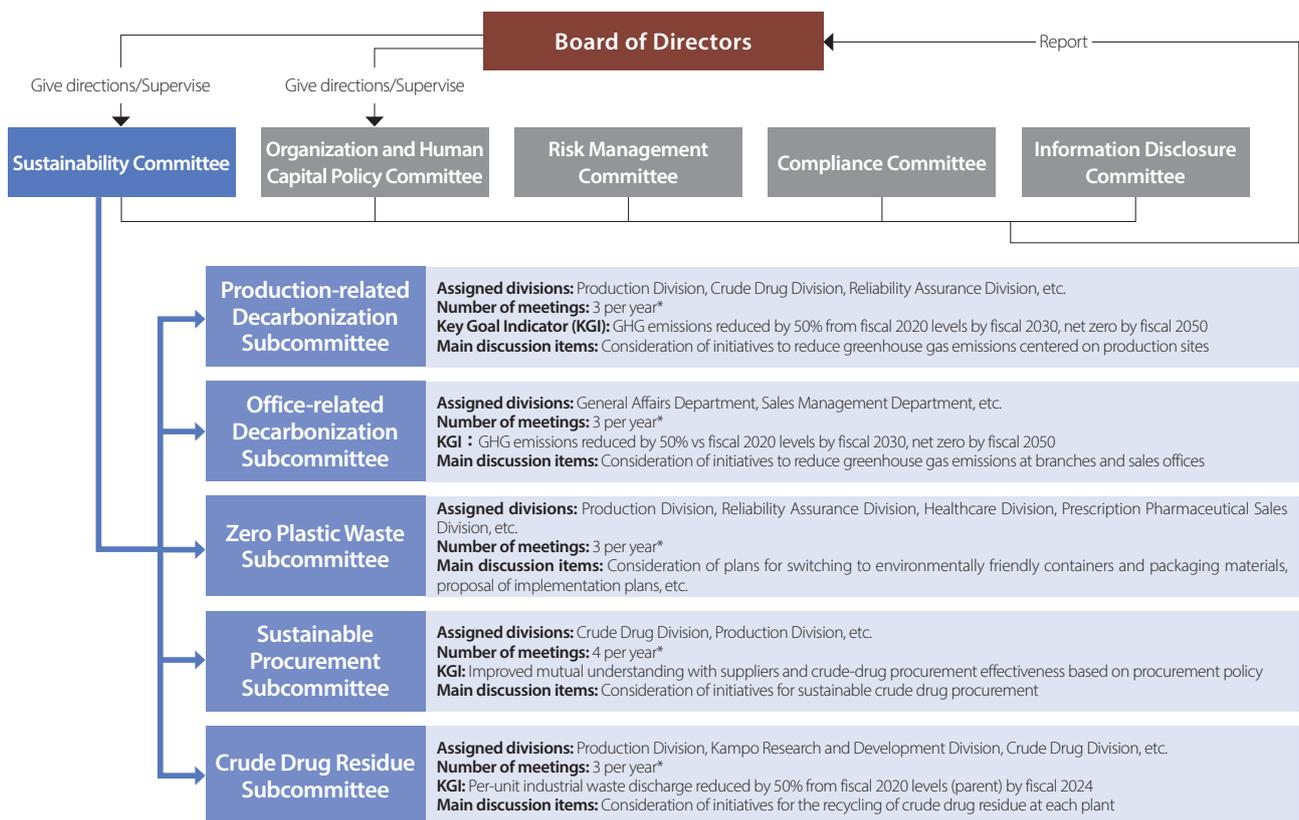
Sustainability Promotion System

We recognize that response to issues related to sustainability, such as consideration for global environmental issues like climate change and respect for human rights, are important management priorities. The Sustainability Committee is under the supervision of the Board of Directors. The committee examines and monitors the Company's overall direction and activities in order to see that these issues are reflected in concrete strategies. In addition, five subcommittees have been formed under the Committee, with each one responsible for organizing cross-organizational discussions on knowledge, experience and research findings collected from various divisions in accordance with the medium- to long-term environmental goals and other targets. Furthermore, to stimulate more active discussion, regular opportunities are provided to report the results of each subcommittee to the

Committee Chair (Co-COO Sugii) as part of efforts to enhance the effectiveness of sustainability activities. We will strive to ensure such effectiveness by responding flexibly to changes in the social environment and the requirements of the times.

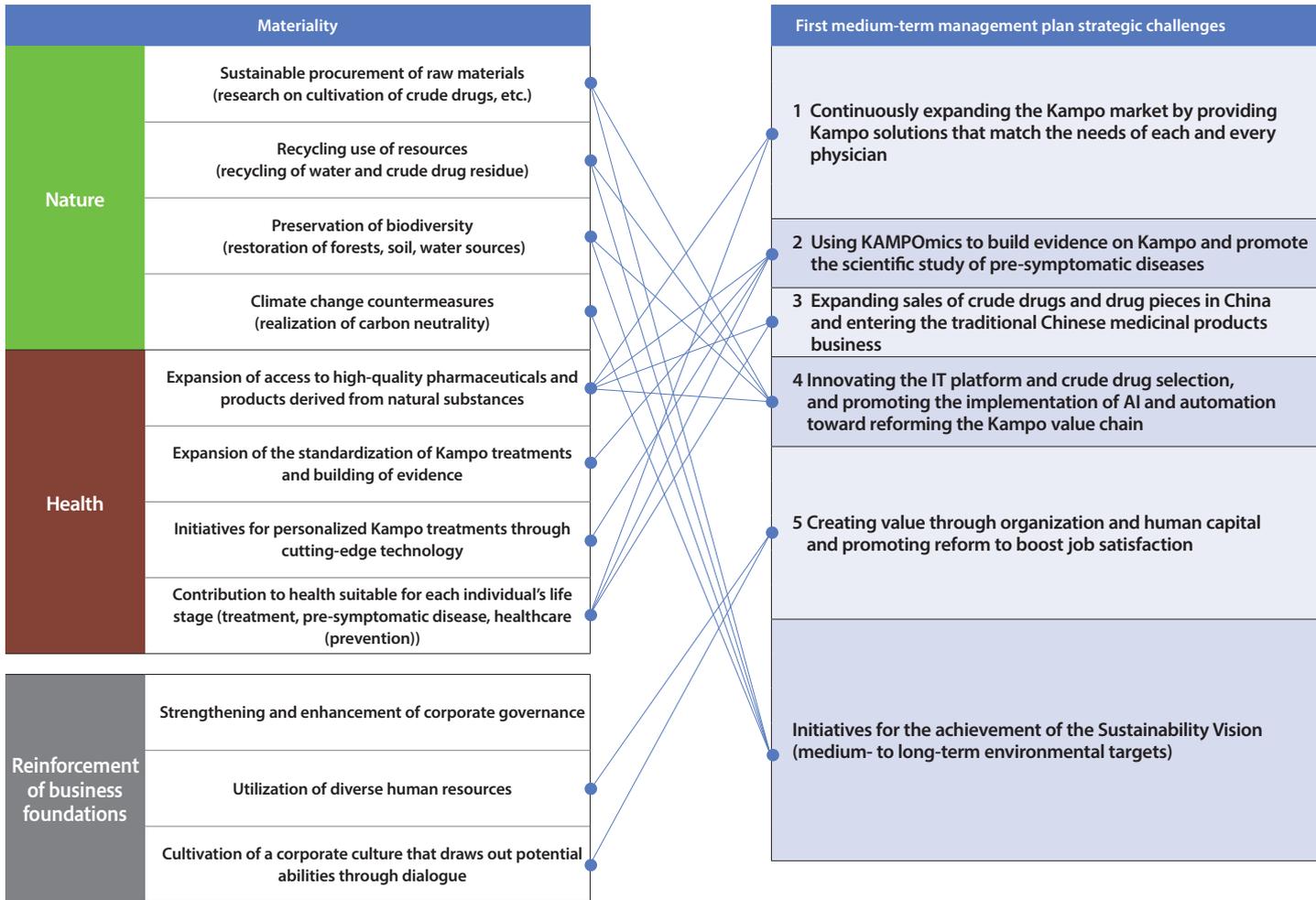
Main Discussion Items of the Sustainability Committee (Fiscal 2022)

- Discussion and approval of TCFD disclosure proposal
- Formulation of Sustainability Charter
- Progress report on medium- to long-term environmental targets
- Discussion on materiality renewal, report on support for each initiative, CDP results report, report on community contribution activities, etc.

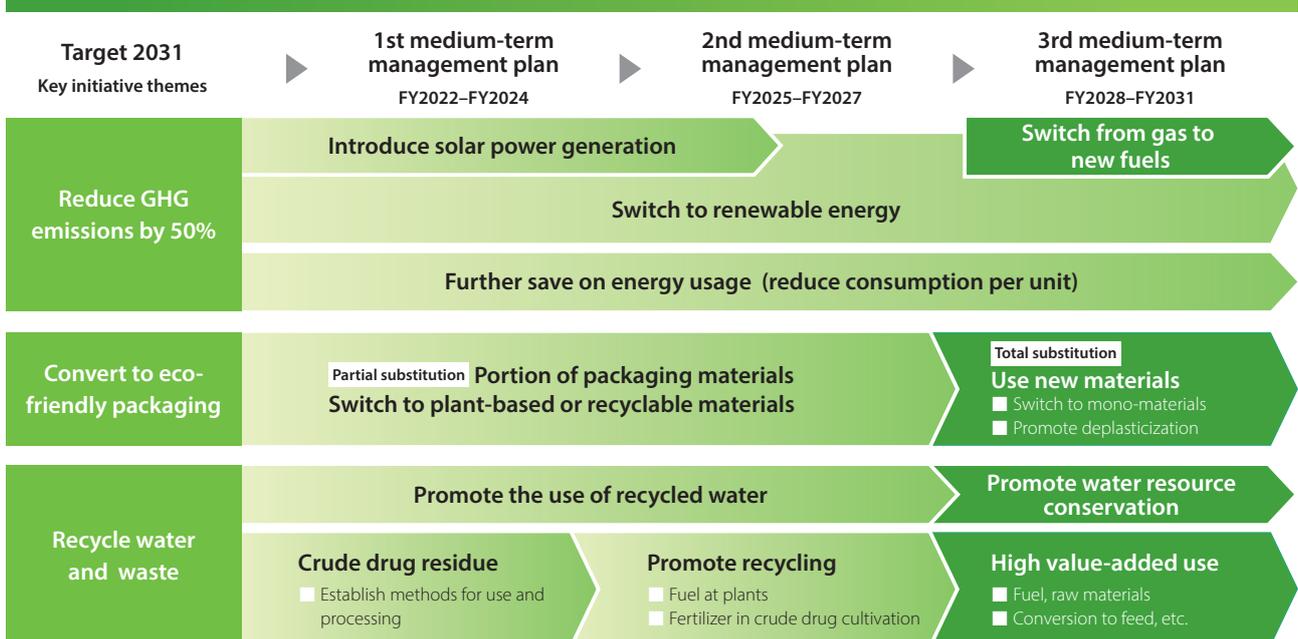


* Fiscal 2022 result

Materiality and Management Strategy KGIs/KPIs



Sustainability Targets 2031



Indicators (KGI/KPI of each organization)	Fiscal 2022 result	Fiscal 2024 target values
Domestic business net sales	124,698 million yen	Net sales CAGR 5% (fiscal 2022–2024)
Percentage of physicians prescribing 10 or more prescription Kampo formulations	32%	50% or more
Number of universities teaching four or more courses in Kampo medicine	78 universities	82 universities
Number of medical website users	Not disclosed	Not disclosed
Number of detailing impacts	4.77 million	5.7 million
Number of treatment guideline listings for Kampo formulations (Type B and above)	99	130
Progress in development of TU-100 in the United States	Currently in latter stage phase II clinical trial	-
China business net sales	15.3 billion yen	Net sales CAGR 30% (fiscal 2022–2024)
M&A of a traditional Chinese medicinal products company	In negotiation with multiple companies	M&A complete
Annual production plan achievement rate	Not disclosed	Not disclosed
Labor productivity in factories (compared to fiscal 2021)	102%	120%
Average score of the Corporate Philosophy survey (5-point scale)	4.06 points	Maintain 4.00 points or higher
Progress rate on acquisition of Outstanding Employers Promoting Health and Productivity Management certification	Preparing for acquisition	Acquisition
Percentage of female recruitment	44%	50%
Percentage of mid-career hires	55%	40%
Employee engagement/satisfaction (5-point scale)	3.58 points	3.90 points
Efficacy of crude drug procurement based on the "Tsumura Procurement Policy"	Start of implementation of Tsumura Procurement Policy	Verification with production groups 50% completed
Reduction in number of wild crude drug items used (compared to fiscal 2020)*1	Elimination of one item	Elimination of one or more items
Reduce the usage of plastics (compared to fiscal 2020)*2	-	-10%
GHG emissions (compared to fiscal 2020)*3	+12.9%	-3%
Per-unit energy consumption (YoY)*4	-4.8%	-1%
Per-unit water intake (compared to fiscal 2020)*5	+6%	-10%
Per-unit industrial waste discharge (compared to fiscal 2020)*6	-	-50%

*1: Fiscal 2020 result: 34 items *2: Fiscal 2020 result: 3,037 t *3: Fiscal 2020 result: 96,487 t *4: Fiscal 2021 result: 154 GJ/t *5: Fiscal 2020 result: 113.01 t/t *6: Fiscal 2020 result: 1.76 t/t

Initiatives to Solve Social Issues

#OneMoreChoice Project

Aiming for a healthy society where everyone can live comfortably and without having to endure ailments, Tsumura has been promoting the #OneMoreChoice project since 2021.

We are working to solve issues based on our own survey, and have promoted the messages, "80% of women hide that they are enduring pain^{*7}" and "Let's start by knowing the difference." Based on these, we have received many messages of support from consumers, mainly through social media. Internally, we also implemented #OneMoreChoice Action in April 2022, aiming to be a company free from hidden endurance. We are also promoting initiatives such as changing the leave system to resolve employees' health issues.

The knowledge acquired through these activities has been developed into #OneMoreChoice Training, to

leverage our achievement of a company free from hidden endurance. We began providing this training free of charge in September 2022. The Company's employees have acted as visiting lecturers at companies, groups, universities, and other organizations 16 times^{*8} so far to provide the training. From April 2023, we received support from four universities to start Carellege Action,^{*9} an initiative that aims to create environments where university students do not have to hide that they are enduring pain. We have also started providing opportunities for free health consultation with experts.

Going forward, we will expand this project in coordination with companies, universities, and other organizations, working to solve social issues and realize a healthy society.



*7: Hidden endurance refers to engaging in work or housework while enduring physical or mental illness. It is a registered trademark of TSUMURA & CO.

*8: As of July 2023 *9: Carellege is a portmanteau of Care and College created by the Company.

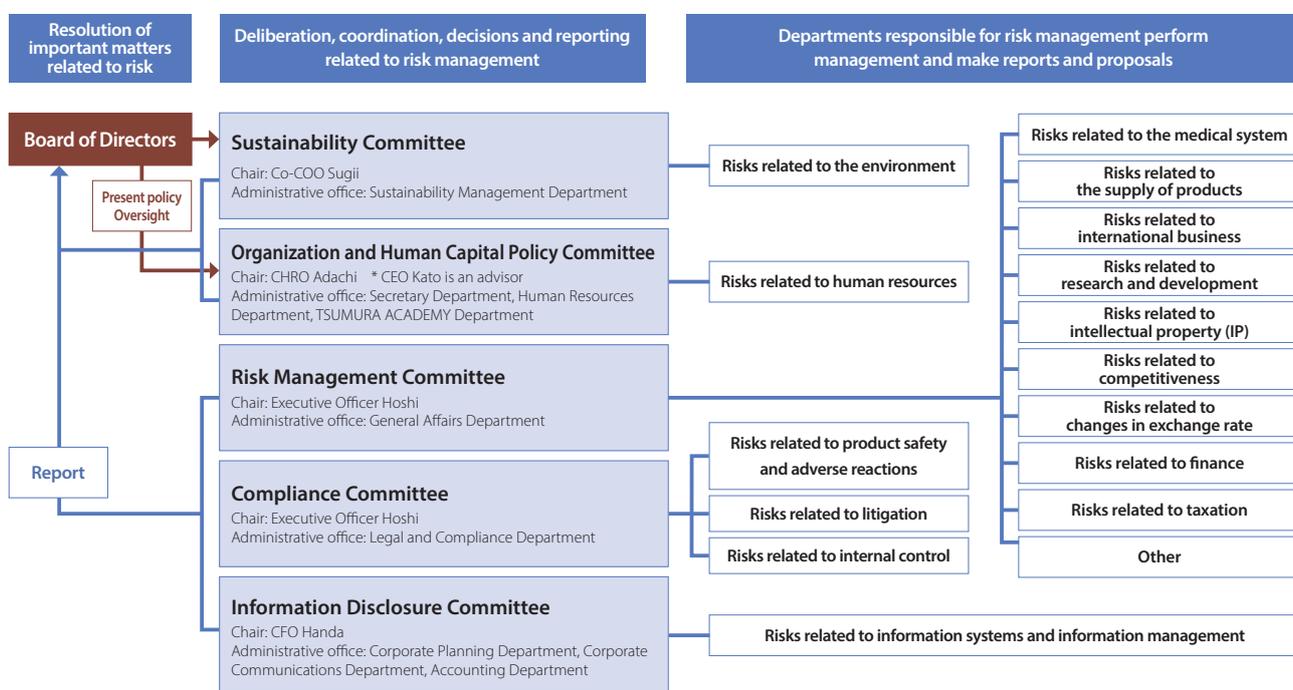
Risk Management

Risk Management Systems

The Tsumura Group recognizes that appropriately performing risk management is one of the most important issues in management, and endeavors to provide a management system headed by the Board of Directors. Pursuant to the Companies Act, the Board of Directors establishes the systems required for ensuring the appropriate execution of duties of executive officers, and all executive officers identify risks in their respective duties, and engage in the implementation of operation and management.

The Risk Management Committee is chaired by the Executive Officer in charge of the General Affairs Department, and centrally

manages significant risks. Furthermore, in addition to performing management according to the nature of each risk after categorizing and defining risks in line with the Risk Management Regulations, the committee evaluates reports and proposals from each department responsible for risk management, and deliberates and coordinates the understanding and appropriate response to groupwide risks. The deliberation, coordination and decisions in the Risk Management Committee are periodically reported to the Board of Directors, and the Board of Directors resolves important matters related to risk.



Risk items	Details of significant risks	Risk mitigation measures
1 Risks related to the medical system	<ul style="list-style-type: none"> Risks related to administrative developments such as government policies to curb healthcare spending Risk of domestic/overseas regulations concerning the development and manufacture of pharmaceutical products 	<ul style="list-style-type: none"> Building understanding of the value of Kampo formulations Cooperation with industry bodies and recommendations to relevant ministries and agencies Establishment of evidence of efficacy of prescription Kampo formulations Activities to raise the profile of prescription Kampo formulations
2 Risks related to the supply of products	<ul style="list-style-type: none"> Risk in the procurement of raw material crude drugs due to unforeseen weather conditions, natural disasters, etc., changes in the scope of legal restrictions on imports and exports, or unexpected changes in political and economic conditions Risk in the procurement of secondary raw materials and other materials due to sudden supply-and-demand-related distribution concerns caused by natural disasters or unstable social conditions Risk of loss of production and distribution functions due to natural disasters, fires, power outages, etc. 	<ul style="list-style-type: none"> Securing sufficient inventory volume Expansion of range of suppliers of crude drugs domestically and overseas Continued expansion of cultivated land under own management Establishment of purchasing structure involving multiple suppliers Diversification of manufacturing sites and product supply sites Introduction of earthquake mitigation/resistance measures at production facilities
3 Risks related to product safety and adverse reactions	<ul style="list-style-type: none"> Risk of occurrence of problems with product quality or safety Risk of unexpected side effects 	<ul style="list-style-type: none"> Compliance with quality control standards in the country or region Promotion of initiatives that emphasize quality with respect to all products, including both products manufactured in-house and those manufactured by CMOs Thorough management of raw material crude drugs in accordance with the Regulations on the Tsumura GACP Policy Promoting proper use of products by promptly and appropriately collecting safety information on products and strengthening the dissemination of information on adverse drug reactions

Risk items	Details of significant risks	Risk mitigation measures
4 Risks related to international business	<ul style="list-style-type: none"> Risk that contingent liabilities or unrecognized liabilities will be discovered after acquisitions or alliances related to the launch of operations in China, and that the expected business value and future synergies from business integration will not be realized Risk of unexpected changes in laws/regulations or in political/economic conditions 	<ul style="list-style-type: none"> Conduct careful due diligence concerning the financial condition, dealings, etc., of companies/businesses subject to M&A Reinforcement of business management functions through the establishment of Tsumura China Inc.
5 Risks related to R&D	<ul style="list-style-type: none"> Risk that future growth (globalization of prescription Kampo formulations, development of pre-symptomatic and personalized medicine) or performance cannot be maintained or improved (standardization of Kampo treatments cannot be accelerated) Risk that standardization of Kampo treatments cannot be accelerated due to the number of Kampo products listed in treatment guidelines 	<ul style="list-style-type: none"> [Global and Japan] Periodic verification of feasibility (return on investment and business feasibility assessment) of R&D plans [Japan] Expansion of business target areas (beyond the medical-use domain to include the total healthcare domain)
6 Risks related to intellectual property (IP)	<ul style="list-style-type: none"> Risk of decline in competitiveness due to IP rights infringement by third parties Risk of disputes stemming from the infringement of third-party IP rights 	<ul style="list-style-type: none"> Thorough information management in accordance with Company rules Acquisition of industrial property rights such as patents and trademark rights in connection with newly-developed technologies, new products, etc. Investigation into IP rights belonging to other companies, e.g., confirmation of prior trademarks, confirmation of prior patents related to newly introduced technologies, etc.
7 Risks related to human resources	<ul style="list-style-type: none"> Risk of being unable to secure or systematically develop the necessary human resources Risk of a decline in societal standing due to insufficient action to tackle occupational health and safety issues, harassment, etc. 	<ul style="list-style-type: none"> Clarification of human resource criteria and personnel numbers required for management strategy execution, and establishment of recruitment techniques Securing of global human resources for the development of operations in China and the United States Cultivation of personnel who can conduct business based on the Group's Corporate Philosophy and development of diverse human resources through the Tsumura Academy Systematic development of human resources based on the Human Resources Development Policy Provision of thorough labor affairs management education primarily to managers and increase in opportunities for communication through the use of one-on-one meetings and other modes of communication
8 Risks related to competitiveness	<ul style="list-style-type: none"> Risk of entry into prescription Kampo market by Japanese and foreign pharmaceutical companies Risk of launch of new drugs by Japanese and foreign pharmaceutical companies in major markets for prescription Kampo formulations 	<ul style="list-style-type: none"> Ensuring superiority through the stable procurement of safe crude drugs, steady supply of prescription Kampo formulations of uniform quality, and accumulation of evidence on their safety and efficacy
9 Risks related to changes in exchange rate	<ul style="list-style-type: none"> Risk of large fluctuations in the exchange rate relevant to the import of raw material crude drugs and Kampo powdered extract from China 	<ul style="list-style-type: none"> Stabilization of costs and cash flows over the long term through tools such as forward exchange contracts while taking into account exchange rate trends
10 Risks related to finance	<ul style="list-style-type: none"> Risk of changes in retirement benefit obligations Fundraising risk Risk of price fluctuation for marketable securities 	<ul style="list-style-type: none"> Early identification of changes in the external environment, market environment, circumstances at related companies, etc., and swift action to respond to such changes Maintaining relationships with financial institutions, particularly the main bank
11 Risks related to taxation	<ul style="list-style-type: none"> Risk of being charged additional tax or subject to double taxation due to differences of opinion with the tax authorities in each country 	<ul style="list-style-type: none"> Calculation of taxation amounts and proper payment thereof in accordance with the tax laws of each country Compliance with the transfer pricing tax regimes applied in each country
12 Risks related to the environment	<ul style="list-style-type: none"> Risk of violating laws or regulations by causing soil contamination, water pollution, etc. Risk of receiving evaluation that our efforts to conserve the natural environment is insufficient 	<ul style="list-style-type: none"> Compliance with environment-related laws and regulations Preservation of natural environments through environmentally conscious activities
13 Risks related to litigation	<ul style="list-style-type: none"> Risk of various lawsuits being filed for, for example, side effects of pharmaceutical products including Kampo and crude-drug formulations, harm to health, product liability, labor issues, infringement of intellectual property rights, contract nonperformance, environmental pollution, etc. 	<ul style="list-style-type: none"> Avoiding actions that could lead to lawsuits and early identification of problems by establishing a Group compliance system (rules, whistleblower system, organization, etc.) Establishment of corporate governance structure for Group companies Ongoing close collaboration with attorneys
14 Risks related to information systems and information management	<ul style="list-style-type: none"> Risk of IT systems malfunctioning due to large earthquakes or other disasters such as fire, power outages, etc. Risk of systems failing or confidential information being leaked as a result of cyberattacks by malicious third parties, carelessness or negligence by employees, etc. 	<ul style="list-style-type: none"> Proper investment in strengthening IT systems Formulation of a business continuity plan (BCP), implementation of drills that simulate the occurrence of an emergency, etc. Thorough communication of internal rules concerning information management to everyone within the Company, and reinforcement of information management
15 Risks related to internal control	<ul style="list-style-type: none"> Risk of being unable to ensure the effectiveness or efficiency of operations Risk of being unable to ensure the integrity of financial reports Risk of unlawful conduct, fraud, etc. 	<ul style="list-style-type: none"> Establishment and operation of internal control system Establishment and operation of internal management standards Periodic internal audits and internal control evaluations
16 Other	<ul style="list-style-type: none"> Risk of business being suspended as a result of the domestic and worldwide spread of COVID-19 	<ul style="list-style-type: none"> Measures to prevent infection and halt the spread of disease Establishment of a structure for the stable supply of products based on BCP Acquisition of infrastructure for working from home (laptops, web meeting systems)

Main Measures

Response to Climate Change

Why this Issue is Important to Tsumura

Crude drugs are substances that come to us directly from nature. The Tsumura Group employs crude drugs as raw materials. As such, in order to grow sustainably, we need to be extremely sensitive to changes in the natural environment as well as any potential crises it may face. To ensure the future continuation of the abundant natural environment that forms a pillar of our business, we are focusing in particular on our responses to climate change and water risk. In order to reduce these risks, the Company is promoting initiatives for carbon neutrality, while focusing on the development of new technologies in the areas of crude drug cultivation and production technology.

Corporate Governance System Related to Climate Change

The Board of Directors is responsible for making the most important decisions on matters based on the risks and opportunities associated with climate change and other factors with a view to ensuring the sustainable growth of the Group. The Sustainability Committee, which is chaired by the Co-CEO, receives the decisions made by the Board of Directors and sets out policies related to sustainability, GHG emission reduction targets and measures, and so forth. The committee also reports regularly to the Board of Directors on matters such as the status of activities and new issues arising, and reflects the feedback and advice from the board into targets and measures. The Sustainability Committee and Risk Management Committee share information and are responsible for the

assessment and control of risks associated with climate change. Important matters are reported to the Executive Committee and the Board of Directors.

The Company is taking initiatives to reach the goal of reducing Scope 1 and 2 GHG emissions by 50% from fiscal 2020 levels in fiscal 2030. In fiscal 2023, we made some pathways for achieving this goal, such as introducing off-site PPA, phasing in solar power generation at all sites, and incorporating systems for hydro power generation in the wastewater treatment facility of our new Shizuoka Plant, which is currently under construction.



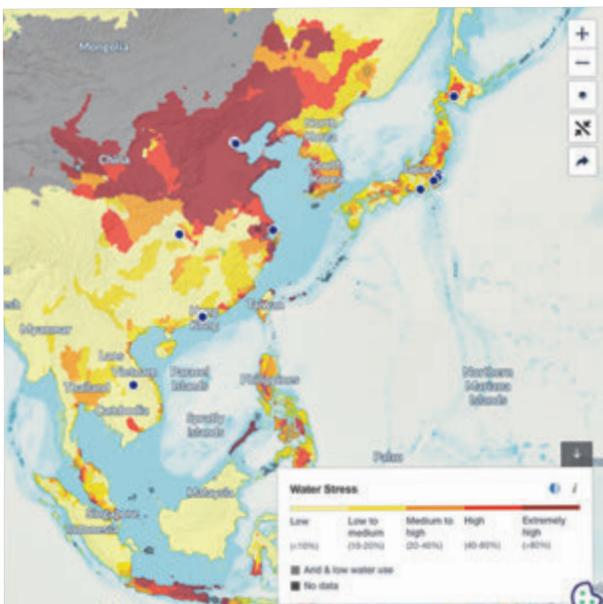
Solar panel at Shizuoka Plant



Solar car ports at Ibaraki Plant

Response to Water Risk Due to Global Warming

The Tsumura Group has conducted a scenario analysis*1 envisaging the world in 2050 based on the TCFD recommendations. Among the major risks under the 4°C scenario, in fiscal 2022 we held a detailed discussion*2 of our response to water risk. Currently, at the No. 3 SD Building of our Ibaraki Plant, we have installed new equipment for reusing the water used in manufacturing, and we are examining strategies to mitigate water risk, such as applying the expertise we have acquired there elsewhere. Moreover, some of our crude drug cultivation sites are under high water stress, and we are responding by innovating crude drug cultivation techniques, diversifying cultivation sites, and securing appropriate inventories.



Source: WRI Aqueduct, <https://www.wri.org/aqueduct>

*1 For more details, please refer to the Company's website.
 Responding to climate change: Information disclosure based on the TCFD recommendations
<https://www.tsumura.co.jp/english/sustainability/tcfd/index.html>

*2 Evaluation of water stress using the "Aqueduct Water Risk Atlas" developed by the World Resources Institute

Water stress at Head Office and manufacturing sites: Risk evaluation results

- Japan: six sites, all with no risk *3
- China: nine sites, of which three have risk (Tianjin, Shenzhen, Shanghai)
- Laos: one site, no risk

Evaluation period: 2040

*3 Some sites were deemed to be extremely high or high risk. However, having considered factors such as the status of water usage at the sites, it was judged that no significant risk existed.

Respect for Human Rights

The Tsumura Group supports global norms such as the International Bill of Human Rights and is taking measures to respect human rights. We consider any violation of human rights in our supply chain unacceptable, for example, at companies and suppliers in production areas where we procure raw material crude drugs. We have therefore been conducting periodic audits of production area companies and suppliers for some time. To date, we have not found any significant issues relating to the human rights of employees, such as forced labor. In April 2022, the Group formulated the Tsumura Human Rights Policy and the Tsumura Procurement Policy, which cover all of the Group's officers and employees, production area companies and production groups, and all suppliers with direct contracts.

Furthermore, the Procurement Division conducts human rights due diligence for analysis and prevention of human rights risk in the supply chain. With regard to production groups from which the Group procures crude drugs, we conduct observation and interviews from an occupational health and safety perspective using a checklist when conducting GACP audits^{*4}, based on the Tsumura

Procurement Policy. The results are evaluated by the Sustainable Procurement Subcommittee and the Sustainability Committee, then reported to the Board of Directors. In fiscal 2022, we conducted explanation meetings to local production groups in Japan, China, and Laos, to promote understanding of our procurement policy.

The Sustainability Committee is at the center of our human rights risk management structure, supervising initiatives related to human rights policies and making reports to the Board of Directors. The Human Resources Department undertakes human rights training, human rights risk analysis and prevention, and the creation and improvement of various systems. The Legal/Compliance Control Department operates a contact desk to respond to consultation requests from employees.

In fiscal 2022, we conducted study sessions on human rights and harassment at all business sites for all employees. We will promote initiatives such as the production of materials related to human rights and utilize them in ongoing training for all employees.

^{*4} Tsumura's own audit method based on the Tsumura GACP Guidelines

Resource Circulation

The Tsumura Group is working to renew the 3Rs (reduce, reuse, recycle) and create mechanisms for resource circulation.

Most of the industrial waste generated by the Group is residue left over from extract produced during the Kampo formulation manufacturing process (crude drug residue). Some of this material is traded for value, and the Group sells it for uses such as biomass fuel, which helps to reduce CO₂ emissions from thermal power stations. Other residues are also 100% recycled by composting and so forth.

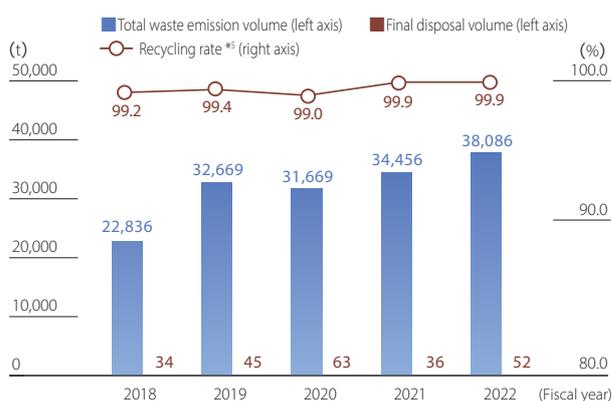
In parallel with resource recycling, we are also focusing on creating better mechanisms for resource circulation. Crude drug residue contains about 80% water. Although we utilize residues for recycling as described above, because they are carried to external processing facilities with a significant volume of water in them, they incur an environmental burden and an economic cost. Currently, the Company is researching and examining methods of applying fertilizer manufacturing technology to reduce the water content of residues without placing a load on the environment.

As an initiative to assist with circular use of water resources, we have implemented a system for reusing cooling water from the extracted liquid condensation process for Kampo extract at four plants in Shizuoka, Ibaraki, Shanghai,

and Tianjin. In fiscal 2022, these four plants accounted for around 96% of the entire wastewater volume for the Group.

In addition, we are looking at switching to environmentally friendly packaging materials considering the strengthening regulations, such as the enforcement of the Act on Promotion of Resource Circulation for Plastics.

Total waste emissions, final disposal volume, and recycling rate



Note: Waste includes industrial waste (including ones under special management), as well as municipal solid waste.
^{*5} Recycle rate = recycled volume/total waste emission x100

Preservation of Biodiversity

Why this Issue is Important to Tsumura (Approach Since our Foundation)

Depletion of natural resources, such as wild plants, poses a direct management risk to the Tsumura Group, since its business uses crude drugs as raw materials. Given this background, we have a long history of working to preserve biodiversity, from our earliest days. The first president, Jusha Tsumura, considered the identification of varieties that can be used as raw material crude drugs, their cultivation backed by science, and the preservation of varieties as important priorities from the time of the Company's foundation, and made a tremendous effort in this area. In 1924, we founded Tsumura Research Institute for Pharmaceutical Science for the purpose of conducting scientific research and analysis of botanical compounds and Kampo medicines. In subsequent years, the results from the institute have contributed significantly to the rise of Kampo medicines. Furthermore, at the same time as the foundation of the institute, Jusha also started work on establishing the Tsumura Medicinal Plant Garden.

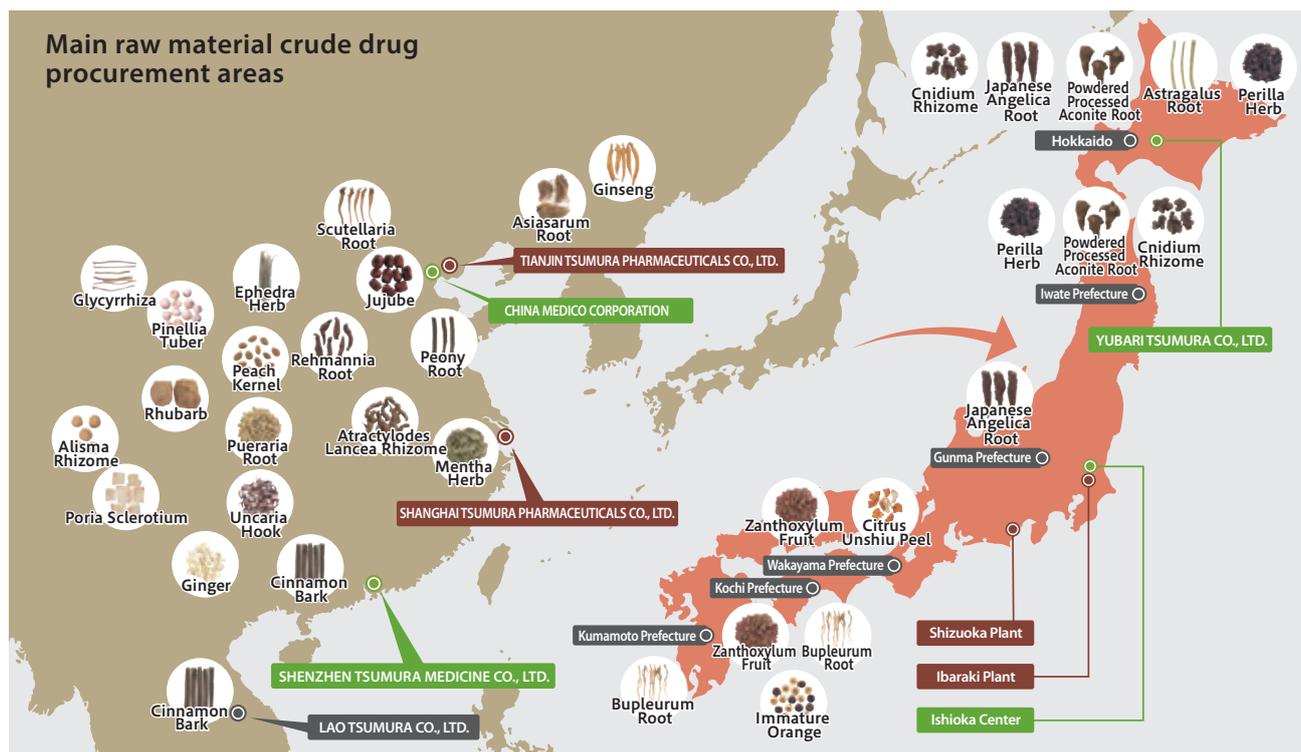
Around the time, Dr. Tomitaro Makino, Japan's leading authority on plant taxonomy, was in charge of the Journal of Japanese Botany, an international academic journal that was concerned with the survey and study of wild plants. In 1926, Jusha approved of Dr. Makino's activities and decided to support him, and so Tsumura Research Institute for Pharmaceutical Science took over publication of the journal.

The two men collaborated through the creation of the journal, working for many years to bring to light the diversity of Asian plants and promote the taxonomic and pharmacognostical evaluation of medicinal plants, which are the foundation of Kampo medicines, as well education.

Over the past few years, the Group has been focusing on the development of advanced appraisal technology for plant varieties, building a plant variety library, and developing expert human resources in order to pass on bountiful ecosystems to the next generation. In addition, the Group has analyzed and evaluated variations in quality caused by differences in the production environment and harvest timings of raw material crude drugs (medicinal crops), accumulating production expertise for ensuring consistency. Currently, Tsumura has indicated consideration for biodiversity in the Sustainability Charter formulated in 2022, and is actively implementing a range of measures, such as appropriate harvesting of wild crude drugs, careful management of crude drug production based on the Tsumura GACP, and appropriate use and testing of agrochemicals.



Tsumura Medicinal Plant Garden at the time of its establishment (Tokyo)



Cultivation of Wild Crude Drugs

With a view to preserving biodiversity, the Group has included a target of reducing the number of wild crude drugs it uses within its medium- to long-term environmental targets for fiscal 2031. Among the raw material crude drugs that we use, 110 are derived from plants, and 34 of these are wild plants. By introducing cultivation of these going forward, we aim to reduce the number of wild products used to 11 by fiscal 2031.

In fiscal 2022, we switched completely to cultivated products for a crude drug known as Anemarrhena rhizoma. Until now, we have needed a certain quantity of wild Anemarrhena rhizoma with a high level of standard ingredients, but improvement of the production method of the cultivated product has proved successful in increasing the level of standard ingredients, and through practical production testing, we are on course to be able to build a production system that does not depend on wild products.



Glycyrrhiza (wild)

Glycyrrhiza (cultivated)



Anemarrhena rhizoma (raw material crude drugs)



Anemarrhena rhizoma cultivated in a field (plant name Anemarrhena asphodeloides)



Anemarrhena rhizoma harvested from a field

Cooperation with Local Community through Crude Drug Cultivation

The Tsumura Group considers diversification of cultivation areas an important strategy for sustainable crude drug procurement. Among other advantages, this strategy helps to preserve the natural environment in cultivation areas, contributes to regional revitalization, and increases the productivity of farmers by transferring technologies to them.

Tosa Tsumura Forest

One of our main cultivation areas in Japan is the town of Ochi in Kochi Prefecture. Here, we are engaged in a joint forest project called the Tosa Tsumura Forest. The project is operated by four partners: Kochi Prefecture, Ochi Town, Human Life Tosa, and the Tsumura Group. 2023 marked the 16th year of the project, which was initiated in 2008 for the purpose of protecting the natural environment and revitalizing the region of the cultivation area. Tosa Tsumura Forest covers an area of approximately 77 ha., or around 16 times the area of the Tokyo Dome. In addition to preserving the water source for the Niyodogawa river system, Human Life Tosa members conduct medicinal plant harvesting and processing experience lessons for local junior high school students, while the Company's employees contribute to systematic learning by providing visiting lessons and so forth.

Initiatives in Laos

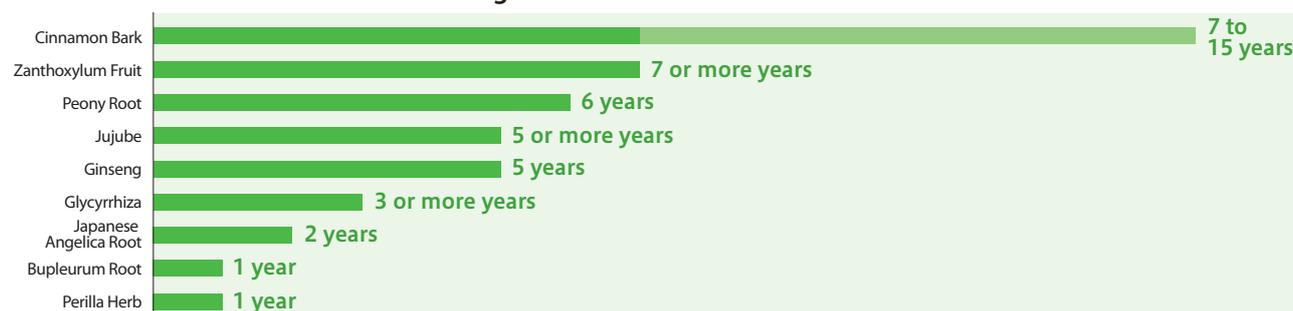
In Laos, we cultivate raw material crude drugs in our own managed gardens. In 2011, we proposed a survey and removal of unexploded ordnance to ensure the safety of the land for the cultivation of crude drugs as a public-private partnership project.*6 The proposal was accepted under the "Public-Private Partnership for Accelerating Growth" promoted by the Japanese government. Through this project, we are promoting expansion of local employment along with the transfer and diffusion of agricultural technologies.

*6 A governmental program begun in April 2008 to accept proposals from private companies for the purpose of contributing to the expansion of job opportunities, technology transfer, and trade and investment promotion, which ODA (Official Development Assistance) cannot pursue alone, through the cooperation between private companies' activities and the ODA in developing countries.

Other activities

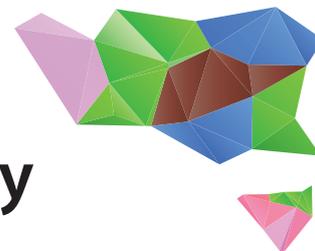
In cultivation areas in China, we are contributing to increased standards of living through the cultivation of crude drugs. In Sichuan Province, we are implementing a project with a local company to cultivate wild rhubarb. We have built an industrial chain of cultivation, harvesting, and processing, contributing to increased income for farmers and reducing uncontrolled harvesting of wild rhubarb. In Jilin Province, a large-scale ginseng processing plant is run by a local company. Strict quality management and inspection for agrochemicals residue and so forth have increased the brand reputation of the products, creating an exemplary model for sustainable local industry.

Years of Cultivation of Main Crude Drugs



Feature:

“The Best of Nature and Science” – Tsumura’s Value Creation Capability



Guided by its Corporate Value, “The Best of Nature and Science,” the Tsumura Group has grown as a leading company in prescription Kampo formulations through its pursuit of safety, efficacy, and consistency in its pharmaceutical products, based on scientific evidence. Trust and a performance record built up on the medical front line, along with research driven by advanced technologies, are the sources of Tsumura’s competitive advantage, and its unique value creation capability.

Pursuit of Safety

Quality of Kampo Products Begins from the Growing Fields

The Tsumura Group insists on the safety of raw material crude drugs and applies rigorous quality management as a manufacturer of Kampo and traditional Chinese medicines using crude drugs from plants and minerals found in nature.

Around 90% of the Group’s raw material crude drugs are procured from China. However, we do not purchase crude drugs from crude-drug markets throughout China. This is because the crude drugs that circulate in the markets are incredibly challenging to trace with regard to where and by what methods they were cultivated and processed. Based on our policy that the quality of Kampo products begins from the growing fields, we spent many months establishing a system for directly purchasing crude drugs from production areas. Furthermore, we referred to Good Agricultural Practices to ensure management of agricultural production processes for constant improvement, and built our own Tsumura GACP with additional training, audit, and certification systems.

Under the Tsumura GACP, processes from planting to cultivation methods, use of agrochemicals and fertilizers, harvesting, and processing are all determined by Tsumura GACP Guidelines based on our proprietary quality management standard, the Tsumura GACP Guidelines. We enter contracts with production groups that have acquired the Tsumura GACP Certification and purchase raw material crude drugs from them. This leads to stable income for producers and sustainable agricultural management.

In addition, we have built a crude drug traceability system that enables us to trace information such as which fertilizers or agrochemicals are used, and the cultivation history. Not only does this make it possible to take upstream safety measures against foreign contaminants such as agrochemical residues or

microorganisms, but it also means that we can trace and check all processes up to delivery to the medical institutions by matching the history information for the Kampo formulation manufacturing process and logistics steps.

Raw material crude drugs procured through contract producers across China are concentrated mainly at SHENZHEN TSUMURA MEDICINE and CHINA MEDICO CORPORATION. The raw material crude drugs are tested for safety, such as agrochemical residues, microorganisms, and heavy metals, and undergo physical and chemical testing to remove any foreign objects and defective products. Only raw material crude drugs that clear quality standards are supplied to each plant, where they are manufactured into Kampo formulations.

Moreover, the Group manages its own fields where it can provide cultivation instruction directly, and it is expanding the ratio of such fields. In this way, we are working to strengthen the raw material crude drug quality assurance system and stabilize prices.

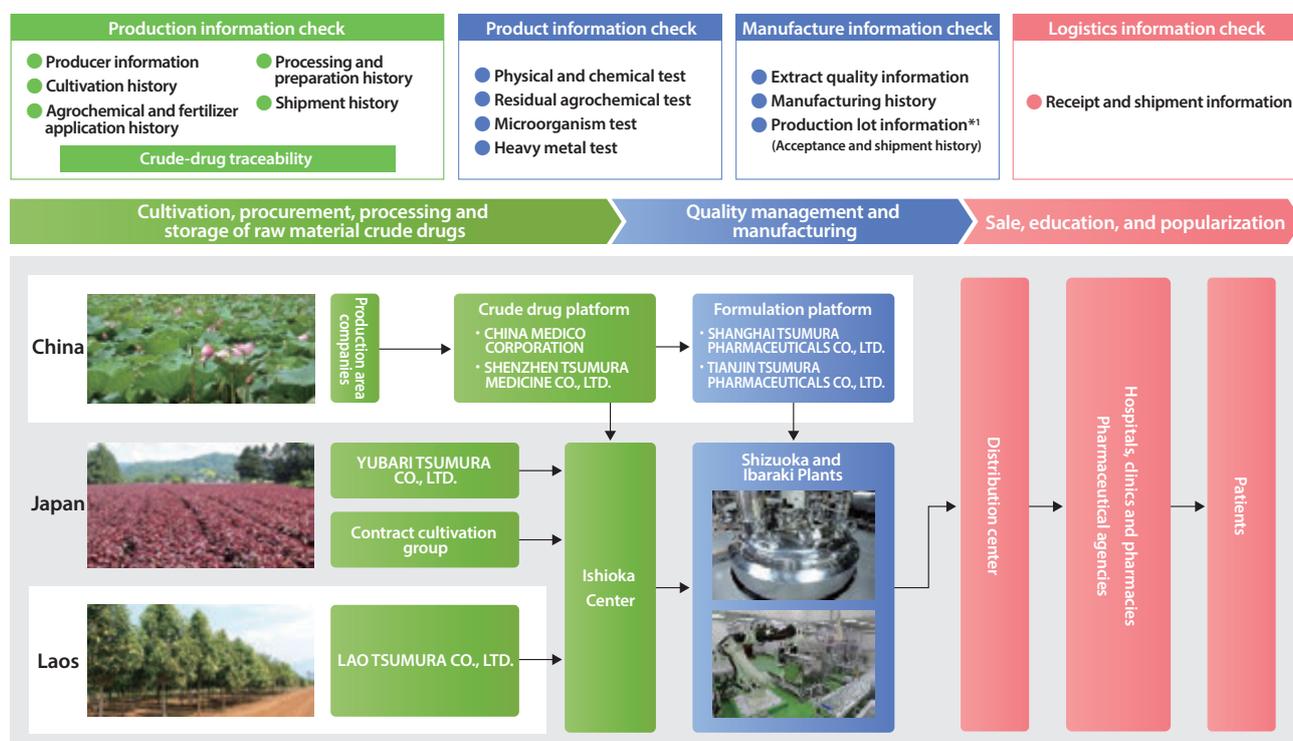
In our quality testing, we conduct tests prescribed in the Japanese Pharmacopoeia, as well as testing for residual agrochemicals, microorganisms, mold toxins, and elemental impurities under our own in-house specifications and our own standards. We are also working to ensure safety by developing proprietary technologies for analyzing crude drugs and Kampo extract powder and granules that contain multiple and diverse components.

Crude drug varieties used in the Japan business

Plant-based 110 Animal-based 5 Mineral-based 4

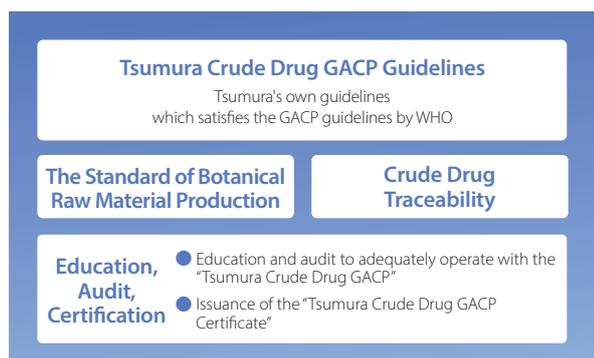


Tsumura Traceability System

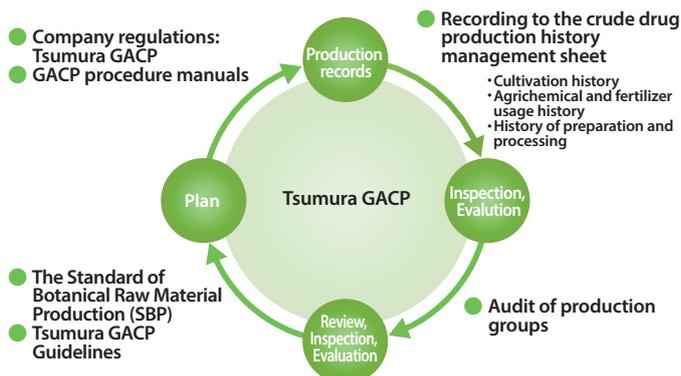


*1 Groups of products made under the same conditions are referred to as a lot. The smallest unit of information when producing products is referred to as production lot information.

Tsumura GACP Guidelines



PDCA Cycle in the GACP





Proof of Efficacy

Promoting Knowledge of the Efficacy of Kampo Medicines with “Drug-fostering” through the Building of Evidence

Kampo medicines are pharmaceutical products with multiple components derived from natural substances. Due to this characteristic, it has been considered difficult to show their efficacy and safety scientifically. To establish a position for Kampo formulations as a treatment option, it is necessary to prove the efficacy and safety of Kampo formulations in the field of Western medicine. We have therefore been engaged in basic and clinical research, and in building evidence.

Since fiscal 2004, we have focused our resources on drug-fostering research. Drug-fostering research is a program for accumulating basic and clinical data to establish evidence for diseases in areas of high medical need that have been resistant to new Western drugs and for which prescription Kampo formulations have demonstrated special efficacy. The program started with three formulations—Daikenchuto, Yokukansan, and Rikkunshito—with the subsequent addition of two more. These drug-fostering program formulations are contributing to expansion of the Kampo market as growth drivers for

the Tsumura Group. In fiscal 2016, we established “Growing” formulations as new strategic formulations to follow the five drug-fostering program formulations. Focusing on the areas of geriatric health, cancer (supportive care^{*2}), and women’s health, we have been working to gain write-ups for these formulations in medical treatment guidelines.^{*3} We are promoting the formation of packages for drug-fostering program formulations and “Growing” formulations. The packages include five items: evidence from clinical studies,^{*4} elucidation of action mechanisms, study on frequency of side effects, pharmacokinetics (ADME^{*5}), and database research (health economics, etc.). The results of successful evidence accumulation include a more than two-fold increase in the number of write-ups in treatment guidelines over the past 10 years.

^{*2} Treatment to reduce the symptoms arising from the cancer itself or from the side effects caused by the cancer treatment, etc.

^{*3} A compendium of diagnoses and standard guidance on treatment for each illness, describing the best tests and treatment methods, etc., based on evidence.

^{*4} Data from meta-analysis (integration of multiple study results for analysis from a higher perspective) and randomized comparison trials (RCTs)

^{*5} Absorption, Distribution, Metabolism, Excretion. Looking at how a drug acts within the body after being taken.

Status of Evidence-building

As of end of March 2023

	No.	Formulation name	Integrated analysis	RCT	Mechanism of action	Study on frequency of side effects	Pharmacokinetics (ADME)	Database research (health economics, etc.)
Drug-fostering program formulations	100	Daikenchuto	4	36	○	○	○	○
	54	Yokukansan	4	18	○	○	○	○
	43	Rikkunshito	2	26	○	○	○	—
	107	Goshajinkigan	2	15	○	—	○	—
	14	Hangeshashinto	1	10	○	—	—	○
Growing formulation	17	Goreisan	1	11	○	—	—	○
	24	Kamishoyosan	—	7	○	—	—	—
	41	Hochuekkito	—	17	○	In progress	—	—
	108	Ninjin'yoeito	—	2	○	—	—	—
	137	Kamikihito	—	0	○	—	—	—

Notes: 1 ○ indicates the existence of a relevant academic paper, etc.
2 Numbers of statistical analysis and RCT papers are collated from 2000 to January 2023



Contribution to Solving Social Issues through the Expansion of Standard Treatments

Tsumura is working to build evidence through both basic and clinical research. Taking Daikenchuto as an example, in basic research we worked to elucidate the pharmacological effects, such as promoting intestinal motility, increasing intestinal blood flow, and anti-inflammatory effects, as well as the mechanism of action. In clinical research, we examined the pharmacokinetics and frequency of side effects. In addition, we conducted a double-blind randomized comparison trial (DB-RCT) and meta-analysis on the effect on post-operative gastrointestinal function and symptoms to prove its efficacy, resulting in the write-up of Daikenchuto in treatment guidelines for several conditions.

The establishment of such evidence has led to new write-ups and increased recommendation levels in treatment guidelines. Ultimately, we will expand the use of Kampo formulations as standard treatments.*6 Through the Company's research activities, it has established a foundation for recognition of Kampo formulations as standard treatments by physicians, to

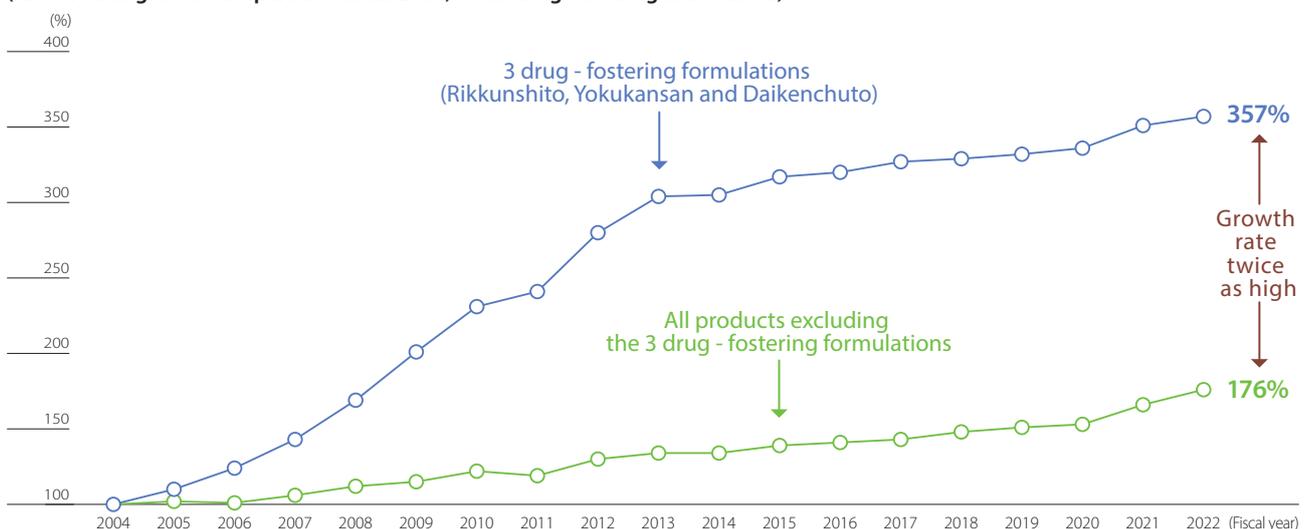
a degree. This foundation includes qualitative and quantitative improvement in write-ups in treatment guidelines and inclusion of Kampo training-related content in the education models and core curricula for disciplines including medicine, dentistry, pharmacology, and nursing.

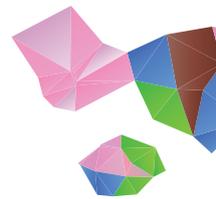
In addition, since Kampo medicine enhances people's inherent natural healing ability and promotes improvement of symptoms, it is considered a "personalized medicine" that treats both mental and physical aspects together. Aiming to realize a society where everybody can receive optimal Kampo treatment, we will increase our efforts to develop a Kampo medical exam support system using DX and AI technology, clearly identifying the responders to Kampo formulations (cohorts that show efficacy, "patterns" for Kampo), and establishing objectivity for Kampo medical exams.

*6 Optimal treatment methods recommended to most patients, with efficacy and safety confirmed based on evidence.

→ For details, see page 51 "Strategic Challenge 2".

Impact of Drug-fostering Research on Sales of Prescription Kampo Formulations (rate of sales growth compared to fiscal 2004, when drug-fostering was started)





Innovation of Consistency

Consistency Across the Entire Kampo Value Chain

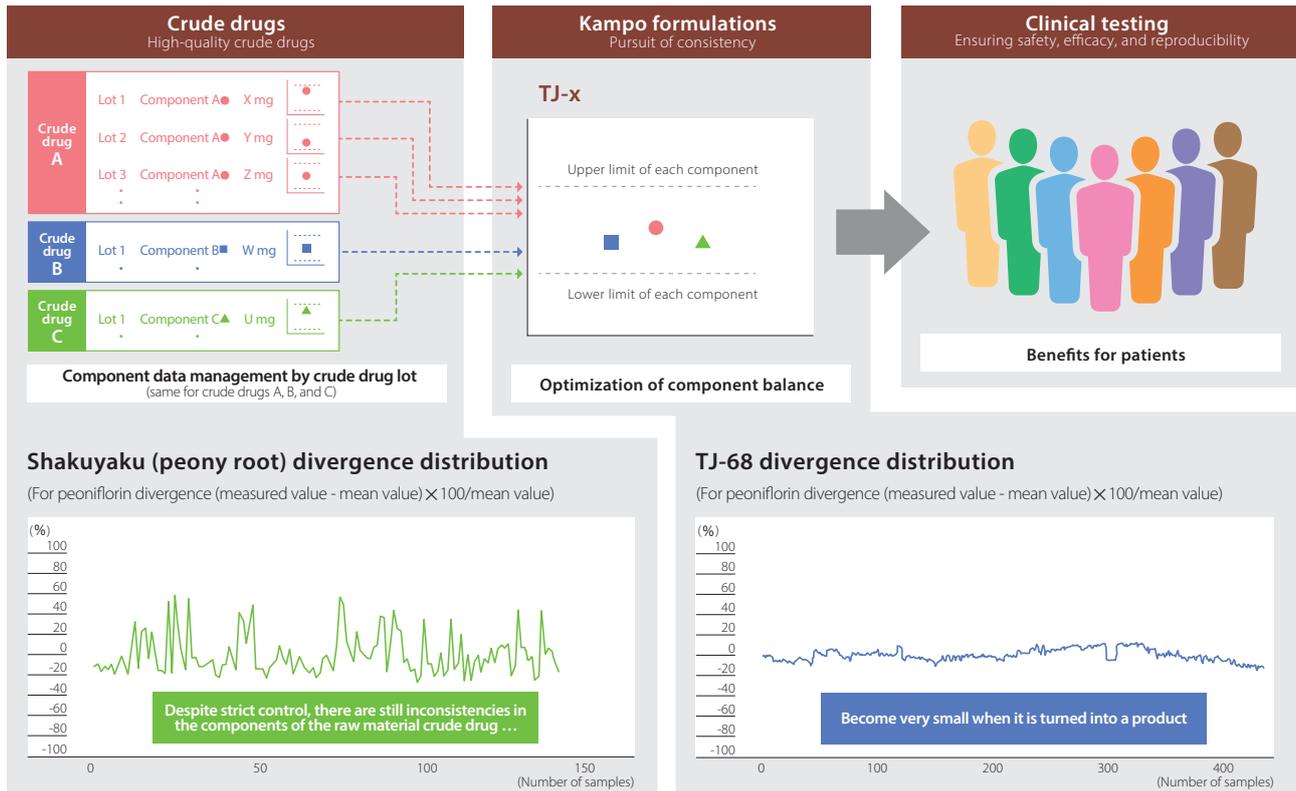
Since crude drugs are natural substances, the component content varies depending on factors such as production area, cultivation environment, and processing and storage conditions. However, they must achieve clinical reproducibility in order to become pharmaceutical products, and this is ensured by stable quality of crude drugs and the technology and expertise to create consistent Kampo products in the formulation process.

Such consistency has been considered difficult to achieve in the finished Kampo formulation products, because even if they are grown from seeds or seedlings from the same origin, crude drugs may vary in their shape or component content due to factors including growing environment, such as soil or climate, harvest timing, and storage conditions. The Tsumura Group has built the Kampo value chain, a proprietary supply chain that manages business activities consistently from upstream to downstream. To achieve consistency, it is vital to pursue quality throughout the entire Kampo value chain. In the upstream process of crude drug cultivation, we

control variation in raw material crude drugs by providing guidance on cultivation and processing methods and using only crude drugs that meet Tsumura's quality standards. The component balance of the crude drugs can be further optimized in the formulation process by analyzing and managing the component content data for each lot, then prescribing the ratio of the crude drug lots to be used in the preparation. In the formulation process, to minimize changes to the components of the extract, we have developed a proprietary manufacturing line and we control the system for each formulation to achieve consistency in our final Kampo formulation products.

These activities are truly the practical embodiment of our Corporate Value, "The Best of Nature and Science," and we will continue to hone our strengths in safety, efficacy, and consistency, aiming to contribute to the solution of social issues through business, such as protection of human health, preservation of the global environment, and revitalization of local communities.

Consistency and Clinical Reproducibility of Kampo Medicines





Future Development

Development of Business in China Leveraging the Tsumura Group's Strengths

In Japan, the portion of the population aged 65 and over surpassed that aged under 14 in 1997, and the country is now known as the fastest aging country in the world. However, population aging is advancing globally, and the portion of the population aged 65 and over (aging ratio) is expected to increase rapidly over the next 40 years.

China is also experiencing a falling birthrate and aging population. The Tsumura Group has defined its vision for the China business as contributing to the health of the citizens of China through its accumulated technology and experience, and is steadily putting it into action.

The Healthy China 2030 initiative promoted by the Chinese government places importance on both modern medicine and Chinese medicine. It promotes the development of rules regarding traditional Chinese medicine production and also encourages expanding the scale of production. Within traditional Chinese medicines also, the key to the development of traditional Chinese medicinal products is

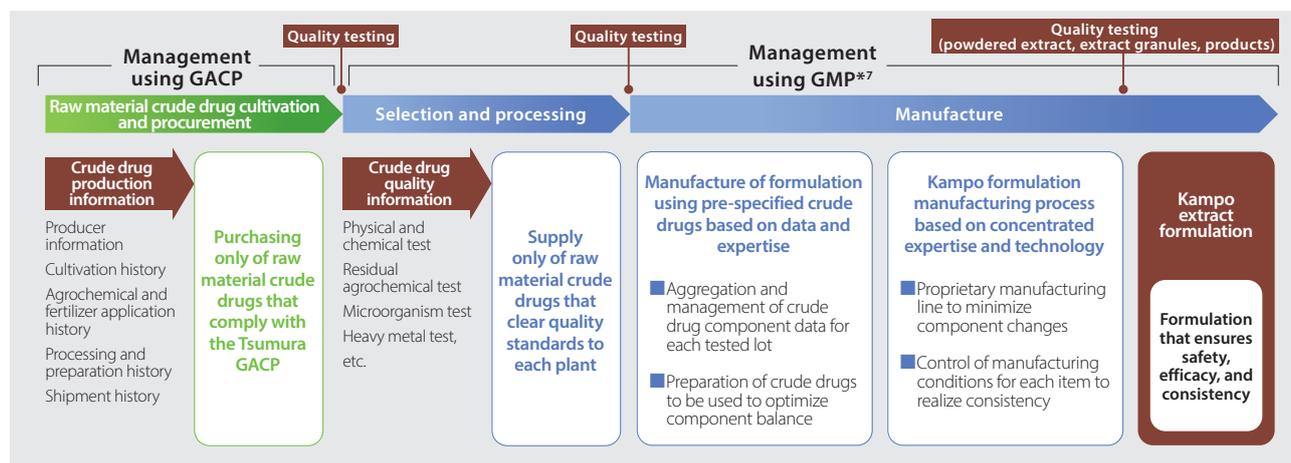
standardization, and the Chinese government views the standardization of traditional Chinese medicinal products as a priority issue. The Tsumura Group seeks to achieve the standardization of traditional Chinese medicinal products and contribute to the development of the Chinese medicine industry. We will do this by using our technologies and expertise related to safety, efficacy, and consistency, which have been honed in the Kampo business.

In addition, with regard to the sale of raw material crude drugs and drug pieces, we will contribute to the citizens of China and healthcare by supplying high-value-added services using high-quality crude drugs.

We aim to continue striving to be a corporate group that contributes to the well-being of people, societies, and the environment globally by working to create shared value with all stakeholders involved in our value chain, and to popularize pharmaceutical products derived from natural substances.

→ For details, see page 53 "Strategic Challenge 3".

Process for Managing Consistency



*7 Good Manufacturing Practice. A Ministry of Health, Labour and Welfare ordinance that sets out permission requirements for the manufacturing of pharmaceutical products and quasi-pharmaceutical products, as well as requirements for obtaining marketing authorization, with manufacturing management and quality control standards for pharmaceutical products and quasi-pharmaceutical products.



Medium-Term Management Plan

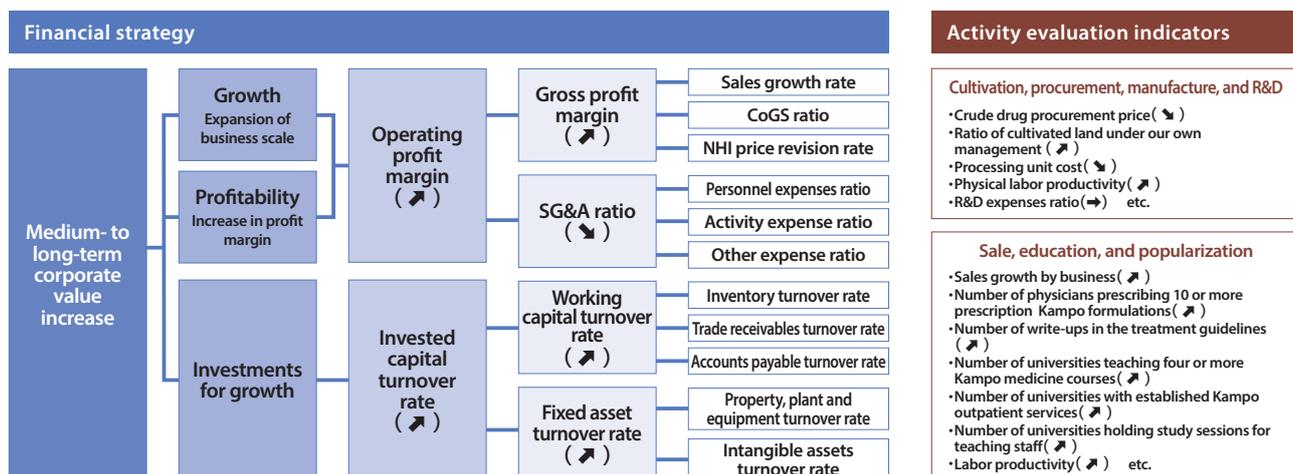
Having positioned this as a
foundation-building stage for realizing the
long-term management vision, we will steadily
execute our strategies.

Financial and Pre-financial Highlights

Increasing Corporate Value and Pre-financial Indicators

As a financial strategy for increasing our corporate value over the medium to long term, we are managing action evaluation indicators in our Kampo value chain, aiming to expand our business scale, increase profit margin, and invest for growth. In cultivation, procurement, manufacture, and R&D, we aim to reduce the purchase price of crude drugs by expanding the ratio of cultivated land under our own management and promoting cultivation of wild crude drugs. In addition, we will see efficiency increase with growth in production volume following the expansion of the Kampo market, and we will also increase the labor equipment ratio through the adoption of AI and robotics, including the introduction of automated crude-drug sorting machines with AI. We aim to reduce processing costs by using and enhancing big data pertaining to manufacturing and quality to realize smart factories. We will maintain R&D investment at 5% or higher of

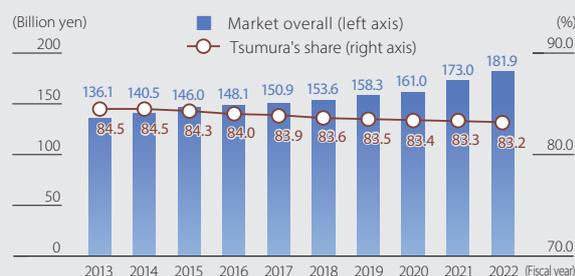
net sales, investing heavily and giving priority to areas such as new disease, promoting personalization of Kampo treatment, and pre-symptomatic disease. In the areas of sale, education and popularization, we are working to expand standardization of Kampo treatment by increasing the number of physicians prescribing 10 or more prescription Kampo formulations and by increasing the number of write-ups in the treatment guidelines. We will also work to personalize medicine and to take on the challenge of pre-symptomatic diseases. Moreover, we will support Kampo medicine education, so that it is a required subject in all university medical departments, Kampo outpatient services are established, and study sessions for teaching staff development are held to enable them to give instructions in Kampo medicine. In the China business, we will work on business expansion towards achieving an overseas sales ratio of 50% or higher.



Market environment in fiscal 2022

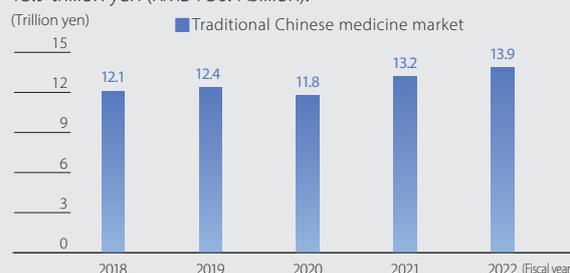
Domestic market

Under the Ministry of Health, Labour and Welfare's "Comprehensive Strategy to Strengthen the Pharmaceutical Industry," Kampo medicine is clearly described as playing an important role in healthcare in Japan, and the need for it is increasing year by year. Against this background, the prescription Kampo formulation market grew 5.1% year on year to 181.9 billion yen.



China market

In the Outline of the Healthy China 2030 Plan, importance is placed on both modern medicine and Chinese medicine. It promotes the development of rules regarding traditional Chinese medicine production and also encourages expanding the scale of production, while also implementing measures on theoretical research and drug development. Against this background, the traditional Chinese medicine market grew 5.6% year on year to 13.9 trillion yen (RMB 730.4 billion).



*1 Calculated at 1 RMB = 19.05 JPY (as of the end of December 2022) *2 Chinese Ministry of Industry and Information Technology, National Bureau of Statistics of China data

Management indicators

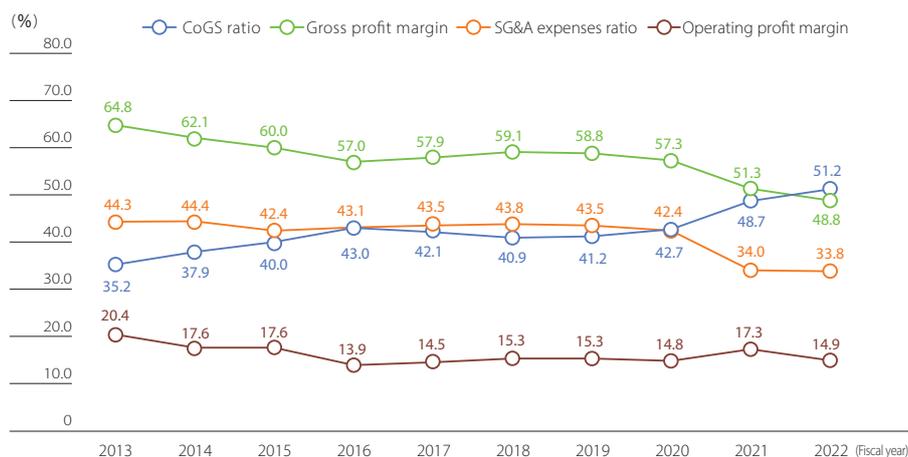


Net sales: Sales of prescription Kampo formulations in the domestic business increased by 4.6% year on year, reflecting the effects of e-promotions and growth in demand for prescriptions related to the symptoms and after-effects of COVID-19 infection. In the China business, sales increased by 54.6% year on year, mainly due to expansion in sales of raw material crude drugs in the crude drug platform.

Operating profit: Profit decreased due to impacts such as high prices for raw materials and energy coupled with the yen's depreciation and temporary expenses related to the start of operations at the Tianjin Plant.

Note: From fiscal 2021, the Accounting Standard for Revenue Recognition has been applied.

Indicators for net sales



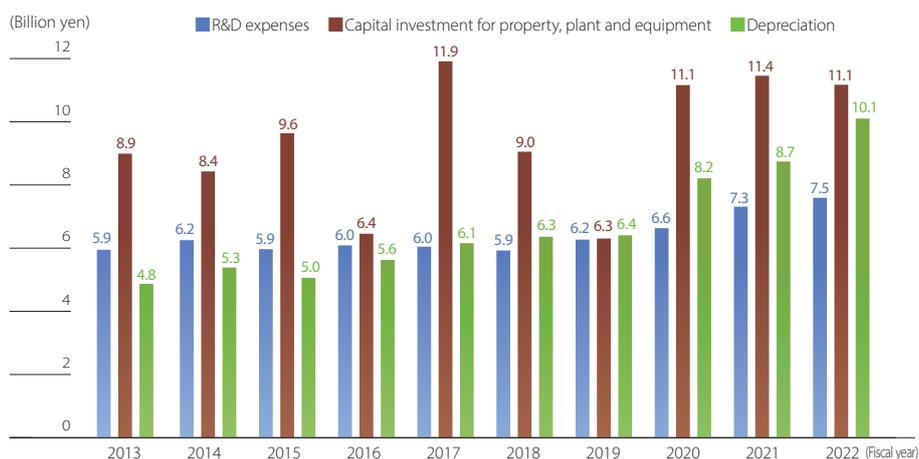
Gross profit margin: The CoGS ratio rose as the impacts of NHI drug price revisions, high prices for raw materials and energy, and the yen's depreciation exceeded that of higher productivity associated with an increase in production.

SG&A expenses ratio: The ratio declined, mainly reflecting increased efficiency in sales promotion expenses, despite temporary expenses incurred for the start of operations at the Tianjin Plant.

Operating profit margin: The margin decreased as an increase in the CoGS ratio exceeded the decrease in the SG&A expenses ratio.

Note: From fiscal 2021, the Accounting Standard for Revenue Recognition has been applied.

R&D expenses, capital investment for property, plant and equipment, and depreciation

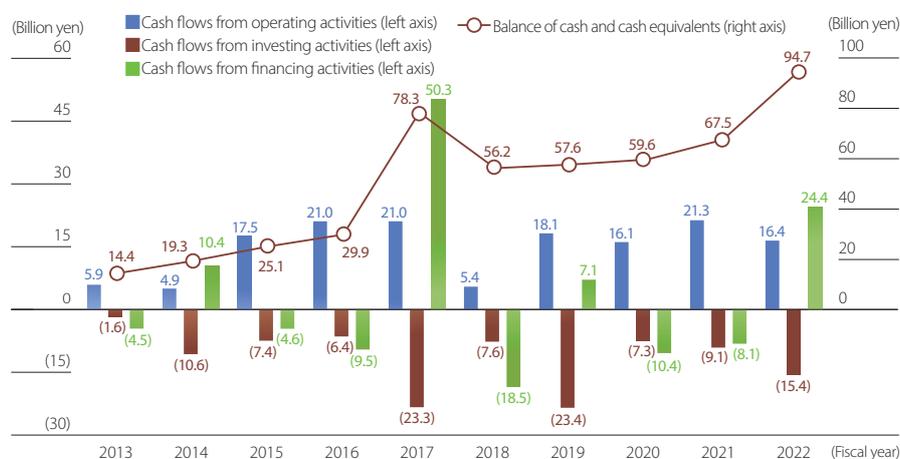


R&D expenses: Expenses increased, mainly for building evidence for Kampo formulations and the market launch of Daikenchuto in the United States.

Capital investment for property, plant and equipment: Investments were made mainly for the new construction of the Tianjin Plant, renewal of the Shanghai Plant, and expansion of other manufacturing processes.

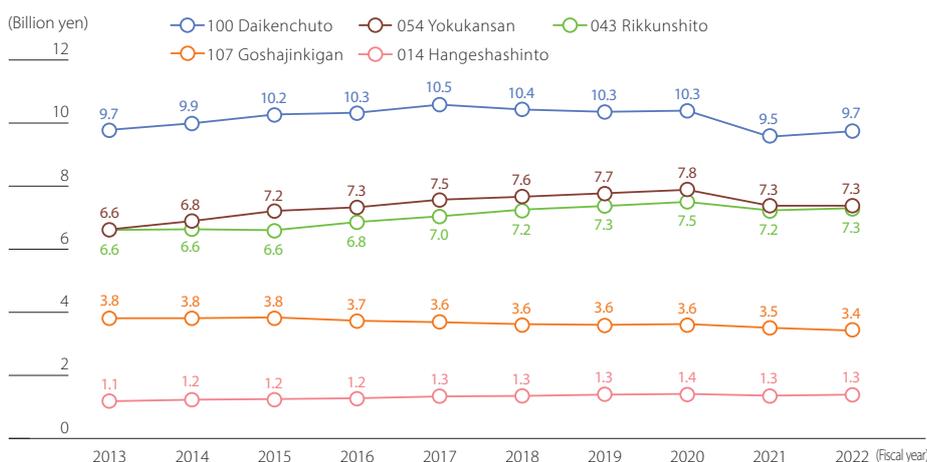
Depreciation: Depreciation increased, mainly in conjunction with the operation of the Tianjin Plant.

Cash flows



Cash flows from operating activities mainly reflected income from profit before income taxes and expenditures for income taxes paid. Cash flows from investing activities mainly reflected expenditures for purchase of property, plant and equipment, while cash flows from financing activities mainly reflected income from the issuance of bonds of 30.0 billion yen. As a result, the balance of cash and cash equivalents at fiscal year-end increased.

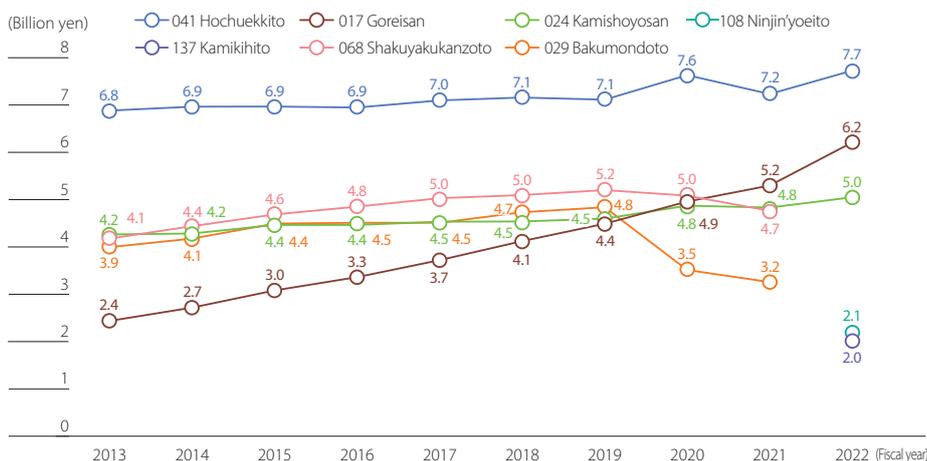
Drug-fostering program formulation net sales



Drug-fostering program formulation net sales rose 0.6% year on year to 29.2 billion yen, mainly reflecting the impacts of a limitation on shipments imposed from August 2022 due to a surge in demand due to the spread of COVID-19 and extremely hot weather, as well as a partial restriction on information provision activities.

Notes:
 1 Daikenchuto, Yokukansan, and Rikkunshito were designated as drug-fostering program formulations in fiscal 2004.
 2 Goshajinkigan and Hangeshashinto were designated as drug-fostering program formulations in fiscal 2009.
 3 From fiscal 2021, the Accounting Standard for Revenue Recognition has been applied.

"Growing" formulation net sales

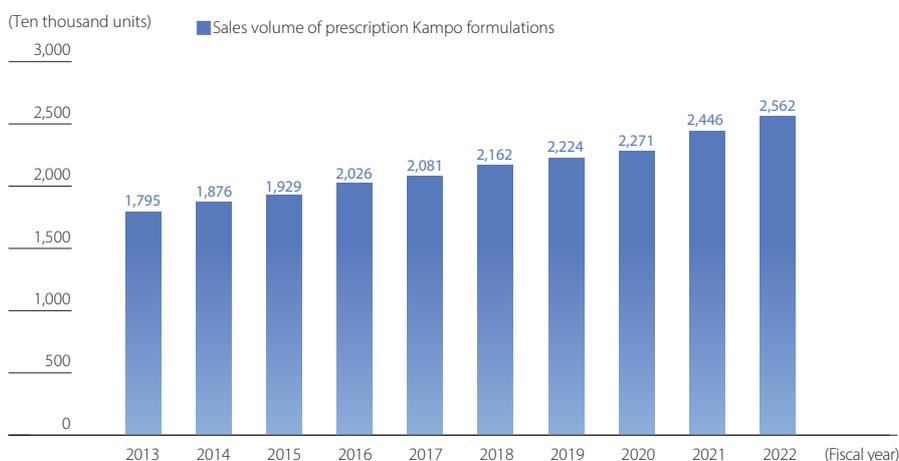


"Growing" formulation net sales grew 10.3% year on year to 23.1 billion yen due to significant growth in sales of Hochuekkito, Goreisan, and Kamikihito.

Goreisan grew due to measures such as holding seminars in the cardiovascular field, while Hochuekkito and Kamikihito grew through information provision activities aligned with needs such as fatigue, anxiety, and insomnia related to the after-effects of COVID-19.

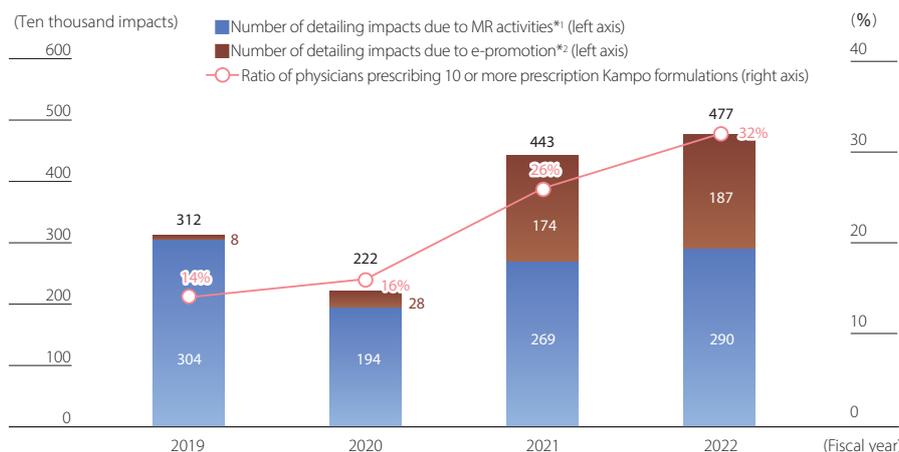
Notes: 1 From fiscal 2021, the Accounting Standard for Revenue Recognition has been applied.
 2 From fiscal 2022, Ninjin'yoeito and Kamikihito were added in place of Shakuyakukanzoto and Bakumondoto.

Growth in the sales volume of prescription Kampo formulations (129 formulations)



The Company supported the establishment of Kampo medicine in university medical departments, medical colleges, and designated hospitals for postgraduate clinical training, as well as enhancement of education. In addition we have been building evidence for Kampo formulations since 2004 to promote drug-fostering. By accumulating a large quantity of evidence, we have increased the number of write-ups in treatment guidelines, mainly of drug-fostering program and "Growing" formulations. Furthermore, by working to reform information provision activities, such as e-promotion using digital technology, sales volumes have increased by 1.4 times over 10 years.

Effects of reforms in information provision activities

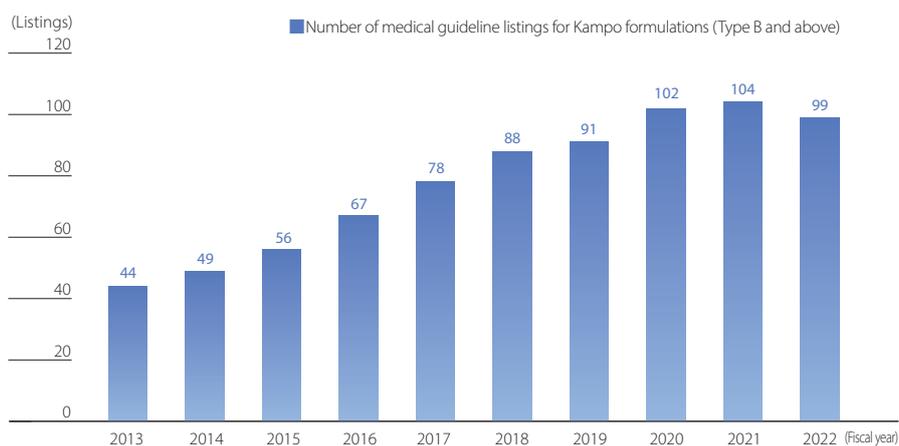


From fiscal 2021, we have strengthened e-promotions and enhanced information provision methods, including video streaming on owned media and online seminars, approaching medical professionals via a variety of methods. As a result, we have significantly increased the "detailing impact," which is the number of times that physicians have recognized information, with accompanying growth in the percentage of physicians who have prescribed 10 or more prescription Kampo formulations.

*1 Detailing, online interviews, in-hospital briefings, etc. provided via MRs

*2 Activities to provide information via online means, without the involvement of MRs

Establishment of evidence of efficacy of Kampo formulations

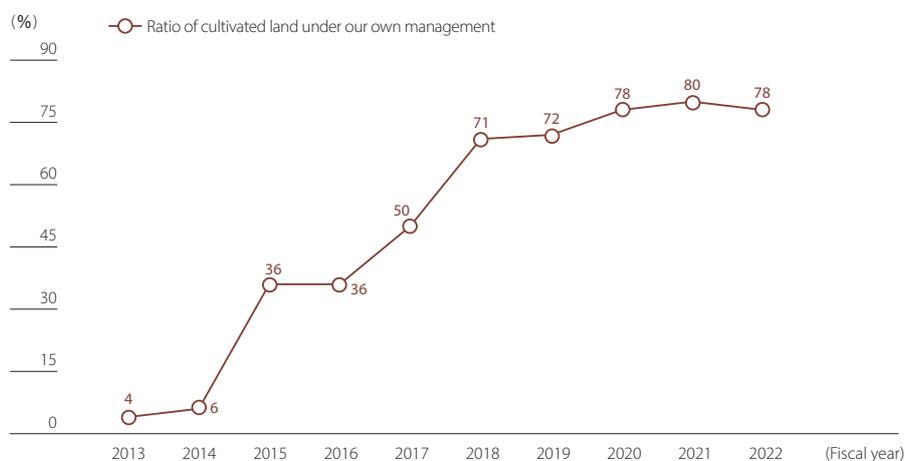


To address claims of a lack of scientific evidence for Kampo medicine, we have been establishing evidence through research, mainly on drug-fostering program and "Growing" formulations. These efforts have resulted in a yearly increase in the number of write-ups in treatment guidelines*3 and an understanding among physicians that Kampo formulations are a kind of standard treatment.

Going forward, to further expand Kampo as a standard treatment, we will work to create research results with the aim of increasing new write-ups and recommendation levels of Kampo formulations in treatment guidelines.

*3 Guidelines created by physicians to determine appropriate diagnosis and treatment methods based on scientific evidence.

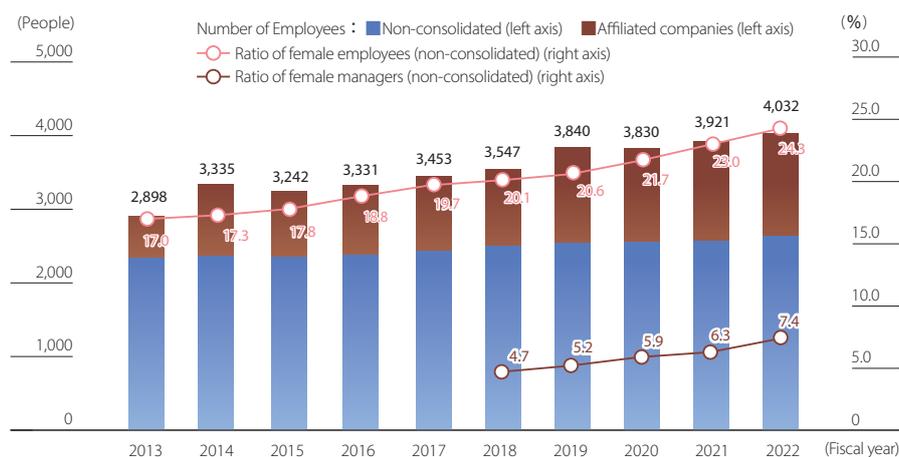
Expand cultivated land under own management



As a measure to stabilize the prices and quantities of raw material crude drugs and to strengthen quality assurance, we are continuously working to expand cultivated land under our own management,*4 which has brought the ratio to around 80%. We aim to continue expanding the ratio of cultivated land under our own management going forward. By managing the entire process from cultivation and procurement of crude drugs used as raw materials for Kampo formulations through to manufacturing and sale of extract formulations, we are able to provide a stable, efficient supply of high-quality Kampo formulations, which is a source of competitive advantage.

*4 Land with regard to which Tsumura can provide direct cultivation guidance, maintain an understanding of cultivation costs, and set crude drug procurement prices.

Status of employees

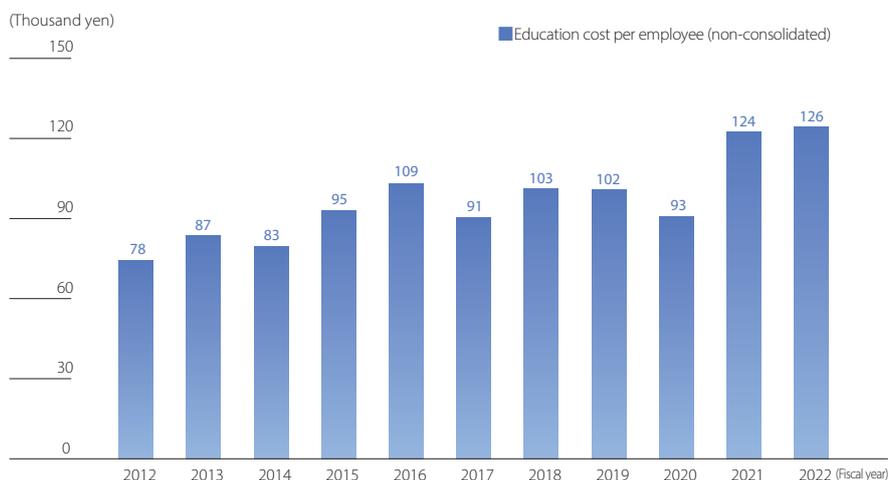


Under a policy of continuing fair and equitable hiring and promotion practices emphasizing diversity, we are working to maintain and continue a 50% ratio of female hires, and the ratio of female employees has been increasing.

Furthermore, we encourage proactive participation of women in the basic management course, a program for fostering management personnel and management candidates, and hold development seminars for female managers. Through these and other efforts to support early career development and formation, we aim to achieve a 30% ratio of female managers by fiscal 2035.

Note: The ratio of female managers is as of April 1 each fiscal year.

Education cost per employee



Guided by the concept that the organization and human capital is the real source of value creation by a company or business, we invest proactively in human capital, and we are increasing our per-employee expenditure on education. In fiscal 2020, the amount of expenditure dipped temporarily due to COVID-19, but recently the number of training sessions itself has increased due to factors such as Internet-based sessions.

Note: Non-consolidated education cost per employee is calculated as non-consolidated education cost / number of non-consolidated employees (number of employees as of March 31 each fiscal year).

Medium-Term Management Plan Outline

Using Backcasting in Management

To realize our long-term management vision, we created medium-term management plans as a road map by clarifying our business visions and strategies then backcasting and dividing them into three stages.

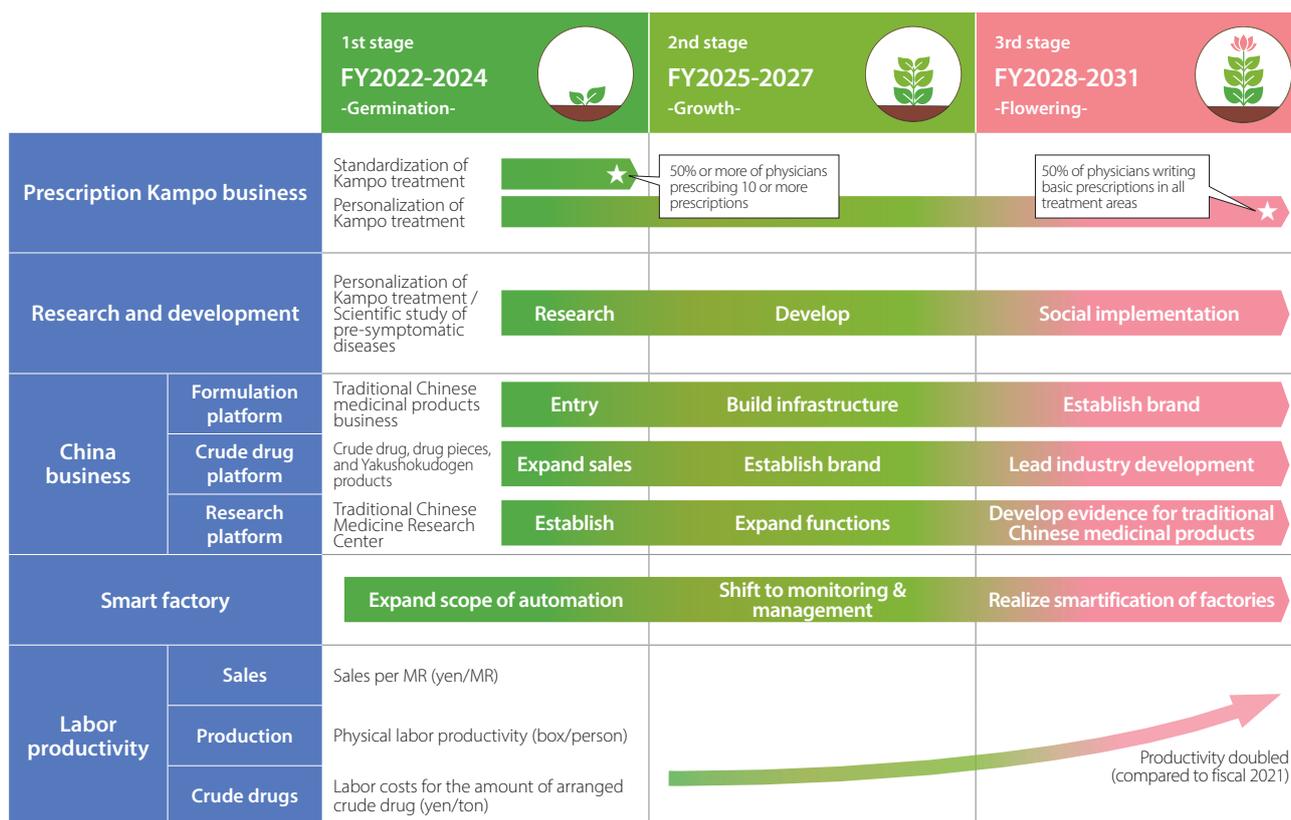
The first medium-term management plan corresponding to the first stage (fiscal 2022 to fiscal 2024) is positioned as a period for up-front investment. We have set out five strategic challenges and numerical targets. We will invest in production facilities and other areas for enhancing production capacity and productivity (automation and DX), with a view to supporting the sustainable, stable growth of the domestic business. We will also invest in construction of an IT platform for the China business, as well as M&As to gain entry into the traditional Chinese medicinal products business in our formulation platform. Other major

investment areas include R&D, with priority given to promoting personalization of Kampo treatment and scientific research on pre-symptomatic disease.

The domestic business for prescription Kampo formulations is currently the main area of our business model, which makes it difficult to pass on increases in prices for energy and raw materials and the impacts of the yen's depreciation. We have set numerical targets with an eye on the level that we should achieve to realize our long-term management vision.

Under our plan, in the second stage (fiscal 2025 to fiscal 2027), our invested businesses and facilities will enter full operation, and in the third stage (fiscal 2028 to fiscal 2031) we will receive full returns on our investments in the form of profits.

Roadmap for achieving the TSUMURA VISION “Cho-WA” 2031



Numerical targets (fiscal 2024)



Prerequisite: (Drug price revision) FY2022, FY2023, FY2024 (Exchange rate) FY2022: JPY 19.5/RMB, JPY 125.0/USD FY2023 – 2024: JPY 19.0/RMB, JPY 120/USD
Note: As of May 2022

Strategy by Business

	Prescription Kampo business	China business
Business vision	Contributing to the realization of a medical setting where all patients can receive Kampo treatment suited to them individually, regardless of the medical institution or clinical department.	Achieve a situation where we are contributing to the health of the people of China.
Business strategy	<p>Establishment of Kampo medicine</p> <p>Realize a situation at medical institutions where one in two physicians (50%-plus) will write prescriptions for all the "basic prescriptions for treatment areas" based on Kampo medicine.</p>	<p>Be a traditional Chinese medicine company that is trusted in China</p> <p>Become recognized as a traditional Chinese medicine company that is contributing toward the health of the people in China.</p>

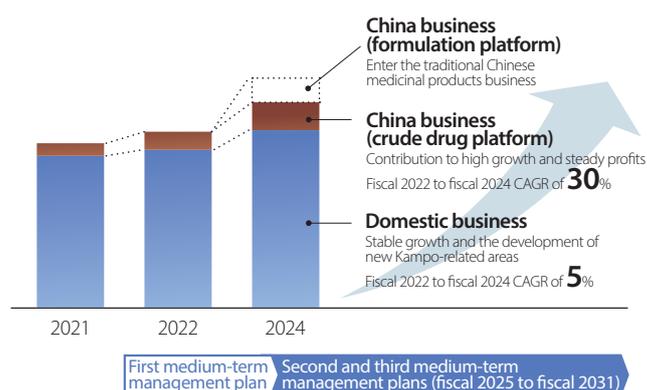
First Medium-Term Management Plan: Strategic Challenge

Strategic challenges	Growth (Expand business scale)		Earnings power (Enhance profit margins)		Growth investments for the future	
	Operating profit margin		Invested capital turnover rate			
	Gross profit	SG&A ratio	Working capital turnover rate	Fixed asset turnover rate		
1 Continuously expanding the Kampo market by providing Kampo solutions that match the needs of each and every physician	✓	✓		✓		
2 Using KAMPOMics to build evidence on Kampo and promote the scientific study of presymptomatic diseases	✓	✓				
3 Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicinal products business	✓	✓	✓	✓		
4 Innovating the IT platform and crude drug selection, and promoting the implementation of AI and automation toward reforming the Kampo value chain			✓	✓		
5 Creating value through organization and human capital and promoting reform to boost job satisfaction	✓	✓	✓	✓		
Initiatives for realization of the Sustainability Vision	✓	✓	✓	✓		

Expansion of Business Scope

In the first medium-term management plan, we aim to achieve a CAGR of 5% for net sales in the domestic business, which is higher than previous levels, due to stable and continuous growth accompanying the increasing number of physicians prescribing Kampo formulations and the expanding market.

In the China business, we aim for high sales growth with a CAGR of 30% for net sales in the crude drug platform, which is centered on sales of raw material crude drugs and drug pieces. In the formulation platform, we aim to achieve entry into the traditional Chinese medicinal products business through M&As.



I work to realize the Group vision through Kampo value chain reform.



Kei Sugii

Director and Co-COO
(Co-Chief Operating Officer)

Progress in All the Strategic Challenges “Dam Management” Following Shipment Limitations Last Summer

Starting with fiscal 2022, when we implemented a range of measures to achieve our long-term management vision, we have designated this decade as an important period for change, transforming the Tsumura Group from a Japanese Kampo pharmaceutical maker into a global healthcare corporation and expanding our business into pre-symptomatic disease and healthcare. In fiscal 2022, the first year of our first medium-term management plan, we made steady progress in five key areas of strategic challenge despite the effects of rapidly changing external factors, including exchange rate fluctuations and accelerating inflation.

That said, I take our decision to limit shipments last summer very seriously. Taking lessons from this event, we must begin “dam management,” which allows for optimal control of our capacity to produce Kampo formulations. Specifically, where plants and facilities are concerned, we determine the characteristics and most economical operating rate of the production equipment we have, and make adjustments across the Group to ensure we always have extra capacity. In terms

of operation, we are reviewing our entire production process, including tasks that involve people and organizational systems, to allow for flexible response to fluctuations in demand.

In our domestic operations we are working to achieve the goal of having at least half of all physicians in practice reliably prescribing ten or more prescription Kampo formulations during the period of our first medium-term management plan. In fiscal 2022 that percentage grew from 26% to 32% in just a year, a successful result of our more diverse methods for providing information, combining online promotions with initiatives to build provider relationships.

I think this demonstrates that there is plenty of room for major growth in the Kampo market. By providing quality information to meet the individual needs of physicians, including those who we have yet to reach, we are working hard to achieve a medical setting where all patients can receive Kampo treatment suited to them individually, regardless of the medical institution or clinical department.

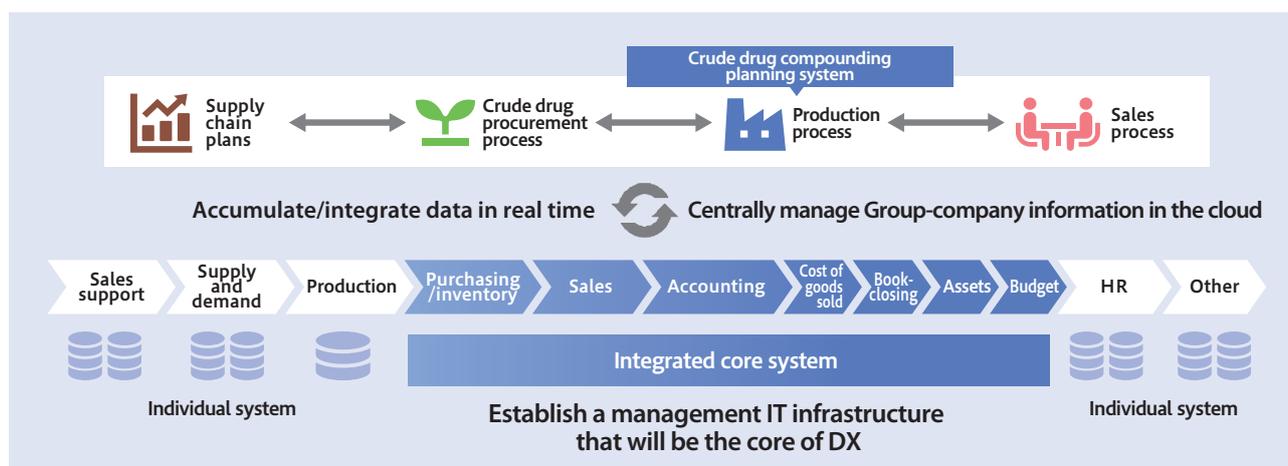
Value Enhancement of Naturally Available Prescription Formulations, and DX Promotion for Stability and Efficiency of the Entire Supply Chain

I think digital transformation (DX) for the Tsumura Group has to pivot on Kampo value chain reform, with two areas of focus.

Our first focus is to raise the value of Kampo formulations made from multiple, naturally available ingredients. As a result of substantial progress in artificial intelligence and technologies for analysis of complex ingredients, we are seeing potential for a major leap forward in our effort to build a library of evidence for prescription efficacy and safety, as well as enhanced management of product quality. Based on our research results, today we are building a comprehensive database linking multiple ingredients from the stage of medicinal plant cultivation to production of formulation, for use in diagnostic support systems for more precise prescriptions. These initiatives, I think, will lead to personalized healthcare catering to each individual.

Our second focus is automation of planning in the supply chain. Raw material crude drugs are natural resources with unevenly distributed content of effective components, which need to be managed within acceptable levels to be commercially marketable. In the past the work of planning ingredient blends and specific ingredient combinations was done by employees with many years of experience. In July 2023 we started operating our own planning system for compounding crude drugs, which makes it possible to plan a few years further ahead than just the few months that manual processes could afford us. By linking this system with the entire Kampo value chain we hope to dramatically improve the reliability and efficiency of our entire supply chain, optimizing inventory levels and instituting other controls.

Introduction of integrated core system; Digital transformation of Kampo value chain; Completion of data-driven management



Making Sustainability Initiatives Effective while Encouraging Mind Shifts for All Employees

The Tsumura Group makes the most of Nature's blessings to promote health for each individual, and for that its business is fundamentally sustainable. The medicinal plants that provide the ingredients of our products absorb carbon dioxide as they grow, giving us the potential to contribute to carbon reduction just by doing business. At the same time, however, reduction of the total carbon footprint of our production and distribution processes remains a challenge. So we are systematically working to address the issue by introducing solar energy to our production sites and developing a model for recycling wastewater and crude drug residues.

In fiscal 2023 we opened an employee stock-ownership plan. By linking medium- to long-term sustainability vision

with remuneration and communicating the intent of the vision that requires the involvement of every employee to fully realize, this plan is designed to promote a shift in employee thinking in our daily work. We make our sustainability efforts more effective by increasing employee engagement and setting a clear direction for our organization.

Given the rapid progress of digital technology, I clearly see the opportunity to finally resolve some challenges that we've long struggled to resolve. Taking advantage of my own experience in studying computer science and handling supply chain management as my specialty, I'm working to have our entire organization embody our Corporate Value, "The Best of Nature and Science."

Financial Strategy and Capital Policies

Cash Flows from Operating Activities

To generate operating cash flow, we will sustainably expand the Kampo business in Japan and expand the business of our crude drug platform in the China business. Meanwhile, in our formulation platform, we aim to enter the traditional Chinese medicinal products business through M&As.

We are experiencing impacts from the external environment, such as inflation-driven price increases for raw materials and energy and the yen's depreciation. Nevertheless, we will aim to stem the decline in the gross profit margin by reducing the cost ratio in association with expansion of the sales and production scale, hedging exchange rate fluctuation risks through forward exchange contracts, and stabilizing raw material crude drug prices by expanding the Company's own self-managed gardens. We aim to increase the operating profit margin through measures such as controlling SG&A expenses, giving consideration to the balance between expenses and up-front investments.

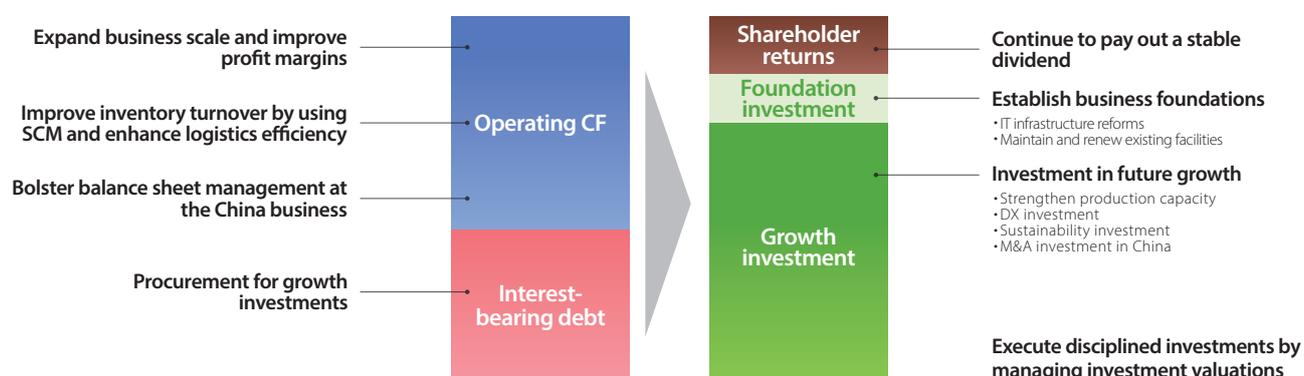
Our goal for the working capital turnover ratio is to maintain it at the current level as far as possible. Although we aim to increase the inventory turnover ratio by enhancing our SCM system, there are also negative factors such as revising the

appropriate level of inventory from a business continuity plan (BCP) perspective and the impact of the yen's depreciation. The fixed asset turnover ratio is declining due to factors such as up-front investments in production equipment and IT systems. However, by controlling this as much as possible by using a vertical start-up or other approach, we will minimize the decrease in the investment capital turnover ratio.

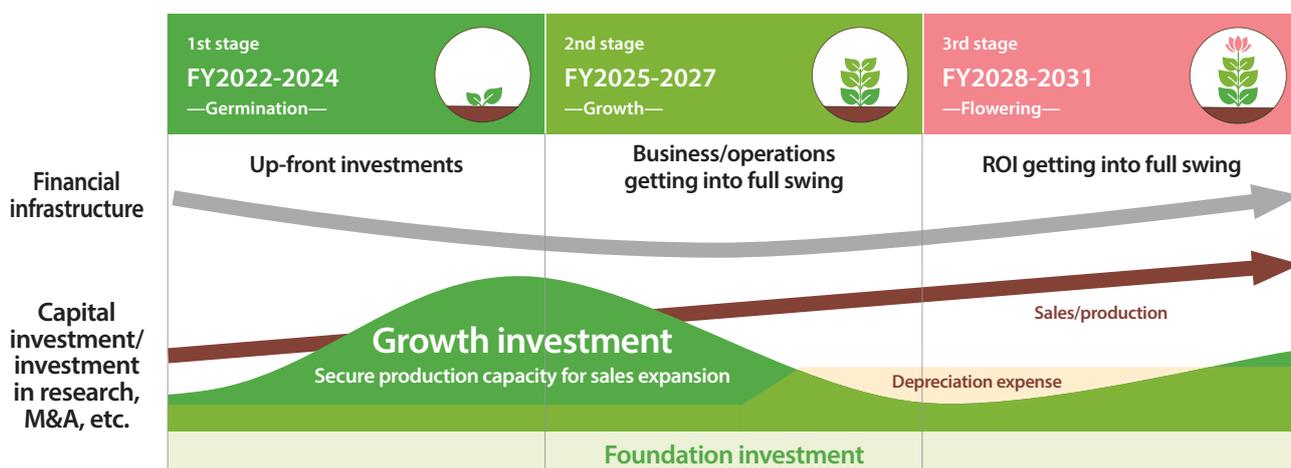
Through these initiatives, we aim to generate stable operating cash flow.

During the first medium-term management plan, we will focus on up-front investments for further growth and business scale expansion. In addition to generated cash flow, we also plan to procure funds.

On September 8, 2022, we issued a corporate bond for 30.0 billion yen to provide funds for part of the redemption of existing bonds and for growth investments. Through strict investment evaluation management, we will conduct disciplined growth investments, aiming to increase corporate value through realization of the long-term vision, while maintaining a sound financial position.

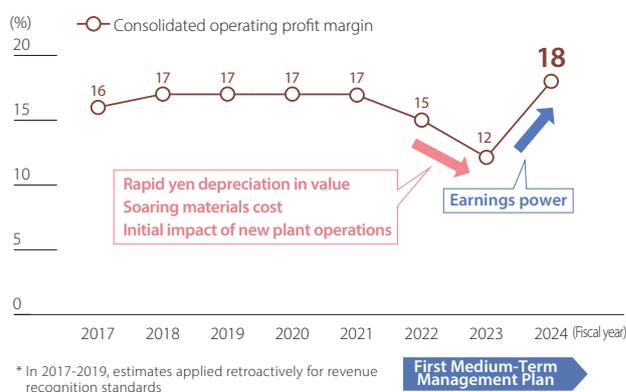


Long-term Image of Investments and Finances



Increase in Earnings Capability of the Domestic Business

Sales	Realize sales growth that outperforms previous performance Sales growth rate for the 129 prescription Kampo products (annual average) 2017-2021: +3.8% ⇒ 2022-2024: +5.4%
Selling price	Continue to promote selling prices for Tsumura Kampo formulations
Cost of goods sold	Curb the rise in CoGS by improving productivity
R&D	Implement controls by planting seeds for the future and narrowing down R&D themes
Personnel	Improve added value per person and implement controls for optimum personnel
Expense	Realize a full-fledged management of cost benefits and scale down expense to proper levels



Growth Investment for the Future

During the first medium-term management plan, we will invest approximately 100.0 billion yen into production facilities and other areas for enhancing production capacity and productivity (automation and digital transformation), with a view to supporting the sustainable, stable growth of the domestic prescription Kampo formulation business. In addition to the new establishment of the Tianjin Plant, which will manufacture intermediates, we will also install additional manufacturing processes at existing plants in Japan.

We will invest approximately 15.0 billion yen in building an IT platform and so forth for the China business, as well as investing in M&As to enable entry into the traditional Chinese medicinal products business in our formulation platform.

We plan to invest approximately 24.0 billion yen in R&D, investing heavily and giving priority to new disease areas, personalization of Kampo treatment and research on pre-symptomatic disease and science.



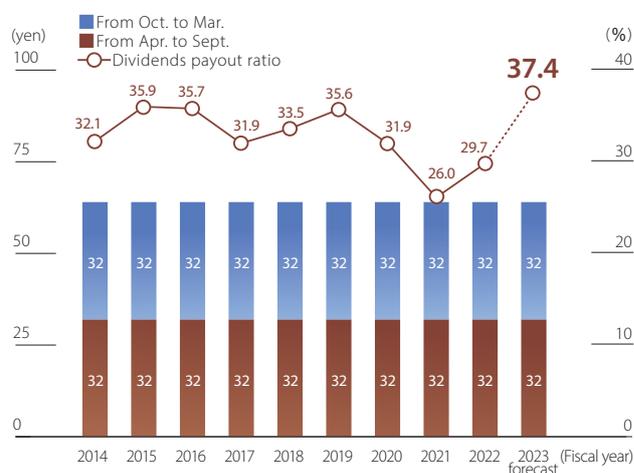
Shareholder Returns

Tsumura's policy is to have the Board of Directors engage in discussion each term, aiming for sustainable development of the Group's business and providing a stable dividend while considering medium- to long-term profit levels and the status of cash flows, among others.

Currently, we are in a stage of up-front investment and platform building for realizing the 2031 Vision. In addition to continuing to pay stable dividends, we are working to secure production capacity to support the growth of the domestic business at a higher level to help increase corporate value through the realization of TSUMURA VISION "Cho-WA" 2031. To this end, we have also conducted growth investments, such as M&As and IT platform preparation for expanding the China business, and DX investments for increasing productivity.

We recognize that a PBR below 1 and ROE of less than 8% are important management issues, and we will strive to realize an increase in corporate value in order to eliminate these issues as quickly as possible.

Dividends and dividend payout ratio



Note: The fiscal 2023 year-end dividend and payout ratio (forecast) are estimates based on the assumption that the dividend resolution is approved at the 88th Ordinary General Meeting of Shareholders.

Message from CFO

Making steady investment for future growth, I draw the road map to higher corporate value over the medium to long term.

Muneki Handa

Director and CFO
(Chief Financial Officer)



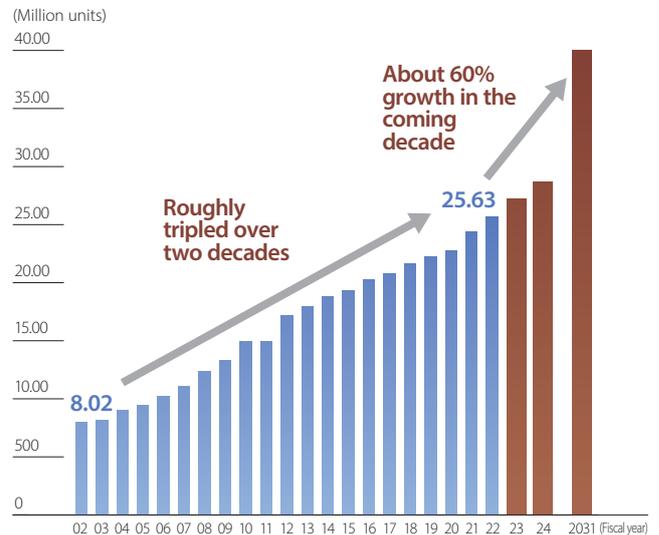
Kampo Value Chain Built over the Years Is Our Basis for Sustainable Profit

In the Kampo market drug prescriptions will change along with changing healthcare needs over time, but none of the 129 Tsumura prescription Kampo formulations on Japan's National Health Insurance drug price list will become obsolete. In our business we can confidently project sustainable profits over the long term as we respond to structural changes in society, such as our aging population and the expanding roles of women, and related disorders.

The Tsumura Group controls the quality of natural drug ingredients, from the cultivation of medicinal plants on up, and has the technologies and expertise to enhance the safety, efficacy and consistency of our pharmaceuticals. We have succeeded in securing unique intangible assets on the strength of the original Kampo value chain we've built over many years, encompassing the production and procurement of the medicinal plants that provide the ingredients for our crude drug products, manufacturing and sales.

Sales volume of our prescription Kampo formulations

Net sales volume for 129 prescription Kampo formulations



Note: One unit equals one box with standard packaging (each box contains nine weeks' worth of medicine)

has roughly tripled over the past two decades. Affected by reductions of National Health Insurance (NHI) drug prices, however, that growth in volume has not translated into increasing sales value. To increase profitability I think it's important to better control costs through higher productivity and other measures while expanding production capacity to match the steady sales growth.

Our domestic Kampo business is structurally vulnerable to exchange rate fluctuations because we procure many raw material crude drugs from China. We hedge exchange

risk using forward exchange contracts, but that's not a fundamental solution. Over the long term we are working to expand sales by our Chinese operation to meet those of our domestic operation, hoping to create a structural risk hedge as well. In the government drug price revision of April 2023, 40 Tsumura Group products were made eligible for price re-evaluation as money-losing products affected by a surge in raw material costs. As a result, our weighted NHI price revision rate for our 129 prescriptions netted a positive 2.3%.

Invest with a Sense of Urgency to Securely Seize Growth Opportunities

Our domestic prescription Kampo formulation business has been reliably showing annual growth of 2-3%, but we can see greater growth opportunities now. With our first medium-term management plan (FY2022-2024) we are planning for annual growth of 5%, and working to enhance production equipment accordingly. We have a plan to expand our newest plant, in Tianjin, to a third phase to increase its capacity to produce powdered extracts of Kampo drugs for our domestic operation by over 30%. Investment scale will be particularly large over the three years of the first medium-term management plan, including the new lines for granulation and packaging. We will execute this plan with a sense of urgency to seize growth opportunities.

Under our long-term management vision, on the other hand, we are working to raise our proportion of overseas sales

to over 50% of total sales by growing Chinese sales to meet domestic sales levels. In our crude drug platform, as a leader in the industry's development we are working to hold the largest share of the crude drug and drug piece market in China, and continuing to enhance our Yakushokudogen product line. The first medium-term management plan also calls for a compound annual growth rate above 30%, with external sales greater than 50%. With our formulation platform we operate by making the most of our expertise in quality management, evidence-building for prescription efficacy, and production technology to establish our brand as a leading manufacturer of traditional Chinese medicinal products. Also as part of the first medium-term management plan, we are reinforcing our business foundation by targeting classical prescriptions.

Correctly Communicate the Essential Value of the Tsumura Group to Stakeholders

Our medium- to long-term challenge is to enhance cash-flow-focused management by improving CCC*. As an example of embracing this challenge, we have begun building a system to realize strategic, optimal crude drug inventory control for the entire Group.

To build productivity we are using AI, robotics and similar technologies and implementing Kampo value chain reform in various areas, from production processes to automated sorting of crude drugs.

Concerning cash allocation, we plan to procure funds as interest-bearing liabilities as well as generate cash flow through regular business operations. Growth investment to facilitate the expansion of production capacity and build new systems will be essential to realizing our long-term management vision. In balancing this with returns to shareholders, I am aware of issues in upcoming business development stages that have been on the agenda of our Board of Directors.

With our price-to-book value ratio below 1, we regret that we are not measuring up to the expectations of our shareholders. At the same time, we are working to better communicate with shareholders to clarify understanding of unclear factors, including the effects of NHI drug prices on our domestic operation and strategy for the Chinese operation, reflecting our responses to turns of events, as well as the value of our pre-financial capital, which we have not spoken of enough.

I think my job as CFO is to draw a road map to higher corporate value over the medium to long term based on growth strategy. Another, as I understand it, is to correctly inform our stakeholders about the essential value of the Tsumura Group through active investor relations. I will continue to furnish clear evidence of the growth the Group is making.

* Cash conversion cycle. A financial indicator that shows the number of days between accounts-payable payments and the collection of trade receivables.

Strategic Challenge 1

1

Continuously expanding the Kampo market by providing Kampo solutions that match the needs of each and every physician

Strategy Outline

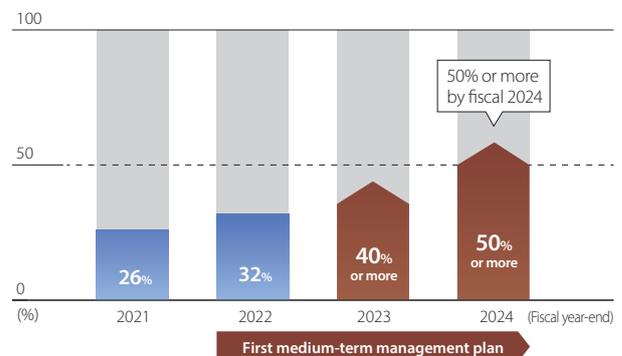
Strategic challenge 1 focuses on our prescription Kampo business in Japan with the goal of realizing a situation where patients can receive Kampo treatment suited to them individually, regardless of the medical institutions or clinical department. Under the first medium-term management plan, as a first step in this direction, we are working to continuously expand the Kampo market by providing Kampo solutions that match the needs of each and every physician. Currently, we have started building systems for supplying information on product safety, efficacy, and quality through optimal channels, centered on Tsumura's proprietary "basic prescriptions for treatment areas."* We aim to realize a situation where physicians use different Kampo formulations according to the patient's symptoms.

First, we have set a target of realizing a situation where at least 50% of clinical physicians are prescribing 10 or more prescriptions by the end of fiscal 2024. Then, by fiscal 2031, we will establish the standardization of Kampo treatments by realizing a situation where at least 50% of clinical physicians are able to write basic prescriptions in all treatment areas.

Towards the achievement of these goals, we have set geriatric health, cancer (supportive care), and women's health as important domains, and we are working to dramatically increase

the volume and quality of information provided, mainly regarding drug-fostering program formulations, "Growing" formulations, and basic prescriptions for treatment areas. In addition, we are also working on e-promotions using digital technology, mainly on external medical information platforms and our TSUMURA MEDICAL SITE. By studying the level of participation in seminars and data on what contents are being viewed, we analyze the individual information needs of physicians to implement more advanced information provision through MR activities and hybrid-type promotional activities.

Ratio of Physicians Prescribing 10 or More Prescription Kampo Formulations



* Prescriptions that can be used appropriately (are indicated) for diseases or symptoms that have large numbers of patients in each treatment area, set independently by the Company.

Three Important Domains and Drug-fostering Program Formulation and "Growing" Formulation

D Drug-fostering program formulations **G** "Growing" formulations

Geriatric health		Cancer (supportive care)	Women's health
Symptoms associated with frailty G Ninjin'yoeito G Kamikihito G Hochuekkito D Goshajinkigan + Associated formulations	Psychiatric and neurological disorders D Yokukansan + Associated formulations	Mitigation of side effects, etc. D Rikkunshito D Hangeshashinto D Goshajinkigan G Kamikihito G Hochuekkito + Associated formulations	Diseases specific to women G Kamishoyosan G Kamikihito + Associated formulations
Peripheral symptoms in patients with cardiovascular diseases G Goreisan + Associated formulations	Digestive system diseases D Daikenchuto D Rikkunshito + Associated formulations		Other diseases and symptoms D Daikenchuto G Goreisan + Associated formulations

Drug-fostering program formulations

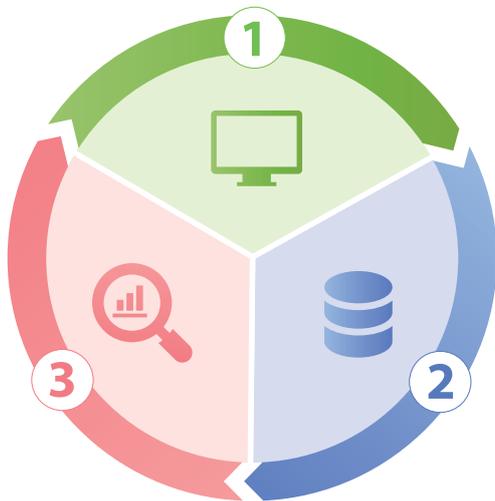
Considering the structure of disease in recent years, the Company is focusing its attention on certain diseases in areas with high medical needs, for which new Western drugs have not been successful and where prescription Kampo formulations have demonstrated special efficacy. The Company will establish a base of scientific evidence for these Kampo formulations.

"Growing" formulations

The Company aims to have these formulations listed in the treatment guidelines as strategic formulations following the five "drug-fostering" program formulations. This will be done by establishing scientific evidence (data on safety, efficacy, etc.) in areas with low levels of satisfaction in the treatment and low levels of contributions being made by drugs.

Overview of E-promotions

Our e-promotions realize enhanced customer experiences tailored to individual physicians, aiming to increase the quality and quantity of MR activities based on the behavior data of physicians and MRs.



1

Digitalization

Digitalization of customer touchpoints and operations

- Utilization of medical information platforms
- Enhancement of TSUMURA MEDICAL SITE
- Utilization of email marketing
- Enhancement of customer touchpoint tools

2

Centralization

Centralized management and visualization of data

- Centralized management of customer information
- Data linkage based on customers
- Visualization of data

3

Data-driven

Activity change from data analysis

- Acquisition of insights (hidden customer needs) from database analysis
- Presentation of recommended actions for measures and MR activities

E-promotions

We will establish an analytical foundation for encouraging MRs to change their activities while giving consideration to their independence

Shigeru Ishibashi

Section Leader, Digital Communication Promotion Section, Marketing Department, Sales and Marketing Division



I have been working to enhance information provision methods at Tsumura since 2021, mainly through e-promotion, such as video streaming and web seminars on owned media. In the initial process of transitioning from real-world seminars to web seminars at sales offices throughout Japan, there were some instances of confusion on sites as we still had only limited experience and we were still organizing the operation system when we started. However, I was confident that we could definitely achieve the transition. This was because I expected that our MRs would be able to utilize their extensive experience of real-world seminars in e-promotions. As we grew more experienced with using the web, we began to implement a large number of different ideas. We also held new interactive seminars such as Kampo Online Salon, which received positive feedback from participants. As a result, the number of participants in our seminars for fiscal 2022 for the Company overall was approximately quadruple that of fiscal 2019.

We experienced tremendous satisfaction and confidence when seminars that had been held in person

with several tens of participants were dramatically expanded to several tens of thousands of participants using the web format. This was because Kampo information was delivered to physicians from all medical departments, and we could see the potential to realize a situation where physicians use different Kampo formulations according to the patient's symptoms.

Currently, the Company is working to establish a system for analyzing the individual information needs of physicians based on the level of participation in web seminars and events and data on what contents they have viewed, then using the analysis results to encourage MRs to change their activities. We aim to realize hybrid promotional activities by using the results of analysis to provide advice on recommended actions while giving consideration to MRs' independence. To achieve this, we hold weekly meetings with relevant departments and external partners to develop the content of our initiatives. We are envisaging an organization where digital technology is incorporated into our culture and mindset, while striving to maximize customer experience value.

Strategic Challenge 2

2

Using KAMPOmics to build evidence on Kampo and promote the scientific study of pre-symptomatic diseases

Strategy Outline

In its research activities, Tsumura is gathering evidence for the efficacy and safety of Kampo formulations and focusing on expanding the number of write-ups in treatment guidelines and raising the recommendation level with the aim of increasing the opportunities for their selection as standard treatments. In our initiatives for personalized medicine, we conduct research into responder markers through KAMPOmics® (see below), and we are working on development of AI-based Kampo medical exam support system using DX solutions.

In developing the Kampo medical exam support system, we are currently working on creating objectified Kampo diagnostic methods (four diagnostic methods)*¹ using AI and machine learning with the objective of building a system for scientifically diagnosing the “patterns”^{**2} of Kampo medicine. To this end, we are also working to improve the accuracy of automated medical interviews in preparation for a trial operation.

Furthermore, we also aim to address three preventive measures for pre-symptomatic diseases, which are preventing pre-

symptomatic treatment (prevention of pre-symptomatic diseases), prevention of aggravation (prevention of disease progression), and prevention of relapses (post-healing care). To this end, we aim to establish treatment methods suited for the life stage, symptoms, genetic makeup and living environment of each person. We will do this through research into definitions, diagnostic methods, measurement methods, and reference values based on scientific evidence. Specifically, we are engaged in elucidation of the mechanisms of action of Kampo medicines, interaction research, and clinical research targeting frailty, supportive care in the cancer domain, and women’s health such as premenstrual syndrome (PMS). In parallel, we are attempting to establish biomarkers that can detect pre-symptomatic disease, and we will create new value through the improvement of pre-symptomatic disease using Kampo medicines.

*1 Kampo formulation is prescribed to match the “patterns” based on the four diagnostic methods used in Kampo medicine: inspection, listening, inquiring, and palpation.

**2 Evidence of the condition of the person. (Individual differences in physical constitution, physical strength, resistance, and the presentation of symptoms.)

Tsumura Advanced Technology Research Laboratories Promoting KAMPOmics®

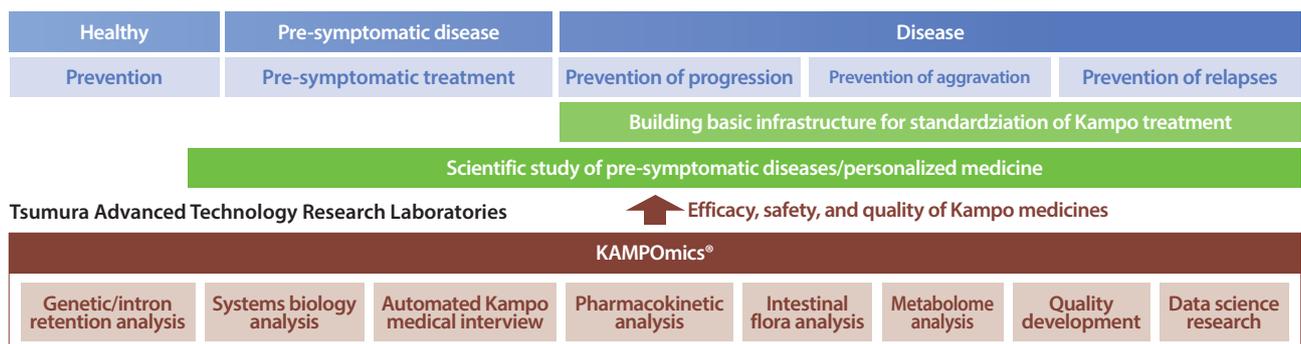
KAMPOmics® is Tsumura’s proprietary research package. It combines research on cutting-edge technological fields where Tsumura has strengths (metabolomics,^{*3} genetics, intestinal flora, systems biology,^{**4} etc.), and is formulated to gain a comprehensive understanding of Japanese traditional Kampo medical science, and of Kampo medicines with their multiple components and complexities.

Tsumura Advanced Technology Research Laboratories is conducting clinical research to demonstrate the efficacy

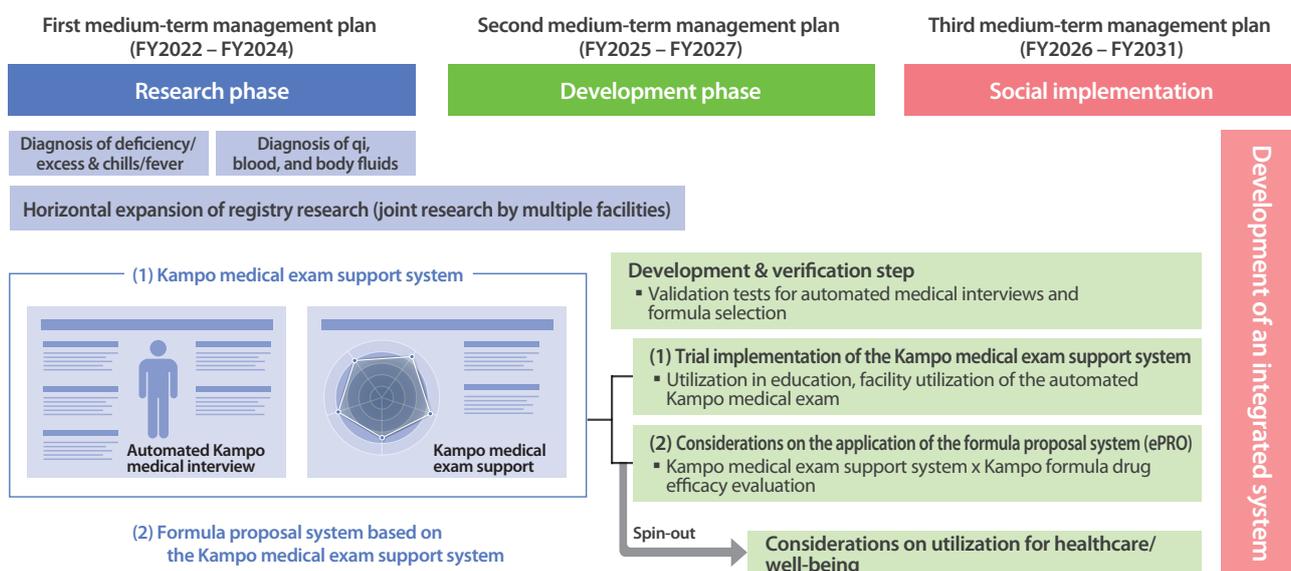
and safety of Kampo medicines based on this package, while playing a role in building scientific evidence. As a research organization driving the Company’s R&D, the laboratory brings together advanced technologies and focuses on proposing new treatment methods and addressing the challenge of pre-symptomatic diseases.

*3 A field of research that performs comprehensive analysis of metabolites and Kampo medicine components within the body using a mass spectrometer.

**4 A field of research that seeks to provide a comprehensive explanation of biological functions by focusing on the interaction between genes, proteins, metabolites and other biological factors.



Personalization of Kampo Treatment



Scientific Evidence

Aiming to realize a world where each individual is able to receive the most appropriate Kampo treatment

Akinori Nishi
Head of Tsumura Advanced Technology Research Laboratories
Kampo Research and Development Division



Kampo medicines are formulated from multiple compounds derived from natural substances, and their efficacy is said to be difficult to prove scientifically. We have been promoting clinical research and basic research for many years to address this issue. Recently, we have been working to build clinical research and scientific evidence to demonstrate the efficacy and safety of Kampo medicines, based on the KAMPOmics® package. In fiscal 2022, we presented a comprehensive explanation of KAMPOmics® in the academic journal "Gene" published by Elsevier. I hope to promote essential understanding of Kampo medicine by clarifying part of the characteristics of the pharmacokinetics and clinical effects of specific components.

Going forward, in addition to clarifying and researching evidence, we will make use of advanced technologies such as metabolomics, systems biology, and genetic analysis as we focus on establishing the most appropriate Kampo treatment for each patient (personalized medicine) and the scientific study of pre-symptomatic diseases. For personalized medicine, I think it is important to clarify the common characteristics of patients for whom a Kampo medicine has shown a prominent effect. In addition, it is also essential to enable a scientific and objective grasp of diagnosis of patterns,

which is considered to be in the realm of accomplished Kampo practitioners. As a technological development to assist in this, we have been building an automated medical interview system with the goal of realizing personalized medicine that fuses Kampo medicine and Western medicine. Meanwhile, for the scientific study of pre-symptomatic diseases, we are promoting research into biomarkers that enable us to understand the status of the body from pre-symptomatic disease to disease as a system, and to objectively understand the beneficial effects of Kampo medicines on the prevention of pre-symptomatic disease, prevention of disease progression, and prevention of relapses.

The social implementation of personalized medicine and scientific study of pre-symptomatic diseases is difficult for the Company to achieve on its own. We will promote data-driven R&D with cooperation from research institutes and partner companies who share our goals. Our role is to create a virtuous cycle that links the evidence we obtain through research with social value. We will continue to explore the essence of life and maintain a sincere approach to facing social issues, while aiming to realize a society where each individual is able to receive the most appropriate Kampo treatment.

3

Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicinal products business

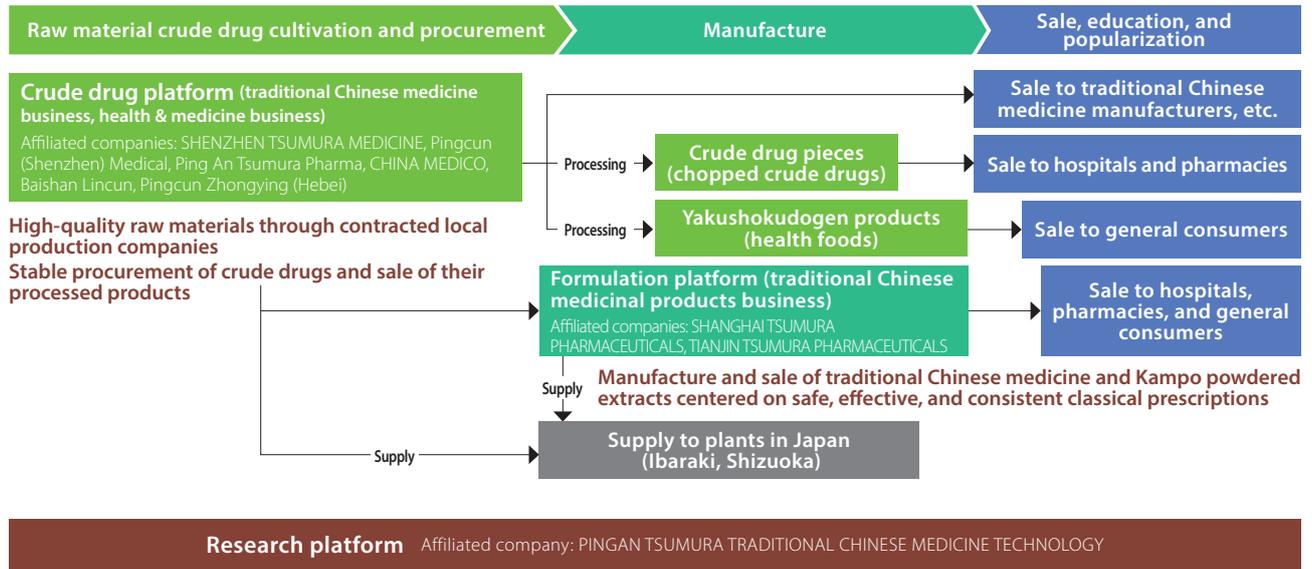
Strategy Outline

The objective of the China business is to support the development of the traditional Chinese medicine industry and to contribute to the health of the people of China by utilizing the quality, technologies, and skills that the Tsumura Group has nurtured over the years through our experience in cultivating raw material crude drugs and manufacturing Kampo formulations, and bringing those together with the customer base and the online medical platform owned by the Ping An Insurance (Group) Company of China.

At each stage of the Long-Term Management Vision, we

will promote investment in the China business and foundation building, aiming to raise the ratio of consolidated net sales from the China business to 50% or higher by becoming a corporate Group that leads the development of the traditional Chinese medicine industry. We will develop the health & medicine business, which covers the areas of healthcare, prevention, and pre-symptomatic disease, and the traditional Chinese medicine/ medicinal products business, which covers the areas of treatment and pre-symptomatic disease through the three platforms of crude drugs, formulation, and research.

Three Platforms in the China Business

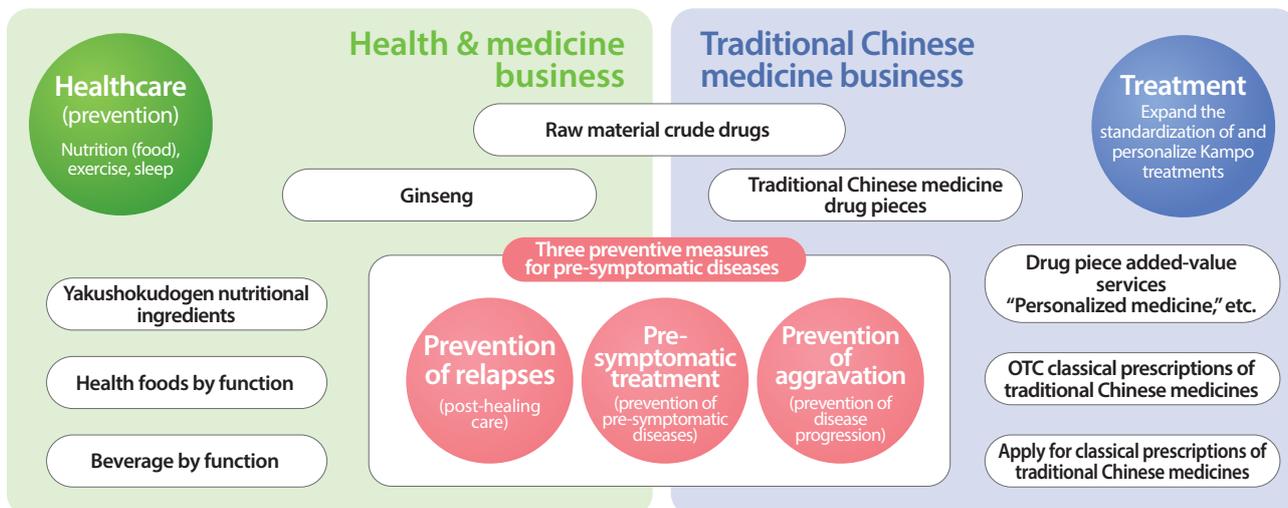


Milestones in Each of the Platforms

Aim to achieve an overseas sales ratio of 50% or more, and become a traditional Chinese medicine company that will lead the development of the traditional Chinese medicine industry



China Business Objectives

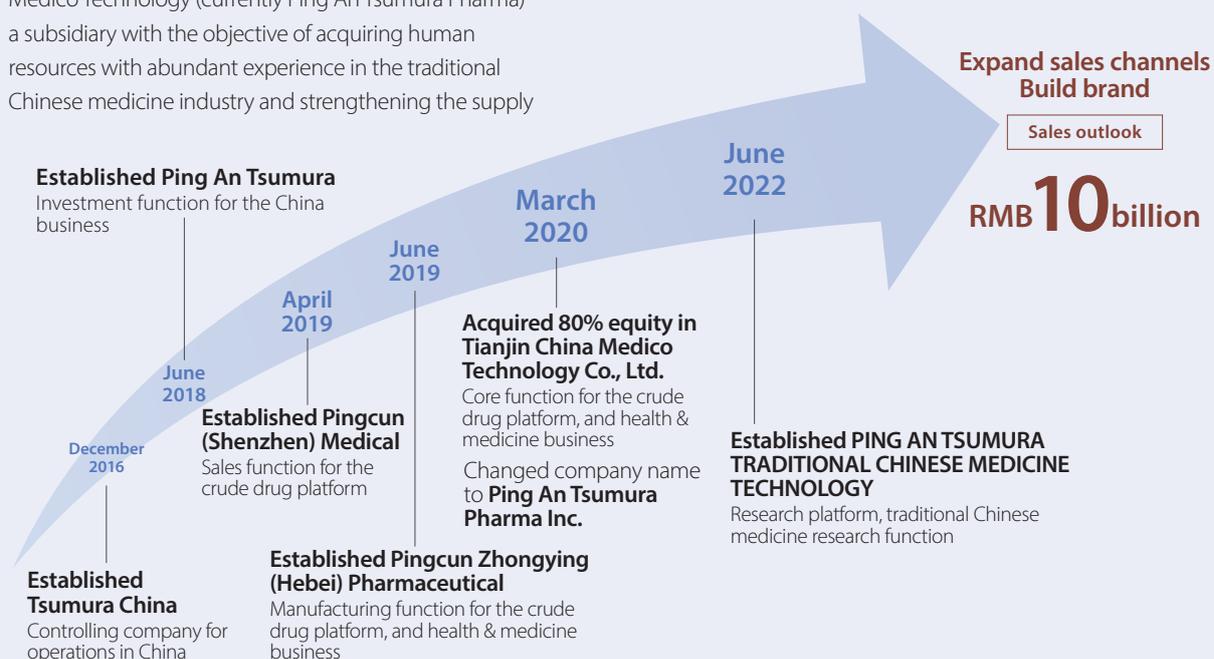


Building a Foundation for the China Business

Tsumura started full-scale promotion of the China business in 2017. That year, we entered a capital and business alliance with Ping An Insurance (Group) Company of China, and established Ping An Tsumura the following year as an investment function for the China business. In 2019, we established Pingcun (Shenzhen) Medical to take care of sales functions for the crude drug platform.

Then, in 2020 the Company made Tianjin China Medico Technology (currently Ping An Tsumura Pharma) a subsidiary with the objective of acquiring human resources with abundant experience in the traditional Chinese medicine industry and strengthening the supply

system for raw material crude drugs, which are essential for the China business. In this way, the Company began full-fledged sales of raw material crude drugs, drug pieces, and Yakushokudogen products (health foods) in China. After that, the Company established PING AN TSUMURA TRADITIONAL CHINESE MEDICINE TECHNOLOGY to operate the research platform, among other efforts to strengthen the foundation of the China business.



→For details of terminology such as "drug pieces," please see page 74 "Explanation of Kampo Medicine and Traditional Chinese Medicine."

Crude Drug Platform

The crude drug platform serves the functions of cultivation, procurement, sorting, processing, and storage of raw material crude drugs used in the domestic business in Japan and in the China business. It also provides the function of manufacturing and selling raw material crude drugs, drug pieces, and Yakushokudogen products in China. With regards to raw material crude drugs, Tsumura holds cultivated land under own management throughout China, and with the cooperation of local companies, we are cultivating and procuring high-quality crude drugs by managing their cultivation, as well as processing and producing those crude drugs, in keeping with the Tsumura GACP.

The raw material crude drugs are exported as raw material for the Kampo formulations in our domestic business. We are also working to develop new external sales channels, such as to traditional Chinese medicinal products manufacturers, by demonstrating our ability to keep the formulation platforms supplied as well as emphasizing our superior quality. We are also working to expand hospital and online sales channels of drug pieces (chopped crude drugs), which are raw material crude drugs that have been processed to give added value. Furthermore, as an outsourced processing service, we are focusing on spreading “personalized medicine” with increased consistency and portability of drug pieces.

In addition, for Yakushokudogen products, which utilize

crude drugs, we will build new sales channels and establish brand power by making comprehensive use of social media, e-commerce, live commerce, and other channels. Looking ahead, we plan to expand our sales channels in the Southeast Asian markets as well, through measures such as business alliances with local companies in each country. In the long term, we aim to lead this industry and grow into one of the top companies in the world through the sales and branding of high-quality crude drugs, drug pieces, and Yakushokudogen products.

During the first medium-term management plan, we will implement the following initiatives to achieve a CAGR of 30% in sales.

- Promote the expansion of supplied items and brand penetration for high-quality crude drugs, drug pieces, and Yakushokudogen products.
- For raw material crude drugs, increase the number of items in which we have superiority in such areas as quality, handling volume, and price.
- For drug pieces, continue to expand sales routes to public hospitals and also increase online sales, with a focus on priority items.
- For Yakushokudogen products, use superior crude drugs to develop high-value-added products that match the healthcare and prevention needs.



Raw material crude drugs



Drug pieces



Yakushokudogen products



Research Platform

The research platform will perform the function of deploying the quality management technologies and our know-how in evidence building that we have nurtured through our business in Japan into our business in China. This platform will serve the role of developing a quality standard for the entire supply chain that covers the seedlings of crude drugs to the final finished product, and will also serve the function of quality research for crude drugs and for traditional Chinese medicinal products.

In the future, we aim to become a leading company in the traditional Chinese medicine industry by delivering a standardized level of quality in our crude drugs and formulations and solving problems. We seek to improve branding and raise recognition to help expand sales of the crude drug platform and the formulation platform. Currently, we are exploring schemes for establishing small-scale research centers and conducting joint research through collaboration with outside partners that possess talented personnel, expertise, and research facilities.

Formulation Platform

The formulation platform procures raw material crude drugs from the crude drug platform, then manufactures and sells traditional Chinese medicinal products. We are targeting the classical prescriptions from among the wide range of traditional Chinese medicinal products, and are aiming to contribute to the health and healthcare of the people of China by producing and selling formulations that are safe, consistent, and effective. Classical prescriptions are a type of traditional Chinese medicinal products, and the formulas are based on ancient medical texts in China. In recent years, the Chinese government has given prominence to classical prescriptions in order to encourage the development of the traditional Chinese medicine industry, and has been issuing various preferential policies for them. In addition, many of these products are similar to Japanese Kampo formulations. In this external environment, Tsumura will raise classical prescriptions up into a new and higher stage in order to promote their widespread use. We will achieve this by ensuring high quality in all steps from crude drug cultivation to production based on our wide-ranging expertise, and proving the efficacy of the prescriptions by building evidence.

As a step towards entering the traditional Chinese medicinal products business, in May 2023, our Group company Ping An Tsumura acquired 100% of equity interest in Shaanxi Unisplendour Life Care Pharmaceutical Co., Ltd. (hereinafter "Unisplendour"). Subsequently, however, we received notification from the Baoji

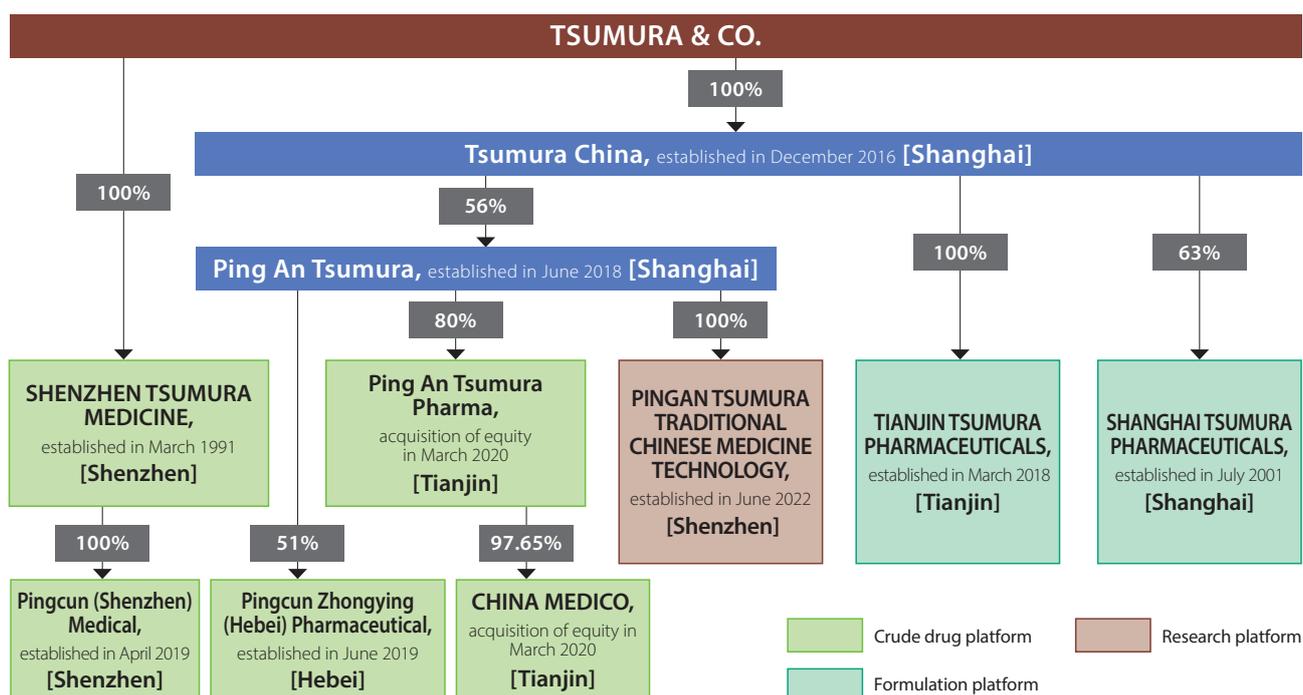
municipal government in Shaanxi Province that it had found a difference in the interpretation of national policy and related laws and regulations by the municipal government department in charge of the project. We held multiple discussions with the department in question, but it was determined that the conditions for continuation of the project were not satisfied. Understanding and respecting the opinion of the municipal government, we transferred the equity of Unisplendour in July 2023.

We are also looking into other ways of entering into the traditional Chinese medicinal products business other than through M&As. For example, with regards to the classical prescriptions (currently 64 prescriptions) that no longer require clinical tests to apply for market release, which is a change that has been brought on by the easing of restrictions by the Chinese government, we are in the process of selecting prescriptions by studying their marketability and engaging in research and development efforts in order to launch them into the market.

Despite the transfer of equity of Unisplendour, the policy of the formulation platform remains unchanged, and we will work quickly to establish a foundation for participation in the traditional Chinese medicinal products business.

Over the long term, our aim is to become a trusted company in the sale of traditional Chinese medicinal products centered on classical prescriptions.

Capital Relationships of Major Group Companies in China



4

Innovating the IT platform and crude drug selection, and promoting the implementation of AI and automation toward reforming the Kampo value chain

Strategy Outline

We will create a smart factory in our manufacturing process as we reform the Kampo value chain in Japan and overseas, from crude drug cultivation to sales.

In the period of our first medium-term management plan, we will advance efforts to automate the processes by using advanced technologies at our plants, collect data, visualize it, save energy, and reduce the workload, with the aim of improving labor productivity in fiscal 2024, the final year of the plan, by 20% compared to fiscal 2021. Moreover, under our Long-Term Management Vision 2031, we aim to double labor productivity compared to fiscal 2021.

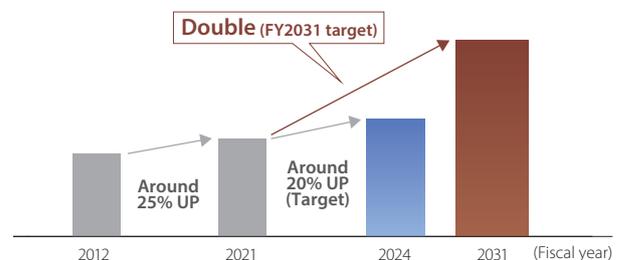
Specific initiatives include the implementation of a series of our automation and labor-saving technologies that we have been developing into each of our plants, in addition to the development of advanced technologies for manufacturing processes that are difficult to automate because of the complexities of the work involved, such as inspection processes. We will also advance efforts to gather data and visualize it to prepare for the future development of new production systems, such as the use of digital twins.

In cultivation and procurement, we have been developing automated crude-drug sorting machines powered by AI, and will introduce these at every location and increase the scope of items that they can process. Moreover, we will

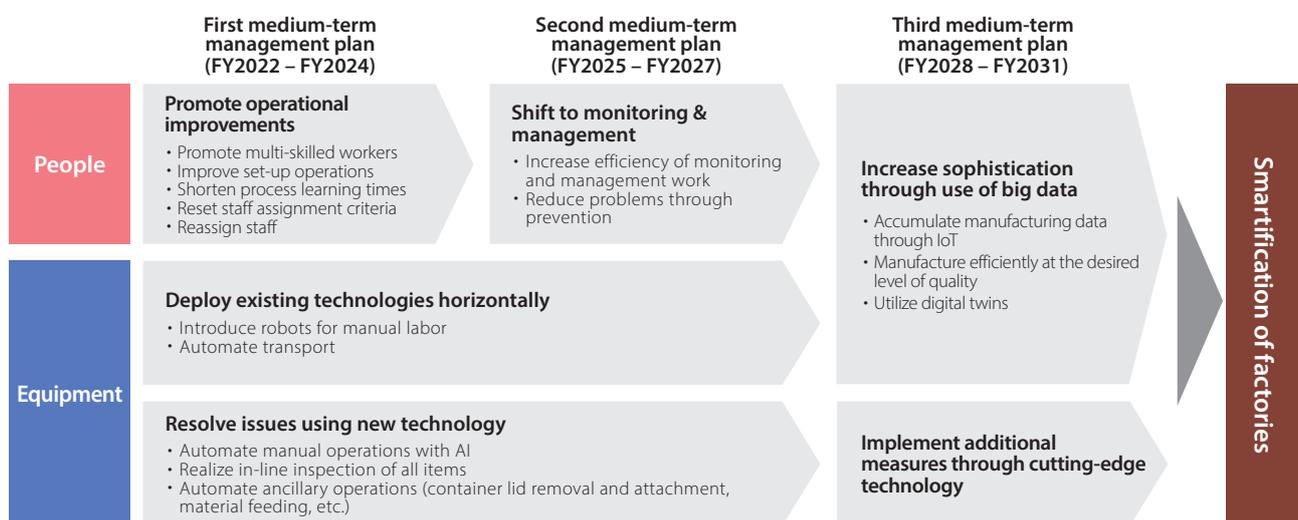
prepare an IT platform for the entire Group in the Kampo value chain, realizing seamless coordination from sales planning to crude drug cultivation and procurement planning, aiming to optimize the distribution of crude drug inventories.

The first medium-term management plan is positioned as a stage for making up-front investments in order to secure the production capacity to support a higher level of growth in the Kampo market than before, and to improve our labor productivity. To this end, we are planning to invest approximately 100 billion yen into our domestic plants (Ibaraki and Shizuoka) and overseas plants (Tianjin and Shanghai in China) during the three years of the first medium-term management plan.

Labor Productivity in Plants



From Increase in Labor Equipment Ratio to Smartification of Factories



5

Creating value through organization and human capital and promoting reform to boost job satisfaction

Strategy Outline

The Tsumura Group has created the Long-Term Management Vision for establishing a new business model that can create higher added value. Guided by our vision, we will bolster human capital, which is essential for our future business development, while engaging in value creation that contributes to our Corporate Purpose and Corporate Philosophy.

One of the main policies of the vision is Potential-Abilities Development (PAD). Since there is no model in the world for the Kampo and traditional Chinese medicine business, we are working to recruit, develop, and form an organization from human resources with the potential ability to carve a completely new path. To draw out the potential abilities of our employees, the Group is striving to foster a culture that emphasizes dialogue, with our purposes and values acting as a centripetal force.

Meanwhile, the Group has also stated the concept of "an organization mechanism analogous to Kampo medicines" as our ideal vision for the organization. The crude drugs that are the raw materials for Kampo medicines each contain many components, and have medicinal benefits. Therefore, while they may have plenty of individual character and exert a pharmacological effect in their own right, by combining them with other crude drugs, new pharmacological effects are obtained. An organization mechanism analogous to Kampo medicines is a situation where the relationship between crude drugs and Kampo formulations is mirrored in the Company organization. It represents a system in which human resources with their different individuality and abilities improve through

friendly competition and generate synergies as they perform their roles to achieve the overall targets of the division. In the same way, the divisions with their respective independent functions work in a well-balanced state to generate value that contributes to the Corporate Purpose and Corporate Philosophy, generating significant results as a company. In other words, the crude drugs are a metaphor for people and divisions, and the Kampo formulation for their divisions and the company. An organization that remains in a well-balanced state is truly the definition of the Tsumura Group's ideal human resources and organization.

To realize such an organization mechanism analogous to Kampo medicines, we build programs to nurture management personnel who can carve new pathways from a global perspective and human resources who can use their specialization to drive innovation, then implement these programs in stages. In parallel with this, we are also promoting diversity and inclusion, which is essential to creating innovation. We actively hire human resources with diverse viewpoints and values, including gender, age, and experience of different cultures. By drawing out their potential abilities, we aim to encourage the growth of the overall organization and increase corporate value.

Thus, the Tsumura Group sees organization capital and human capital as its true sources of sustainable growth, and we will focus even more on creating an organization mechanism analogous to Kampo medicines from a long-term perspective, and on nurturing human resources to lead this organization.

Organization

- Off-site meetings for philosophy propagation
- Coaching
- Team building
- 1 on 1
- Corporate philosophy survey
- Corporate-wide commendation, etc.

Human resources to aim for
Organization to aim for
Corporate culture to pursue

Human resource

- Succession plan
- Talent management
- Basic management course
- Human skills training seminar
- Advanced/Basic
- Support for basic skill development
- Support for language learning, etc.

Training of Candidates for Management

The Tsumura Academy was established as an internal organization for human resource development. President Kato serves as the head of the academy. It has two broad functions.

One of the functions is to develop candidates for management, which involves planning and operating systematic training programs run by internal and external trainers for management personnel and management candidates. As of the end of fiscal 2022, 52 employees completed the three-year basic management course, with 49 employees currently taking the course. Several of the graduates have been appointed as executive officers or general managers.

The other function is that of fostering the corporate culture, which promotes the Corporate Philosophy throughout the Tsumura Group. We are working to foster a culture of dialogue, which is the foundation of our philosophy-based management, and on acquiring coaching skills.

In fiscal 2022, we built “T-Next,” a system for producing the next two generations of management human resources,

who will realize the long-term vision. The Human Resources Department performs the selection, development planning, assignment, evaluation, and secretariat functions, while the Tsumura Academy is primarily responsible for development and systematically producing human resources for management.

Number of people appointed to management positions among people who completed or participated in the basic management course (cumulative)



Tsumura Academy

Repeated activities to internally promote the Corporate Philosophy will ultimately increase the corporate value of the Tsumura Group

Chieko Horie

Group Leader,
Corporate Culture Fostering Group,
TSUMURA ACADEMY Department



“The growth of a company is founded on the growth of its organizations, and the growth of organizations is driven by the growth of people who work therein.” Tsumura’s management consistently emphasizes the growth of people. The Tsumura Academy was established in 2019 with the purposes of developing candidates for management and fostering a corporate culture.

In our program for training management candidates, we have prepared courses such as human skills training and liberal arts, guided by the idea that managers require human skills in particular, rather than skills in general. The courses are intended to deepen the appreciation of culture that is required of management personnel by exposing them to academic knowledge in various fields, with a view to fostering their ability to think and act.

In the program for fostering the corporate culture, we hold Philosophy Discussion and Coaching Meetings to provide opportunities for individuals to consider and raise their awareness of the Corporate Philosophy through dialogue, including everyone from executive officers, general managers, division heads, and section

heads, to ordinary employees, without division by organization or rank. At these meetings, we deepen our understanding of the TSUMURA GROUP DNA Pyramid, which represents the basic thinking and spirit of the Group that have been handed down over the years, and repeat the message that business performance follows on from results by providing positive change [value] to patients, customers and society. The goal of coaching is to act as a lubricant to ensure smooth operation of the great engine (system) of the TSUMURA GROUP DNA Pyramid. In fiscal 2020, we began holding a philosophy discussion meeting and a coaching meeting, and in both spreading the philosophy and coaching we focused on “purposes and values” and achieving synergies by sharing the same direction and goals. We also established the Group’s original “Tsumura’s dialogue theory.”

These Corporate Philosophy discussion activities lead to the development of potential abilities through dialogue, with purpose and values acting as a centripetal force. We believe that continuing them will lead to an increase in the Group’s corporate value over the long term.

Development, Assignment, and Acquisition of Ideal Human Resources

The human resources development policy for the Tsumura Group is to foster a corporate culture that empowers people to develop on their own. Based on this policy, we established educational opportunities for each position level, offered from the perspectives of people, organization, and management, to provide support to employees to develop their careers on their own initiative. Furthermore, we have centralized the basic information, abilities, and skills of employees and grasped the career aspirations of each individual, and we have introduced and commenced operation of a talent management system so that we can reflect their aspirations in strategic human resource development and

assignment of the right people to the right positions.

To realize our Long-Term Management Vision, we will identify and organize the gaps between the ideal situation for each division and its actual status, then formulate strategic hiring plans from both short- and long-term perspectives. Furthermore, we will promote a balance of new graduate and mid-career hiring to resolve issues from the standpoint of the five strategic challenges for the Group and each division's current status. With regard to ensuring diversity, we have set quantitative targets such as "maintain and continue achieving a female new graduate hiring ratio of 50%," and we will steadily promote these.

Human Resources Development Policy

People	Organization	Management
<p>We shall provide practical training opportunities for human resources committed to learning and growing on their own.</p> <p>We shall clearly define the ideal human resources Tsumura envisions and the desired skills, bolster educational opportunities, and create frameworks for self-driven learning.</p> <ul style="list-style-type: none"> ■ Early training for human resources that are in charge of philosophy-based management ■ Strengthen training to build a foundation for Tsumura employees during the first three years after joining the company ■ Acquire the capabilities required for higher grades before promotion ■ Training for global human resources ■ Support independent learning and growth 	<p>We shall foster an education-based mindset with a focus on management personnel in order to facilitate the development of people capable of growing on their own.</p> <p>Training of subordinates will be positioned among the most important tasks for managers, and a mindset of motivating and cultivating subordinates through their work will be fostered.</p> <ul style="list-style-type: none"> ■ Strengthen the mindset for training subordinates ■ Develop a coaching culture ■ Implement one-on-one coaching ■ Share training plans (superior– employee – HR department) 	<p>We shall develop frameworks that allow for the ongoing cultivation of diverse human resources capable of supporting management.</p> <p>Training for junior employees will be tailored to reinforcing Tsumura's human resources foundation as frameworks are developed to cultivate future management candidates at all levels of the organization.</p> <ul style="list-style-type: none"> ■ Develop human resources systematically through T-Next ■ Three-year training program for each level through hands-on experience

Improvement in Employee Engagement

To realize our vision, it is essential to increase the engagement of each employee. We are working to promote the Corporate Philosophy, implement capability development and career building to support employees' growth, and establish our environment in terms of work style and health management, so as to increase employees' own motivation to contribute to the organization.

We seek to have a corporate culture that draws out the potential of each individual by autonomous action through dialogues in which purpose and values act as a centripetal force. Since fiscal 2017, we have continued holding off-site meetings for philosophy propagation, where we have dialogue on topics such as the thinking behind the philosophy system; from fiscal 2018, we started implementing measures aimed at fostering a coaching culture. Furthermore, the corporate philosophy survey has been conducted since fiscal 2017 to measure the degree to which the philosophy is understood and embraced by executives and general employees at the Tsumura Group. The purpose of the survey is to identify issues that need to be addressed through our Corporate

Philosophy promotion activities in order for us to become a "good company" and an "esteemed company." Survey respondents are asked to answer each question using a five-point scale. In the fiscal 2022 survey, the average score across all questions was 4.06, up from the previous fiscal year. In the free comment section, there was a sharp increase in comments regarding work and its result. This was interpreted as respondents having a palpable sense that embodying the philosophy was leading to results.

Corporate philosophy survey



Trust-type Stock Delivery System

In fiscal 2023, Tsumura introduced a trust-type stock delivery system (share allocation Employee Stock Ownership Plan (ESOP) trust). We have introduced the system to increase the awareness of every employee and enable them to leverage their strengths for the realization of the Purpose and these two new visions and to cultivate their desire to contribute more. The system delivers Tsumura's shares in accordance with the degree of achievement of progress targets for the achievement of the Sustainability Vision and Long-Term Management Vision 2031.

Career Challenge (Internal Recruiting System)

In fiscal 2022, we introduced a system for providing employees with opportunities to take on new career challenges by selecting the kind of work they want to do and the organization they want to work in. The system is intended to increase job satisfaction for employees who are motivated to learn and achieve personal growth, develop their potential abilities, support new career formation, and strengthen our organization.

Reskilling with Digital Literacy Education

To ensure that all employees acquire digital literacy so that our internal DX delivers a smooth increase in productivity, in fiscal 2023 we started a reskilling initiative to bolster digital literacy.

Health and Productivity Management

As a company that has stated its Corporate Purpose as "Lively Living for Everyone," we are engaging in health and productivity management with the aim of contributing to the health of people and to the well-being of society. Our efforts to support health have been positioned as being the foundation for the active participation of women in the workplace, and since fiscal 2022, we have been covering the expenses for gynecological exams for all of our female employees. We will continue to foster a corporate culture in which employees take the initiative themselves to engage in healthcare.

Human
Resources
Development

We support the employment of people with diverse abilities and values, and the development of their potential abilities.

Sachiko Sakamoto

Center Manager,
Human Resource Development Center,
Human Resources Department



The Human Resource Development Center's mission is to secure diverse human resources who can maximize the organization capital and human capital of the Tsumura Group, and to develop human resources who can lead in management strategy for an organization mechanism analogous to Kampo medicines. Guided by this mission, we are developing frameworks that allow for the ongoing cultivation of diverse human resources capable of supporting management.

To develop the potential abilities of our younger employees, we have set three factors and 24 abilities needed for work, and presented KPI targets for them, and we provide a systematic three-year training program that starts when they join the Company. In 2019, we took practical steps to implement the Group's human resources policy, which is to foster a corporate culture that empowers people to develop on their own. This involved clearly presenting the required status and ability for each course and grade, and building training programs for employees to undertake self-directed learning. For employees who are to be promoted, rather than providing a uniform training after promotion, we have been changing our system to one where employees evaluate their abilities, gain an awareness of the abilities required for higher grades before promotion

through personal development, training, e-learning, and video learning, and undertake learning through practical experience before being promoted. Looking ahead, we recognize the need to create systems that will enable employees to quickly acquire expertise in order to support their autonomous career development.

Furthermore, opportunities for interaction and discussion between employees have decreased in the Group due to the situation during the COVID-19 pandemic and changes in work styles. To provide a space where employees of different divisions and age groups can easily interact, in December 2020 we opened an online salon called the Hitotsumu Knowledge Cafe. Initially, the salon was operated mainly based on plans provided by the Human Resources Department, but currently it functions as a space where employees provide information as they learn from one another and exchange opinions on a wide range of themes such as departmental studies, Kampo, crude drugs, MBA, and DX. In the near future, we expect to see the creation of new innovations inspired by this salon.

To realize "TSUMURA VISION 'Cho-WA' 2031," the Human Resource Development Center will continue to support the employment of people with diverse abilities, experiences, and values, and the development of their potential abilities.



Corporate Governance

We continue working for better corporate governance as the essential foundation for sustainable growth of corporate value.

Message from Outside Directors

Discussion in the Nomination/Remuneration Advisory Committee



Hiroshi Miyake

Outside Director
Chairman of the Nomination / Remuneration Advisory Committee
Chairman of Outside Directors' Meeting

In Tsumura's Nomination/Remuneration Advisory Committee we conduct broad-view discussions to make our procedures for selecting and appointing directors and executives and deciding their remuneration as objective and transparent as possible. In addition to our discussions in committee meetings, held eight times a year, we work to understand the qualities and abilities of executive candidates from their speeches to present the results of the TSUMURA ACADEMY Department's executive training program as well as from the executive officer reports in meetings of the Board of Directors. In these activities committee members tap their respective individual knowledge to evaluate the candidates and deepen discussion. The committee's most important discussion theme, I think, is succession planning. That's because steady progress with training our future executives is a precondition for effective corporate governance. With our business in China reaching full scale, I understand that we urgently need to diversify the core personnel who will lead the operation.

Discussion in the Outside Directors' Meeting



Tadashi Okada

Outside Director

In the Outside Directors' Meeting, I often realize how it gives us part-time members opportunities to better understand Tsumura Group businesses and enhance the quality of decision-making by the Board of Directors. From the standpoint of reinforcing our governance functions, I think we've been very effective in grasping what is discussed in the Executive Committee, the Group's executive body, as has our system for getting reports on important matters directly from floor managers.

In fiscal 2022 we put particular emphasis on discussing large investments in the Chinese operation as well as mergers and acquisitions. That's because we needed to raise the quality of decision-making on these matters, which require quick, flexible decisions. To realize our long-term vision, we will continue to monitor the Chinese operation and major investment targets as important discussion themes for the Outside Directors' Meeting.

Message from a newly appointed outside director



Ryohei Yanagi

Outside Director

I think my responsibility is to apply my knowledge and expertise in support of high-quality financial and non-financial strategies, and contribute as an independent outside director representing all stakeholders to secure the long-term sustainable growth of the corporate value of the Tsumura Group. In that, creating a harmonious balance between social value and economic value is needed based on the Group's Corporate Purpose and materiality. I will focus my work on advice and supervision related to balance sheet management and equity spread to achieve higher PBR, growth-oriented investment with a medium- to long-term view, and the relationship between ESG and corporate value.

Directors (as of June 29, 2023)



Front row from left: Hiroshi Miyake, Terukazu Kato, Akemi Mochizuki. Back row from left: Ryohei Yanagi, Tadashi Okada, Kei Sugii, Muneki Handa, Tomihiro Nagafuchi, Mitsutoshi Matsushita

Terukazu Kato

August 26, 1963
President and Representative Director CEO

- 1986 Joined the Company
- 2001 President and Representative Director, TSUMURA USA, INC.
- 2011 Director and Executive Officer of the Company, Head of Corporate Communications Department
- 2012 President and Representative Director of the Company
- 2019 President and Representative Director CEO of the Company (incumbent)

■ Year of assumption of the post of Director 2011
■ Number of shares in the Company held 38,200*

Kei Sugii

December 16, 1969
Director Co-COO

- 1994 Joined Mitsubishi Petrochemical Engineering Corporation (currently Mitsubishi Chemical Engineering Corporation)
- 2006 Joined Accenture Japan Ltd.
- 2009 Joined the Company
- 2013 Head of Logistics Planning Department
- 2016 Head of SCM Planning Department
- 2017 General Manager of the Company, CEO of SHENZHEN TSUMURA MEDICINE CO., LTD.
- 2018 General Manager of the Company, Chairman and CEO of SHENZHEN TSUMURA MEDICINE CO., LTD.
- 2020 Executive Officer, Head of Production Division of the Company
- 2022 Co-COO
- 2022 Director and Co-COO (incumbent)

■ Year of assumption of the post of Director 2022
■ Number of shares in the Company held 4,100*

Muneki Handa

July 7, 1962
Director CFO

- 1985 Joined The Mitsubishi Bank, Limited (currently MUFG Bank, Ltd.)
- 2014 Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.) General Manager, Loan Department
- 2015 Vice President, Mitsubishi UFJ Capital Co., Ltd.
- 2016 President, Mitsubishi UFJ Capital Co., Ltd.
- 2019 Director and Managing Executive Officer, CFO of the Company
- 2021 Director CFO of the Company (incumbent)

■ Year of assumption of the post of Director 2019
■ Number of shares in the Company held 8,000*

Ryohei Yanagi

July 6, 1962
Outside Director

- 1985 Joined The Saitama Bank, Ltd. (The Asahi Bank, Ltd., currently Resona Bank, Limited)
- 2003 Joined Eisai Co., Ltd.
- 2007 Joined UBS Securities Japan Co., Ltd., Executive Director
- 2009 Rejoined Eisai Co., Ltd., General Manager of the IR Department
- 2019 Executive Vice President & CFO, Eisai Co., Ltd.
- 2022 Visiting professor of Waseda University, Graduate School of Accountancy (incumbent)
- 2022 Senior Advisor, Eisai Co., Ltd. (incumbent)
- 2022 Executive Advisor, ABeam Consulting Ltd. (incumbent)
- 2022 Deputy President, M&G Investments Japan Co., Ltd. (incumbent)
- 2023 Outside Director of TSUMURA & CO. (incumbent)

■ Year of assumption of the post of Director 2023
■ Number of shares in the Company held 0*

Hiroshi Miyake

August 4, 1949
Outside Director

- 1973 Joined Mitsubishi Corporation
- 2005 Senior Vice President, Mitsubishi Corporation, President, Mitsubishi International GmbH, and Deputy Regional CEO for Europe
- 2010 Senior Managing Executive Officer, Tokushu Tokai Paper Co., Ltd.
- 2015 Representative Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.
- 2018 Outside Director of TSUMURA & CO. (incumbent)

■ Year of assumption of the post of Director 2018
■ Number of shares in the Company held 2,500*

Tadashi Okada

May 1, 1956
Outside Director

- 1979 Joined Komatsu Ltd.
- 2003 Vice President of Komatsu (China) Ltd.
- 2014 Senior Executive Officer, Supervising Corporate Communications, CSR, General Affairs, and Compliance, Komatsu Ltd.
- 2017 Representative Director and Chairman of QUALICA Inc.
- 2020 Outside Director of TSUMURA & CO. (incumbent)

■ Year of assumption of the post of Director 2020
■ Number of shares in the Company held 400*

Tomihiro Nagafuchi

September 25, 1964
Director and Full-Time Audit and Supervisory Committee Member

- 1987 Joined the Company
- 2014 Head of Internal Auditing Department
- 2023 General Manager, Director and Full-Time Audit and Supervisory Committee Member of the Company (incumbent)

■ Year of assumption of the post of Director 2023
■ Number of shares in the Company held 2,700*

Mitsutoshi Matsushita

October 3, 1970
Outside Director and Audit and Supervisory Committee Member

- 1997 Registered as lawyer and joined Kajitani Law Offices (incumbent)
- 2016 Outside Auditor of Pacific Systems Corporation (incumbent)
- 2017 Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)

■ Year of assumption of the post of Director 2017
■ Number of shares in the Company held 2,600*

Akemi Mochizuki

June 10, 1954
Outside Director and Audit and Supervisory Committee Member

- 1984 Joined Aoyama Audit Corporation
- 1988 Registered as certified public accountant
- 2018 Partner, Akahoshi Audit Corporation (incumbent)
- 2019 Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)
- 2021 Outside Audit and Supervisory Board Member of Asahi Kasei Corporation (incumbent)
- 2022 Statutory Auditor (part-time), SBI Holdings, Inc. (incumbent)

■ Year of assumption of the post of Director 2019
■ Number of shares in the Company held 1,900*

* As of March 31, 2023

Skill Matrix of the Company's Board of Directors

	Name	Gender	Age	Outside/ Independent	Corporate Management	Global	Sales/ Marketing	SDGs/ESG	IT	Finance/ Accounting	Legal/Risk management	Human resources management
Directors	Terukazu Kato	♂	59		●	●	●	●	●	●		●
	Kei Sugii	♂	53		●	●		●	●			
	Muneki Handa	♂	60		●		●	●	●	●	●	●
	Hiroshi Miyake	♂	73	○	●	●	●	●	●		●	
	Tadashi Okada	♂	67	○	●	●		●	●		●	
	Ryohei Yanagi	♂	60	○	●	●		●		●		
Directors who are Audit and Supervisory Committee Members	Tomihiko Nagafuchi	♂	58					●			●	
	Mitsutoshi Matsushita (attorney at law)	♂	52	○							●	
	Akemi Mochizuki (certified public accountant)	♀	69	○						●		

♂ Represents male ♀ Represents female

Requirements for Skill Items

Corporate Management	Person who has experienced executive officer at listed companies, or has insights and experience necessary for the formulation of business strategies and has the ability to offer advice	IT	Person who has insights in IT technologies, etc., and has the ability to recognize a challenge and propose solutions toward digitalization
Global	Person who has experienced overseas business management, and has insights and experience regarding global corporate management	Finance/Accounting	Person who has insights and experience of finance and accounting, person who has operational experience in financial institutions, or person who is qualified as a certified public accountant or a tax accountant
Sales/Marketing	Person who has insights and experience regarding sales and marketing, person who is well-versed in the pharmaceutical industry and has the ability to offer appropriate advice on marketing	Legal/Risk management	Person who has experienced risk management and has insights and experience of legal affairs and risks, or who is qualified as an attorney
SDGs/ESG	Person who has insights and experience in handling climate change and other environmental issues, person who has insights and experience regarding expertise of diversity, CSR, CSV, and corporate governance, etc.	Human resources management	Person who has experienced the formulation of human resources strategies, and has insights and experience regarding the field of human resources development

Executive Officers

	Terukazu Kato	CEO In charge of External Affairs Department and Internal Auditing Department
	Kei Sugii	Co-COO In charge of Corporate Communications Department and Sustainability Management Department
	Koin Toda	Co-COO (General Representative for China) In charge of China Cordination Department
	Muneki Handa	CFO In charge of Corporate Planning Department, Accounting Department and Information Technology Department
	Susumu Adachi	Chief Human Resources Officer (CHRO) In charge of Human Resources Department and Secretary Department
	Yukinori Sorada	Executive Officer Head of Sales and Marketing Division
	Hiroshi Hoshi	Executive Officer Head of Legal and Compliance Department In charge of General Affairs Department

	Koji Endo	Executive Officer Head of TSUMURA ACADEMY Department
	Akihito Konda	Executive Officer, Head of Kampo Research and Development Division, in charge of Kampo Scientific Strategies Division and International Pharmaceutical Research & Development Division
	Mitsutoshi Yuzurihara	Executive Officer Head of Quality & Safety Management Division
	Shoichi Kumagai	Executive Officer Head of Production Division
	Tadahiro Abe	Executive Officer Head of Healthcare Division
	Zhang Liqing	Executive Officer Supervising production in operations in China, and supervising formulation platform in China
	Yoshiharu Watanabe	Executive Officer Supervising crude drug platform in China, in charge of Botanical Raw Materials Division

Corporate Governance Basic Policy

Basic Concept

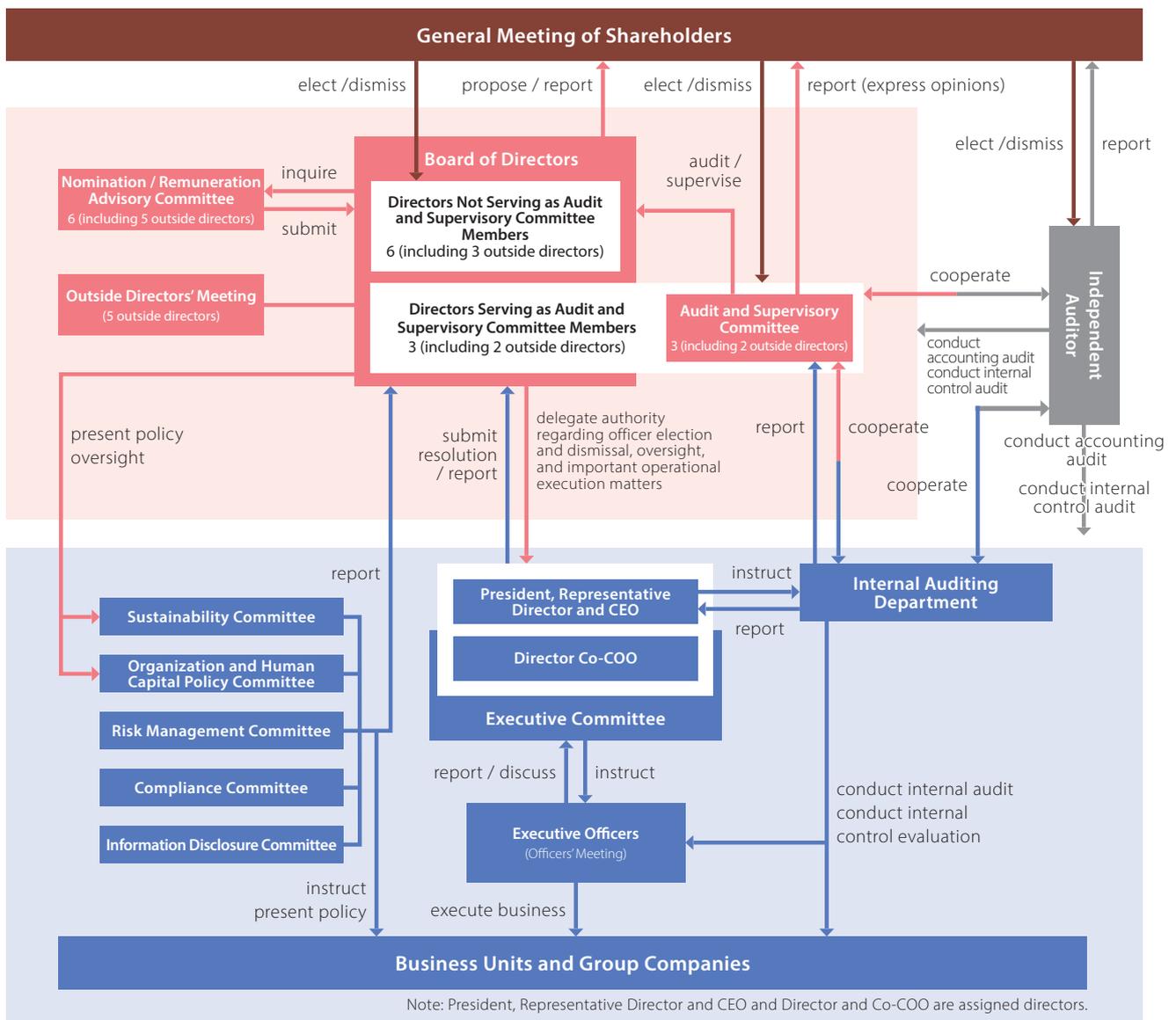
The Tsumura Group is committed to abiding by what we call the "Spirit of Nature's Laws" and fulfilling our ultimate Purpose of facilitating "Lively Living for Everyone." In conducting our business, we are guided by these two tenets along with Corporate Value, expressed as the "Best of Nature and Science," and Corporate Mission: "To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." To achieve sustainable growth and increase our corporate value over the medium to long term, our basic policy is to strengthen our corporate governance in order to ensure sound, transparent, and fair management and make prompt and sound decisions.

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. This move was aimed at reinforcing the oversight and monitoring functions of the Board of Directors. Under this system, Tsumura is working to enhance its management supervisory function and innovate its management structure by separating the supervisory function from the executive function and by appointing a majority of outside directors to the Board of Directors. These measures are being implemented to continuously establish the systems that will enable the Company to ensure the transparency, improve the efficiency, and maintain the soundness of management.

See the corporate site for details on the "Corporate Governance Basic Policy"
<https://www.tsumura.co.jp/english/ir/corporate-governance/index.html>

Corporate Governance Structure (As of June 29, 2023)



Themes Discussed by Each Committee in Fiscal 2022

Board of Directors

(Number of sessions: 18; Chairman: Terukazu Kato)

- Checking the progress of the first medium-term management plan
- Monitoring and following-up the progress of the China business
- Development of management human resources who will embody the corporate purpose and philosophy
- Checking the progress of strategic investment deals (Investment in systems including facilities, R&D, M&A, and digital transformation, etc.)
- Evaluating the effectiveness of the Board of Directors and establishing priority themes
- Discussion on enhancing corporate governance of Group companies
- Enhancement of information disclosure, etc.

Nomination/Remuneration Advisory Committee

(Number of sessions: 8; Chairman: Kenichi Matsui*)

- Proposal of election and dismissal of Directors to be submitted to the General Meeting of Shareholders
- Draft proposals of election and dismissal of the Representative Director to be submitted to the Board of Directors
- Draft proposals of candidates for Executive Officers to be submitted to the Board of Directors
- Policies for electing Directors and Executive Officers, election

process

- Draft proposals for individual remuneration to be paid to Directors and Executive Officers
- Policy including the composition of Directors' remuneration, procedure for determining remuneration of Directors, etc.

Audit and Supervisory Committee

(Number of sessions: 17; Chairman: Kimikazu Okochi*)

- Audit policy and plan
- Reelection and remuneration of independent auditor
- Details of matters to be submitted to the General Meeting of Shareholders
- Preparation of audit report
- Status of the use of hotline, etc.

Outside Directors' Meeting

(Number of sessions: 13; Chairman: Kenichi Matsui*)

- Advance explanation about matters to be discussed at the Board of Directors
- Follow-up on the Board effectiveness evaluation
- Briefing on Executive Committee matters
- Progress report of China business
- Discussion of important matters, etc.

*Left office as of the conclusion of the General Meeting of Shareholders held on June 29, 2023

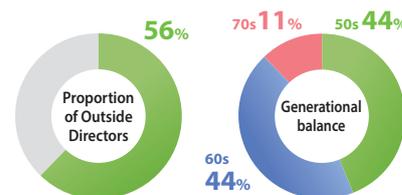
Approach to Diversity of Directors

The Tsumura Group formulates its long-term management visions and medium-term management plans in response to social demand and changes in the operating environment, and initiates various measures to achieve them. Along with our value creation cycle, we have, in particular, pursued and evolved a system for constantly making appropriate and prompt decisions regarding corporate governance, the foundation of management.

At present, Outside Directors account for a majority of the Directors. We have built highly effective governance systems to make decisions on important matters from diverse perspectives, such as those of people with corporate

management experience, attorneys at law, and certified public accountants, and to ensure that decisions are not made based solely on the knowledge of inside directors.

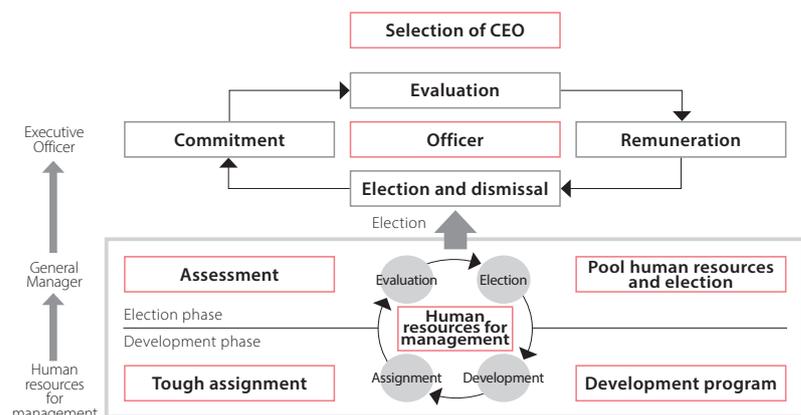
We will continue to strengthen corporate governance in order to achieve sustainable growth.



As of June 29, 2023

Succession Plan

Tsumura recognizes that the selection of the upper management (CEO) is one of our most important decisions, and the Nomination/Remuneration Advisory Committee is consulted on the draft of the Succession Plan (plan to develop next generation of leaders) and reports to the Board of Directors. For the development of the next upper management (CEO), the cycle on the right is implemented, and the Board of Directors supervises and provides opinions as appropriate in order to enhance, strengthen, and improve the effectiveness of the corporate governance system.



Initiatives to Improve the Effectiveness of the Board of Directors

Basic Concept

Tsumura evaluates and analyzes the effectiveness of the Board of Directors every fiscal year for the purpose of enhancing the Board of Directors' effectiveness.

The Company shifted to a Company with an Audit and Supervisory Committee in 2017 to strengthen the supervisory function of the Board of Directors and further enhance the soundness and transparency of management by having independent outside directors account for a majority of the Board of Directors. We have put in place a system that enables swift and resolute decision-making by separating the business execution function from the Board of Directors. Therefore, from the perspective of strengthening the supervisory and monitoring functions of the Board of Directors, we are working to ensure continuous improvement with respect to the issues identified by

analyzing the results of the evaluation of the Board of Directors' effectiveness of the Board of Directors and are endeavoring to further improve the effectiveness of the Board of Directors. Regarding the effectiveness of the Board of Directors in fiscal 2022, a questionnaire evaluation was conducted for all nine Directors, and the issues identified and specific measures for addressing them were discussed at the Board of Directors meeting held in May 2023. Based on questionnaire design developed with an external organization in fiscal 2020, we continued to make an effort in fiscal 2022 to conduct a more objective evaluation and analysis, while designing the questionnaire internally, by utilizing an external organization to collect responses and analyze the evaluation results, thus ensuring anonymity.

Evaluation Items (Six categories, 25 items)

The evaluation for fiscal 2022 was conducted from the perspectives of confirming the status of efforts to address issues identified in the results of the analysis of the fiscal 2021 effectiveness evaluation, confirming the themes that require priority supervision in order for the Board of Directors to fulfill its role, and identifying issues and considering measures for addressing them so as to further improve effectiveness in the future.

- (1) Priority management themes
- (2) Composition of the Board of Directors
- (3) Roles and duties of the Board of Directors
- (4) Proceedings of the Board of Directors
- (5) Enhancement of discussions at meetings of the Board of Directors and of the provision of information
- (6) Relationship between the Board of Directors and shareholders and other stakeholders

Overview of Evaluation Result

As a result of fiscal 2022's analysis and evaluation, it was confirmed that the Board of Directors is fulfilling its role and function, with active discussions aimed at ensuring substantial supervision and monitoring of business execution.

In the effectiveness evaluation questionnaire for each director, the respondents answered "accomplishing sufficiently" or "accomplishing overall" to many of the questions.

Improvement was observed in all the items identified as priority issues in fiscal 2021.

Review of the Effectiveness of the Board of Directors in Fiscal 2022

1. As for the current composition of the Board of Directors, the number is appropriate for active discussion and exchange of opinions. In addition, the Board of Directors is composed of diverse members with various types of experience and expertise, which is required for matters to be properly discussed at the Board of Directors meetings. Furthermore, the Board of Directors operates in an atmosphere that encourages the frank, free, and open expression of opinions. We will continue to discuss the suitability and diversity of the composition of the Board of Directors.

2. The Board of Directors has established "Lively Living for Everyone" as the new purpose, and discussed priority issues for the realization of TSUMURA VISION "Cho-WA" 2031, the Long-Term Management Vision established to realize the Corporate Value and Corporate Mission that are our basic principles. Furthermore, in addition to confirming the progress of the first medium-term management plan from fiscal 2022 to fiscal 2024 based on the theme of "laying the foundations for creating a future that achieves 'Cho-WA' (a well-balanced state)," decisions were made for the realization of priorities.

3. Operations in China constitute a strategic challenge with a high level of importance for the Tsumura Group's sustainable growth and the enhancement of our corporate value over the medium to long term. The activities of operations in China were frequently reported to the Board of Directors, discussions were held concerning policies, plans and strategies for the operations, and important issues were resolved.

Status of Efforts to Address the Issues Identified in Fiscal 2021

1. China business

As for the Chinese operations, to implement M&A aimed at developing the foundation of the traditional Chinese medicines business, the process of M&A was also reported to the Board of Directors periodically in order to tighten oversight and speed up the decision-making of the Board.

2. Establishment of governance systems for Group companies

As for the establishment of governance systems for Group companies, we secured and developed human resources at Chinese Group companies, and strengthened the governance system in the Group by establishing a governance system in which Tsumura China Inc., the company that controls all our operations in China, mainly oversees the execution of business of each Group company. We also strengthened supervision and monitoring by the Board of Directors, including establishment and operation based on the "three lines of defense" (first line: operating divisions; second line: administrative divisions; third line: internal auditing divisions) approach in risk management.

Operation of the Outside Directors' Meeting

The Outside Directors' Meeting started in 2015 is periodically held as a place for executive officers in charge and division heads to directly explain overview, decision points, risks, etc. concerning proposals to be resolved in the Board of Directors and proposals determined to require an advance explanation. Explaining important matters in advance enables time to be spent on substantial discussion in the Board of Directors, supporting decision-making. In the latter half of the meeting, time is assigned to communication among only Outside Directors for honest sharing of information to ensure there are no discrepancies in the awareness of issues among

Outside Directors. Outside Directors have commented that it is easier to understand proposals based on not only materials distributed in advance but also listening to the direct opinions of people in each workplace, and opportunities for communication between Outside Directors and employees in each workplace also lead to improving the motivation of employees. In the future, we will ensure to collect and share the information necessary for the management to make decisions in the Outside Directors' Meeting, and endeavor to increase the effectiveness of the Board of Directors.

Issues and Response Measures in Fiscal 2023

Based on the results of the fiscal 2022 effectiveness evaluation, we will take the following measures to further improve the effectiveness of the Board of Directors:

1. Confirmation of progress of strategic investment deals

We will aim to maximize the effect of investment by taking the following actions concerning the confirmation of progress of strategic investment deals.

- Decide on the overview and direction of strategic investment deals in the Board of Directors, present policies to the executive side, and oversee whether strategizing and investment are carried out in accordance with the policies.
- Consider capital investment for the establishment of systems for stable supply of products from all aspects such as construction cost, securing human resources, smartification of factories and sustainability, and make decisions including where to strengthen in Japan and overseas.
- Oversee the recoverability and recovery plans for strategic investment deals, and instruct revisions to the plans as necessary.

2. DX

We will aim to establish information infrastructure for DX by taking the following actions targeting the "Kampo value chain" based on the "DX for Purpose" policy.

- Discuss the "ideal way of being" when DX is implemented, present policies on overall planning, and oversee the speed of execution, cost effectiveness, etc.
- Oversee important issues with the current state of implementation of DX, measures aimed at their resolution and the status of progress.

3. Sharing of information outside the Company

We will aim to enhance corporate value by taking the following actions to enhance information disclosure.

- Increase opportunities for dialogue through quarterly financial results briefings, one-on-one meetings with analysts and investors, and IR for foreign institutional investors, and also make efforts to foster an environment for information dissemination with a wide range of stakeholders in mind, including general consumers.
- Conduct ample discussion in the Board of Directors on the content of information to be communicated in order to ensure the Group's businesses and efforts to enhance corporate value are correctly conveyed and evaluated.

Furthermore, this fiscal year, we will be focusing on tackling the following five items as key management issues, including confirmation of the progress of strategic investment deals mentioned earlier.

<Five Key Themes for the Board of Directors in Fiscal 2023>

1. Checking the progress of the first medium-term management plan
2. Checking the progress of the China business (Including establishment of the corporate governance system)
3. Development of management human resources who will embody the corporate purpose and philosophy
4. Checking the progress of strategic investment deals (Investment in systems including facilities, R&D, M&A, and digital transformation, etc.)
5. Capital policies

The Company's Board of Directors believes in presenting policies based on the external environment, and performing supervision of execution by the executive side based on strategizing in line with policies, and receiving reports as needed. The Company will continue to implement its PDCA cycle with the aim of realizing further improvements in the effectiveness of its Board of Directors.

Director Remuneration

Basic Concept

Tsumura's directors' remuneration will be determined based on the following policy with "pay-for purpose" as the basic philosophy.

- To reward the realization of the vision based on our philosophy-based management upholding the Corporate Purpose, which is the foundation of the Company's Group management
- To reward contributions to the Group's sustainable growth

by earning the trust of stakeholders through sustainability and governance initiatives and by solving social issues

- To motivate directors to take on challenges to achieve high goals
 - To reward each and every officer for taking on challenges to achieve high goals
 - To reward the results by the management team, which is essential to achieving high goals

Remuneration Levels

Given the business environment, Tsumura makes a comparison of its remuneration levels with those of its industry peers and other companies of similar size in an objective manner by utilizing survey data provided by third-party specialists, and sets remuneration levels that are consistent with their roles and duties considering the salary levels of the Company's employees.

Remuneration System and Components

Remuneration for directors of Tsumura consists of basic remuneration (a fixed component and a short-term performance-linked component (STI)) and performance-linked stock remuneration (LTI-I and LTI-II), with the short-term performance-linked component of basic remuneration and performance-linked stock remuneration being positioned as incentives (variable remuneration).

Furthermore, the components of remuneration for directors of the Company are set as follows so that they can contribute to the Company's sustainable growth and improvement in corporate value, referring to the components of its industry peers and other companies of similar size in an objective manner by utilizing survey data provided by third-party specialists.

Type of Remuneration		Purpose/Outline
Fixed	Fixed component	Fixed component according to role, duties, etc.
Variable	Basic remuneration (monetary)	<p>STI (short-term performance-linked component)</p> <p>Annual incentive to reward efforts aimed at the achievement of the Company's performance and operational targets set by individuals each fiscal year</p> <ul style="list-style-type: none"> • The base amount paid when targets are achieved is set at a fixed percentage of total remuneration according to roles, duties, etc. • The specific amount paid is determined within the range of 15% to 150% of the base amount according to the level of achievement of operational targets each fiscal year • Monthly monetary payment with fixed component
	Performance-linked stock remuneration (non-monetary)	<p>LTI-I (linked to medium-term performance)</p> <p>A medium-term incentive for rewarding efforts aimed at the realization of the medium-term management plan</p> <ul style="list-style-type: none"> • Base points are granted and accumulated according to roles, duties, etc. each year, and the Company's shares equivalent to the number of accumulated points varying according to the level of achievement of the operational targets of the medium-term management plan and the level of achievement of individually set operational targets are delivered (50% is provided as a monetary payment for tax purposes) • The specific number of shares delivered is determined within the range of 15% to 150% of cumulative base points • In principle, shares are delivered at once in around July immediately after the end of the medium-term management plan
		<p>LTI-II (linked to long-term vision)</p> <p>A long-term incentive for encouraging employees to embrace challenges aimed at realization of the long-term vision</p> <ul style="list-style-type: none"> • Base points are granted and accumulated according to roles, duties, etc. each year, and a number of the Company's shares equivalent to the total number of accumulated points varying according to the level of achievement of progress aimed at the realization of the long-term vision after the end of the period covered by the medium-term management plan are delivered (50% is provided as a monetary payment for tax purposes) • The specific number of shares delivered is determined within the range of 0% to 150% of cumulative base points • In principle, shares are delivered at once after leaving office

Short-term Incentives: Short-term Performance-linked Component (basic remuneration)

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	25% to 35%	0% to 150%
Consolidated operating profit	25% to 35%	0% to 150%
Level of achievement of individually set operational targets	30% to 50%	50% to 150%
Total	100%	15% to 150%

Medium-term Incentives: LTI-I (performance-linked stock remuneration)

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	30%	0% to 150%
Consolidated operating profit	20%	0% to 150%
Consolidated ROE (average for the period under review)	20%	0% to 150%
Level of achievement of individually set operational targets	30%	50% to 150%
Total	100%	15% to 150%

Long-term Incentives: LTI-II (performance-linked stock remuneration)

Evaluation indicators	Allocation ratio	Coefficient variation range	Main targets	
Corporate value	Relative TSR (TOPIX growth rate comparison)	25%	0% to 200% (However, 0% to 100% until March 31, 2028)	1.0
Sustainability	<ul style="list-style-type: none"> • GHG reduction • Cultivation of wild crude drugs, etc. 	25%	0% to 100%	50% reduction of GHG emissions at the end of fiscal 2031 (compared to fiscal 2020), etc. *1
Corporate governance	<ul style="list-style-type: none"> • Diversity of management team, etc. 	25%	0% to 100%	*1
Business value	Sales ratio of overseas business	25%	0% to 200% (However, 0% to 100% until 2028 March 31)	50% at the end of fiscal 2031 *1
Total		100%	0% to 150% (However, 0% to 100% until 2028 March 31)	

*1 The coefficient is 0% if the level of achievement is less than 100% or 80% depending on the evaluation indicator.

Long-term Incentives: LTI- II approach to select indicators

Corporate value: Relative TSR*2 (TOPIX growth rate comparison)

- Indicators to measure the achievement level of the long-term vision
- Motivate employees to contribute to the realization of the long-term vision and the enhancement of corporate value, and to share value with shareholders

*2 TSR stands for Total Shareholder Returns.
Relative TSR is the ratio of Tsumura's TSR to the TOPIX growth rate.

Sustainability: GHG reduction, cultivation of wild crude drugs, etc.

- Indicators to measure the achievement level of the Sustainability Vision
- Promote and raise awareness of initiatives to realize sustainable business activities, such as conservation of the natural environment and cultivation of wild crude drugs

Corporate governance: Diversity of management team, etc.

- Indicators that can measure the degree of achievement of the Sustainability Vision and promote the achievement of the long-term management vision
- Encourage the formation of a management team across the Tsumura Group, including overseas bases, that is capable of making timely and appropriate management decisions which can drive medium- to long-term corporate value, including business restructuring

Business value: Sales ratio of overseas business

- Indicators that can measure the achievement level of the long-term management vision
- Build a foundation for overseas operations and increase directors' willingness to contribute to the enhancement of corporate value through growth in overseas markets

Indicators Related to Performance-linked Remuneration

Among directors (excluding directors who are members of the Audit and Supervisory Committee), executive directors, including representative directors, are expected to achieve the targets for indicators related to performance-related remuneration shown in the figure on the right.

Evaluation indicators	Single-year target (Fiscal 2022)		Medium-term management plan (Fiscal 2024)	
	Target value	Results	Target value	
STI	Consolidated net sales (100 million yen)	1,385	1,400	—
	Consolidated operating profit (100 million yen)	208	209	—
LTI-I	Consolidated net sales (100 million yen)	—	—	1,620
	Consolidated operating profit (100 million yen)	—	—	290
LTI-II	Consolidated ROE (%)	—	—	8
	TSR	—	—	1.0

Process of Determining Remuneration

In order to enhance the objectivity and transparency of the deliberation process, the standard amount of remuneration for Tsumura's directors, the method of performance evaluation, and the rules for calculating the amount in accordance with the results of performance evaluation are determined by the resolution of the Board of Directors within the total amount resolved at the General Meeting of Shareholders based on the results of deliberations by the Nomination/Remuneration Advisory Committee (consisting of one internal director and five independent outside directors, chaired by an independent outside director). Of these, the method of performance evaluation and the rules for calculating the amount in accordance with the results of performance evaluation shall be stipulated in the internal rules, and the determination of the level of achievement of individually set operational targets, confirmation of whether the amounts paid by individual are calculated in accordance with internal rules and the content of resolutions of the

Board of Directors, and notification to individuals are delegated to Terukazu Kato, who is the President and Representative Director. The level of achievement of individually set operational targets is determined based on the deliberation and report by the Nomination/Remuneration Advisory Committee. Any revision of these rules shall be resolved by the Board of Directors based on the deliberation and report by the Nomination/Remuneration Advisory Committee. Determination of the level of achievement of individually set operational targets under basic remuneration STI and LTI-I shall be delegated to the Nomination/Remuneration Advisory Committee. The reason for delegation to the Nomination/Remuneration Advisory Committee is to increase objectivity of procedures related to remuneration, etc. by delegating to the committee chaired by an outside director and with a majority of members comprised of outside directors.

Total Amounts of Remuneration, etc. in Fiscal 2022

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)		Total number of directors applicable (people)
		Basic remuneration	Stock remuneration	
Directors (excluding directors who are members of the Audit and Supervisory Committee) (excluding outside directors)	233	200	33	4
Directors (members of the Audit and Supervisory Committee) (excluding outside directors)	25	25	—	1
Outside directors	51	51	—	5

Notes:

1. Includes the amount for one director (excluding directors who are members of the Audit and Supervisory Committee) who left office at the conclusion of the 86th General Meeting of Shareholders held on June 29, 2022.
2. Remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) does not include the amount of employee's salary for directors who concurrently serve as employees.
3. For stock remuneration, the amounts booked in the fiscal year under review are presented.

Internal Control and Compliance

Basic Concept

We recognize that compliance is an important basic element supporting the foundations of corporate management.

For the Tsumura Group to meet the expectations of society and be a trusted company as a life-related company, we believe it is important for each employee to be conscious of acting by adhering to compliance based on high ethical standards and that this develops into a corporate culture, and we thoroughly implement activities promoting compliance. To this end, based on the Sustainability Charter, which is our basic policy of business activities, we have formulated the Compliance Program Regulations and established the Compliance Promotion System, and we periodically conduct training and activities to raise awareness. In addition, we conduct surveys every year, and have established and are operating an internal reporting system (Tsumura Group Hotline) to promptly identify and correct problems within the Group.

Compliance Promotion Activities

The Compliance Committee formulates a policy for compliance promotion activities every year based on questionnaire results and events occurring inside and outside the Company, and reports to the Board of Directors. Each division and Group company drafts and implements initiatives for compliance promotion activities in the workplace according to this policy.

Furthermore, systematic training is provided to all Group officers and employees to foster compliance awareness.

In fiscal 2022, the Tsumura Group Hotline was used 19 times. The content of consultations and reports received on the hotline are periodically reported to the President and Representative Director CEO, who is also the Chief Compliance Officer, other internal directors, and the CHRO.

Code of Practice

The Company has established the Tsumura Code of Practice (hereinafter, the "Tsumura Code") to ensure a high level of ethics and transparency in its corporate activities and to live up to the trust of society.

The Tsumura Code Committee, established based on the Tsumura Code, will manage and administer the Tsumura Code to conduct activities providing information on Tsumura prescription pharmaceuticals in an appropriate manner.

Corporate Management of Affiliated Companies

The Corporate Planning Department establishes and oversees systems for corporate management of affiliated companies, establishes Regulations on Management of Intragroup Transactions and Regulations on Management of Affiliated Companies, and makes monthly reports on internal control systems.

The Regulations on Management of Affiliated Companies provide a system for the responsible divisions within the Company to receive prior approval applications and reports from affiliated companies on matters requiring prior discussion pursuant to the regulations.

Furthermore, the Internal Auditing Department conducts internal audits of affiliated companies, and performs efficient monitoring according to Group management.

Internal Audit

Internal audits are conducted in accordance with Internal Auditing Regulations pursuant to internal audit plans formulated by the Internal Auditing Department and approved by the Executive Committee. Results are reported to the Board of Directors, the Executive Committee, the Audit and Supervisory Committee and the Independent Auditor.

Ongoing evaluations are performed on the status of establishment and the status of operation of companywide internal control, internal control of business processes and overall IT control in accordance with the Financial Instruments and Exchange Act, implementation standards published by the Business Accounting Council of the Financial Services Agency, and Internal Control Regulations pursuant to internal control evaluation plans formulated by the Internal Auditing Department and approved by the Executive Committee. Results are reported to the Board of Directors, the Executive Committee, the Audit and Supervisory Committee and the Independent Auditor.

Audit and Supervisory Committee Members

All Audit and Supervisory Committee Members attend meetings of the Board of Directors, and the Full-Time Audit and Supervisory Committee Member attends important meetings such as the Executive Committee, the Executive Officers' Meeting, the Compliance Committee and the Risk Management Committee to confirm the status of establishment and operation of internal control systems for which internal control organizations are responsible. Furthermore, the committee maintains close coordination with the Internal Auditing Department, the Independent Auditor and auditors of affiliated companies through periodic meetings with them, monitors overall internal control systems of the Company and affiliated companies through direct reporting, etc. from internal control organizations, and provides advice on more efficient operation.

The Audit and Supervisory Committee holds meetings to exchange opinions with internal directors including the President and Representative Director CEO, exchanging information and sharing awareness on matters such as the business environment surrounding the Company and companywide risks and issues.

The Audit and Supervisory Committee receives reports on the status of operations from executive officers, and checks consistency with the medium-term management plan and risks, etc. in the departments for which they are responsible.

Explanation of Kampo Medicines / Traditional Chinese Medicines

Kampo medicines (Kampo medicine)

Characteristics of Kampo Medicine and Kampo Medicines

Kampo medicine evolved independently between the 14th and 19th centuries from the medicine that was brought from China to Japan in the 5th and 6th centuries. It has continued to evolve, reflecting Japan's climate and conditions, and the Japanese people's constitution and lifestyle habits. Today, it has been established as the traditional medicine of Japan.

The defining feature of Kampo medicine is that it treats the mind and body as one, working as a holistic medical system that seeks to harmonize the entire body. In a Kampo consultation, each individual patient's symptoms (chief complaint) and constitution are carefully considered, and the formulation and administration method are instructed based on the result. Even in these modern times, when medical science has advanced, there are disorders that do not show up in tests and complaints that are difficult to treat with Western medicine. Kampo medicine specializes in such treatments.

Kampo medicines are generally made by compounding multiple crude drugs, such as plants, animals, or minerals found in nature. Therefore, since a single prescription contains multiple ingredients, it can be expected to demonstrate efficacy for treating multiple symptoms. The conditions for prescriptions based on Kampo medicine are set out in detail,

 For more details, please refer to the related website at: <https://www.tsumura.co.jp/english/index.html>

and Kampo medicines have been officially recognized as pharmaceutical products with therapeutic effects.

Today, the majority of Kampo medicines prescribed at medical institutions are prescription Kampo formulations, which are covered by health insurance. A total of 148 prescriptions have been approved by the Japanese Ministry of Health, Labour and Welfare. Moreover, over 80%* of physicians now use Kampo medicines for ordinary treatment. As an example, combined use of Western and Kampo medicines in cancer patients has been found to be effective for relieving side effects and pain, and a large number of cases of improved therapy completion rates are now reported.*

*Source: Japan Kampo Medicines Manufacturers Association, 2011 Survey on the Status of Kampo Prescriptions

Kampo formulations approved in Japan

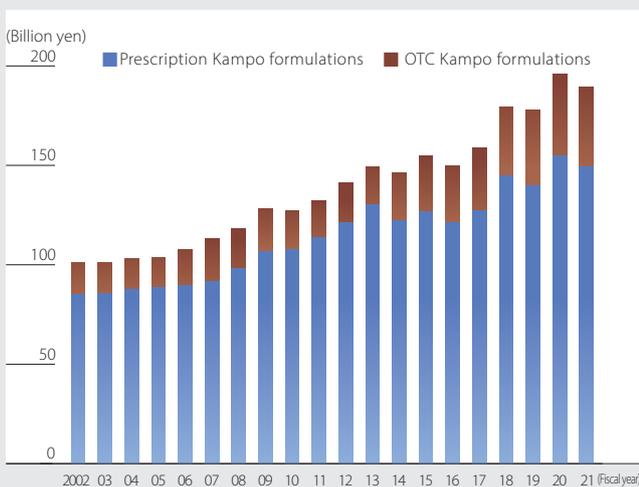
Number of prescription Kampo formulations: **148** (covered by health insurance), of which **129** are sold by Tsumura
 Number of OTC Kampo formulations: **294**, of which **46** are sold by Tsumura

Kampo Medicine Market Trend

The graph below on the left shows the production value of Kampo formulations in Japan. The graph shows that the scale of the Kampo medicine market has expanded by approximately 1.9 times over the past 20 years. Moreover, Kampo formulations make up approximately 2.1% of the overall pharmaceutical market (fiscal 2021, production value basis).

The graph below on the right shows the statistical results for a survey on "Diseases and conditions for which there are many opportunities to prescribe Kampo formulations," which was conducted for physicians who are members of a portal website operated by M3, Inc.

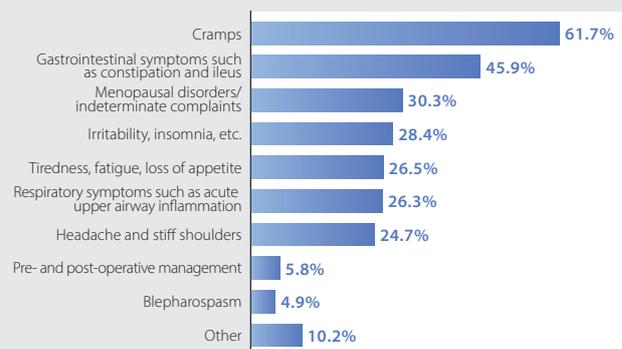
Production value of Kampo formulations



Source: Ministry of Health, Labour and Welfare "Annual Report on Statistics of Production by Pharmaceutical Industry in 2021"

Diseases and conditions for which there are many opportunities to prescribe Kampo medicines

Survey question: When you prescribe Kampo formulations, what kind of diseases and conditions do you often prescribe them for? (Multiple choice)



Source: "M3.com survey" (Clinical News November 15, 2022)
<https://www.m3.com/clinical/news/1093498>
 Note: Data presented with the permission of M3, Inc.

Survey overview
 Survey period: October 8–14, 2022
 Target: m3.com member physicians
 Total number of respondents: physicians working in hospitals: 532; physicians in private practice: 158

Traditional Chinese Medicines (Traditional Chinese Medicine)

Origins and Development of Traditional Chinese Medicine

Traditional Chinese medicine is said to have originated prior to the 13th century BCE during the Shang dynasty, which followed China's oldest Xia dynasty. Subsequently, during the Han dynasty, the foundations of the science were established with the completion of the three principal classics of traditional Chinese medicine: the Koteidaikei, which deals with basic medicine and clinical medicine, the Shinno-honzokyo, which is a pharmaceutical textbook, and the Shokanron, a medical text. Today in China, there is a countrywide effort to promote the development of traditional Chinese medicines, with an established educational curriculum for traditional Chinese medicine and research laboratories.

There are separate physician's licenses for Western medicine and traditional Chinese medicine in China. At universities, there are separate medical departments for studying Western medicine and traditional Chinese medicine. After a post-graduation internship, the interns qualify to sit their licensing examinations, and those who pass acquire the respective physician's license. Western medicine physicians can prescribe western medicines (new medicines), but under certain conditions they can also prescribe traditional Chinese medicinal products formulated from traditional Chinese medicine drug pieces (chopped crude drugs). Similarly, traditional Chinese medicine physicians may also

prescribe Western medicines in addition to traditional Chinese medicines.

Trend in China's policies regarding traditional Chinese medicine and classical prescriptions

In January 2022, the Chinese government officially announced the 14th Five-Year Plan for the Development of the Pharmaceutical Industry. This plan explains the Chinese government's policy direction for promoting the development of traditional Chinese medicines. The main points of the policy are as follows.

- Promote the integration of traditional Chinese medicine with Western medicine
- Promote the prosperity and development of the traditional Chinese medicine culture
- Promote an increase in traditional Chinese medicine hospitals and physicians
- Promote the research and development of classical prescriptions based on effective ingredients
- Improve the quality of crude drugs and strengthen traceability
- Improve the competitive environment of the traditional Chinese medicine market, and encourage the formulation of a market price that is aligned with its quality

Classification of Traditional Chinese Medicines

Traditional Chinese medicines

Prescription medicines

- Prescription traditional Chinese medicinal products
- Traditional Chinese medicine drug pieces

OTC

- OTC traditional Chinese medicinal products

Food products

Health foods

- Yakushokudogen products, etc.

Traditional Chinese medicines are a general expression for medication that has been used by traditional Chinese medicine for over 2,700 years. Like Kampo medicines, it is manufactured using raw materials from nature, such as plants, animals, and minerals. Traditional Chinese medicine is based on the three principal classics and theories handed down from the time of the Han dynasty, but with each era, its efficacy with common diseases has been tested, and new treatment methods have been incorporated into the system. As a result, a large number of prescriptions have been created, and traditional Chinese medicinal products have been continuously developed.

Furthermore, traditional Chinese medicinal products are classified into prescription medicines and OTC^{*1}, in the same way as Western medicines.

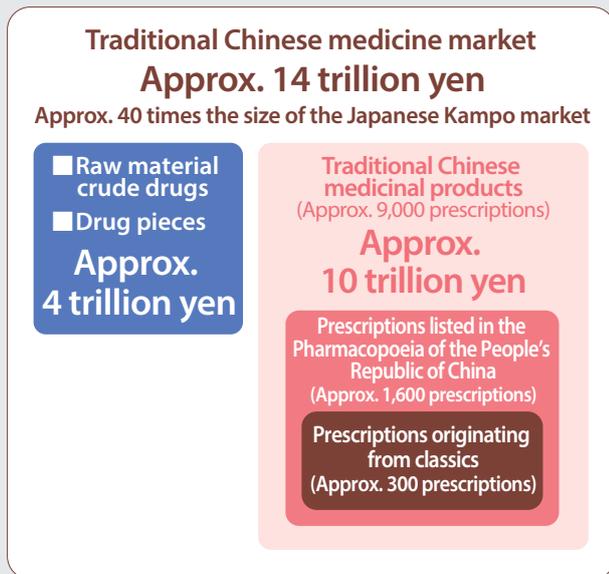
Prescription medicines in traditional Chinese medicine consist of "prescription traditional Chinese medicines" and "traditional Chinese medicine drug pieces," the latter of which are raw material crude drugs that have been processed^{*2} for use as prescribed medication in traditional Chinese clinics and formulation production. There are also health foods that are made using crude drugs for healthcare (prevention), although these are classified as food products, rather than traditional Chinese medicines.

*1 Over-the-Counter. Refers to general-use pharmaceuticals and drugs requiring guidance that can be purchased without a prescription from a physician.

*2 Conducting a certain level of processing to extract effective components and remove unneeded components, or to alleviate toxicity, etc.

Traditional Chinese Medicine Market Trend

The traditional Chinese medicines market in China is valued at approximately 14 trillion yen, making it more than 40 times the size of the Japanese Kampo products and crude drugs. Within this, the market for traditional Chinese medicinal products (prescription and OTC) is around 10 trillion yen, and



Source: Created by Tsumura from data provided by the Chinese National Medical Products Administration, Chinese Ministry of Industry and Information Technology, and Chinese National Bureau of Statistics. Converted at 1 RMB = 19.05 yen (As of December 31, 2022)

*3 A pharmaceutical product code promulgated by the Chinese National Medical Products Administration to guarantee the quality of pharmaceutical products by the state and guarantee the safety, efficacy, and quality control of drugs for use by the public.

*4 Prescriptions included in ancient medical texts compiled in the Qing dynasty and earlier

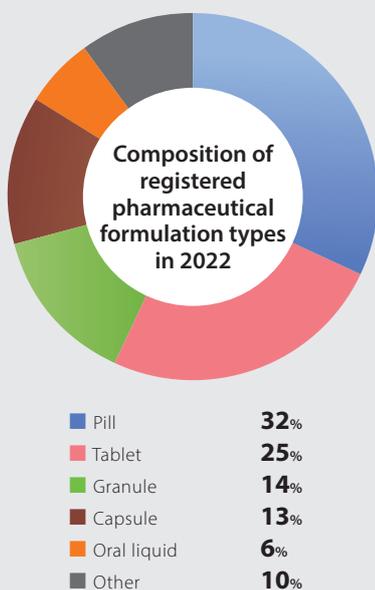
the market for raw material crude drugs and traditional Chinese medicine drug pieces is around 4 trillion yen.

Traditional Chinese medicinal products refers to prescriptions formulated for a large number of patients based on traditional Chinese medicines prescriptions from ancient to modern times. Today, around 9,000 prescriptions have received manufacturing and marketing approval in China. Of these, the Pharmacopoeia of the People's Republic of China*³ listed approximately 1,600 prescriptions, while approximately 300 prescriptions originate from the principal classics.*⁴

Traditional Chinese medicine drug pieces are traditional Chinese medicines used directly in clinical practice in traditional Chinese medicine. They are made by improvement processing of raw materials for traditional Chinese medicines in accordance with the theory of traditional Chinese medicine. There are around 600 types of traditional Chinese medicine raw materials, and the number of traditional Chinese medicine drug pieces created through different improvement processing methods far exceeds 600.

The Chinese government's policy is to focus on the development of compound formulation of traditional Chinese medicines based on classical prescriptions, and to support and reinforce R&D and quality improvement of traditional Chinese medicines. There are around 2,400 companies that manufacture traditional Chinese medicines, so the level of concentration in the market is not so high. However, groups of traditional Chinese medicines manufacturers are gradually being formed.

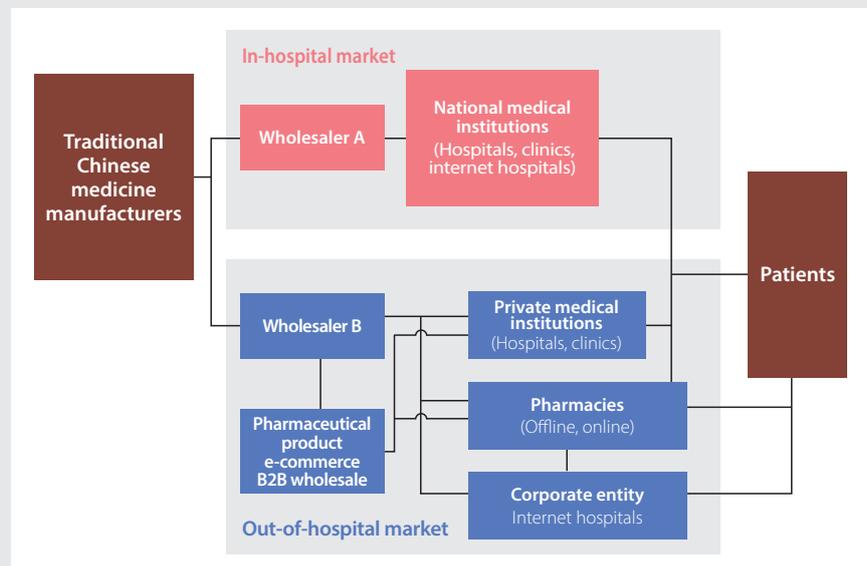
Dosage forms of traditional Chinese medicinal products



Source: Created by Tsumura from the DXY.cn database

Traditional Chinese medicines distribution structure

The distribution structure for traditional Chinese medicines is classified broadly into the in-hospital market, centered on national hospitals, and the out-of-hospital market, centered on pharmacies. The ratio of the market in 2019 was 7:3 for in-hospital to out-of-hospital.



Corporate Data (As of March 31, 2023)

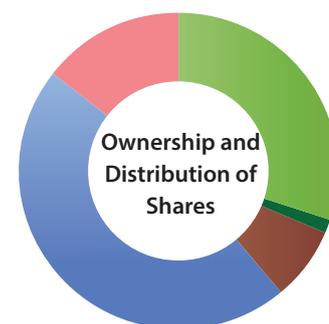
Corporate Name	TSUMURA & CO.
Head Office	2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
Founded	April 10, 1893
Incorporated	April 25, 1936
Capital Stock	30,142 million yen
Number of Employees	4,032 people (consolidated)
Closing Date of Accounts	March 31

Stock Exchange Listing	Tokyo Stock Exchange Prime Market (Stock Code: 4540)
Shareholder Register Agent for Common Stock in Japan	Mitsubishi UFJ Trust and Banking Corporation
Independent Auditor	PricewaterhouseCoopers Aarata LLC
Authorized Common Stock	250,000,000
Issued Common Stock	76,758,362 (including 229,532 shares of treasury stock)
Number of Shareholders	20,437 people (increase of 7,529 compared with previous period)

Major Shareholders

Shareholder name	Number of shares (1,000 shares)	Percentage of equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	12,215	15.96
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	7,675	10.03
Custody Bank of Japan, Ltd. (Trust Account)	3,622	4.73
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,720	3.56
MUFG Bank, Ltd.	2,197	2.87
STATE STREET BANK AND TRUST COMPANY 505001	2,156	2.82
Employees' Stockholding	1,772	2.32
BRIGHT RIDE LIMITED	1,692	2.21
THE BANK OF NEW YORK MELLON 140051	1,539	2.01
JP MORGAN CHASE BANK 380634	1,397	1.83

Note: The percentage of equity is calculated deducting 229,532 shares of treasury stock.
The above treasury stock does not include 137,800 shares of treasury stock held as trust assets of the officer remuneration BIP trust.



Japanese financial institutions*1	30.02%
Japanese securities firms	1.48%
Japanese corporations	7.47%
Overseas institutions	46.67%
Japanese individuals and others*2	14.36%

*1 "Financial institutions" includes 137,800 shares of treasury stock held as trust assets of the officer remuneration BIP trust.

*2 "Japanese individuals and others" includes 229,532 shares of treasury stock.

Editorial Policy

Integrated Reports are prepared with the goal of communicating and providing understanding to stakeholders including investors concerning the Tsumura Group's efforts to improve its corporate value from a medium- to long-term perspective.

INTEGRATED REPORT 2023 was prepared with emphasis on connectivity of information to provide an understanding of the Group's value creation story. The report was prepared mainly by the Corporate Communications Department (Investor Relations Group) based on a system for consolidating and sharing information companywide.

We look forward to making our future reports more insightful for stakeholders by gaining valuable input and information via interactions with them going forward.

Representation of the company's name

- In this report, the company is referred to as follows.
- Tsumura, Tsumura Group, the Group: Collective terms for the Tsumura Group in Japan and overseas
 - The Company: TSUMURA & CO. (non-consolidated)

Scope of data collection and applicable period

Performance data is from fiscal 2022.
TSUMURA & CO./LOGITEM TSUMURA CO., LTD./YUBARI TSUMURA CO., LTD. (April 1, 2022 – March 31, 2023)
Tsumura China Inc. and 11 other Chinese affiliates/TSUMURA USA, INC. (January 1, 2022 - December 31, 2022)

Notes are provided in cases where the scope of data collection differs from the above.

Information on the corporate website



Sustainability

<https://www.tsumura.co.jp/english/sustainability/index.html>



IR Information

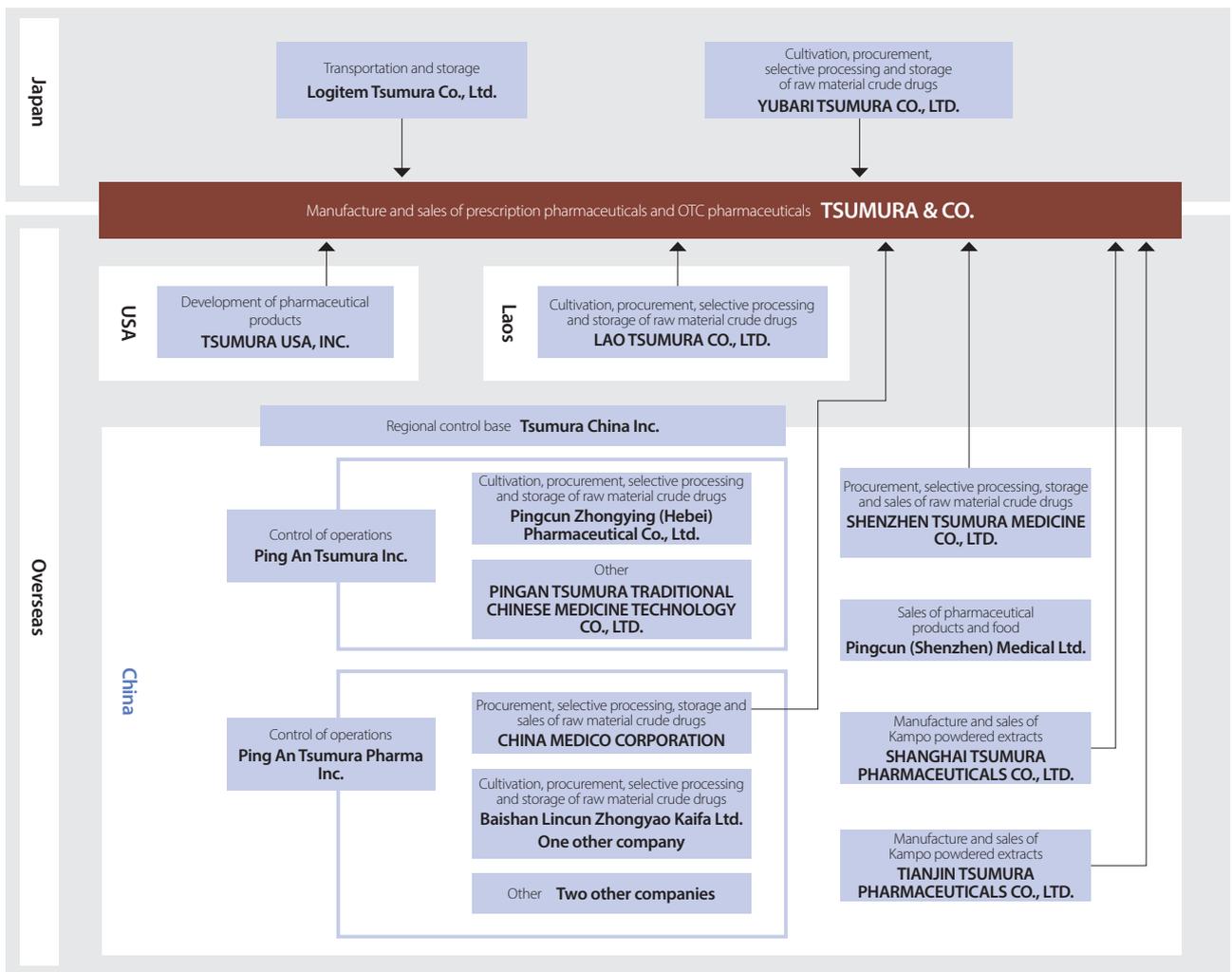
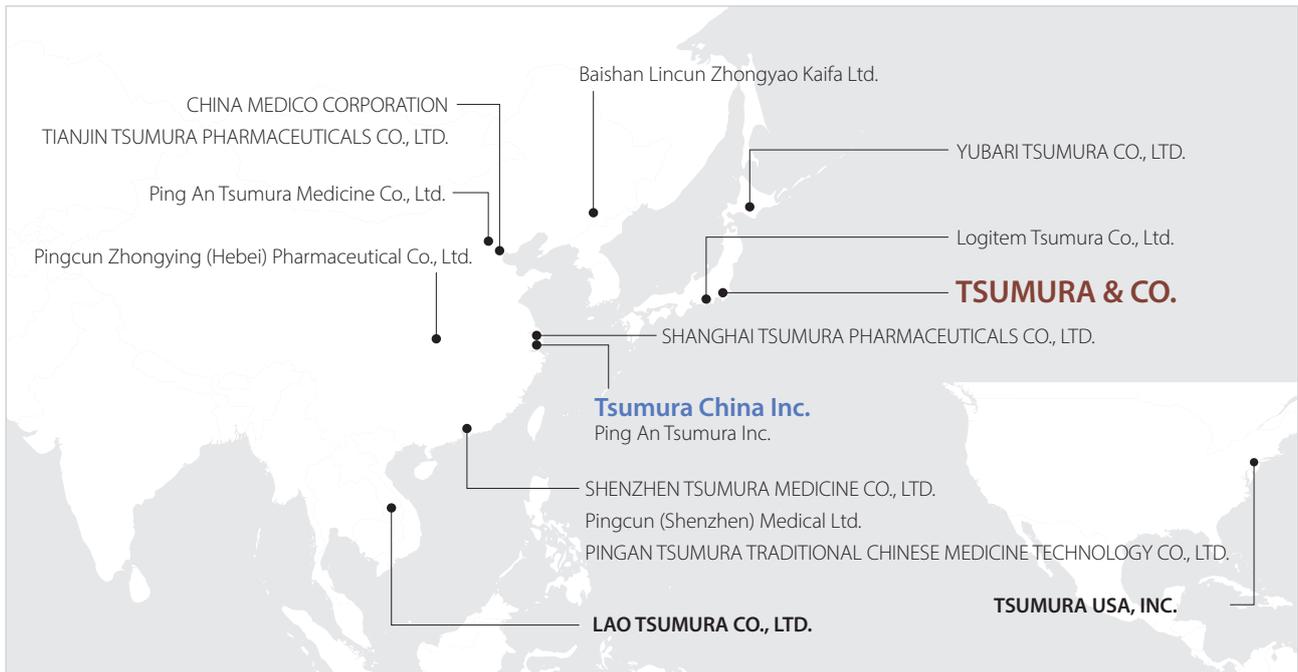
<https://www.tsumura.co.jp/english/ir/index.html>



About Kampo

<https://www.tsumura.co.jp/english/kampo/index.html>

Group Companies





TSUMURA & CO.

Investor Relations Group
Corporate Communications Department
2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
TEL: 03-6361-7101/FAX: 03-5574-6630



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