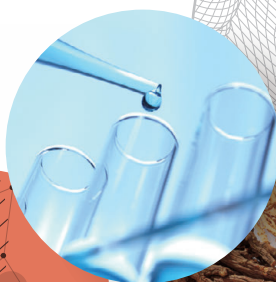
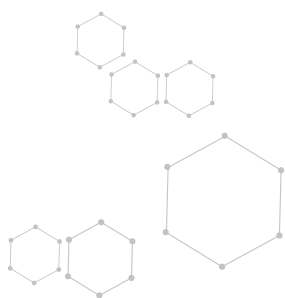


INTEGRATED REPORT 2024

TSUMURA & CO.

TSUMURA
THE BEST OF NATURE AND SCIENCE



Corporate Purpose

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.

The Tsumura Group is an R&D-oriented pharmaceutical company that contributes to the mental and physical well-being of individuals and the well-being of society through products and services based on Kampo medicines and traditional Chinese medicines.* Under its Corporate Value of "The Best of Nature and Science," the Tsumura Group scientifically demonstrates the efficacy of Kampo medicines made from raw material crude drugs derived from natural substances such as plants and minerals, building up clinical results through their use and continuing to grow as a leading company in prescription Kampo formulations.

The aim of the first president, Jusha Tsumura, was to create a meaningful business that contributes to the good of society. While working to promote Chujoto, a medicine for

women launched in 1893, Jusha sought to create a lively and enriched society by helping everyone maintain a well-balanced state of mind and body. With this founding spirit, since fiscal 2022, we have been pursuing our Corporate Purpose, "Lively Living for Everyone," which looks ahead 50 to 100 years into the future, as the Business Commitment we aim to ultimately achieve. Taking this Corporate Purpose as our starting point, we aim to contribute to the realization of medical front lines where personalized Kampo treatments are available for individual patients and healthcare that leaves no one untreated. We are also working to spread the value of pharmaceuticals derived from natural substances to the field of pre-symptomatic disease and the global market.

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

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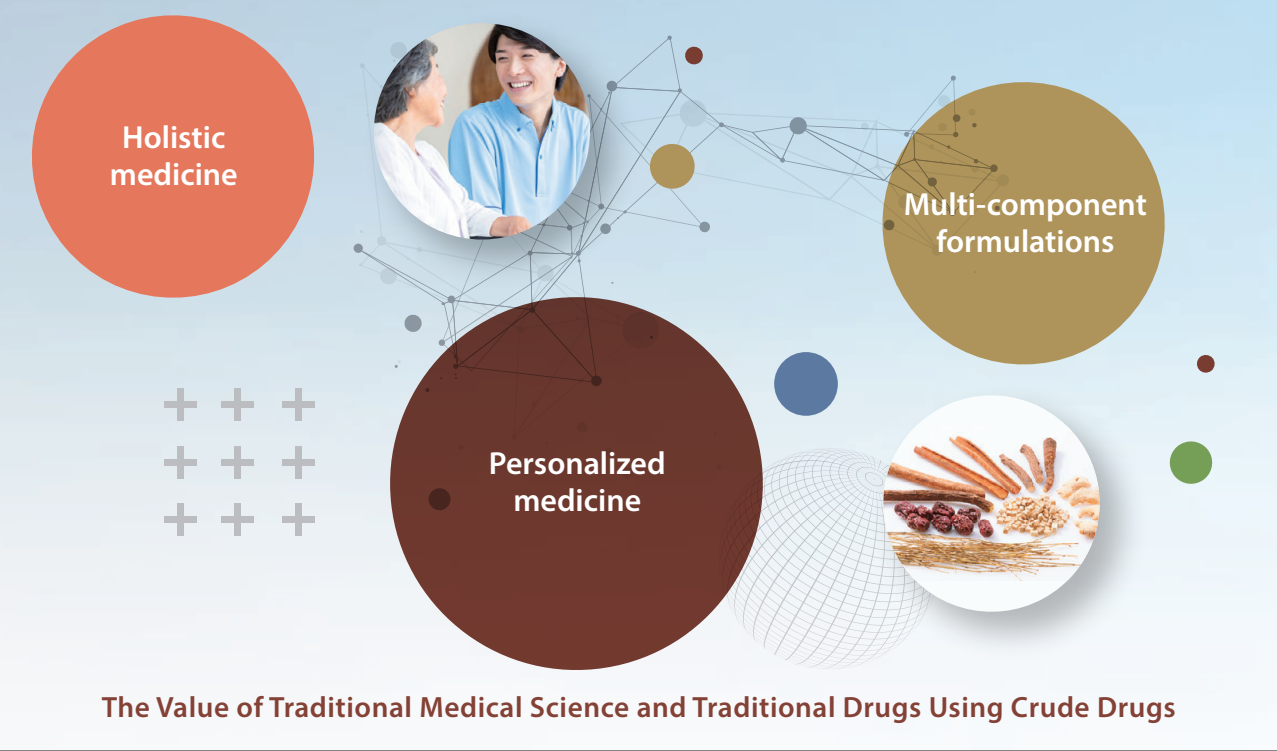
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Forward-looking statements and precautions

The information provided in this 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.

Value Created through Pharmaceuticals and Products Derived from Natural Substances



Kampo medicine was brought from China to Japan in the 5th and 6th centuries, where it has evolved independently into a system to suit the physical characteristics and diseases of Japanese people. Kampo medicine spread as a holistic medicine that treats the mind and body as one, with an approach that emphasizes a well-balanced state of the entire body and the concept of enhancing the human body's innate natural healing power.

The most important characteristic of Kampo medicine and traditional Chinese medicine is that they focus on treating the fundamental cause of the patient's condition. Furthermore, as each individual patient's symptoms (chief complaint) and constitution are carefully considered, and the formulation and administration method are instructed based on the result, it is considered to be "personalized medicine."

Even in these modern times, when medical science has advanced, there are disorders and indeterminate complaints* that do not show up in tests, such as menopausal disorders and sensitivity to the cold, which Kampo is good at treating.

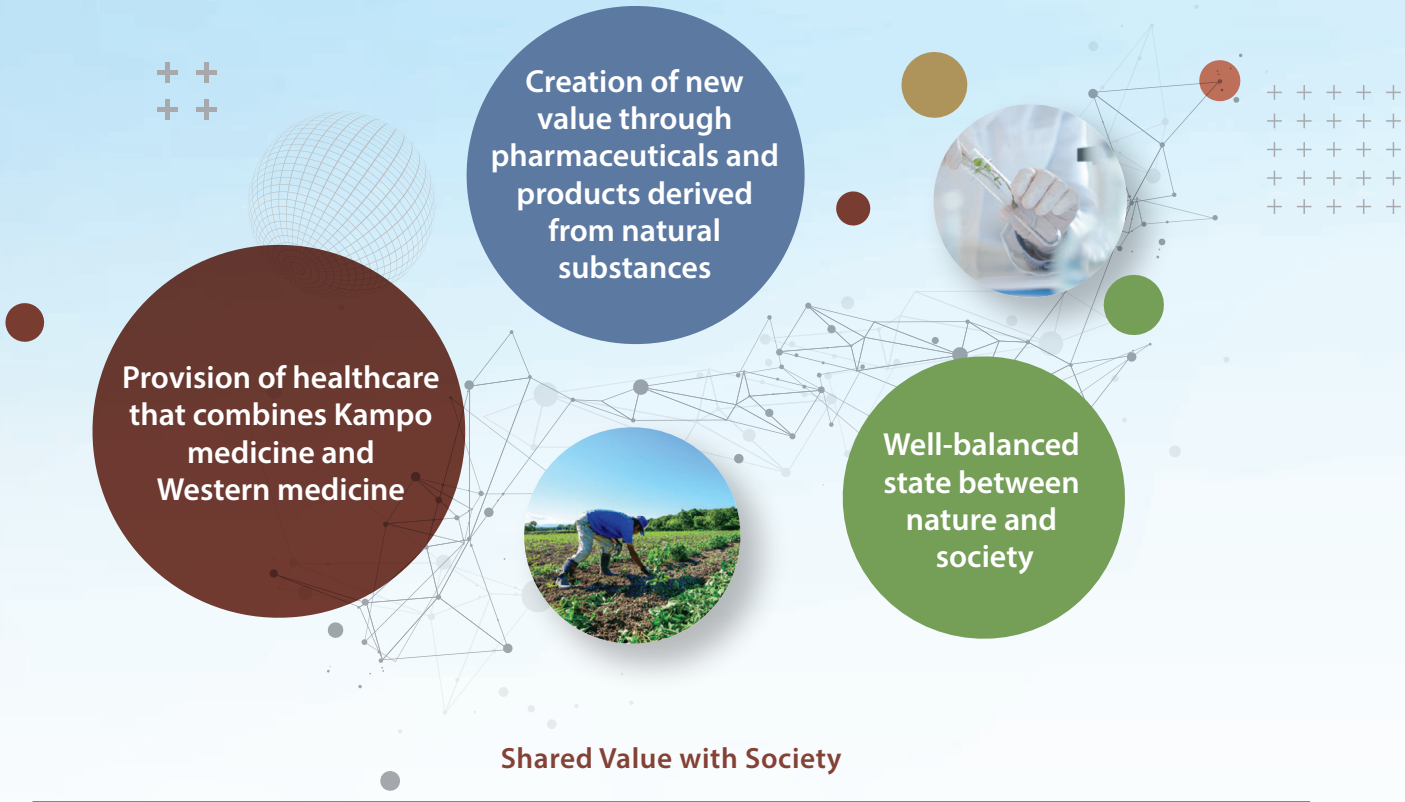
Kampo and traditional Chinese medicines are made by combining multiple crude drugs. Crude drugs are made by gathering the leaves, stems, or roots of plants, or minerals or parts of animals, that are believed to have medicinal effects, then processing them by drying and so forth. A single crude drug contains many active ingredients, and the pharmacological effects of individual crude drugs are carefully balanced to create effective pharmaceutical products. Therefore, a single formulation can be expected to demonstrate efficacy for treating multiple symptoms.

* Subjective symptoms felt only by the patient, which are not likely to be recognized as abnormality in a test

Areas of Value Creation

Three Preventive Measures for Pre-Symptomatic Diseases

Treatment	Pre-symptomatic treatment (prevention of pre-symptomatic diseases)	Prevention of aggravation (prevention of disease progression)	Prevention of relapses (post-healing care)	Healthcare (prevention)
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.	We identify pre-symptomatic disease from minor changes in physical condition and subjective symptoms, and prevent the development of disease.	When disease occurs, we prevent it from becoming serious by early identification, progress prediction, and swift, appropriate treatment.	We improve prognosis and QOL for disease treatment, and prevent relapses to enable rehabilitation.	By correcting factors such as nutrition (diet), exercise, sleep, and stress level, we increase the body's innate natural healing power, and promote health.



The Tsumura Group has been conducting basic and clinical research for Kampo formulations for about half a century. Through this work, we have accumulated technologies and expertise for analyzing and formulating multi-component formulations, and we are striving to maximize the potential of Kampo medicines. We aim to realize a society where every patient can receive optimal treatments that harness and combine the advantages of both Kampo medicine and Western medicine.

In recent years, we have been making progress in areas and diseases for which Western drugs have not been successful by establishing treatment methods using Kampo medicines based on elucidation of their mechanisms of action and scientific evidence. Trends such as the aging population and increasing participation of women in society have been accompanied by the emergence of new diseases and needs.

To respond to these, we will contribute not only to treatments, but also to health maintenance and promotion in the areas of pre-symptomatic disease and healthcare (prevention).

To this end, we are building the "Kampo value chain," a supply chain that extends from cultivation and procurement of raw material crude drugs to manufacture, sale, and popularization. We will advance our business starting from agriculture and using crude drugs, which are substances provided by nature, and aim to develop primary industries while realizing a recycling society.

We are committed to continuous innovation going forward, 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).





We reinforce our reliable supply system under our Corporate Purpose, “Lively Living for Everyone,” and embrace the evolution of our business for patient health and a more sustainable society.

Supporting a Healthier, Longer-Lived Society through Pharmaceutical Business Based on Natural Ingredients and Recycling

Longer-Term Challenges and the Kind of Society We Want to Help Build

With a full quarter of its population aged 65 and over, Japan is a “super-aged” society. It is estimated that by the late 2030s one out of every three Japanese will be in this age group, and Japan leads the world*1 in average longevity at 84.3 years. But there remains an important disparity, a difference of nearly 10 years between average lifespan and average healthy lifespan. Those 65 and over play important roles in today’s society, a big difference from the elderly of years ago. So it’s important for them to extend the period in which they can live fully and with gusto. I believe that achieving and maintaining this kind of healthy longevity will naturally address many of today’s social issues, such as labor shortages and the growing burden of healthcare and senior care, and a healthy life for every individual will drive the nation’s economic growth.

So for me, the products and services we offer are means to truly extend healthy longevity, and this isn’t just a slogan. I have strong confidence in Kampo medicines, which as multi-component formulations derived from a broad range of crude drugs show real value in treating elderly people, who often live with multiple conditions manifesting in complex ways.

Another social challenge that will fall to the coming generations is the environmental crisis. Kampo medicines come from plants that grow best in pristine natural environments. The Tsumura Group is in the business of formulating these naturally available crude drugs into pharmaceuticals, so we have to be highly alert to changes and crises in the natural environment.

To minimize the environmental impact of our businesses, we have been farming medicinal plants in sustainable ways and recycling crude drug residues into resources. In recent years, we have also been considering incremental increases in the ratio of renewables in our total energy supply, as well

as shifting to more eco-friendly product packaging. We work to make our businesses sustainable so we can conserve biodiversity while recycling resources.

*1 Source: World Health Organization, World Health Statistics 2023

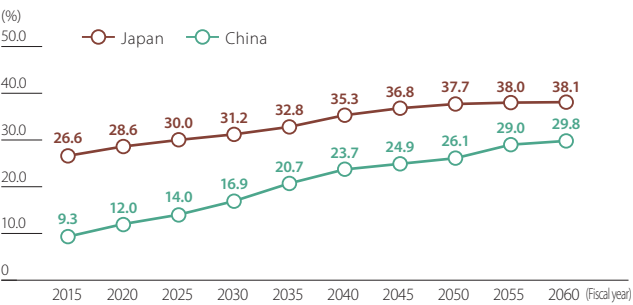
Charting a Path for Growth Using Our Core Competence

There is a saying that “one lamp can light up a corner, but a thousand can illuminate an entire nation.” I cherish this idea as an image for the sustainable development of the Tsumura Group and society together. To build a better society, it’s important that each company lights one little corner with its strength. Our Group must conduct business based on the unique core competence it has built over the decades, the technology and expertise to produce high-quality pharmaceuticals from natural substances. With this as our competitive strength, we provide patients with Kampo medicines of guaranteed safety, efficacy and consistency.

The crude drugs our products derive from contain many components that science has yet to fully understand. We at Tsumura have been studying and pursuing the hidden potentials of natural crude drugs for over 130 years. As a result, we are confident in our experience in this field. By expanding this core competence with advancing digital technology, which allows for scientific interpretations of the “patterns”^{*3} used in traditional Chinese medical diagnosis and can automate Kampo medical interviews, we work to make Kampo treatments available to everyone, leaving no patient behind. I feel that we have an enormous role and responsibility to patients who struggle to draw positive results from Western treatments. This is why we have to be a corporation in constant evolution.

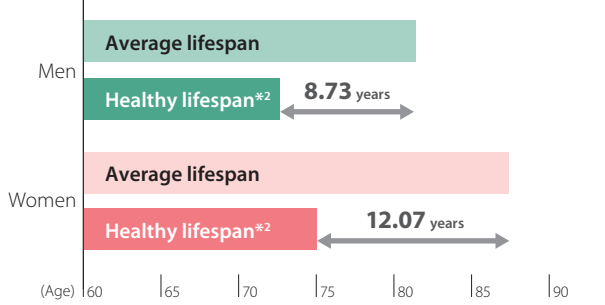
In applying our core competence to foods and other

Population Aged 65 and Over



Source: Graph prepared by the Company based on Cabinet Office, “Annual Report on the Aging Society 2022,” Chart 1-1-6

Disparity between Average Lifespan and Healthy Lifespan



*2 Average period of unrestricted daily living
Source: Graph prepared by the Company based on Ministry of Health, Labour and Welfare, “White Paper on Social Security and Work Styles 2022,” Chart 2-1-1

fields, high-quality manufacturing will be possible there as well. We will create a new growth pillar beside the prescription Kampo formulation business, building multi-pillar operations

rather than diversification.
*3 Evidence of the condition of the person (individual differences in physical constitution, physical strength, resistance, and presentation of symptoms)

Steady Execution of Strategies with a Focus on Our Long-Term Management Vision

Enhance Systems to Maintain Reliable Supplies

Taking lessons from the Great East Japan Earthquake, the Tsumura Group has been revising and enhancing its business continuity plan by making its plants more earthquake-safe and reviewing optimal inventory levels. Still, we felt the effects of the sudden surge in demand for Kampo medicines with the seventh pandemic wave in the summer of 2022 and short supplies of prescription drugs at other pharmaceutical firms. The result was significant inconvenience to patients and healthcare professionals due to shipment limitations. Reflecting on this, we have taken on a new mission to substantially reinforce our supply system while raising the precision of our demand projections.

Some investors may think it's inefficient in normal times to maintain spare production capacity and ample inventories with emergencies in mind. However, lessons from past emergencies show us that it's increasingly necessary to maintain relatively high inventory levels in Japan. We plan to invest in crude drug warehouses and other facilities, and are incrementally moving forward with investments ahead of schedule. Many producers are involved in growing the plants we rely on for drug ingredients, and it takes tremendous time and work to process plant roots and fruits into crude drugs. To broaden and deepen understanding on this matter, we've been communicating the state of the Kampo drug business with those in healthcare services, academia and related government authorities. We've been conducting educational outreach for over a decade for prescription drug sales agencies and healthcare organizations, responsible for intermediary distribution, to improve understanding of the production processes and value of Kampo medicines.

The National Health Insurance system exempted 1,943 kinds of prescription drugs from the 2024 price revisions due to fast-rising costs for raw materials and challenges to the reliable supply of prescription drugs, and 66 money-losing products of the Tsumura Group were made eligible for price reevaluation. We will continue reinforcing and enhancing our system for reliable supply of high-quality, safe prescription Kampo formulations in high demand for therapeutic purposes.

Follow Through on Our Philosophy to Thrive in Uncertain Times

Fiscal 2024 is the final year of our first medium-term management plan, and by the end of the year, we project that we will achieve all our numeric targets. But we're looking



beyond that, focused on realizing our long-term management vision. For the moment, our entry into the traditional Chinese medicinal product business in China and our initiative to double productivity are running a little behind, so we have designated these as our top priorities for fiscal 2024.

Using backcasting management, the Tsumura Group will move forward with our Corporate Purpose leading the way. Our Purpose is different from the generally accepted translation, "reason for existence," in that while it is not currently front and center for our patients and customers, it is a Business Commitment guiding our long-term future. In other words, it is the core mission of our businesses. The Purpose is creating good opportunities for Tsumura employees to see their responsibilities from a new and different level, imagining what they can do to help drive positive change for patients and society. This mirrors what our founder envisioned with the Company's first product, Chujoto, 130 years ago, and I feel it has smoothly permeated the organization now.

The 2022 inclusion of sustainability in the TSUMURA GROUP DNA Pyramid also carries significant meaning. In the short term, measures to address climate change may appear to be a trade-off against our more traditional corporate functions. However, we are exploring points where these values can meet in balance, and we will work to grow as a socially positive business.

To survive and thrive in times of VUCA*4, when it's hard to see what the future holds, a corporation must have a compass to stay on course and avoid running aground. For our Group, the DNA Pyramid is that compass. As I pursue my commitment as CEO, I remain strongly focused on sustainably enhancing our corporate value.

*4 Volatility, Uncertainty, Complexity and Ambiguity: conditions in which predicting the future of society and business are hard because of extremely high variability

Long-Term Management Vision Built on Five Bold Policies

Using Backcasting in Management

We built Tsumura's long-term management vision, targeting fiscal 2031, on five basic policies that the Board of Directors began discussing in late 2020. These include contributing to health and social sustainability, raising overseas sales to over 50% of total sales, having the healthcare business account for over 50% of total sales, doubling labor productivity, and cultivating global management personnel and in-house entrepreneurs. These policies are now the foundation of management backcasting from our vision for 2031.

Assessing the business environment going forward, we expect the largest impact to come from the decreasing working-age population, making it increasingly difficult to secure human resources. Our sense of crisis about this led to the inclusion of doubling productivity in our basic policies. Pursuing change that will allow us to achieve our desired results with less labor, we are steadily investing in automation, making greater use of digital and robotic technologies.

Our immediate challenge is building a foundation for entry into the traditional Chinese medicinal product business in China. We've been putting a great deal of time into discussing this in board meetings, resulting in what I believe are solid decisions.

Based on the basic principle of "pay for purpose," we revised our system of director remuneration in fiscal 2022. Specifically, we introduced long-term incentives to strengthen the link between corporate value and director pay. For indicators, we incorporated relative TSR (TOPIX growth rate comparisons) to assess corporate value and reduction of greenhouse emissions and cultivation of wild-growing medicinal plants to assess sustainability. In regards to business value, our indicator is whether overseas sales account for more than 50% of total sales. This is designed to motivate directors to build corporate value and embody and accelerate our reform ideas.

Basic Capital Policy Principles and Revamped Shareholder Return Policy

In the process of drawing up our long-term management vision, we began looking at return on invested capital (ROIC) as a new management control index. Realizing this vision will require good balance sheet management, and we feel strongly about accelerating Tsumura's evolution to a higher level of management. We officially introduced ROIC as an index in fiscal 2022, and have been using it to help optimize our inventories and receivables turnover rate. We've asked Ryohei Yanagi, who came on as an outside director in June 2023, to join our meetings on capital policies, which has accelerated discussion of policies that best suit our businesses based on sound financial principles.

In November 2023, we announced new basic principles on capital policy and revised our shareholder return policies, projecting a significant dividend increase for fiscal 2024. We will make returns to our shareholders based on the revised policies, with longer-term profit levels and cash flow as well as good balance sheet management in mind as we build corporate value by actively investing for growth.

Five Key Themes for the Board of Directors in Fiscal 2024

- 1. Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan
- 2. Monitor the progress of the China business, including establishment of the related corporate governance system
- 3. Based on our Purpose and Corporate Philosophy, pursue sustainability-oriented management, human resource development and initiatives to favor the environment and society
- 4. Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.
- 5. Further promote capital policies to build corporate value

Focus Tsumura's Philosophy-Based Management

Tsumura's point of origin was the commercialization of a Japanese and Chinese 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 the well-balanced state of mind and body, or well-being, of each individual. With this founder's spirit, we looked ahead to healthcare 50 to 100 years into the future, and in 2022 formulated the Tsumura Group's Corporate Purpose, "Lively Living for Everyone," as the Business Commitment we intend to ultimately achieve.

This Purpose is positioned at the top of the TSUMURA GROUP DNA Pyramid, together with the Tsumura Group's Principles, "In the Spirit of Nature's Laws," which have been unchanged since the Group's founding. The reference to nature's laws is from the ancient Chinese classic *I Ching: The Book of Changes*, and means that one should "Obey the will of heaven and satisfy the desires of the people." We interpret "heaven" to refer to nature in the broadest sense, and the Principles express our willingness to conduct business correctly

in accordance with the principles of nature at all times in order to contribute to the good health that people earnestly desire.

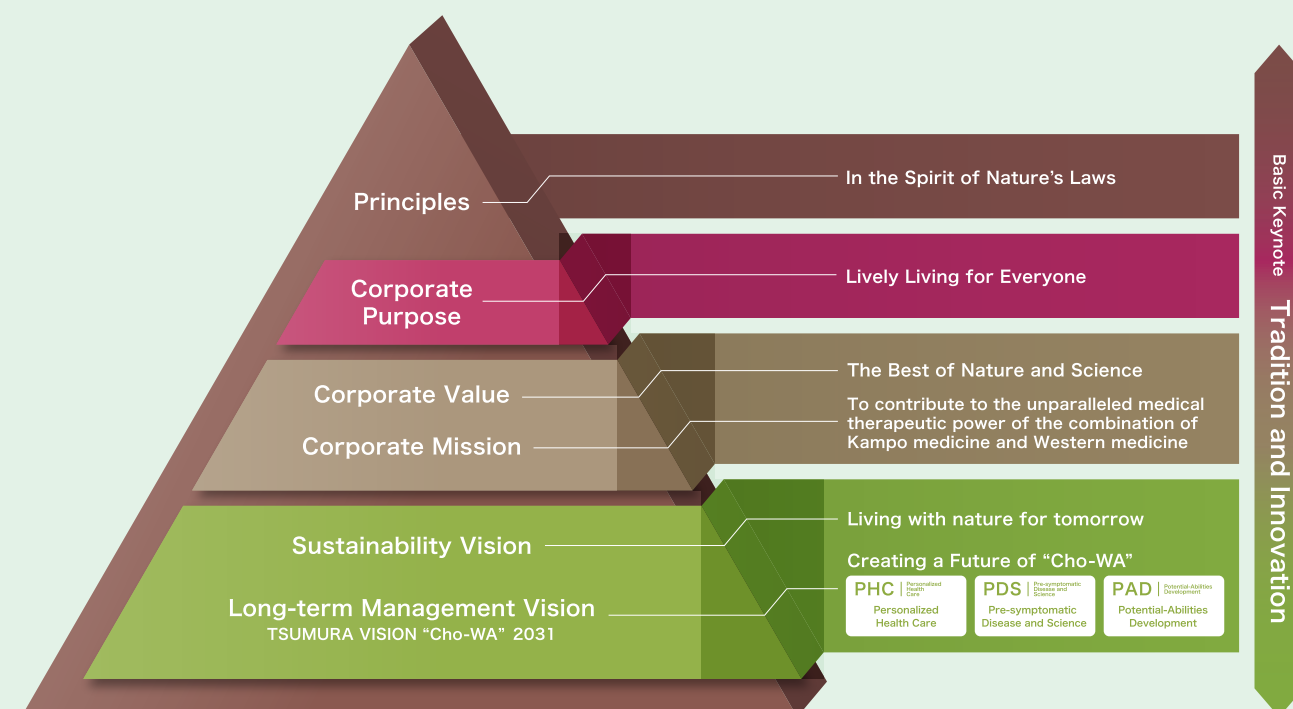
The middle tier of the DNA Pyramid comprises our Corporate Value, which represents our unchanging basic values, and our Corporate Mission, which is our reason for existence. We conduct management based on this Value and Mission.

The bottom tier of the pyramid is our sustainability vision, "Living with nature for tomorrow," and our long-term management vision, TSUMURA VISION "Cho-WA" 2031, which describes our vision for fiscal 2031. These two visions have been incorporated into the strategic challenges of our three-year plan, and associated with the strategies of each business division.

Based on the above-mentioned Principles, Corporate Purpose, Corporate Value, Corporate Mission, sustainability vision, and long-term management vision, we are striving to create social value by maintaining a rich natural environment and realizing a society of healthy longevity.

For more details, please refer to "Corporate Philosophy" on the Company's website.
<https://www.tsumura.co.jp/english/corporate/policy/>

TSUMURA GROUP DNA Pyramid



Creation of Shared Value with Society

- 11 Characteristics of the Kampo Business
- 15 The Tsumura Group's CSV
- 17 Feature: Development of Kampo Medicine Research

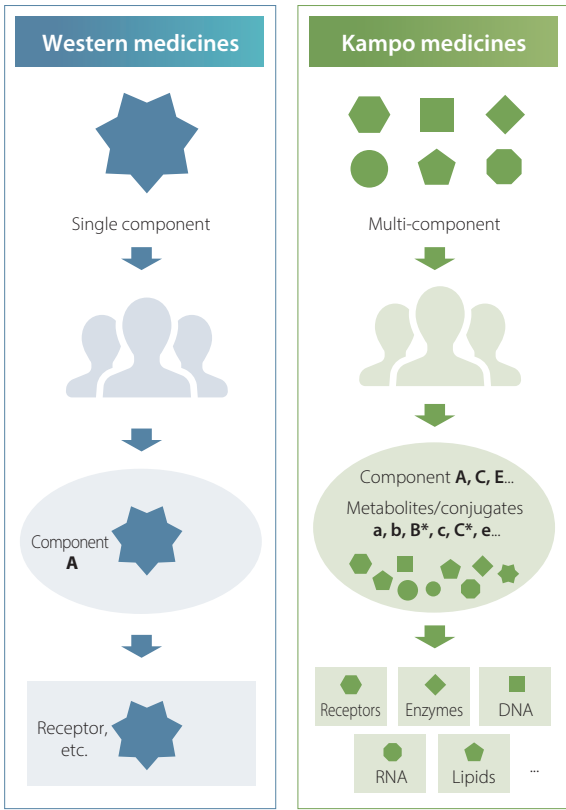
Characteristics of the Kampo Business

Kampo Treatment Expanded 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 working to build evidence by conducting basic and clinical research.

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—Goshajinkigan and Hangeshashinto. These drug-fostering program formulations are contributing to the 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. We have been working to gain write-ups for these formulations in medical treatment guidelines.*1

Through the Company's research activities, it has established a foundation for recognition of Kampo formulations as standard treatments*2 by physicians. 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.



*1 A compendium of diagnoses and standard guidance on treatment for each illness, describing the best tests and treatment methods, etc. based on evidence
*2 Optimal treatment methods recommended to most patients, with efficacy and safety confirmed based on evidence

Status of Evidence-Building

As of the end of March 2024

	No.	Formulation name	Integrated analysis (No. of research papers)	RCT (No. of research papers)	Mechanism of action	Study on frequency of side effects	Pharmacokinetics (ADME)*3	Database research (health economics, etc.)
Drug-fostering program formulations	100	Daikenchuto	4	38	○	○	○	○
	54	Yokukansan	5	21	○	○	○	○
	43	Rikkunshito	2	26	○	○	○	○
	107	Goshajinkigan	2	15	○	-	○	-
	14	Hangeshashinto	2	11	○	-	-	○
“Growing” formulations	17	Goreisan	1	12	○	-	-	○
	24	Kamishoyosan	-	7	○	-	-	-
	41	Hochuekkito	-	17	○	In progress	-	-
	108	Ninjin'yoito	-	2	○	-	-	-
	137	Kamikihito	-	1	○	-	-	-

Notes: 1 ○ indicates the existence of a relevant academic paper, etc.
2 Numbers of integrated analysis and RCT papers are collated from 2000 to March 2024.
*3 Absorption, Distribution, Metabolism, Excretion: Looking at how a drug acts within the body after being taken

Supply Chain Management Based on the Characteristics of Raw Material Crude Drugs

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 the stable quality of crude drugs and the technology and expertise to create consistent Kampo products.

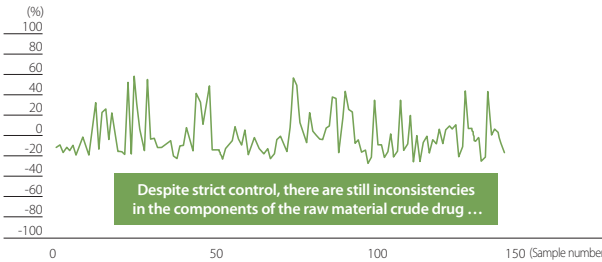
The Tsumura Group has built the Kampo value chain, a proprietary supply chain that manages business activities consistently from upstream to downstream to maintain and improve quality. In the upstream process of crude drug cultivation, we control variation in raw material crude drugs by providing guidance 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 manufacturing process. In the manufacturing 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.

The Group handles 119 types of raw material crude drugs, around 90% of which are procured from China. However, we do not purchase crude drugs from crude drug markets throughout China. By purchasing directly from growers who have acquired Tsumura GACP*4 certification, we have

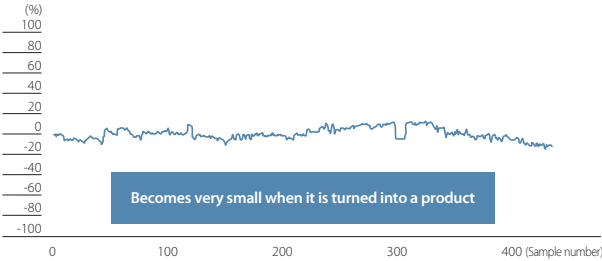
built a traceability system that enables us not only to trace information such as which fertilizers or agrochemicals are used and the cultivation history, but also to trace and check all processes up to delivery to the medical institutions, including history information for the Kampo formulation manufacturing process and logistics steps.

*4 Tsumura's own crude drug production management guidelines created with reference to the guidelines on good agricultural and collection practices for medicinal plants used by the World Health Organization (WHO)

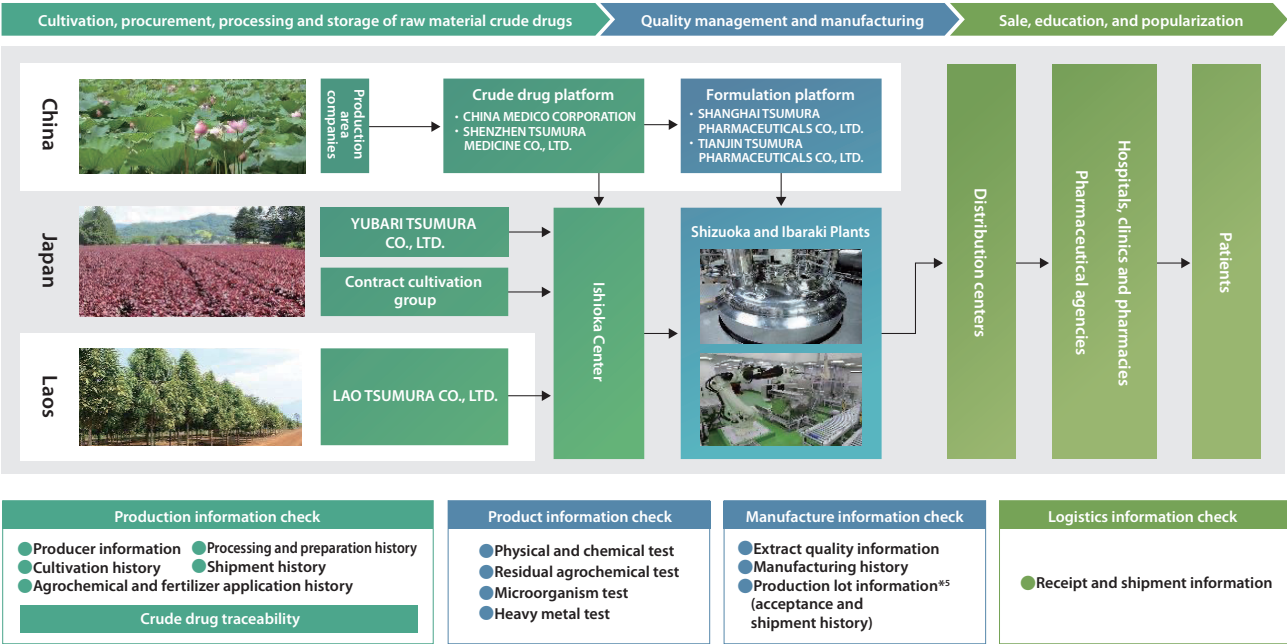
[Crude Drug] Shakuyaku (Peony Root) Divergence Distribution
(For peoniflorin divergence (measured value - mean value) ×100 / mean value)



[Kampo Formulation] TJ-68 Divergence Distribution
(For peoniflorin divergence (measured value - mean value) ×100 / mean value)



Kampo Value Chain and Traceability



*5 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.

Characteristics of the Kampo Market

Domestic Market Trends

The majority of Kampo medicines prescribed at medical institutions in Japan 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, prescription Kampo formulations are prescribed based on examination by a physician, and they now used in ordinary treatment by over 80%*6 of physicians.

The market for prescription Kampo formulations has been expanding steadily since reaching its lowest point in fiscal 1999. In fiscal 2023, the scale of the prescription Kampo formulation market was 187.5 billion yen on a drug price basis, equivalent to approximately 1.6% of the 11.4 trillion yen prescription pharmaceutical market. The Tsumura Group holds an 84.2% share of the prescription Kampo formulation market.

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

Approach to the Market

The Tsumura Group manufactures and sells 129 prescription Kampo formulations. With the leading lineup in Japan, we are

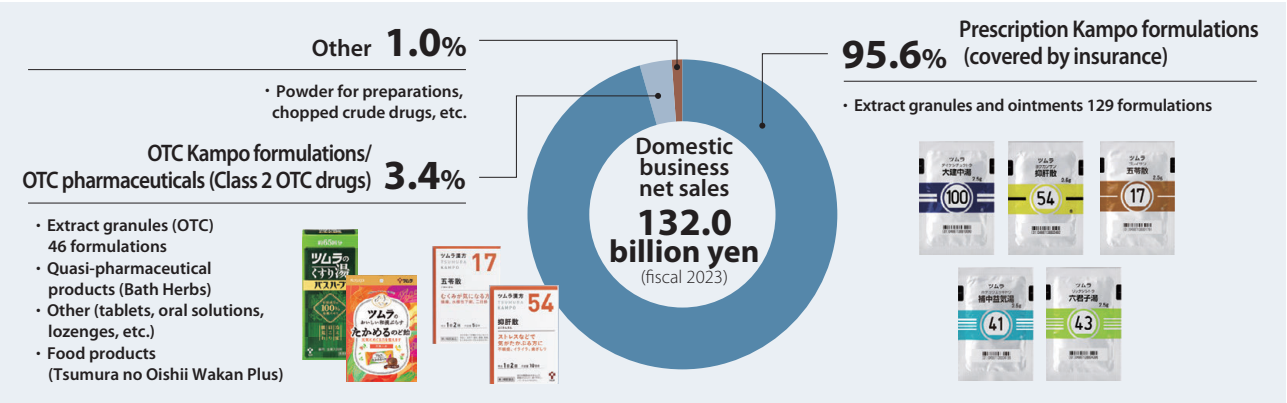
able to respond to a wide range of treatment areas. Currently, our products are used in virtually every hospital department.

In addition, Kampo treatment is characterized by the use of various drugs to suit the constitution and condition of each individual patient. It is important to spread the knowledge of Kampo medicine so that even physicians who do not specialize in Kampo are able to prescribe Kampo formulations. Therefore, in addition to providing information to medical professionals on the safety, efficacy, and quality of our products, our MRs*7 also conduct activities to spread understanding about the establishment of formulations and different uses based on the principles of Kampo medicine. In this way, we aim to realize a medical setting where all patients can receive Kampo treatment suited to them individually, regardless of the medical institution or clinical department.

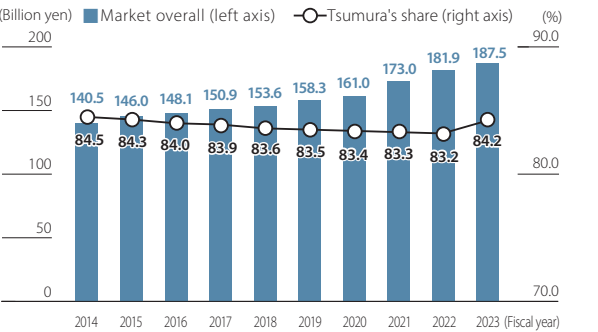
Moreover, the ratio of prescription Kampo formulations administered is highest for women of all generations, accounting for half the number of elderly patients aged 65 or over. The Group has designated as its key areas geriatric health, which is an acute social issue in Japan, cancer (supportive care), and women's health, and is striving to increase the quantity and quality of the information it provides.

*7 Medical Representatives

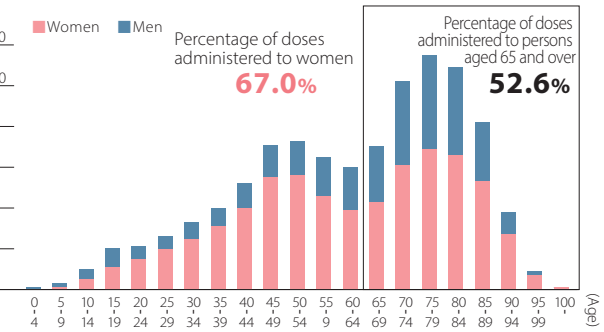
Domestic Business Product Lineup



Prescription Kampo Formulation Market Trend (Drug Price Basis)



Ratio of Prescription Kampo Formulations Administered



Source: Graph prepared by the Company from the Ministry of Health, Labour and Welfare's 7th NDB data

Characteristics of the Traditional Chinese Medicine Market

Classification of Traditional Chinese Medicines

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 classical theory, 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 formulations have been created, and traditional Chinese medicinal products have been continuously developed.

In traditional Chinese medicine, treatments are classified into traditional Chinese medicinal products and traditional Chinese drug pieces. There are also health foods that are made using crude drugs for healthcare (prevention).

Traditional Chinese Medicine Market Trends

The traditional Chinese medicine market in China is valued at approximately 16 trillion yen, making it more than 60 times the size of the Japanese market for Kampo products and crude drugs. Within this, the market for traditional Chinese medicinal products is around 11 trillion yen, and the market for raw material crude drugs and traditional Chinese medicine drug pieces is around 5 trillion yen. Traditional Chinese medicinal products have been formulated from ancient times until the modern era, with approximately 9,000 formulations approved in China. Of these, the Pharmacopoeia of the People's Republic of China*8 listed approximately 1,600 formulations, while approximately 300 formulations originate from the principal classics.*9 There are around 600 types of traditional Chinese medicine drug pieces commonly used in traditional Chinese clinics. These have been made through improvement processing*10 of raw materials for traditional Chinese medicines.

The Chinese government's policy is to focus on the development 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 1,600 companies that manufacture traditional Chinese medicines, so the level of concentration in the market

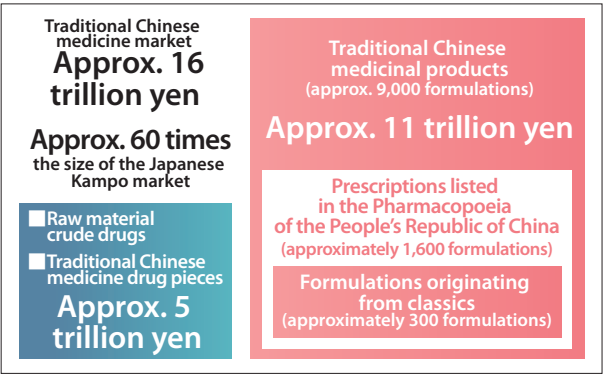
is not so high. However, groups of traditional Chinese medicine manufacturers are gradually being formed.

Approach to the Market

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 traditional 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.

*8 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
*9 Treatments included in ancient medical texts compiled in the Qing dynasty and earlier
*10 Processing by methods including steaming, boiling, and frying

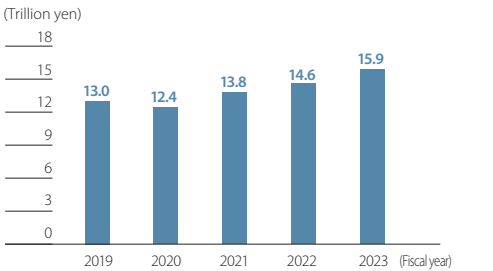


Source: Created by Tsumura from data provided by the Chinese National Medical Products Administration, Chinese Ministry of Industry and Information Technology, and National Bureau of Statistics of China data
Converted at 1 RMB = 19.93 yen (as of December 31, 2023)

China Business Product and Service Lineup



Traditional Chinese Medicine Market Trend



Notes: 1 Converted at 1 RMB = 19.93 yen (as of December 31, 2023)
2 Chinese Ministry of Industry and Information Technology and National Bureau of Statistics of China data

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 highest 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 achieve. The Group has grown through the scientific study of nature’s wisdom, and we therefore consider efforts toward creating shared value (CSV) based on a sustainable society and the natural environment as the key to enhancing our competitive advantages and contributing to increased corporate value.

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 27 “Materiality” for details.

Creation of shared value with society	
Science	<p>Creation of new value through pharmaceuticals and products derived from natural substances</p> <p>In TSUMURA VISION “Cho-WA” 2031, we aim to contribute to people’s health and create a future with 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.</p> <p>Pharmaceuticals derived from natural substances</p> <p>Kampo formulations are pharmaceuticals derived from natural substances. They are multi-component formulations made up of 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.</p> <p>Products made from Yakushoku Dogen crude drugs</p> <p>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 (Yakushoku Dogen products) to contribute to maintaining and promoting health in the healthcare (prevention) domain.</p>
	<p>Sustainable, stable supply of pharmaceutical products such as Kampo formulations, which are traditional pharmaceuticals</p> <p>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.</p> <p>Building a stable procurement system for raw material crude drugs</p> <p>Kampo medicines use over 100 types of crude drug, such as plants, and they have various cultivation periods ranging from 1 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.</p> <p>Pursuit of safety, efficacy, and consistency</p> <p>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 on the front lines of medicine and our research capabilities backed by advanced technologies are the source of Tsumura’s competitive strength.</p>

Materiality		Strategic approach	Current strengths	Risks and responses	Reference pages
Nature	Sustainable procurement of raw materials (research on cultivation of crude drugs, etc.)	<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● Cultivation of wild crude drugs	<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	WEB Biodiversity and sustainable procurement of raw materials
	Recycling use of resources (recycling of water and crude drug residue)	<ul style="list-style-type: none">● Realization of a recycling society, including effective use of all crude drug residues as raw materials for compost and soil improvers	<ul style="list-style-type: none">● Development and commercialization of blended paper made with crude drug residue● Use of recycled water and steam (reprocessing facility for water used in manufacturing)● 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	WEB Recycling use of resources
	Preservation of biodiversity (restoration of forests, soil, water sources)	<ul style="list-style-type: none">● Preservation of diversity (ecosystems, varieties, genes)● Expansion of forest watershed conservation functions	<ul style="list-style-type: none">● Research on preservation and cultivation of crude drug seedlings● Planting of Japanese umbrella tree and Amur cork tree, a medicinal plant (Yubari City, Hokkaido Prefecture)● Natural environment conservation 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	➔ P45 LEAP Analysis in Response to TNFD Recommendations
	Climate change countermeasures (realize carbon neutrality)	<ul style="list-style-type: none">● Introduction of energy-saving technology● Absorption of CO₂ through cultivation of tree-type crude drugs	<ul style="list-style-type: none">● Increase in water and energy circulation efficiency● Introduction of energy-saving technology● Cultivation of tree-type crude drugs over a large area● Introduction of off-site power purchase agreement	<ul style="list-style-type: none">● Risk of loss of production and distribution functions due to natural disasters, fires, power outages, etc.➔ Diversification of manufacturing and product supply sites, introduction of seismic isolation and earthquake-resistant structures for production facilities	WEB Climate change countermeasures
Health	Expansion of access to high-quality pharmaceuticals and products derived from natural substances	<ul style="list-style-type: none">● Lifestyle involving daily use of Kampo formulations and Yakushoku Dogen 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➔ Building understanding of the value of Kampo formulations, cooperation with industry bodies and recommendations to relevant ministries and agencies	➔ P55 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	➔ P63 Strategic Challenge 4
	Expansion of the standardization of Kampo treatments and building of evidence	<ul style="list-style-type: none">● Expansion of the standardization of Kampo treatments based on evidence	<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 diagnostic support system, scientific elucidation of pre-symptomatic disease● Cooperation framework with research institutes and partner companies	<ul style="list-style-type: none">● 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	➔ P17 Feature: Development of Kampo Medicine Research
	Initiatives for personalized Kampo treatments through cutting-edge technology	<ul style="list-style-type: none">● Contribution to realizing a society of healthy longevity		<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)	
	Contribution to health suitable for each individual's life stage (treatment, pre-symptomatic disease, healthcare (prevention))	<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	➔ P57 Strategic Challenge 2

Feature: Development of Kampo Medicine Research

Establishment of Scientific Evidence for Kampo Formulations

Aiming to Clarify the Mechanism of Efficacy

A large number of pharmaceutical products have been made by identifying an active ingredient derived from a natural substance and synthesizing it. However, only a fraction of the countless active ingredients in crude drugs have been identified. Moreover, in Kampo medicines, there are actually diverse and complex effects, such as effects produced by a single ingredient, effects produced by the combination of multiple ingredients, and effects produced by ingredients when metabolized inside the body after administration. This is why there is endless potential for research investigating mechanisms of efficacy for Kampo medicines.

At Tsumura, we have focused resources on drug-fostering research*¹ since fiscal 2004, working to clarify why something is effective and what is having the effect while building evidence related to efficacy and safety. The huge volume of data that we have accumulated, including internal material that has not been published, is one of the Company's assets. Since fiscal 2016, we have established our priority research themes as geriatric health, cancer (supportive care), and women's health. These are social issues with prominently expanding markets. We are promoting efforts to build evidence for Kampo medicines in these areas.

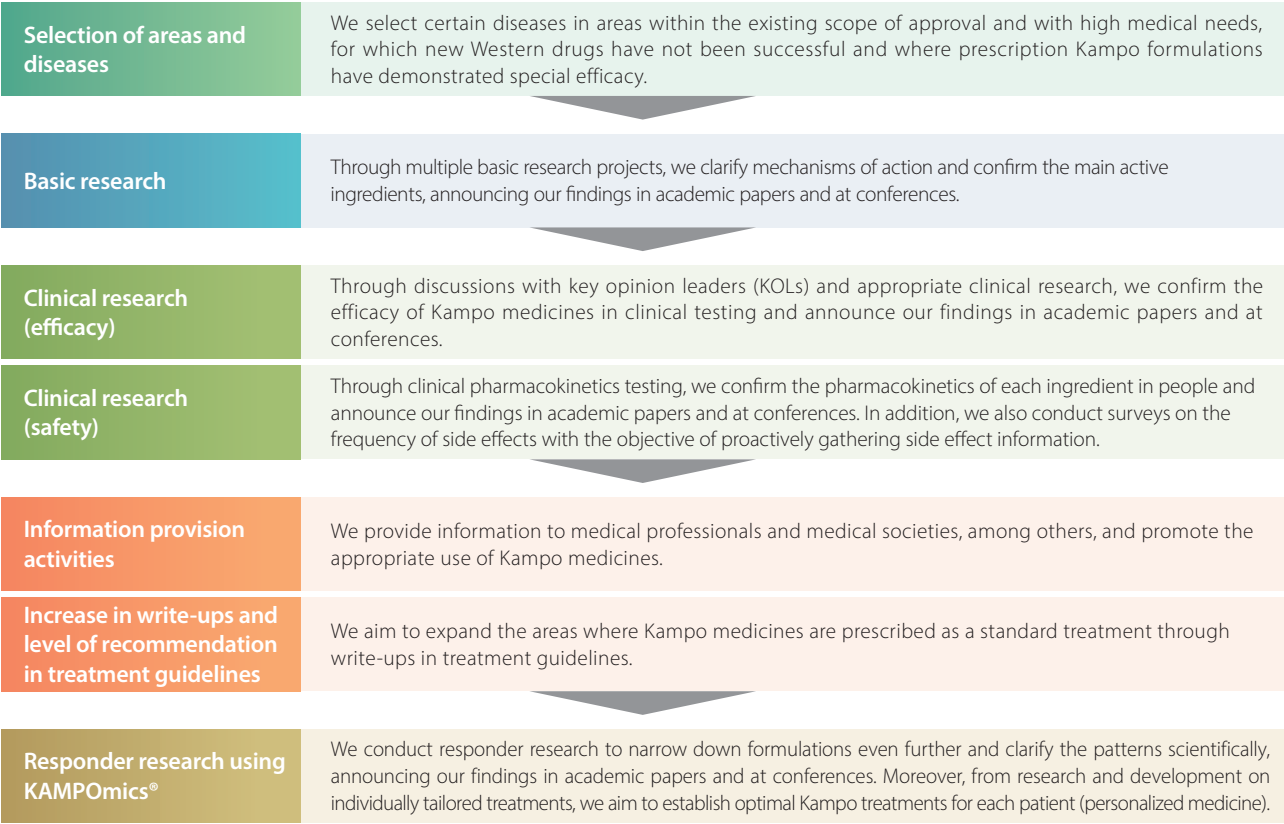
Kampo Medicine Research Is Science

Recently, our research has also focused on searching for responder markers*² aiming to provide scientific clarification of patterns in Kampo medicine. We are also focusing on research into areas such as genes, proteins and biometabolites, and intestinal flora, along with research using clinical databases, in order to shed light on the complex mechanisms of action of Kampo medicines, as well as individual differences in effect.

For Tsumura, research into Kampo medicines goes beyond the category of chemicals, which looks at the nature of substances and changes in phenomena, to include the in-depth pursuit of systematic science backed by theory. We will continue to engage in even deeper research into Kampo medicines derived from natural substances, enhancing our experience in clinical settings while publicizing knowledge about their efficacy and safety through scientific evidence.

*¹ Research activities for accumulating basic and clinical data to establish evidence for diseases that have been resistant to new Western drugs and for which prescription Kampo formulations have demonstrated special efficacy
*² Physiological indexes to differentiate patients who have high potential to show effects in response to treatment (responders)

Research Flow for Drug-Fostering Program and “Growing” Formulations

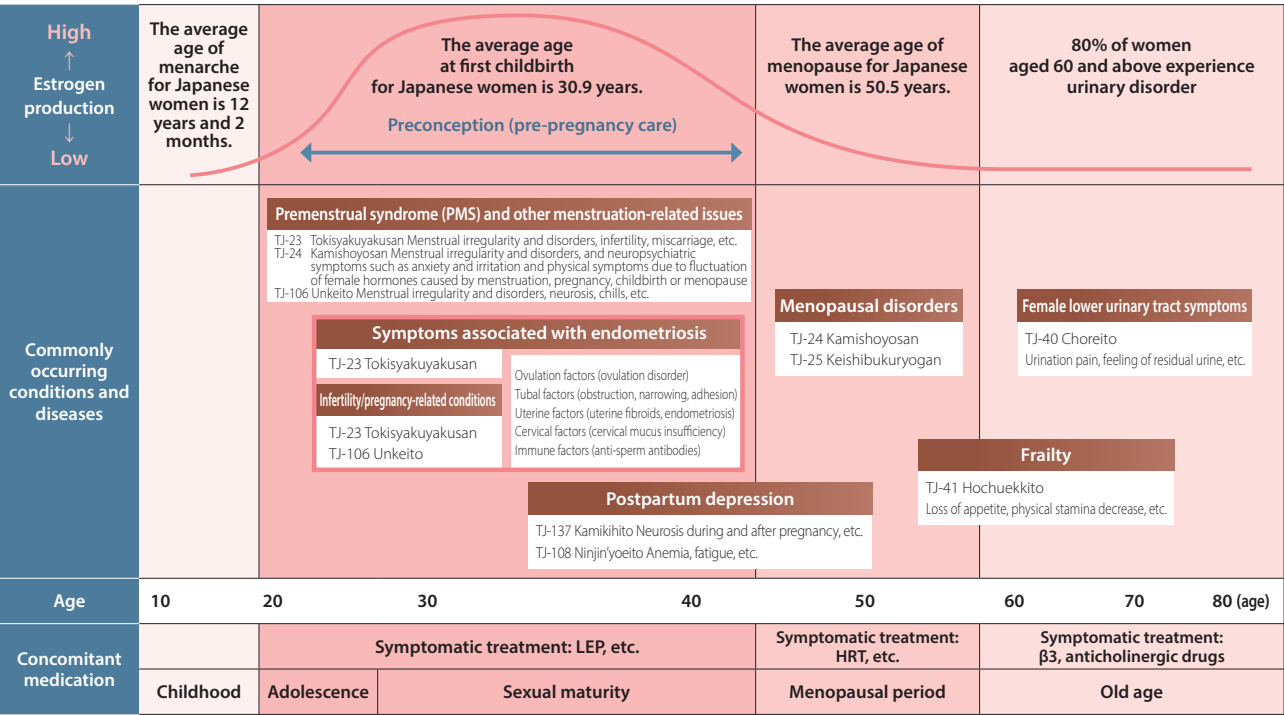


Concentrating Research Resources in Important Domains

In addition to its strategic drug-fostering program formulations and “growing” formulations, Tsumura has been striving to obtain write-ups in treatment guidelines in three important domains, which it set out in fiscal 2016. The first domain is geriatric health, where we are conducting joint research with national research institutes and others on the themes of frailty, dementia, and cardiovascular disease. We aim to extend healthy lifespans with Kampo formulations. The second domain

is cancer (supportive care), where we are advancing research into inflammation in the body and the immune system, including countermeasures for side effects from chemotherapy drugs. We aim to improve the physical condition of patients and help to support them at work. The third domain is women's health, where we are constructing a platform for standard Kampo treatments by clearly setting out research strategies for each life stage to contribute to active lives for women.

Research Strategy for Each Life Stage in the Women's Health Domain



Promotion of CMC Research

CMC*³ is an essential series of processes for pharmaceutical manufacturing and quality control. Tsumura has established the CMC Development Research Laboratories at its Ibaraki research site to conduct R&D on manufacturing technologies that can be applied to the inherent quality characteristics of Kampo formulations and to develop multi-component analysis technologies and quality control technologies to ensure continued stable production. Other responsibilities of the laboratories include manufacturing and quality assurance of investigational new drugs and setting rational quality standards based on the Japanese Pharmacopoeia, while also making reference to laws and regulations in other countries.

CMC research will play an important role in enabling Kampo medicines to contribute to the health and treatment of patients around the world going forward by building quality

evidence for international standards. The reason for this is that in the United States and Europe, where synthetic medicines (Western medicines) are mainly used, CMC research provides efficacy and safety evidence to regulatory authorities to prove the quality of Kampo medicines, which have complex combinations of ingredients. We also need to obtain approval for our unique, rational manufacturing control and quality control systems.


Furthermore, our challenge of building an even more advanced GMP*⁴ system than now, and obtaining approval for it from regulatory authorities, is without precedent anywhere in the entire industry. With a full understanding of the thinking behind synthetic medicines, we are making steady progress in R&D aimed at scientifically elucidating the quality characteristics of Kampo medicines in order to obtain regulatory approval.

*³ Chemistry, Manufacturing, and Control
*⁴ Good Manufacturing Practice: A standard for pharmaceutical manufacturing control and quality control

Accumulating In-House Technologies


Tsumura's three research and development laboratories are accumulating proprietary technologies and expertise related to their respective missions and research fields. The three research laboratories are striving to advance Kampo medicine research while developing closer coordination with each other.

Tsumura Kampo Research Laboratories



Tsumura Kampo Research Laboratories is engaged in both basic and clinical research aimed at advancing the standardization of Kampo treatment. In basic research, we focus on clarifying the mechanism of effect of Kampo medicines based on evidence from clinical research and on creating data to assist with personalized medicine. We are also accumulating expertise on the creation of experimental model animals and evaluation methods specialized for Kampo medicines. In clinical research, we are conducting in parallel evaluation of markers that have been used to evaluate Western medicines and evaluation specific to Kampo medicines. We are collecting evidence as we investigate the relationship between these. Through these research activities, we are striving to contribute to the standardization and spread of Kampo treatment.


Tsumura Advanced Technology Research Laboratories



Tsumura Advanced Technology Research Laboratories is engaged in establishing and advancing mass spectrometry technology for clarifying the action of Kampo medicines on living organisms, gene analysis technology, intestinal flora analysis technology, and systems biology,*5 among others. The main characteristic of the facility is its construction of a platform unique to Tsumura that integrates and systematizes these proprietary technologies as KAMPOmics®. Using this platform, we will conduct research into the efficacy, quality, and safety of multi-component formulations, scientifically clarify pre-symptomatic diseases, and create biomarkers for use in personalized Kampo medicine. In parallel with this, we have also started building a Kampo diagnostic support system.

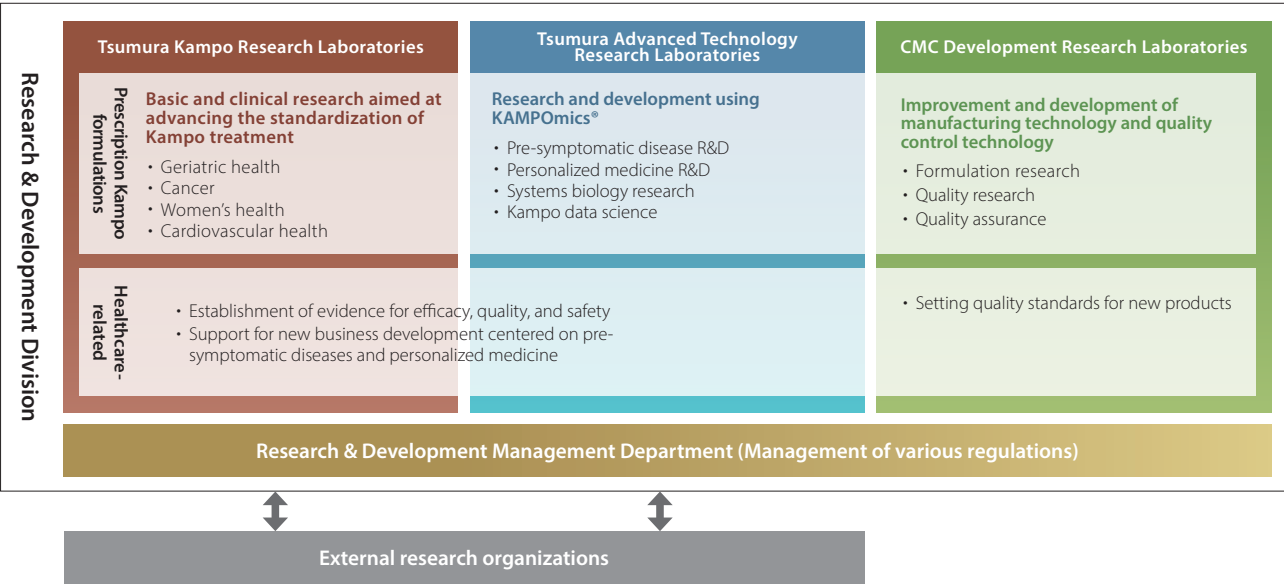
*5 A field of research that seeks to provide a comprehensive explanation of biological functions by focusing on the interaction between genes, proteins, metabolites and other biological factors

CMC Development Research Laboratories



CMC Development Research Laboratories is mainly responsible for improvement and development of manufacturing technology and quality control technology related to Kampo extract powder and formulations, and manufacturing and quality assurance of investigational new drugs. The laboratory has a number of patents related to new analysis technologies used in quality testing and quality control for exogenous impurities. In particular, for analysis methods related to agrochemical residue, it has patents not only in Japan, but also in the United States and China. In light of the Company's new businesses going forward, the laboratory is expected to acquire patents combining new plant and Kampo extract extraction methods, their compositions, and pharmacological actions, and to establish industrial-scale manufacturing technologies.

R&D Structure



Using KAMPOmics® to Promote the Scientific Study of Kampo

KAMPOmics® is a research package developed by Tsumura. It combines research on cutting-edge technological fields where Tsumura has strengths (metabolomics,*6 genetics, intestinal flora, systems biology, etc.), and is formulated to gain a comprehensive understanding of Japanese traditional Kampo medicine, and the action mechanisms of Kampo medicines with their multiple components and complexities. Looking ahead, we will leverage this research system to accelerate applied research towards our goals of establishing the most appropriate Kampo treatment for each patient (personalized medicine) and the scientific study of pre-symptomatic diseases.

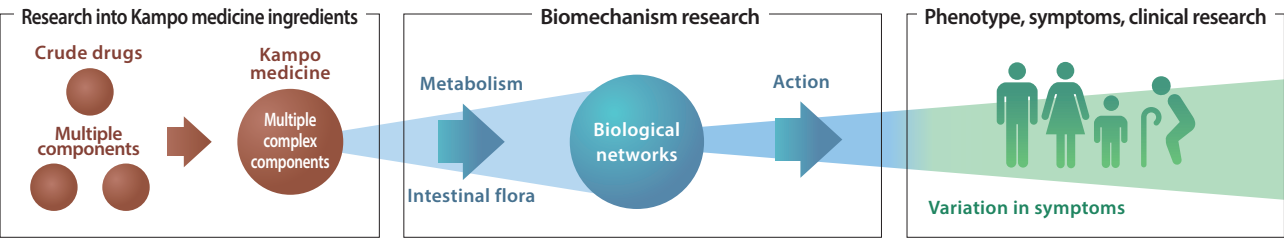
In our initiatives for personalized medicine, we are promoting research that will help to clarify common characteristics of patients for whom Kampo medicines have shown a prominent effect, and the development of an AI Kampo diagnostic support system that will conduct science-backed diagnosis of patterns, which is considered to be in the

realm of accomplished Kampo practitioners. Meanwhile, for the scientific study of pre-symptomatic diseases, we first created a scientific perspective on what constitutes a pre-symptomatic condition to enable us to understand, as a system, the status of the body from pre-symptomatic disease to disease, and we are now concentrating on research into biomarkers to objectively understand the effects of prescription Kampo formulations in relation to pre-symptomatic treatment, prevention of aggravation, and prevention of relapses.

We will develop the results obtained through this series of research activities from our proprietary intellectual property to development, aiming to rapidly achieve social implementation of the Company's technologies through initiatives such as developing a service that objectively evaluates individual physical conditions and symptoms, and building a pre-symptomatic disease diagnosis system.

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

Using KAMPOmics® Technologies



Multicomponent analysis of Kampo and crude drugs

We conduct comprehensive analysis of components included in Kampo medicines and crude drugs, and utilize this in searching for active ingredients in pharmacological research. We also examine the quality evaluation of Kampo formulations using a Kampo medicine multicomponent profile.

Systems biology	We conduct research that seeks to provide a comprehensive explanation of biological functions by focusing on the interaction between genes, proteins, metabolites and other biological factors.		
Pharmacokinetics	We evaluate the pharmacokinetics and pharmacological interaction of the active ingredients in Kampo medicines.	Microbiome	We are clarifying the interaction between intestinal flora and Kampo medicines, and examining the possibility that intestinal bacteria could be a biomarker that stipulates the effects and side effects of Kampo medicines.
<ul style="list-style-type: none">• Genome (gene sequence)• Epigenome (modulation of gene expression)• Transcriptome (transcripts/mRNA)	The involvement of genetic factors in the complaints for which Kampo medicines are effective, and the characteristics of gene expression related to pre-symptomatic diseases are becoming clear. Comprehensive genetic analysis is making progress on clarifying the pathophysiology of sensitivity to cold and the mechanism by which Kampo medicines are effective in treating it, including the identification of single nucleotide polymorphisms (SNPs) related to sensitivity to cold. Analysis of the transcriptome of senescence-accelerated mice identified intron retention (IR) as a pre-symptomatic condition related to aging, and we are examining the potential for IR to serve as a biomarker for pre-symptomatic diseases and the efficacy of Kampo medicines.		
Proteome	We comprehensively measure the proteins in the body and clarify the impact of Kampo medicines on them to investigate their potential as biomarkers for pre-symptomatic diseases and the effects of Kampo medicines.	Metabolome (metabolites in the body)	We comprehensively measure low-molecule components (metabolites) such as amino acids and lipids in the body and clarify the impact of Kampo medicines on them to investigate their potential as biomarkers for pre-symptomatic diseases and the effects of Kampo medicines.
Data science	We are promoting the accumulation of evidence for Kampo medicine using medical big data.	<ul style="list-style-type: none">• Pharmacology• Clinical testing	
Kampo diagnosis	We are working to develop an AI Kampo diagnostic support system.		
In addition to pharmacological research, we also conduct systems biology research with various omics analyses, aiming to fully clarify the action of multi-component Kampo medicines to contribute to the scientific study of pre-symptomatic diseases and Kampo-based personalized medicine.			

Value Creation Strategy

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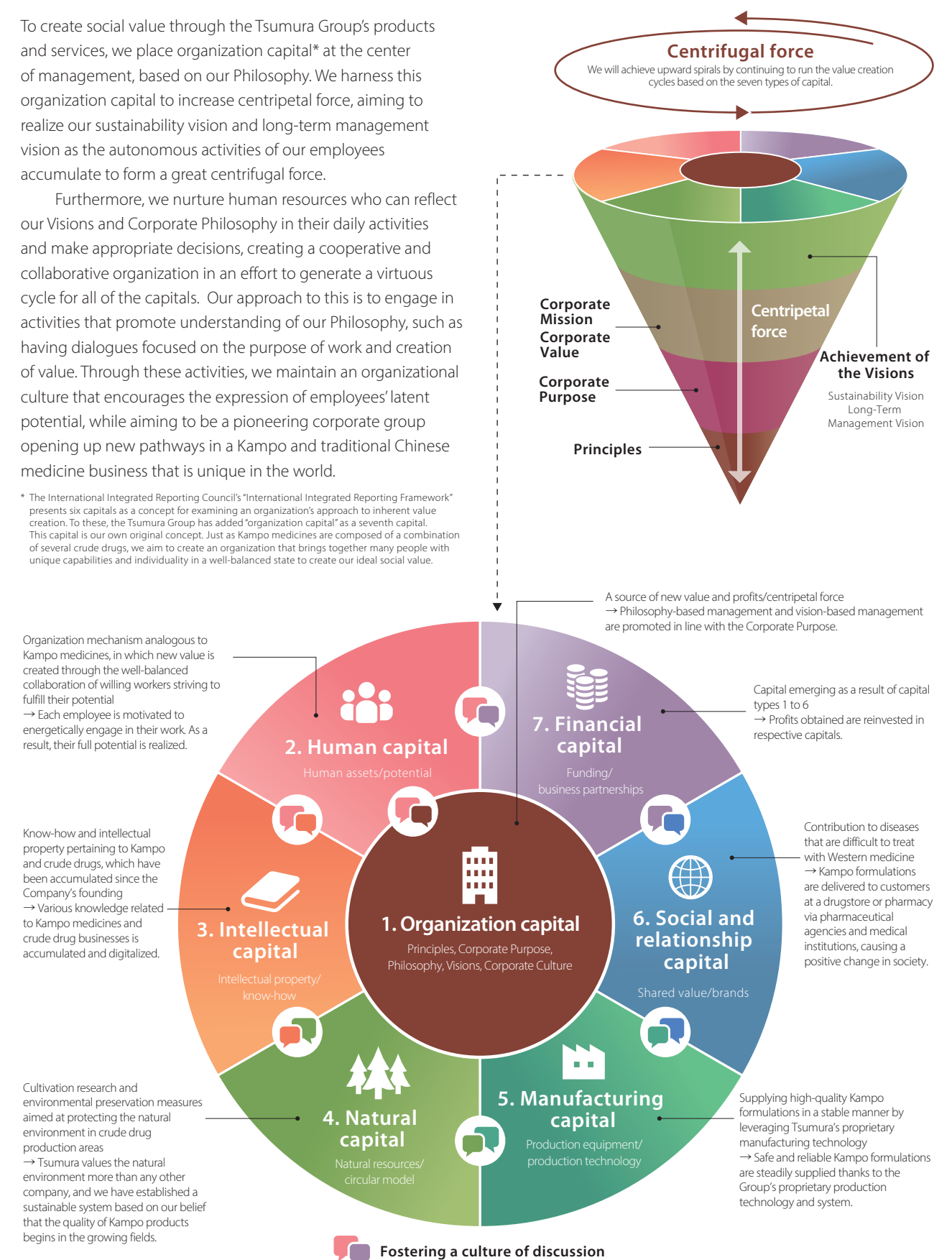
Value Creation Cycle

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 2023 results

1. Organization capital

- Organization mechanism analogous to Kampo medicines
- **131** th anniversary of founding
- Corporate Philosophy survey: **4.02** pt

2. Human capital

- Number of employees (consolidated): **4,138**
- Education expense per person (non-consolidated): ¥ **120** thousand
- Percentage of employees with disabilities: **2.50** %

3. Intellectual capital

- R&D expenses: ¥ **8,288** 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: **2,164** TJ
- Water used: **2,151,950** t
Water recycling rate (Ibaraki, Shizuoka and Shanghai): **57.4** % on average
- Percentage of industrial waste recycled: **99.9** % (non-consolidated)
- 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: **84.6** %

5. Manufacturing capital

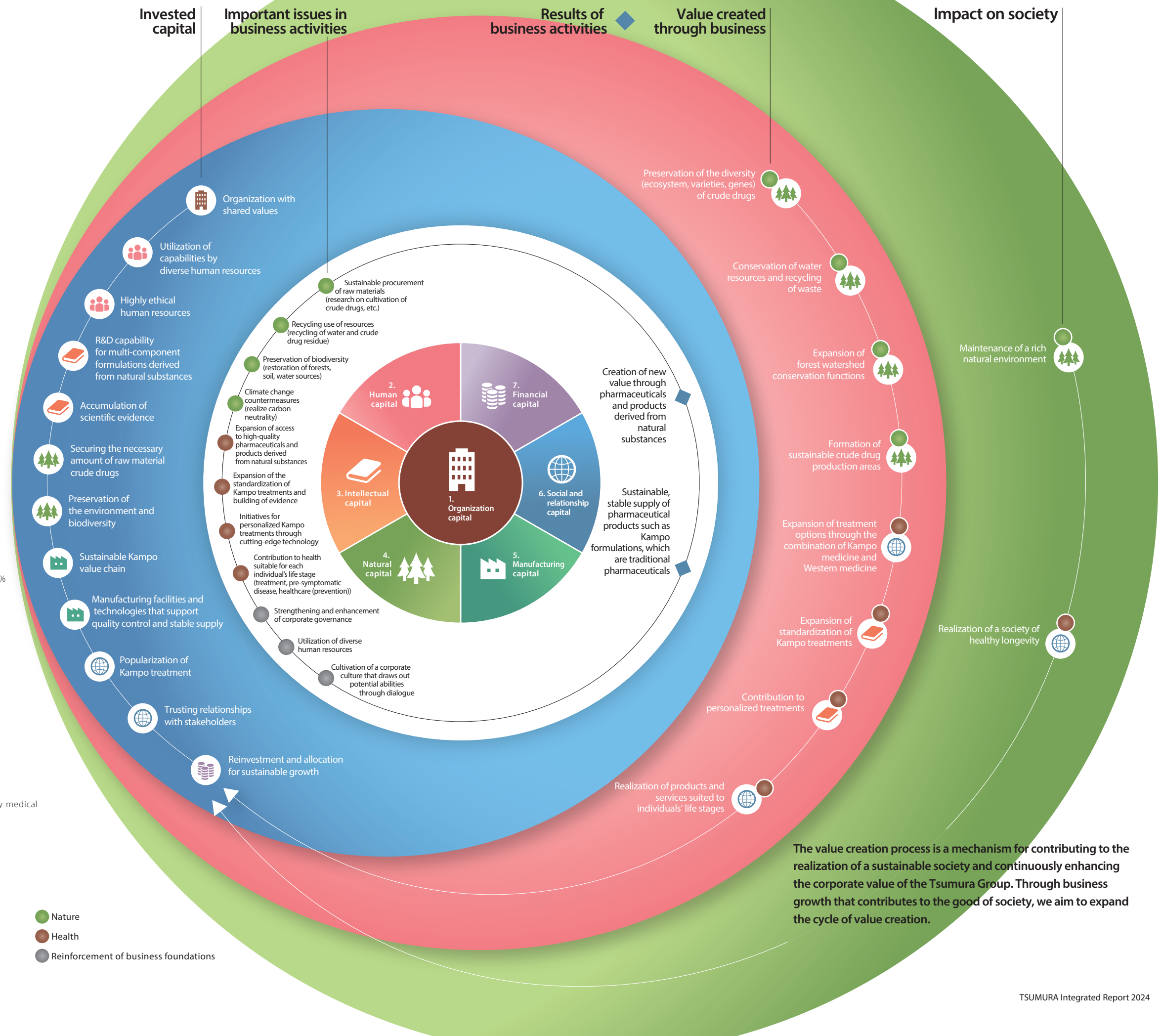
- Selection, processing and quality management:
2 sites in Japan, **2** sites in China
- Manufacturing plants: **2** sites in Japan, **2** sites in China
- Research centers: **1** site in Japan, **1** site in China
- Capital expenditure: ¥ **18,352** million

6. Social and relationship capital

- Percentage of physicians prescribing 10 or more Kampo prescriptions: **39** % (approx. 127,000 physicians)
- Kampo medicine education being implemented at all university medical departments and medical colleges
- Number of consultations at customer consultation desk: **35,017**

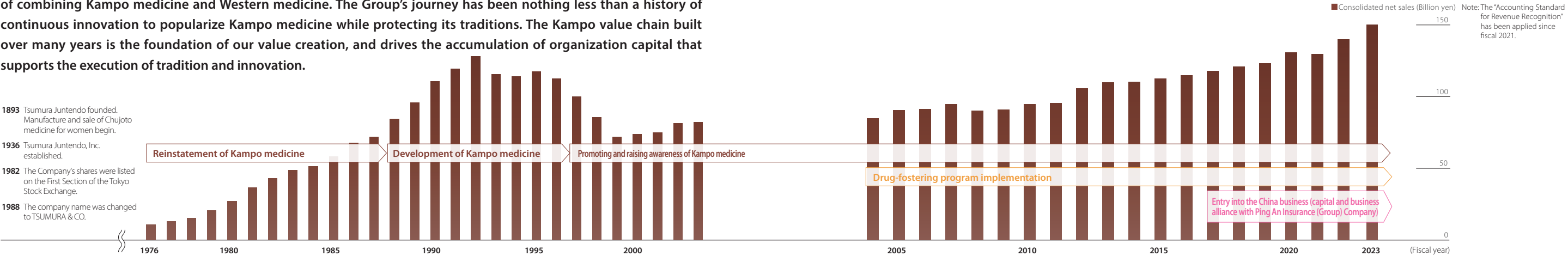
7. Financial capital

- Net sales: ¥ **150,845** million
- Operating profit: ¥ **20,017** million
- Free cash flow: -¥ **13,743** million
- Total assets: ¥ **428,254** million
- Shareholders' equity: ¥ **270,802** million

















Building a Foundation for Value Creation

The Tsumura Group has worked to popularize and scientifically clarify prescription Kampo formulations with the aim of combining 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. The Kampo value chain built over many years is the foundation of our value creation, and drives the accumulation of organization capital that supports the execution of tradition and innovation.



Changes in the Kampo Value Chain

Foundation for Value Creation

R&D	<div>1924</div> <div>Tsumura Research Institute for Pharmaceutical Science and Tsumura Medicinal Plant Garden opened.</div> <div></div> <div>1926</div> <div>Tsumura Research Institute for Pharmaceutical Science takes over publication of <i>The Journal of Japanese Botany</i>.</div> <div></div> <div>1991</div> <div>Double-blind testing performed after receiving a directive to reevaluate eight Kampo formulations.</div> <div>2001</div> <div>TSUMURA USA, INC. established as a pharmaceutical development base in the United States.</div> <div></div> <div>2004</div> <div>R&D policy changed to specialize in Kampo medicine and crude drugs.</div> <div>Drug-fostering program advanced by establishing evidence of efficacy of Kampo formulations.</div> <div>2005</div> <div>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.</div> <div>2007</div> <div>DKT Forum set up to establish clinical evidence for Daikenchuto.</div> <div>2016</div> <div>"Growing" formulations set for Kampo formulations.</div> <div>100th anniversary of <i>The Journal of Japanese Botany</i>.</div> <div></div> <div>2017</div> <div>TU-100 phase II clinical trials completed, and focus on postoperative ileus (POI) as an indication announced.</div> <div>2018</div> <div>Trademark registered for Tsumura's proprietary research package (KAMPOmics®).</div> <div>2023</div> <div>The Company completed registration of patients for late-stage phase II clinical trials of TU-100.</div> <div>Kampo treatment standardized through accumulation of evidence</div> <div>Multi-component Kampo formulation research method established</div>
Cultivation and procurement	<div>1973</div> <div>Purchase of crude drugs from a "friendly trading company" designated by the Chinese government starts.</div> <div>1978</div> <div>Second president Jusha visits China for the first time to negotiate for a stable supply of raw material crude drugs.</div> <div></div> <div>1981</div> <div>Direct purchase of crude drugs from Chinese state-owned enterprises starts. Long-term crude drug supply contract concluded with China Souvenirs and Livestock Company.</div> <div>1991</div> <div>SHENZHEN TSUMURA MEDICINE CO., LTD. established as a supply base of raw material crude drugs in China.</div> <div></div> <div>2007</div> <div>Operation of crude drug traceability system starts.</div> <div>2009</div> <div>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.</div> <div>2010</div> <div>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.</div> <div></div> <div>2011</div> <div>Memorandum of Understanding concluded with the Baishan City Government in China for joint research on raw material crude drugs.</div> <div>2012</div> <div>Expansion of cultivated land under our management to stabilize procurement prices of raw material crude drugs.</div> <div>2014</div> <div>Joint research agreement concluded with the China Academy of Chinese Medical Sciences on <i>sojutsu (atractylodes lancea rhizome)</i>.</div> <div>2015</div> <div>Letter of Intent concluded for joint research with Hong Kong Baptist University.</div> <div>2016</div> <div>Promotion of open-field cultivation of ginseng from a perspective of preserving the natural environment.</div> <div>2019</div> <div>Capital and business alliance agreement concluded with Tianjin China Medico Technology Co., Ltd. (currently Ping An Tsumura Pharma Inc.).</div> <div>Tsumura GACP structure established</div> <div>System for stable procurement of raw material crude drugs established</div>
Manufacture	<div>1964</div> <div>Shizuoka Plant newly established.</div> <div></div> <div>1983</div> <div>Ibaraki Plant newly established and the research laboratory relocated to the site.</div> <div></div> <div>1999</div> <div>Heavy metal testing method established.</div> <div>2001</div> <div>SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. established as a manufacturing base for extract powder (intermediate product) in China.</div> <div></div> <div>2005</div> <div>Container exchange and conveyor robot introduced (realized reduced-labor manufacturing and 24-hour operation through the utilization of robotics).</div> <div>2007</div> <div>Industrial robot receives excellence award at The Robot Award 2007.</div> <div>2013</div> <div>West Japan and East Japan Distribution Centers completed.</div> <div>2018</div> <div>TIANJIN TSUMURA PHARMACEUTICALS CO., LTD. established as a manufacturing base for extract powder in China.</div> <div></div> <div>2020</div> <div>Robot technology deployed in all manufacturing processes of the No. 3 SD Building at the Ibaraki Plant.</div> <div>2023</div> <div>Capital and business alliance entered into with Robit Inc. to realize early automation of raw material crude drug selection and manufacturing processes.</div> <div>2023</div> <div>Introduction of planning system for compounding crude drugs using AI technology (increase in the crude drug inventory turnover rate by optimization of crude drug mixing plans and transportation plans).</div> <div>Quality assurance system for all lots</div> <div>Automation of all processes</div>
Sale, education, and popularization	<div>1893</div> <div>Manufacture and sale of Chujoto medicine for women begin.</div> <div>1974</div> <div>Sale of prescription Kampo formulations begins.</div> <div>1976</div> <div>Total of 33 Tsumura prescription Kampo formulations added to the NHI drug price list.</div> <div></div> <div>1987</div> <div>Further additions to the NHI drug price list bring the number to 129.</div> <div>1991</div> <div>Sales of prescription Kampo formulations surpass 100.0 billion yen.</div> <div>1996</div> <div>Media reports side effect of interstitial pneumonia caused by Shosaikoto.</div> <div>1997</div> <div>MR certification system introduced.</div> <div>1999</div> <div>Kampo medical seminars begin.</div> <div>2001</div> <div>Kampo medical symposium held.</div> <div></div> <div>2004</div> <div>Kampo medicine education implemented at all university medical departments and medical colleges nationwide.</div> <div>2007</div> <div>Sponsorship of dementia forums begins.</div> <div></div> <div>2016</div> <div>Geriatric health, cancer (supportive care), and women's health set as the three key domains.</div> <div>2019</div> <div>Application of the Guidelines for Provision of Sales Information on Prescription Drugs begins.</div> <div>E-promotions such as Mega Web Seminars begin.</div> <div>2020</div> <div>Project to establish presence in the area of cardiovascular diseases begins.</div> <div>2023</div> <div>Ratio of e-promotions in detailing impacts (the number of times that physicians have recognized information) reaches approximately 50%.</div> <div>Education and popularization of Kampo medicine</div> <div>Proposal of therapies that combine Kampo medicine and Western medicine</div>

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 the 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.

In light of our Corporate Purpose, “Lively Living for Everyone,” we are incorporating the Group’s sustainability vision, which translates our Corporate Value, “The Best of Nature and Science,” into our concrete activities through our long-term management vision, TSUMURA VISION “Cho-WA” 2031.

Process for Formulation of Materiality

In September 2023, the Group redefined its materiality (priority issues) 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 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.

- 1

Organize the connection between the Tsumura Group’s three levers* in CSV and its long-term management vision based on its Corporate Purpose.
- 2

From the Corporate Purpose and Corporate Value, organize the “Creation of Shared Value with Society” that the Tsumura Group should aim for.
- 3

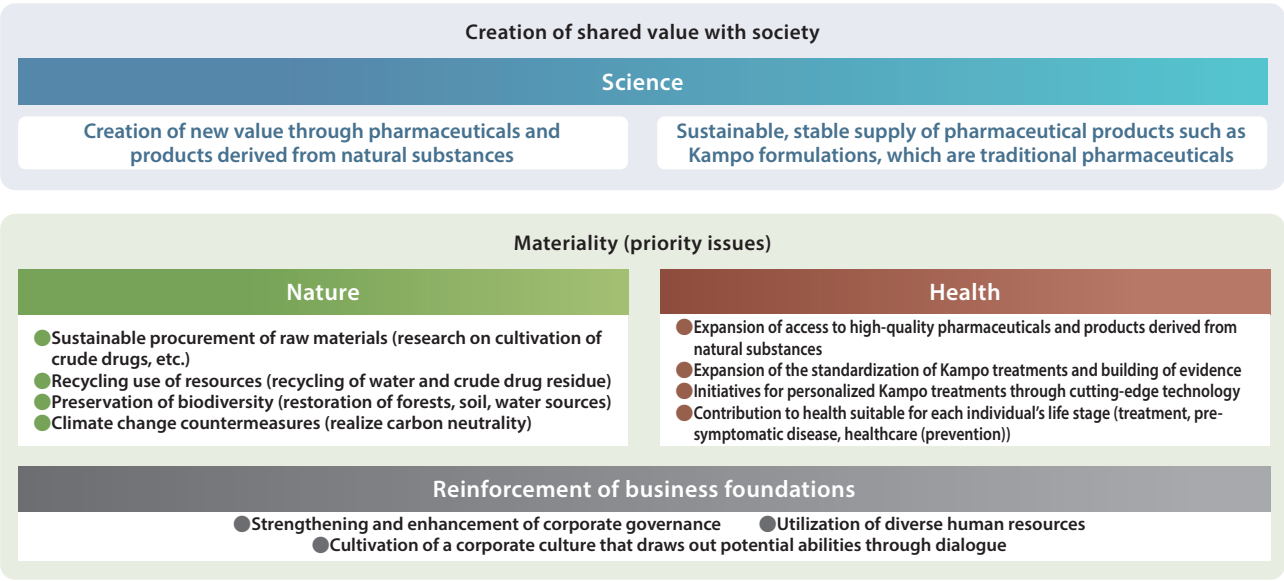
Identify the elements organized in 1 and 2 as materiality (priority issues) along the direction and timeline of the sustainability vision.

* 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 Vision — Living with nature for tomorrow

The Tsumura Group’s 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 value related to nature and health that is created by the Tsumura Group’s business leads to the creation of shared value with society.



Sustainability Promotion System

We recognize that responses 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 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) and Deputy Committee Chair (CFO Handa) 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.

The Sustainability Committee met four times in fiscal 2023, deliberated important matters such as proposals for TCFD and TNFD disclosures and progress on medium- to long-term environmental targets related to LTI-II, and reported the findings to the Board of Directors. The Sustainability Committee and Risk Management Committee share information and are responsible

for the assessment and control of risks associated with climate change.

To invigorate the deliberations of the Sustainability Committee, the Committee Chair Briefing was established in September 2023 to create a structure for reporting on the progress of each subcommittee’s initiatives and swiftly giving management instruction on them. The Committee Chair Briefing was held three times in fiscal 2023.

Sustainability Committee Composition

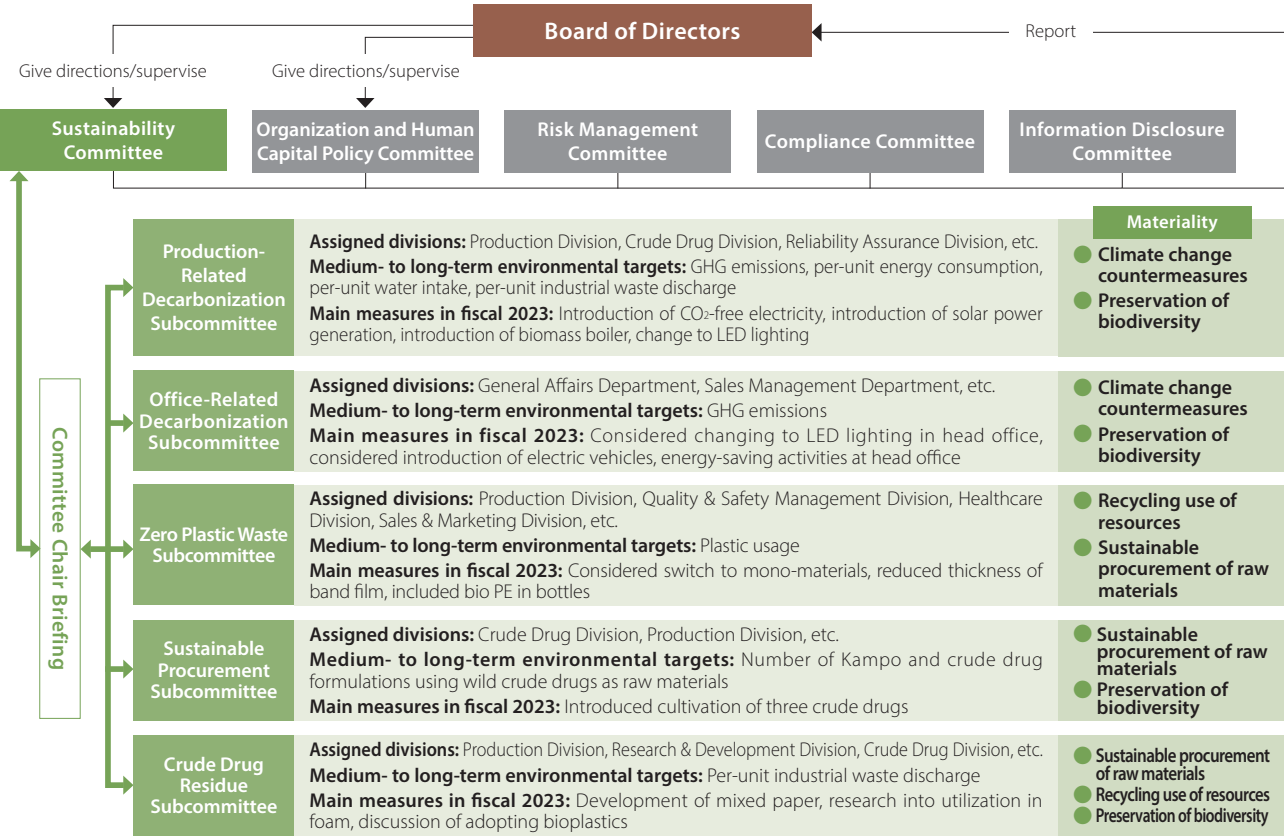
Committee Chair:
Executive Officer in charge of the Sustainability Management Department (Co-COO)

Members:
All executive officers except the CEO, relevant division general managers (Corporate Planning Department, Corporate Communications Department, Accounting Department, China Coordination Department, Crude Drug Division, Marketing Division), observers (directors, full-time Audit and Supervisory Committee members, plant managers)

Number of meetings in fiscal 2023: 4

Main discussion items in fiscal 2023:

- Discussion and approval of proposal for renewal of TCFD disclosures
- Progress report on medium- to long-term environmental targets
- Beyond discussions on renewing materiality, reports on support for TNFD and other initiatives, CDP results, community contribution activities, etc.



Materiality and Management Strategy KGIs/KPIs

Materiality			First medium-term management plan strategic challenges	Indicators (KGIs/KPIs of each organization)	Fiscal 2022 result	Fiscal 2023 result	Fiscal 2024 target	
Nature	Sustainable procurement of raw materials (research on cultivation of crude drugs, etc.)		1. Continuously expanding the Kampo market by providing Kampo solutions that match the needs of each and every physician	Domestic business net sales	124,698 million yen	132,099 million yen	Net sales CAGR 5% (fiscal 2022–2024)	
	Percentage of physicians prescribing 10 or more prescription Kampo formulations			32%	39%	50% or more		
	Number of universities teaching four or more courses in Kampo medicine			78 universities	78 universities	82 universities		
	Number of medical website users			Not disclosed	Not disclosed	Not disclosed		
Number of detailing impacts	4.77 million			6.80 million	Same as or higher than the previous year			
Nature	Recycling use of resources (recycling of water and crude drug residue)		2. Using KAMPOMics to build evidence on Kampo medicine and promote the scientific study of pre-symptomatic diseases	Number of treatment guideline listings for Kampo formulations (Type B and above)	99	102	130	
	Progress in development of TU-100 in the United States			Currently in late-stage phase II clinical trial	Completed registration of patients for late-stage phase II clinical trial	-		
Nature	Preservation of biodiversity (restoration of forests, soil, water sources)		3. Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicinal products business	China business net sales	15.3 billion yen	18.7 billion yen	Net sales CAGR 30% (fiscal 2022–2024)	
	M&A of a traditional Chinese medicinal products company			In negotiation with multiple companies	In negotiation with multiple companies	M&A complete		
Health	Climate change countermeasures (realize carbon neutrality)		4. Innovating the IT platform and crude drug selection, and promoting the implementation of AI and automation toward reforming the Kampo value chain	Annual production plan achievement rate	Not disclosed	Not disclosed	Not disclosed	
	Labor productivity in factories (compared to fiscal 2021)			102%	86%	120%		
	Health		Expansion of access to high-quality pharmaceuticals and products derived from natural substances	5. Creating value through organization and human capital and promoting reform to boost job satisfaction	Average score of the Corporate Philosophy survey (5-point scale)	4.06 points	4.02 points	Maintain 4.00 points or higher
			Progress rate on acquisition of designation in Certified Health & Productivity Management Outstanding Organizations		Preparing for acquisition	Certified by METI under the "KENKO Investment for Health 2024"	Maintain outstanding organization designation	
Expansion of the standardization of Kampo treatments and building of evidence	Ratio of female recruitment in career-track positions (non-consolidated)		42.2%		37.8%	50%		
Initiatives for personalized Kampo treatments through cutting-edge technology	Ratio of mid-career hires in career-track positions (non-consolidated)		67.5%		59.2%	40%		
Contribution to health suitable for each individual's life stage (treatment, pre-symptomatic disease, healthcare (prevention))	Employee engagement/satisfaction (5-point scale)		3.58 points		3.58 points	3.90 points		
Reinforcement of business foundations	Strengthening and enhancement of corporate governance		Initiatives for realization of the sustainability vision (medium- to long-term environmental targets)	Efficacy of crude drug procurement based on the Tsumura Procurement Policy	Start of implementation of the Tsumura Procurement Policy	In operation or preparation at five organizations	Verification with production groups 50% completed	
				Reduction in number of wild crude drug items used (compared to fiscal 2020)*1 ¹⁾	Introduced cultivation of one crude drug	Introduced cultivation of three crude drugs	Elimination of one or more items	
	Reduction in usage of plastics (compared to fiscal 2020)*2			-	-	-10%		
	GHG emissions (compared to fiscal 2020)*3			+12.9%	-6.3%	-3%		
	Per-unit energy consumption (YoY)*4			-4.8%	-9.5%	-1%		
	Per-unit water intake (compared to fiscal 2020)*5			+6%	-7%	-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-CO₂ *4 Fiscal 2021 result: 154 GJ/t *5 Fiscal 2020 result: 113.01 t/t *6 Fiscal 2020 result: 1.76 t/t

Initiatives for Realization of the Sustainability Vision

“Living with Nature for Tomorrow” in Kochi Prefecture

Tsumura started a joint forestation project, the Tosa Tsumura Forest in 2008, aimed at protecting the natural environment, promoting regional development, and developing the next generation. Fiscal 2024 was the 17th year of the project. In September 2024, a four-way alliance between Kochi Prefecture, Ochi Town, Human Life Tosa, and Tsumura was joined by a fifth member, Kochi Prefecture Makino Memorial Foundation (Makino Botanical Garden), to renew the project into an education program on local nature, history, and industry in an effort to enhance educational content at the local Ochi Junior High School. Ochi Town is one of the main crude drug production areas in Japan. In addition to experiencing crude drug harvesting, in a new development from fiscal 2024, the students also conducted field work at Mt. Yokokura, which is associated with Dr. Tomitaro Makino,

using the expert resources of Makino Botanical Garden. In this activity, they used an electronic field guide on a tablet developed by Kochi University and a local company to promote DX in education. This integrated learning based on the local area and nature is expected to contribute to the development of the next generation of human resources, who will be in charge of a sustainable society.

For more details on the joint forestation project Tosa Tsumura Forest, please refer to the Company's website.
<https://www.tsumura.co.jp/english/sustainability/society/local-residents/>



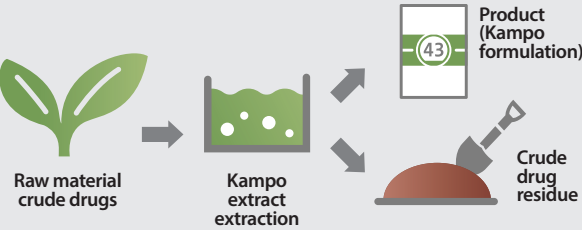
Orientation given by Tsumura's employees at Ochi Junior High School

Initiatives for Recycling Use of Resources

Development of Paper Blended with Crude Drug Residue (with Tea Leaf Waste Recycling Technology)

The Tsumura Group's materiality issues include “recycling use of resources (recycling of water and crude drug residue).” We have been promoting the recycling of water and the upcycling of crude drug residue in our manufacturing process, guided by the concept of using natural capital in our business, and then returning to nature not only crude drugs, but also water and air. We emit around 30,000 tonnes of crude drug residue per year. Up until now, we have recycled 100% of this by composting, using it as a biomass fuel for thermal power generators, and converting some of it to valuable materials. The Crude Drug Residue Subcommittee, under the Sustainability Committee, initiated a corporate relationship with ITO EN, LTD. in fiscal 2022. We started examining new ways to utilize crude drug residue with assistance from ITO EN's tea leaf waste recycling technology. Crude drug residue

has a water content of around 80%, so it rots in just a few days. In conducting testing, we encountered various issues storing wet crude drugs and leading up to papermaking. However, Tsumura Kampo Research Laboratories and the Ibaraki Plant led our efforts to resolve them through cooperation with relevant internal departments, resulting in the development of paper blended with crude drug residue. The blended paper has been commercialized for use in the Company's business cards, envelopes, and other items, and we are promoting sustainability activities through all employees.





We strengthen the individual functions of our operation and optimize the whole by using digital and cutting-edge technologies and refining our Kampo value chain, focusing on naturally available ingredients.

Kei Sugii

Director Co-COO
(Co-Chief Operating Officer)

Entire Crude Drug Supply Chain Optimized with New AI-Assisted System

The core characteristic and greatest strength of Tsumura Group operations is our supply chain, with naturally available crude drugs upstream. This is a risk as well, because natural products tend to have unevenly distributed component content and are susceptible to external impurities, requiring extreme care in cultivation and processing. To reduce these risks, the Tsumura Group has instituted a wide range of measures and maintains a vast fund of expertise, advantages that none of our competitors can emulate. Our original expertise, including methods for contracting with production groups, original safety standards, cultivation and processing technologies resulting from years of research, and numerous diversified production areas and countries to hedge weather and other risks, is accrued as both human and social capital, the primary sources of our competitive edge.

In recent years, however, our business environment has changed enough to make projecting future conditions more difficult, requiring an enhanced Kampo value chain that better suits the times. For us, the theme that most needs immediate attention is promoting total optimization of our operations with wider margins of capacity. In the process of producing Kampo formulations, we have to

make qualitatively consistent products, maintaining variations in component contents at acceptable levels for pharmaceuticals with clinically reproducible effects. We previously depended heavily on employees with many years of experience to find the best solutions and plan ingredient blends and combinations. Unfortunately, there are limits to individual human capabilities, so we generally planned production only two to four weeks ahead. In our regular operations, we based our decisions mainly on inventory levels at our Ishioka Center, where we store raw material crude drugs. This allowed us only local optimization opportunities.

This changed in 2023, when we introduced a new planning system for compounding crude drugs that made data on all of our ingredient inventories, including in China, available across the Group, and allowed for automated planning of optimally efficient drug compounding twelve months ahead. This AI-assisted system prevents stagnant inventories of crude drugs that won't be used immediately, recommends plans to select and process high-priority crude drugs, and promises us a significant boost in productivity. It also extends down to the cultivation level,

making possible early planning for planting low-supply crude drugs. It clearly conveys our production and storage capacity needs for a given day, helping us better manage risk in upstream processes. I've designated a series of

initiatives under this system as value chain reforms, working to optimize our work processes across the board. It's a major step toward our desired future, and a new skill for the Tsumura Group.

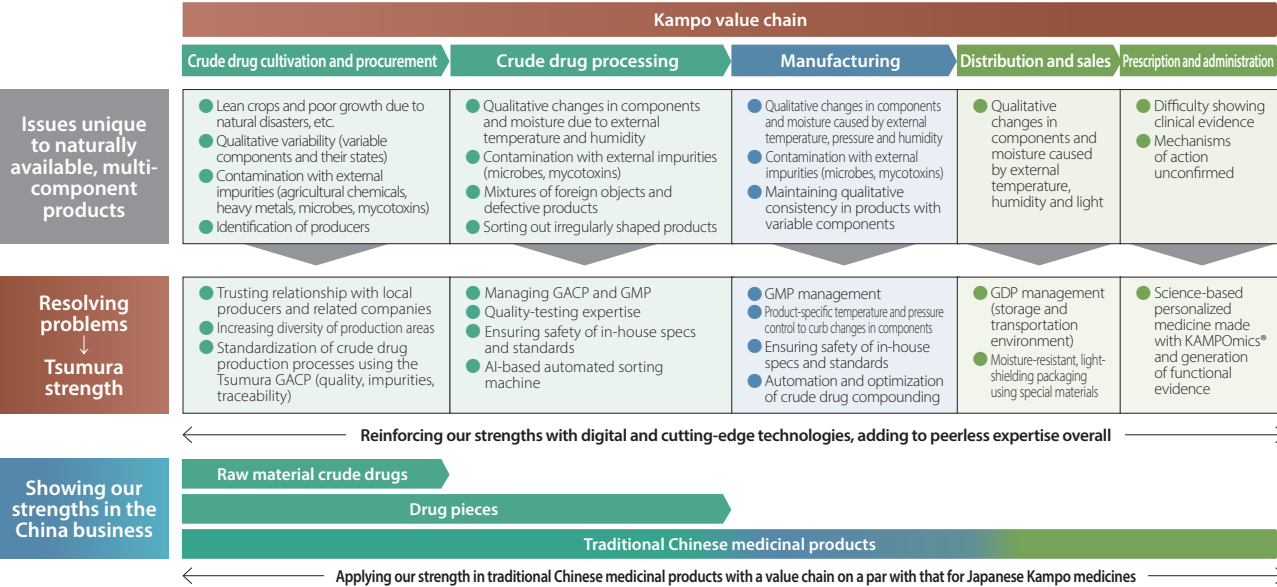
Higher Expertise for Pharmaceuticals Made from Natural Ingredients Applied in the China Business As Well

Going forward, we will enhance our processes for R&D, plant cultivation, drug formulation and sales, further strengthening our value chain focused on natural ingredients by adding up the value created in each process. The traditional Chinese medicinal products business in China, which we are preparing to enter, shares many factors with the Kampo formulation business we currently operate in Japan, and it may be easy for the same value chain to generate value, allowing us to establish a strong competitive advantage there. So in building partnerships with local firms, we have to understand our core competencies in the China business first, then deepen our mutual relationships. To spread the value of pharmaceuticals from natural ingredients in global markets, it's essential that we comply with each country's regulations and legal system. We consider it an unprecedented step forward, for us and those who assess our pharmaceuticals as well, to undertake clinical testing in the US, for example. By embracing this sort of opportunity to build mutual understanding, I believe we can make steady, gradual progress.

The Tsumura Group is working to double labor productivity, not just to reduce costs, but to ensure stable supply as the working population continues to shrink going forward as well. Understanding of those needs is

deepening among our employees, and our next medium-term management plan includes ideas for visualizing ideal work styles in the near future and formulating action plans to achieve our goals.

We are leading the industry and moving forward on initiatives to address sustainability issues, including analysis following the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD). We promote resource recycling like composting and making fuels from the large amounts of crude drug residue we generate. In addition to making better use of waste, we are working with our partners to introduce environmentally friendly packaging materials suitable for Kampo formulations, which must be kept dry, and considering ways to implement joint development with partners in other industries to come up with more solutions that are easy on the environment. To achieve the goal of cutting our greenhouse gas emissions in half by 2031, we are discussing ways to reliably secure low-carbon, low-cost energy. The Tsumura Group's business has the potential to increase both our corporate value and the value we share with society. I proudly say that ours is a highly sustainable and environmentally friendly business model, and we are working to develop new technologies and improve productivity in all our internal organizations to be a truly sustainable corporation.





CFO × Outside Director

Ryohei Yanagi
(left in photo)
Outside Director

Muneki Handa
(right in photo)
Director CFO
(Chief Financial Officer)

To ensure sustainable growth, we've implemented new capital policies based on financial principles that best suit Tsumura's business.

Looking at Tsumura's Kampo and Traditional Chinese Medicine Businesses in Terms of Financial and Management Risk

Mr. Yanagi, you joined our board in June 2023. What have you learned about Tsumura's business characteristics, particularly its financial health, compared to pharmaceutical companies focusing on new drug discovery?

Yanagi: First, Tsumura shares a common mission with pharmaceutical companies, to protect the lives and health of patients and consumers, staying close to each. Although ours is different in terms of the products and business model we've chosen to accomplish this mission, it's essentially the same, I think. As a former financial director of a pharmaceutical manufacturer producing original products, well acquainted with its profit-loss structure, I think Tsumura's profit-loss structure stands out for its relatively low ratio of R&D expenses and high costs. Cost growth is inevitable because prices for some crude drugs are rising right now on top of the weakening yen. We also have to maintain inventories at certain levels to manage the production volume of crude drugs, which fluctuate widely due to factors like weather.

Handa: You're right. For the sake of reliable supply, thinking strategically, we have to maintain our raw material inventories at certain levels. So high efficiency in our business operations and balance sheet management is a particularly important theme for Tsumura. While our ratio of R&D expenses is far lower than typical manufacturers of original pharmaceuticals, it's also true that we've been making solid investments in basic and clinical research, mainly on high-priority themes, to help build scientific evidence, and that is generating new cash flow.

Yanagi: I work as a deputy president for the Japanese subsidiary of a British investment firm while teaching financial theory in a graduate school. This allows me to wear the hat of a foreign institutional investor. Looking at Tsumura's balance sheet from that perspective, inventories, capital and cash seem somewhat excessive. It makes me wonder why Tsumura doesn't reduce its equity ratio more with stronger leverage, because it doesn't have R&D risk and enjoys over 80% of the domestic market for prescription Kampo medicines. With a clearer picture of exactly what Tsumura does, it may be easier to understand why high levels of inventory and cash and a steep equity ratio are necessary as well as robust financial health. There are two background risk factors. One is an earnings structure that depends on the domestic market,



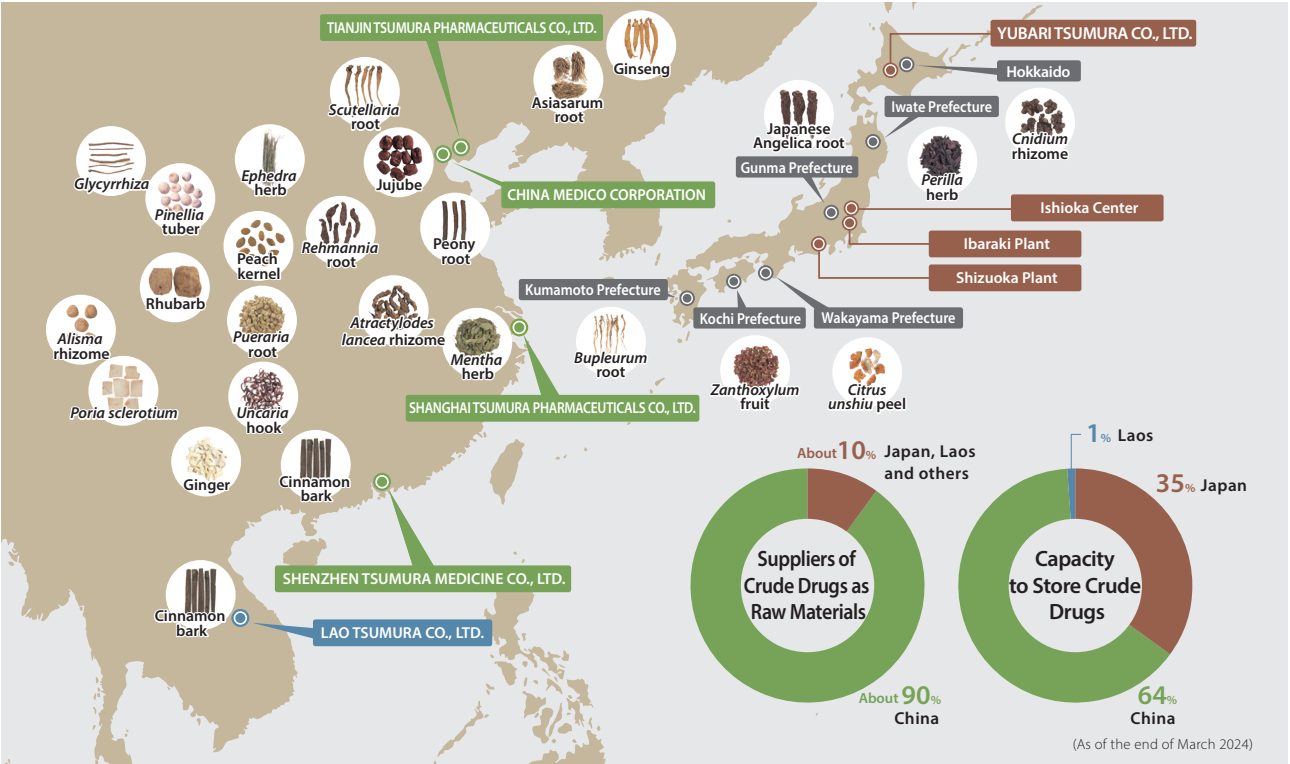
To fulfill for shareholders our fiduciary responsibilities as a trustee, I promote discussions that will contribute to value creation based on strong financial principles. — Yanagi

under the strong influence of the NHI drug price controls. The other is high dependence on China for raw materials. I used to imagine that Tsumura could plant and harvest in countries and regions that are climatically similar to China to hedge risk. Since I became an outside director and came to understand the volume of crude drugs that Tsumura procures and the prices it pays, and that some medicinal plants only grow in specific climates and soil types, however, it hit home for me that procuring crude drugs from China is the core of Tsumura's business. Recently, many Japanese firms are reconsidering their Chinese operations, mainly due to rising geopolitical risk. Tsumura, on the other hand, has chosen to embrace the challenge of turning risk into opportunity, without fear.

Handa: Chinese producers are essential Tsumura partners, and together we have been mutually improving by learning from one another for over 40 years. In 2017, Tsumura committed fully to business that will contribute to public health in China. Our motivation is to apply our original technologies and expertise to create a second core business and enhance our capacity to procure crude drugs overall.

Yanagi: That move may seem risky to the equity market, but that is outweighed by the positives of contributing to society and patients in China, which is huge in both market scale and growth potential. Tsumura's China business currently accounts for a little over 10% of total sales. By gradually increasing this and becoming less dependent on the Japanese domestic market, and subsequently less vulnerable to NHI drug price controls, Tsumura can hedge risk.

Primary Raw Material Procurement Areas



Commitment to Objective, Reasonable Board Discussions with Figures and Explanations

Capital policy was a priority theme in board meetings in fiscal 2023. What did you discuss?

Handa: We discussed capital efficiency and optimizing our capital portfolio. I've been aware of the issue of cost effectiveness, thinking we have to scrutinize it to maximize effect relative to cost. Mr. Yanagi has strongly advised that board discussions be based in reasonable explanations compatible with financial rules rather than settling abstractions like "Kampo is special" or "this is for the sake of reliable supply." Taking this shift toward more grounded discussions as an opportunity, we are reviewing our investment criteria. Over the year, I think we've held some very high-quality discussions.

Yanagi: That kind of appreciation is very gratifying to me as an outside director. To fulfill our fiduciary responsibilities to our shareholders, I think it's essential to keep our discussions objective, backed by sound financial principles and figures, even though that can be annoying to some. I was asked

to prove with figures the worth of value creation based on investment criteria such as NPV*1 and IRR*2, which demand capital cost consciousness. As a result, Tsumura now takes the step of checking the numbers that I've provided to help determine whether to go ahead with a given investment over a certain amount. I've been amazed at Mr. Handa's quick action and leadership in sticking with the investment criteria. Thank you very much.

Handa: We asked Mr. Yanagi to attend board meeting follow-ups that mostly involve people from the Corporate Planning Department discussing capital policy. In those, you've not only led the discussions, but have also given the attendees homework, for example, "show me your projections for the coming decade," which highlighted the commitment of executives to an earnings structure shift. This became a good opportunity to simulate the Company's future, bringing several risk factors into consideration. Our best takeaway from these projections has been a range of capital policies to support our future vision.

Yanagi: We've had numerous serious talks, and I asked the executive team to run dozens of simulations.

I follow through on measures to improve capital efficiency, optimizing the allocation of management resources and building a framework for assessment. — Handa



Handa: Through in-depth board discussions focusing on the standpoint of long-term stakeholders, we decided on ROE of 10%, equity ratio of 50% or higher and DOE*3 of 5% as new financial KPIs to achieve by fiscal 2031, and integrated the results of those discussions with our internal rules and action plans. Going forward, we will focus on incrementally executing what we decided, including improvement in our CCC*4 and reducing cross-shareholdings. As a pharmaceutical manufacturer, we have a strong commitment to quality and reliable supply, and I think we should enhance our meetings of executive officers as an organization to enable comprehensive discussion of cost effectiveness, for example.

*1 Net present value: Difference between the values of cash inflows and outflows over a period of time; this assessment index reveals the profitability of a given investment to guide decisions on investments and M&A actions.
*2 Internal rate of return: Discount rate balancing future cash flow generated from an investment, converted to current value, against current value of the investment. "Discount rate" means the rate applied when converting future value of a currency to current value. When the IRR is above capital cost, we proceed with the investment; when it's lower, we discard it.
*3 Dividend on equity
*4 Cash conversion cycle: Number of days needed to collect sales proceeds after paying down accounts payable

Improving Our Initiatives by Visualizing the Relationship between Pre-Financial Capital and Corporate Value Growth

Tsumura's current*5 price-to-book ratio has increased to nearly 1.2, but remains below the prime market average of 1.4. What prospects do you see for effort to build corporate value?

Yanagi: Our corporate value has been increasing due to the effects of rising earning power and new capital policies—our permanent growth rate*6 as indicated by PER is 0 or slightly negative. This means that many institutional investors are still unconvinced about the potential of Kampo and traditional Chinese medicines and Tsumura's growth scenario. Conversely, however, Tsumura is a corporation with ample potential for growth. Our businesses are going well, with operating profit above 10% and ROE is projected at 10% for fiscal 2024. When hope grows for higher longer-term growth, our PBR should surpass 1.4, and could even approach 2. The key to winning the trust of institutional investors is steadfastly showing

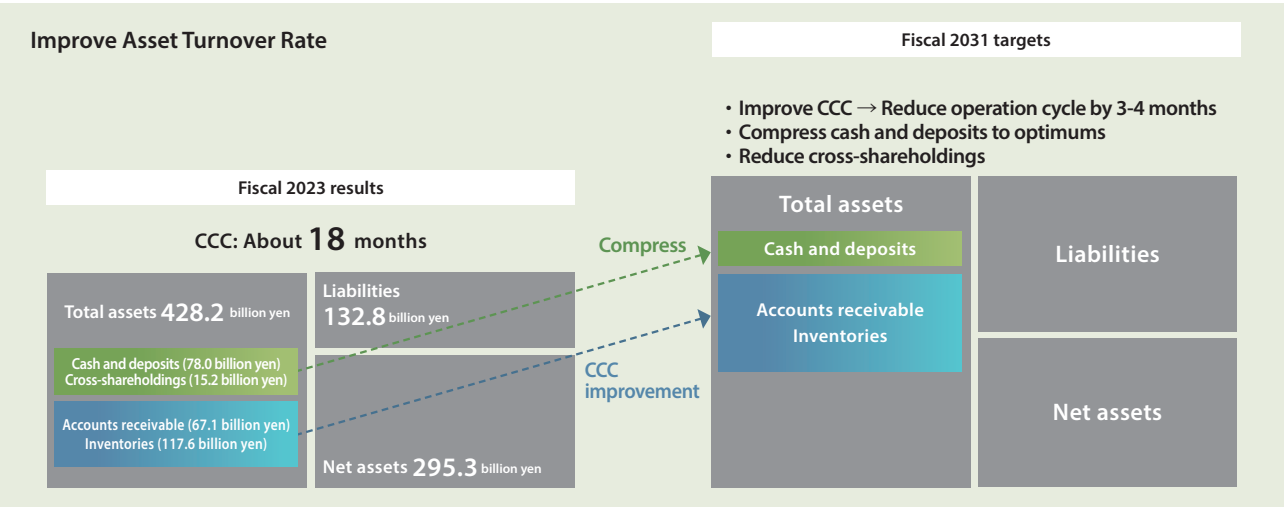
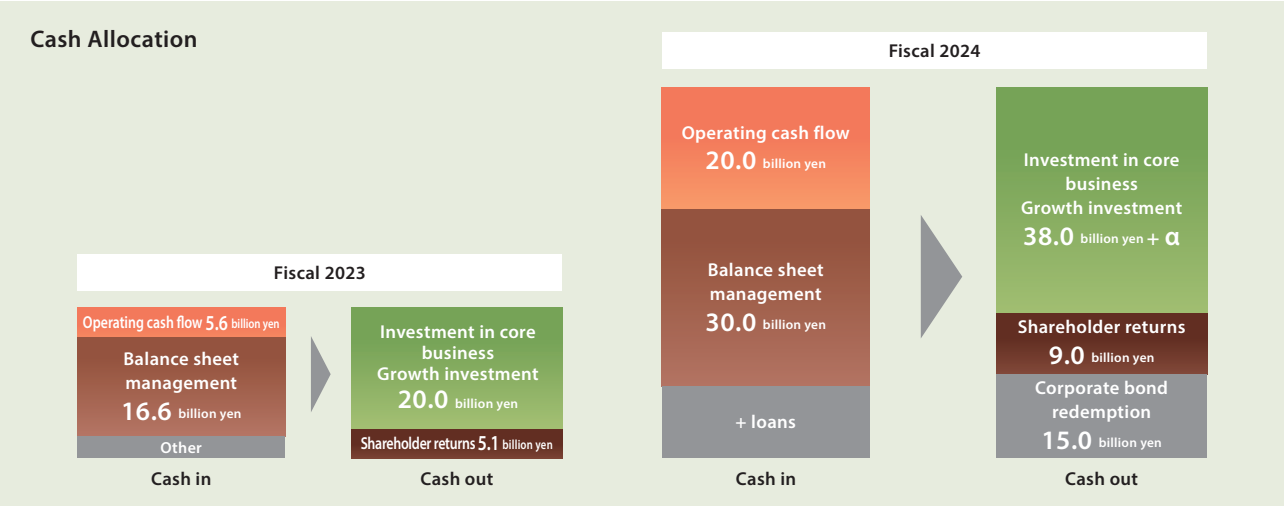
good results and convincing them of Tsumura's potential for corporate value growth.

Handa: In fiscal 2023, we began a project*7 to visualize our pre-financial capital. Behind this is our resolve to explain clearly that pre-financial capital can convert to future financial capital. We made our entire ESG effort a subject for analysis using the Yanagi model*8.

Yanagi: The Yanagi model is based on the hypothesis that ESG value will be factored into a PBR above 1. In the investor survey I conducted, I found that about 70% of investors worldwide supported the idea that ESG value should be included in PBR over the long term, which agrees with the hypothesis. To show the degree of potential a given corporation has to increase its value, it will be ever more important to visualize pre-financial capital as numbers and explain them.

Handa: At Tsumura, we've conducted a value relevance analysis, limiting the focus to organizational and personnel capital this time. Some ESG items showed striking correlation with value, and others didn't as much. In fiscal 2022, we began using ROIC as an index for internal management, believing that we can uncover the meaning and results of a given job and raise employee morale if we successfully identify KPIs that will help improve ROIC and explain balance sheet management step by step. We will continue improving our rules and assessment framework for resource allocation to help institutional investors understand and more accurately assess the value of the Tsumura Group.

*5 As of June 27, 2024
*6 A way to calculate continuous value, assuming that free cash flow will grow at a specific rate after the business plan period
*7 See page 37 for details.
*8 A model developed by Ryohei Yanagi, introduced in his book *CFO Policy* (Chuo Keizaisha, 2020)



Focus Initiatives to Visualize Pre-Financial Capital

In relation to the value creation cycle*¹ based on seven capitals, the Tsumura Group undertakes initiatives for “pre-financial capital” to obtain understanding from investors by visualizing its connection to future financial value, and to clarify the challenges for each initiative and work to improve them. In fiscal 2023, we started a cross-divisional project for quantitative analysis of pre-financial capital, focused on visualizing the value of pharmaceuticals derived from natural substances, the value created by the Kampo value chain, and the value of organization and human capital.

*¹ Please refer to page 22 “Value Creation Cycle” for details.

Visualization Analysis of ESG Activities

First, we used the non-financial capital and equity spread synchronization model (Yanagi Model), and conducted a landscape analysis*² of our overall ESG activities. Next, we conducted a value relevance analysis*² to take an objective view of our overall ESG activities based on the correlation between our ESG indicators and price-to-book ratio (PBR) and explore our organization and human capital policies. In this analysis, we established a hypothesis about the process in which the value created by our organization and human capital policy leads to financial value, and verified the direct connection between ESG indicators and financial indicators.

Looking ahead, we will use the optimal analysis method to examine the value of pharmaceuticals derived from natural substances, such as the multi-component nature of Kampo medicines and their applicability to integrative medicine, as well as the value created by the Company’s unique Kampo

value chain, starting from crude drug cultivation, and clarify their correlation with financial value, using our findings to strengthen our strategies and initiatives.

*² Analysis using the Digital ESG Platform of ABeam Consulting Ltd.

Results of the Landscape Analysis Process

A landscape analysis takes into consideration fluctuations in ROE, which have a powerful impact on the Company’s PBR, and examines the increase or decline in PBR due to progress in ESG activities, looking at aspects such as how many years later and with how much sensitivity. The target period for this analysis was the 24-year period from fiscal 2000 to fiscal 2023, and we used analysis data for an average period of 7.3 years. Among all our ESG activities, we extracted a total of 502 indicators after eliminating overlaps from the indicators for which data was available. From among these, we eliminated indicators that did not satisfy criteria for indicators worth analyzing, leaving 373 indicators for our landscape analysis.

As a result, we identified 36 indicators that have a desirable correlation*³ with increasing corporate value. We will objectively examine our ESG activities based on these analysis results and use it to strengthen our measures for increasing corporate value. Going forward, we will continue to revise the processes for our initiatives and our calculation methods, and conduct repeated analyses to visualize our social impact and develop the Company’s own unique story for increasing corporate value.

*³ Indicators for which the positive or negative correlation result aligned with the envisaged desirable relationship

Main Indicators for Which a Desirable Correlation Was Detected and Their Impact on PBR

Organization and human capital

- Improvement in work style and leave style contributes to increase in corporate value
[1 ppt increase in percentage of paid annual leave taken → 7.37 ppt increase in PBR two years later]
- A longer number of days of childcare leave taken by female employees contributes to an increase in corporate value
[1 ppt increase in average number of days of childcare leave taken → 1.25 ppt increase in PBR one year later]
- An increase in women newly appointed to managerial roles contributes to an increase in corporate value
[1 ppt increase in percentage of women promoted → 0.27 ppt increase in PBR two years later]
- An increase in the percentage of employees receiving health examinations contributes to an increase in corporate value
[1 ppt increase in percentage of employees receiving health examinations → 12.72 ppt increase in PBR three years later]

These results show that supporting rapid career development and formation for women yields positive results. Measures such as encouraging the use of paid leave and childcare leave lead to retention and attraction of talented human resources, with a resulting impact on increasing corporate value.

Value of pharmaceuticals derived from natural substances

- An increase in the number of briefings for physicians contributes to an increase in corporate value
[1 ppt increase in the number of briefings held → 0.59 ppt increase in PBR one year later]

This result shows that increasing the quantity and quality of information provided to medical professionals contributes to an increase in corporate value. We see this as the result of strengthening e-promotions and working through a cycle from analysis of information requested by individual physicians to improvement of MR activities.

Value in the Kampo value chain

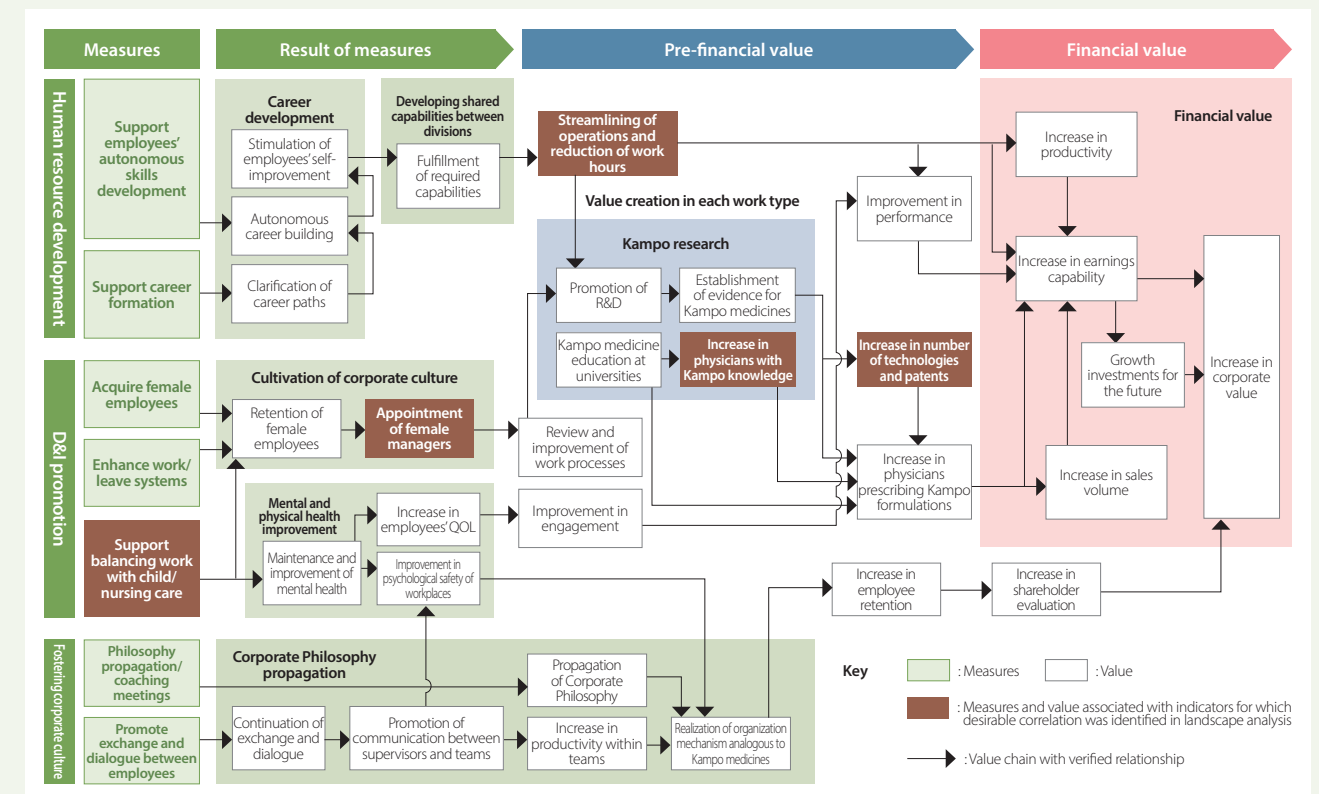
- Decrease in industrial waste discharge contributes to increase in corporate value
[1 ppt decrease in per-unit industrial waste discharge → 1.48 ppt increase in PBR two years later]

Most of the industrial waste generated by the Tsumura Group is residue left over from extract produced during the Kampo formulation manufacturing process. We have been working for many years to make effective use of this crude drug residue. A reduction in the volume of industrial waste discharge due to using the residue for biomass fuel and other applications appears to result in a correlated increase in corporate value.

Results of Value Relevance Analysis

Looking at human resource development, the analysis results showed that the development of careers through measures to support skills development leads to operational efficiency and performance gains, and contributes to the increase in productivity and earnings capability. With regard to promoting diversity and inclusion (D&I), the analysis results showed that measures to support employees balancing work with childcare or nursing care lead to retention of female employees and the appointment of female managers, and the increase in

employees’ quality of life. This in turn drives increases in engagement and performance that are related to increased earnings capability. Measures to cultivate a corporate culture had a demonstrable relationship to contributing to increased corporate value through the propagation of the Corporate Philosophy and promotion of communication between supervisors and their teams. This analysis verified the value chain in part, but it also revealed issues to be addressed including the appropriateness of measures and KPIs set to evaluate them, as well as related data collection. We will continue conducting analyses going forward.

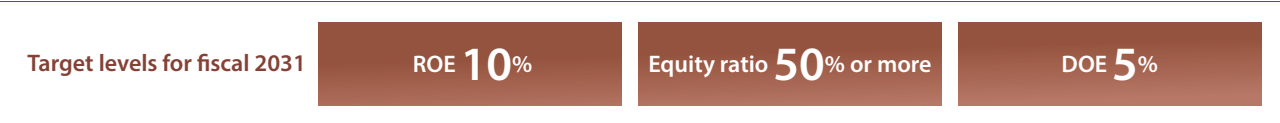


Bolstering Balance Sheet Management

The Tsumura Group is seeking to bolster balance sheet management based on a fundamental direction for capital policies that deepens discussion of financial strategy for achieving the Group’s long-term management vision.

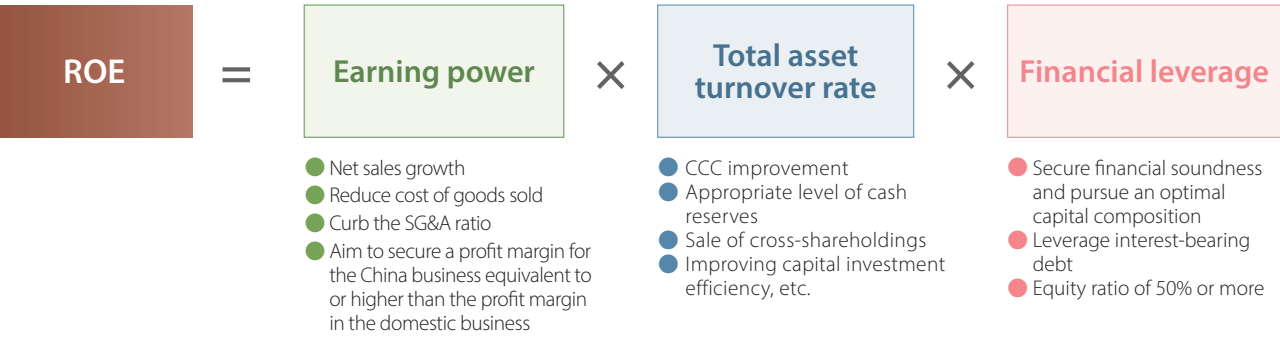
With respect to financial strategy, we are acting to enhance medium- to long-term corporate value, powered by improvements in capital efficiency and the pursuit of both capital efficiency and an optimal capital composition. In

executing strategy, the generation of operating cash flow from scale expansion domestically and in our China business, as well as improved profit margins, is a key assumption. Additionally, via CCC improvements, compression of cash reserves, the sale of cross-shareholdings and other steps, we look to generate cash from balance sheet management to invest in support of sustainable business development and growth.



Note: Cost of shareholders’ equity: approx. 7%
CAPM-calculated risk-free rate: 2%; Risk premium: 6%; Beta (β): approx. 0.8
Equity spread = ROE – cost of shareholders’ equity

Improvements in Capital Efficiency



To improve capital efficiency, our aim is to achieve a positive equity spread, with ROE above the Company’s calculated cost of shareholders’ equity of 7%. To this end, we view ROE as an important management indicator, breaking it down into three elements—“earning power,” “total asset turnover rate” and “financial leverage”—and accelerating initiatives to spur improvement.

Earning Power

We are working to boost the operating profit margin by expanding sales with respect to scale, and through reductions in the cost of goods sold and the SG&A ratio. As specific measures, along with expanding the cultivation of naturally grown crude drugs, we are advancing automation of “cultivation, primary processing, and the sorting process.” At each plant, we are taking phased steps to realize low-cost operations through automation by fiscal 2031, with a goal of more than doubling our labor productivity compared to fiscal 2021. Similarly, in SG&A expenses, we intend to maintain R&D expenses that contribute to the scientific study of pre-symptomatic diseases at the level of 5% or more of consolidated net sales. Moreover, thanks to benefits from improved productivity through DX, our aim is to hold the

SG&A ratio to the low 20% range by more than doubling net sales per employee compared to fiscal 2021.

Total Asset Turnover Rate

We aim to improve the total asset turnover rate via CCC improvements, rightsizing the balance of cash reserves, the sale of cross-shareholdings, improved capital investment efficiency and other means.

For CCC improvement, which is also a medium- to long-term issue, we are acting while considering balance and risks throughout the entire supply chain. Anchored by the planning system for compounding crude drugs adopted in 2023, we aim to shorten the operation cycle by around 3 to 4 months by optimizing the entire Kampo value chain, beginning with crude drug cultivation. Additionally, we are moving toward

the swift collection of accounts receivable by promoting the roughly 20% reduction in credit periods in negotiations with pharmaceutical agents and wholesalers.

Our ratio of cash reserves to monthly sales is high, reflecting a decision to move ahead with fund procurement given interest rate trends. Going forward, we intend to conduct planned growth investments to shrink this down to an appropriate level. Where cross-shareholdings are concerned, we are making progress in gradually reducing these through negotiations with partners. Based on a policy of zero cross-shareholdings as a rule, we embarked on a full-scale reduction effort from fiscal 2024 to cut these in half quickly.

With respect to capital investment, we have positioned the three-year period of the first medium-term management plan as time to conduct focused up-front investments in growth investments for the future and to expand business scale. Through production capacity augmentation and productivity enhancement, IT infrastructure development and other means, we plan to make total investments of around 115.0 billion yen. To better ascertain the costs and benefits of investments, we are supplementing indicators such as NPV and IRR with newly adopted investment selection criteria, for management decision-making conscious of capital costs and

capital efficiency. From the standpoints mainly of changes in the internal and external environments and return on investment, we are considering the cancellation or review of our investment plan, or postponed fulfillment, for an outlook of around 73.5 billion yen in total investment during the first medium-term management plan. In fiscal 2024, we took steps for second- and third-phase construction at the Tianjin Plant, a manufacturer of Kampo extract powder; in Japan, we also sought to bolster our Kampo extract powder manufacturing processes and production capacity for a downstream process—granulation packaging. Furthermore, to respond to increased production, we carried out expansion of the crude drug warehouse of YUBARI TSUMURA, with an eye to increasing our crude drug inventories in Japan.

Financial Leverage

By reviewing the ratio of net assets to interest-bearing debt, we are pursuing an optimal capital composition while ensuring financial soundness. From November 2023, we established an “equity ratio of 50% or more” as a standard for maintaining financial discipline.

Key Investments to Further Strengthen the Stable Supply System

Main investment activities	Total investment	2024 investment	Period
Tianjin Plant Phase 2, Phase 3 construction (manufacturing of Kampo powdered extracts)	25.0 billion yen	9.5 billion yen	2021- 2026
Newly establish processes for Kampo powdered extract manufacturing and granulation packaging	68.0 billion yen	10.5 billion yen	2024- 2027
Expand YUBARI TSUMURA's crude drug warehouse	2.5 billion yen	1.5 billion yen	2023- 2025

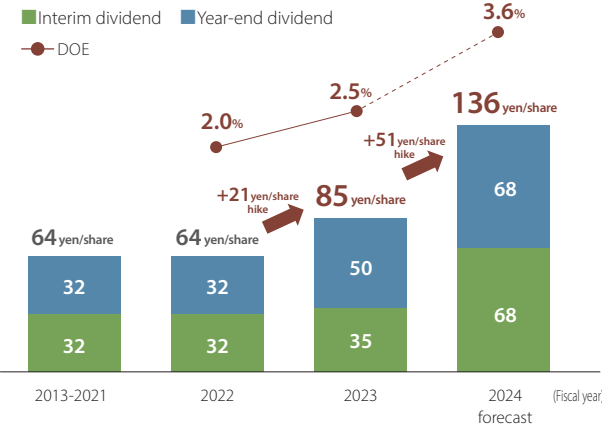
(Additional manufacturing costs)

Main activities	2024 increase in value
Boost headcount to newly establish a manufacturing line, etc.	+1.0 billion yen
Strengthen prevention and maintenance, secure warehouse, etc.	+1.5 billion yen

Dividend Policy

At Tsumura, we view the return of profit to shareholders as a vital company policy. In addition to making efforts to raise corporate value through the sustainable expansion of domestic business and growth investment and infrastructure development in the China business, shareholder returns are decided after consideration of medium- to long-term profit levels and cash flow conditions. While maintaining a sound financial footing and enhancing management efficiency, cash gained from leveraging operating cash flow and debt and optimal capital composition is allocated appropriately to additional growth investments and shareholder returns. Furthermore, shareholder returns have the dividend on equity (DOE) ratio set as an indicator, which we aim to raise to 5% by fiscal 2031 to expand dividends.

Shareholder Returns





In support of our vision, I work on policy related to the organization and human capital with a sense of urgency.

A Clear Vision for Ideal Human Capital Management since 2012

Over roughly a decade after the late 1980s, the Tsumura Group worked to expand into new businesses, but was unsuccessful and booked massive losses, due mainly to a lack of synergy with its core businesses, Kampo medicines and crude drugs. Following this difficult period, we managed to overcome the crisis based on an across-the-board initiative to boldly undertake painful reforms, including withdrawing from money-losing businesses, with a fresh focus and high priority on the prescription Kampo medicine business. We returned our business to steady growth with total commitment to communicating the value of Kampo medicines to people on the healthcare front lines. Unfortunately, focused allocation of resources to the prescription Kampo medicine business over a long period brought a backlash in divisional isolation and overdependence on specific sales channels.

In response to these challenges, CEO Terukazu Kato, taking office in 2012, envisioned an ideal image for Tsumura 10 years out and added “Tsumura, the People Company” to our long-term management vision. He also put down in black and white his definition for ideal personnel. It calls on the Group to cultivate people with aspirations and passion, a sense of

responsibility, professionalism, independence and altruism, and who take action based on these values. This was a clear statement from the top executive encouraging employees to act on their own initiative. Looking back on the history of the Tsumura Group’s human capital management, 2012 was an important turning point.

Then in 2017, we began a campaign to spread the Corporate Philosophy throughout the organization, starting with “Tsumura, the People Company” as our guiding vision, and in 2019, established the Tsumura Academy, an institution for personnel training and instilling our Corporate Philosophy. The effort to spread the Corporate Philosophy through dialogue focused on our Purpose and Value as common denominators resulted in smoother interorganizational alliances and the start of large-scale information dissemination and evidence-building that required close interdivisional alliances. These alliances underpin the current strong sales growth of Goreisan. Recently, an internal consensus was reached on embracing the new challenge of enhancing our China business. I see this as a sign that an organizational culture embracing challenging endeavors is taking root.

New Office of CHRO Focuses on Adapting to Changing Times

Despite growing demand for Kampo medicines, the business environment for the Tsumura Group is substantially toughening, with increasing geopolitical risk and extremely unstable exchange rates. The labor market is also changing, with more emphasis on diversifying work style needs and more positive attitudes toward outside employment, job changes and other options, requiring that corporations adjust to new employment trends. Since I took office as the Company’s first CHRO in 2022, I’ve been focusing on creating new HR programs and improving work environments, adapting to these changes.

As a new initiative to cultivate management candidates, we recently implemented our T-Next program, an enhanced

version of our established program to select and train the next generation of managers. We also instituted our Career Challenge internal recruitment system, which gives employees more initiative in their career opportunities, an employee stock ownership plan based on the pay-for-purpose concept, and in fiscal 2024 an external job program.

These programs are designed to trigger reform in employee mindsets to adapt to change in our external environment. Unlike the old train-style organization, powered by a single locomotive at the front, we are moving to a Shinkansen-style organization, where every car is equipped with its own motor, while cultivating personnel with the five characteristics we defined in 2012, including independence.

Recruit, Cultivate and Optimally Assign People to Realize Our Long-Term Management Vision

Going forward, I understand that securing both quantity and quality in our human resources is our most important mission in achieving our long-term management vision. As a strategic preparatory move, we first defined the personnel requisites for each internal organization, and in 2023, created a human resources portfolio to reveal each employee’s skills and experience. Using this portfolio, we strategically hire, assign and train our personnel.

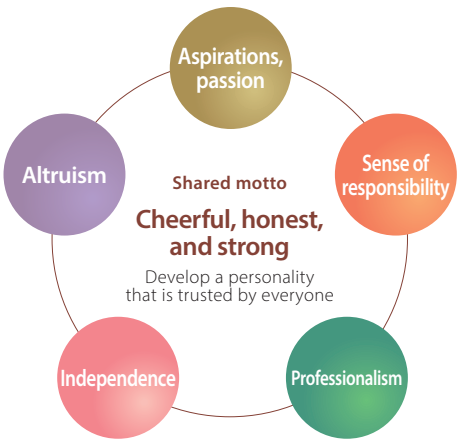
We put effort into hiring mid-career employees as an important way to enhance our labor force, bringing on 488 specialists and highly experienced people over the five years from fiscal 2019 to fiscal 2023. They are essential in activating our organization, particularly in our new businesses focusing on consumers at large and the Chinese market, as they complement and build our specialized knowledge base while spreading the challenger spirit.

In addition, we put special value on employee engagement. To reinforce that, we analyze employee survey results from many angles, set HR policies for the next fiscal year and beyond based on them, and keep that cycle going. As a new initiative, we started analyzing the correlation between ESG indices and PBR and applying our findings to reforms, such as enhancing preparation and follow-ups in employee training. As one example, this effort clarified the relationship between the ratio of women in management and PBR growth. Such initiatives are helping us move faster than we planned in achieving our quantitative goals.

In drawing up our second medium-term management plan starting in fiscal 2025, we are redefining each job and function and discussing ways to foster a corporate culture that encourages employees to take initiative in building skills and specialties for their own careers. We’re preparing to introduce a new HR system designed to promote skilled young employees early and accelerate the development of advanced specialists and mid-career talent.

For our across-the-board effort to build a highly productive “Kampo medicine organization,”^{*1} I will continue taking measures and instituting programs to improve the employee experience, including the development of work environments compatible with reskilling and teleworking, and further enhancing health and productivity management. I am firmly committed to helping realize potential-abilities development,^{*2} a priority in our 2031 vision.

Ideal Human Resources



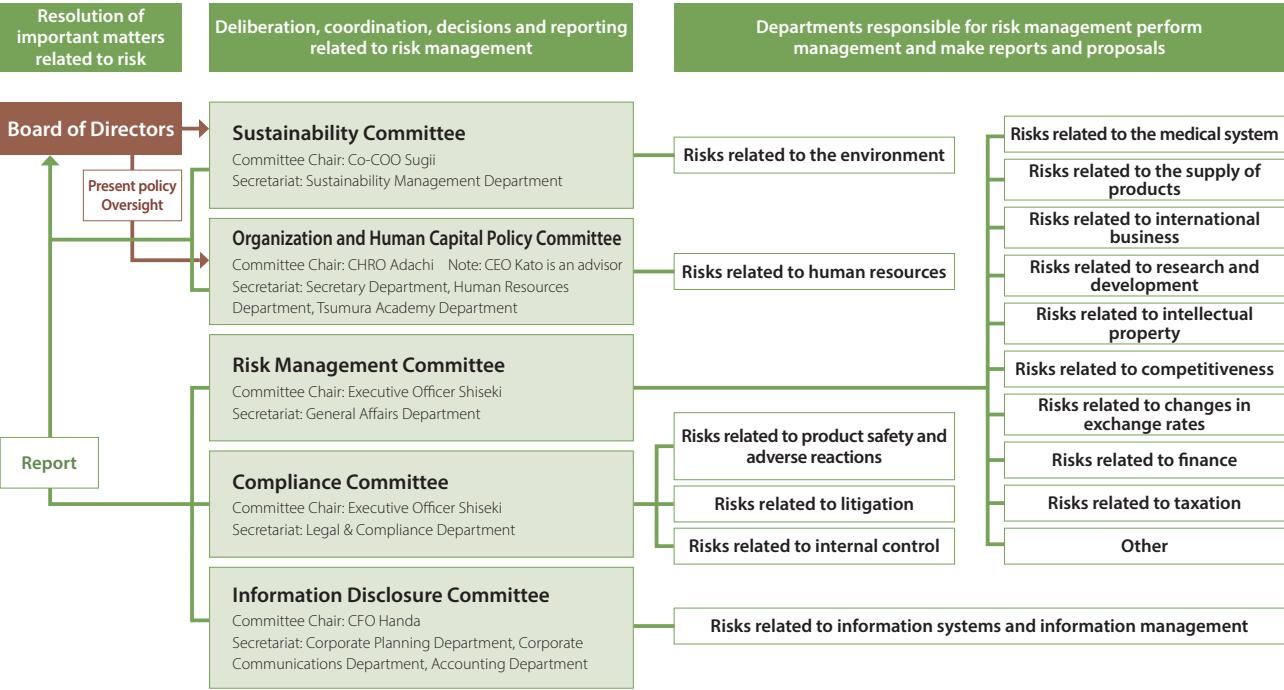
^{*1} Using “Kampo medicines” as a metaphor for divisions and companies, with crude drugs representing people and divisions, this concept draws an analogy between Kampo formulations and a well-balanced organization that generates solid results.
^{*2} This describes a corporate culture that employs dialogue to encourage every employee to make the most of their potential, making us a trustworthy organization as we explore Kampo and the traditional Chinese medicine business, for which there is no other model in the world.

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 Risk Management Officer (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. The Board of Directors receives reports, checks the status of risk management initiatives and the effectiveness of measures, supervises these and provides necessary instructions.



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 spendingRisk of tighter domestic/overseas regulations concerning the development and manufacture of pharmaceutical products	<ul style="list-style-type: none">Building understanding of the value of Kampo formulationsCooperation with industry bodies and recommendations to relevant ministries and agenciesEstablishment of evidence of efficacy of prescription Kampo formulationsActivities to raise the profile of prescription Kampo formulations
		<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 conditionsRisk 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 conditionsRisk of loss of production and distribution functions due to natural disasters, fires, power outages, etc.	<ul style="list-style-type: none">Securing of sufficient inventory volumeExpansion of range of suppliers of crude drugs domestically and overseasContinued expansion of cultivated land under own managementEstablishment of purchasing structure involving multiple suppliersDiversification of manufacturing sites and product supply sitesIntroduction of seismic isolation and earthquake-resistant structures for production facilities
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 conditionsRisk 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 conditionsRisk of loss of production and distribution functions due to natural disasters, fires, power outages, etc.	<ul style="list-style-type: none">Compliance with quality control standards in the country or regionPromotion of initiatives for quality of all products, including not only those manufactured in-house but also those manufactured by CMOsThorough management of raw material crude drugs in accordance with the Regulations on the Tsumura GACP PolicyPromoting 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">Risk of occurrence of problems with product quality or safetyRisk of unexpected side effects	
3	Risks related to product safety and adverse reactions	<ul style="list-style-type: none">Risk of occurrence of problems with product quality or safetyRisk of unexpected side effects	<ul style="list-style-type: none">Compliance with quality control standards in the country or regionPromotion of initiatives for quality of all products, including not only those manufactured in-house but also those manufactured by CMOsThorough management of raw material crude drugs in accordance with the Regulations on the Tsumura GACP PolicyPromoting 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">Risk of occurrence of problems with product quality or safetyRisk of unexpected side effects	

Risk items		Details of significant risks	Risk mitigation measures
4	Risks related to international business	<ul style="list-style-type: none">Risk of the discovery of contingent liabilities or unrecognized liabilities 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 realizedRisk 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&AReinforcement of business management functions through the establishment of Tsumura China Inc.
		<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)
5	Risks related to research and development (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)
		<ul style="list-style-type: none">Risk of decline in competitiveness due to IP rights infringement by third partiesRisk of disputes stemming from the infringement of third-party IP rights	<ul style="list-style-type: none">Thorough information management in accordance with Company rulesAcquisition 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.
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 partiesRisk of disputes stemming from the infringement of third-party IP rights	<ul style="list-style-type: none">Thorough information management in accordance with Company rulesAcquisition 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.
		<ul style="list-style-type: none">Risk of being unable to secure or systematically develop the necessary human resourcesRisk 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 techniquesSecuring of global human resources for the development of operations in China and the United StatesCultivation of personnel who can conduct business based on the Group's Corporate Philosophy and development of diverse human resources through the Tsumura AcademySystematic development of human resources based on the Human Resource Development PolicyProvision of thorough labor affairs management education primarily to managers and increased opportunities for communication through the use of one-on-one meetings and other modes of communication
7	Risks related to human resources	<ul style="list-style-type: none">Risk of being unable to secure or systematically develop the necessary human resourcesRisk 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 techniquesSecuring of global human resources for the development of operations in China and the United StatesCultivation of personnel who can conduct business based on the Group's Corporate Philosophy and development of diverse human resources through the Tsumura AcademySystematic development of human resources based on the Human Resource Development PolicyProvision of thorough labor affairs management education primarily to managers and increased opportunities for communication through the use of one-on-one meetings and other modes of communication
		<ul style="list-style-type: none">Risk of entry into prescription Kampo market by Japanese and foreign pharmaceutical companiesRisk 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
8	Risks related to competitiveness	<ul style="list-style-type: none">Risk of entry into prescription Kampo market by Japanese and foreign pharmaceutical companiesRisk 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
		<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
9	Risks related to changes in exchange rates	<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
		<ul style="list-style-type: none">Risk of changes in retirement benefit obligationsFundraising riskRisk 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 changesMaintaining relationships with financial institutions, particularly the main bank
10	Risks related to finance	<ul style="list-style-type: none">Risk of changes in retirement benefit obligationsFundraising riskRisk 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 changesMaintaining relationships with financial institutions, particularly the main bank
		<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 countryCompliance with the transfer pricing tax regimes applied in each country
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 countryCompliance with the transfer pricing tax regimes applied in each country
		<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 are insufficient	<ul style="list-style-type: none">Compliance with environment-related laws and regulationsPreservation of natural environments through environmentally conscious activities
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 are insufficient	<ul style="list-style-type: none">Compliance with environment-related laws and regulationsPreservation of natural environments through environmentally conscious activities
		<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 IP 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 companiesOngoing close collaboration with attorneys
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 IP 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 companiesOngoing close collaboration with attorneys
		<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 systemsFormulation 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
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 systemsFormulation 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
		<ul style="list-style-type: none">Risk of being unable to ensure the effectiveness or efficiency of operationsRisk of being unable to ensure the integrity of financial reportsRisk of unlawful conduct, fraud, etc.	<ul style="list-style-type: none">Establishment and operation of internal control systemEstablishment and operation of internal management standardsPeriodic internal audits and internal control evaluations
15	Risks related to internal control	<ul style="list-style-type: none">Risk of being unable to ensure the effectiveness or efficiency of operationsRisk of being unable to ensure the integrity of financial reportsRisk of unlawful conduct, fraud, etc.	<ul style="list-style-type: none">Establishment and operation of internal control systemEstablishment and operation of internal management standardsPeriodic internal audits and internal control evaluations
		<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 diseaseEstablishment of a structure for the stable supply of products based on BCPAcquisition of infrastructure for working from home (laptops, web meeting systems)
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 diseaseEstablishment of a structure for the stable supply of products based on BCPAcquisition of infrastructure for working from home (laptops, web meeting systems)

Importance of Natural Capital and Response to TNFD Recommendations

Loss of natural capital, including biodiversity, poses a direct management risk to the Tsumura Group, since its business uses crude drugs, which are the gifts of nature, as raw materials. It is because of this that we have a long history of working to preserve natural capital from our earliest days. The first president, Jusha Tsumura, considered the identification of varieties that can be used as raw material crude drugs for Kampo medicines, 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. We have carried this idea down through the generations, and we continue our initiatives to create a recycling society.

The Group is not only striving to minimize its negative impact on natural capital, but to be nature positive. The Group has endorsed the recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD), and has conducted a nature-related risk and opportunity analysis using the LEAP approach.*1

*1 Locate, Evaluate, Assess, and Prepare: A four-step approach provided as guidance by the TNFD for evaluating nature-related risks and opportunities

Analysis Target*2

Value chain	Sector*3	Sub-industry	Business process
Upstream (crude drug production areas)	Consumer staples	Agricultural products	Large-scale irrigated crops*4
Midstream (Company locations*5)	Healthcare	Biotechnology manufacturing	Life science, pharmaceutical manufacturing, biotechnology manufacturing

*2 Downstream (distribution) is excluded from this analysis as the impacts of risks and opportunities are expected to be smaller than for upstream and midstream.

*3 Classified based on the Global Industry Classification Standard (GICS)

*4 Crude drug cultivation includes numerous "large-scale rain-fed crops," but we referred to the category of "large-scale irrigated crops," which has many similarities in the level of dependence and impact on natural capital.

*5 In addition to the head office and the Group's own plants, this also includes large-scale crude drug production sites (Pingcun Zhongying (Hebei) Pharmaceutical Co., Ltd., etc.).

Locate Locating our interface with nature

Analysis of Sensitive Areas and Biomes*6

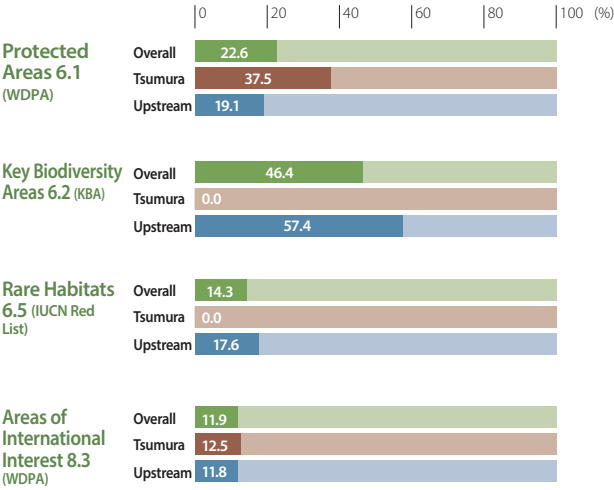
The Tsumura Group procures raw material crude drugs directly from production areas, and ascertains the status at the highest upstream locations using the Tsumura GACP. The Group utilized these strengths in this analysis to select priority areas from 81 locations, combining its own locations (16) and those of key suppliers (65). Based on three judgment criteria—key areas for biodiversity, areas

with a high level of ecosystem integrity, and areas with high physical water risk—the Group identified locations in sensitive areas using an analysis tool.*7 From the published biome distribution data, we found that many of the locations corresponded to rivers, artificial fresh water, subterranean caves and rock, temperate and boreal forests, and biomes with concentrated land use.

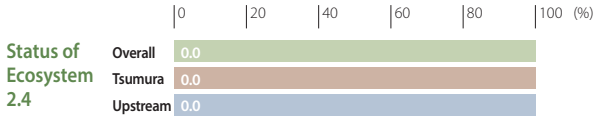
*6 Geographical regions categorized by the types of plants that grow in them based on rainfall, temperature patterns, and other factors, such as tropical rainforests, open oceans, deserts, and lakes

*7 WWF Biodiversity Risk Filter

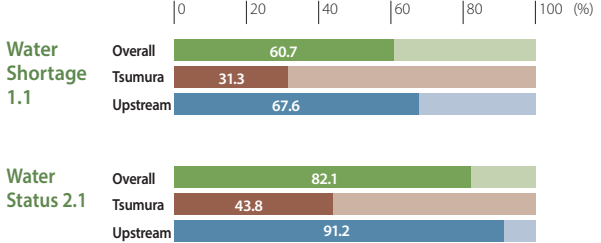
Key Areas for Biodiversity



Areas with a High Level of Ecosystem Integrity

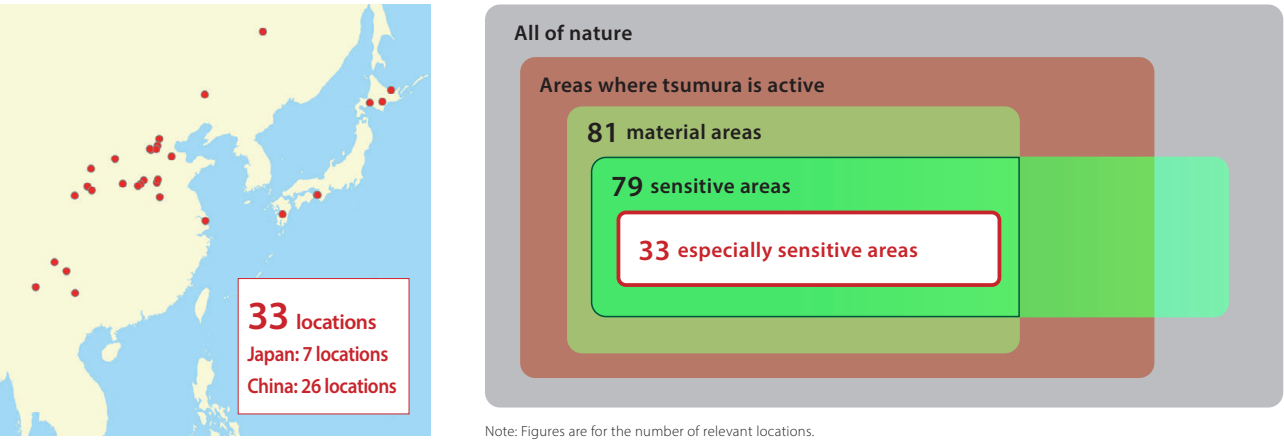


Areas with High Physical Water Risk



Especially Sensitive Areas

We designated 33 locations as “especially sensitive areas.” These were designated “sensitive areas” that were deemed to have an extremely high risk in at least one of the following: “protected areas,” “key biodiversity areas,” “rare habitats,” “areas of international interest,” “status of ecosystem,” “water shortage,” and “water status.”



Evaluate Evaluating dependencies and impacts on nature

Identification and Evaluation of Dependencies and Impacts Using ENCORE*8

The Tsumura Group's business processes in upstream crude drug production areas and at midstream Company locations depend on ecosystem services. We used the ENCORE tool to ascertain which ecosystem services they depend on, and the degree of dependence. From these results, we recognized that we have a wide scope of dependence and impact on natural capital, particularly in crude drug production areas.

*8 A tool for visualizing the dependencies and impacts of economy on nature, and how changes in the environment can create risks for busines.

Result of Analysis by ENCORE

Value chain	Level of impact	Dependencies and impacts on natural capital
Upstream (crude drug production area)	Extremely high	Protection from high winds and rain, groundwater, soil stabilization and erosion prevention, use of freshwater ecosystems, use of terrestrial ecosystems, use of water
	High	Buffering and attenuation of material flows, disease control, protection from floods, protection from high winds and rain, global climate control, microclimate control, groundwater, soil stabilization and erosion prevention, pest control, pollination, weathering process, decomposition and fixation processes, surface water, water flow control, chemical status of freshwater areas, chemical status of saltwater areas, soil contamination, use of terrestrial ecosystems, water pollution
Midstream (Company locations)	High	Surface water, soil contamination, solid waste, water pollution, water use

Assess Assessing nature-related risks and opportunities

We set out the main foreseeable future financial impacts to the Tsumura Group with regard to nature-related risks and opportunities that could arise from particularly high dependencies and impacts. We now plan to conduct a more detailed analysis based on this evaluation result.

Identification Process

Upstream (crude drug production areas)	Drawing from a list of risks and opportunities in the TNFD agriculture and food sector guidance,*9 we extracted and listed the risks and opportunities that we consider relevant to the Company, making reference to the categories of TNFD risks and opportunities and based on items at the level of moderate or above in the dependencies and impacts heat map.
Midstream (Company locations)	We extracted and listed the risks and opportunities that we consider relevant to the Company, making reference to the categories of TNFD risks and opportunities and based on items at the level of moderate or above in the dependencies and impacts heat map.

*9 Draft sector guidance – Food and agriculture: https://tnfd.global/wp-content/uploads/2023/12/Draft_Sector-Guidance_Food-and-agriculture_Dec_2023.pdf?v=1701945325

Nature-Related Risks and Opportunities

Category	Type	Number	Risks and opportunities	Upstream	Midstream
Physical risks	Acute	1	Increase in crop pests	○	
		2	Emergent need to maintain infrastructure due to the impacts of flooding, landslides, and other natural disasters in operation areas of the crude drug business	○	○
	Chronic	3	Decline in harvest resulting from decrease in land productivity and climate change mitigation function due to soil degradation	○	
		4	Emergence of a need to switch from locations with a high level of water pollution turbidity to those with a low level	○	
		5	Increase in need for mechanical and manual pollination due to decrease in natural pollinators	○	
		6	Emergence of a need for agricultural workers and suppliers to relocate due to loss of agricultural land productivity	○	
		7	Emergence of a need for water purification and desalination technology and soil remediation technology following an increase in the level of contamination and water stress	○	
		8	Suspension or stoppage of production processes due to increase in water stress	○	○
Transition risks	Policies, laws and regulations	9	Response to laws and regulations and certification related to production of raw materials and manufacturing of products	○	○
		10	Waste- and plastic-related regulations		○
		11	Request to shift production and procurement areas due to expansion into protected areas (GBF 30 by 30)	○	
		12	Joint land ownership claims by indigenous peoples and local communities	○	
	Technology	13	Request to transition to efficient, clean crop varieties, manufacturing technologies, and transport technologies	○	○
	Market	14	Increasing consumer preference for products produced and manufactured using sustainable methods with less impact on nature	○	○
	Reputation	15	Decrease in reputation due to increase in environmental load associated with business activities (pollution, deforestation, waste, etc.)	○	○
Opportunities	Liability	16	Increase in impact on the surrounding environment associated with production processes		○
	Resource efficiency	17	Transition to production processes with good production efficiency that use less resource inputs such as water and natural resources	○	○
		18	Improved market evaluation by using regenerative agriculture methods and increased ratio of natural cultivation by strengthening ecosystem services and environmental assets (e.g., increasing resistance to climate-related damage through soil structure)	○	
		19	Increase in reuse and recycling rate of natural resources		○
		20	Transition to production processes with low environmental impact		○
	Products and services	21	Product development based on reuse of waste and shift to substitute materials (e.g., upcycling and reuse of waste in products)	○	○
		22	Increase in supply of crude drugs with certified sustainable production processes		○

Prepare Preparing to formulate new medium- to long-term environmental targets

Looking ahead, we will select appropriate management metrics and set appropriate targets for the formulation of medium- to long-term environmental targets starting from fiscal 2025. As part of this preparation, we have summarized the status of our initiatives on the nature-related risks and opportunities identified recently in the following table.

Status of Initiatives on Nature-Related Risks and Opportunities

◎ : Responding, ○ : Partially responding, Short to medium term: Expecting to implement in under 10 years, Long term: Expecting to implement in 10 years or later

Materiality	Response measures	Status of the Company's response			Number of corresponding risk or opportunity
		Recognition	Research	Implementation	
Sustainable procurement of raw materials	Diversification of cultivation areas	◎		○	1,2,3,4,5,7,8,11
	Adoption of cultivation methods that do not depend on soil, etc.	◎	◎	○	3,5,11,14,15
Recycling use of resources	Water saving and reuse (upstream)	◎	○	Short to medium term	6,7,13,14,15
	Development of varieties that are resistant to changes in the natural environment (pests, climate change, etc.)	◎		Long term	1,13
Preservation of biodiversity	Promotion of cultivation methods that reduce pests	◎	◎	○	1
	Water risk evaluation and assessment	◎	◎	◎	2,7,8
Climate change countermeasures	Water saving and reuse (Tsumura's operations)	◎	◎	◎	8,13,14,17,19
	Setting rigorous environmental metrics and voluntary standards	◎		◎	13,14,15,16
	Timely and appropriate collection of regulatory information, etc.	◎		◎	9,10,22
	Reputation risk countermeasures through timely disclosure and engagement	◎		◎	12,14,15

For more details regarding disclosure based on the TNFD recommendations, please refer to the Company's website. <https://www.tsumura.co.jp/sustainability/environment/biodiversity/tnfd/>



Progress on Management Strategy

49	Financial and Pre-Financial Highlights
53	Long-Term Management Vision
54	Medium-Term Management Plan
55	Strategic Challenge 1
57	Strategic Challenge 2
59	Strategic Challenge 3
63	Strategic Challenge 4
65	Strategic Challenge 5

Financial and Pre-Financial Highlights

(Million yen)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Operating results											
Net sales	110,057	110,438	112,625	114,954	117,879	120,906	123,248	130,883	129,546	140,043	150,845
of which, domestic business	-	-	-	-	-	-	-	-	-	124,698	132,099
of which, China business	-	-	-	-	-	-	-	-	-	15,345	18,745
Cost of sales	38,787	41,859	45,055	49,454	49,603	49,451	50,747	55,951	63,081	71,762	82,028
Cost of sales ratio	35.2%	37.9%	40.0%	43.0%	42.1%	40.9%	41.2%	42.7%	48.7%	51.2%	54.4%
Gross profit	71,269	68,578	67,569	65,499	68,275	71,455	72,500	74,931	66,465	68,281	68,816
Gross profit margin	64.8%	62.1%	60.0%	57.0%	57.9%	59.1%	58.8%	57.3%	51.3%	48.8%	45.6%
SG&A expenses	48,808	49,087	47,743	49,516	51,224	52,935	53,623	55,548	44,088	47,365	48,799
SG&A expenses ratio	44.3%	44.4%	42.4%	43.1%	43.5%	43.8%	43.5%	42.4%	34.0%	33.8%	32.4%
Operating profit	22,461	19,491	19,826	15,983	17,050	18,520	18,876	19,382	22,376	20,916	20,017
of which, domestic business	-	-	-	-	-	-	-	-	-	21,190	20,531
of which, China business	-	-	-	-	-	-	-	-	-	-273	-514
Operating profit margin	20.4%	17.6%	17.6%	13.9%	14.5%	15.3%	15.3%	14.8%	17.3%	14.9%	13.3%
Ordinary profit	23,966	21,583	19,494	16,399	17,914	19,702	19,649	20,866	25,904	23,453	23,493
Profit attributable to owners of parent	18,050	14,075	12,557	12,488	14,504	14,593	13,765	15,332	18,836	16,482	16,707
Financial position											
Total assets	187,623	215,654	222,468	222,008	293,701	287,322	311,990	319,063	350,981	396,813	428,254
Net assets	133,318	150,947	155,702	157,397	196,533	206,141	213,997	233,169	258,109	272,246	295,364
Liabilities	54,305	64,706	66,765	64,611	97,168	81,181	97,993	85,894	92,871	124,566	132,889
Current assets	108,692	128,484	133,668	134,679	192,401	190,027	196,973	204,273	229,420	268,320	281,292
Non-current assets	78,931	87,169	88,799	87,329	101,300	97,295	115,017	114,789	121,561	128,492	146,961
Current liabilities	45,179	41,366	43,702	31,883	48,766	33,320	48,476	48,380	45,875	47,205	68,557
Non-current liabilities	9,126	23,339	23,063	32,727	48,402	47,861	49,516	37,513	46,996	77,361	64,332
Equity ratio	69.9%	68.8%	68.8%	69.7%	65.9%	70.2%	65.8%	68.3%	68.3%	63.5%	63.2%
Cash flows											
Cash flows from operating activities	5,908	4,992	17,570	21,065	21,066	5,450	18,191	16,102	21,314	16,452	5,608
Cash flows from investing activities	-1,694	-10,683	-7,461	-6,451	-23,354	-7,697	-23,488	-7,352	-9,111	-15,493	-19,351
Cash flows from financing activities	-4,575	10,408	-4,608	-9,572	50,305	-18,528	7,111	-10,425	-8,181	24,423	-4,417
Cash and cash equivalents at end of period	14,418	19,343	25,128	29,901	78,313	56,243	57,692	59,668	67,536	94,730	78,034
Main indicators											
ROE (return on equity)	14.5%	10.1%	8.3%	8.1%	8.3%	7.4%	6.8%	7.2%	8.2%	6.7%	6.4%
DOE (dividend on equity)	3.6%	3.2%	3.0%	2.9%	2.7%	2.5%	2.4%	2.3%	2.1%	2.0%	2.5%
Investment amount of property, plant and equipment and software, etc.*1	8,991	8,428	9,638	6,455	11,912	9,085	6,304	11,161	11,456	14,679	21,908
of which, investment amount of property, plant and equipment	8,991	8,428	9,638	6,455	11,912	9,085	6,304	11,161	11,456	11,172	18,352
R&D expenses	5,949	6,252	5,968	6,087	6,048	5,926	6,270	6,631	7,313	7,594	8,288
Depreciation	4,871	5,387	5,059	5,629	6,157	6,362	6,406	8,210	8,743	10,101	10,235
Total asset turnover rate	0.59	0.51	0.51	0.52	0.40	0.42	0.40	0.41	0.37	0.35	0.35
EPS (earnings per share) (yen)	255.94	199.58	178.06	179.46	200.55	190.87	179.96	200.40	246.21	215.63	219.83
BPS (book-value per share) (yen)	1,860.14	2,103.04	2,169.13	2,250.34	2,532.11	2,639.59	2,684.38	2,846.58	3,133.97	3,299.42	3,566.54
Annual dividend per share (yen)	64	64	64	64	64	64	64	64	64	64	85
Sales volume of prescription Kampo formulations (ten thousand units)	1,795	1,876	1,929	2,026	2,081	2,165	2,222	2,278	2,440	2,563	2,626
Share in the prescription Kampo market	84.5%	84.5%	84.3%	84.0%	83.9%	83.6%	83.5%	83.4%	83.3%	83.2%	84.2%
NHI price revision rate	Not available	-3.0%	Not available	-3.0%	Not available	-3.1%	-1.8%	-0.4%	0.0%	-0.9%	2.3%

Notes: 1 From fiscal 2018, the Partial Amendments to Accounting Standard for Tax Effect Accounting have been applied. 2 Figures after PPA adjustment for fiscal 2019
3 From fiscal 2021, the Accounting Standard for Revenue Recognition has been applied.
*1 Changed from "acquisition of property, plant and equipment" to "investment amount of property, plant and equipment and software, etc." from fiscal 2022.

Net Sales by Product

(Million yen)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Drug-fostering program formulations*2											
100 Daikenchuto	9,785	9,993	10,273	10,328	10,584	10,430	10,357	10,394	9,569	9,739	9,851
043 Rikkunshito	6,612	6,633	6,604	6,863	7,044	7,256	7,370	7,501	7,231	7,300	7,454
054 Yokukansan	6,628	6,895	7,215	7,330	7,571	7,664	7,774	7,884	7,379	7,380	7,447
107 Goshajinkigan	3,812	3,814	3,838	3,733	3,686	3,625	3,603	3,628	3,509	3,421	3,698
014 Hangeshashinto	1,181	1,230	1,250	1,276	1,334	1,350	1,390	1,413	1,358	1,390	1,448
“Growing” formulations											
041 Hochuekkito	6,883	6,965	6,968	6,947	7,098	7,158	7,113	7,632	7,232	7,727	7,956
017 Goreisan	2,438	2,719	3,082	3,363	3,722	4,124	4,491	4,960	5,298	6,208	6,869
024 Kamishoyosan	4,264	4,285	4,465	4,465	4,534	4,539	4,598	4,873	4,833	5,050	5,117
108 Ninjin'yoeito	628	640	668	701	913	1,549	1,874	1,914	1,936	2,128	2,305
137 Kamikihito	1,102	1,211	1,237	1,249	1,342	1,422	1,536	1,613	1,722	2,067	2,290

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

Organization and Human Capital

	2019	2020	2021	2022	2023
Number of employees	3,840	3,830	3,921	4,032	4,138
Non-consolidated	2,534	2,556	2,564	2,631	2,711
Affiliated companies	1,306	1,274	1,357	1,401	1,427
Education cost per employee (non-consolidated) (thousand yen)	102	93	124	126	120
Annual education hours (non-consolidated) (hours)	1,496	1,372	1,702	1,575	1,334
Ratio of female employees (non-consolidated)	20.6%	21.7%	23.0%	24.3%	25.3%
Ratio of female managers (non-consolidated)*3	5.2%	5.9%	6.3%	7.4%	8.4%
Ratio of female managers (consolidated)*3	-	-	-	-	13.8%
Ratio of female recruitment (non-consolidated)	24.1%	40.3%	40.5%	31.3%	32.8%
Ratio of female recruitment (non-consolidated, only career-track positions)	31.8%	47.9%	50.9%	42.2%	37.8%
Ratio of mid-career hires (non-consolidated)	63.8%	61.3%	66.4%	78.7%	72.0%
Ratio of mid-career hires (non-consolidated, only career-track positions)	42.1%	35.2%	41.5%	67.5%	59.2%
Average overtime hours (non-consolidated)	13.8	12.7	10.9	10.8	12.0
Average number of days of paid leave taken (non-consolidated)	11.6	10.8	13.5	14.0	14.0
Ratio of childcare leave taken (male)	7.0%	19.0%	37.0%	52.0%	57.3%
Ratio of childcare leave taken (female)	100%	100%	100%	100%	100%
Average number of days of childcare leave taken (male)	21.4	24.1	12.3	24.6	26.5
Average number of days of childcare leave taken (female)	172.2	125.4	121.4	119.3	232.2
Percentage of employees with disabilities (non-consolidated)	2.9%	2.8%	2.9%	2.6%	2.5%
Turnover rate (non-consolidated)	1.0%	1.8%	1.4%	2.7%	2.8%
Number of occupational accidents (non-consolidated)	16	11	12	17	16

*3 The ratio of female managers is as of April 1 each fiscal year.

Environmental Data*4

	2019	2020	2021	2022	2023
GHG emissions (t-CO ₂)	96,420	96,487	96,570	108,530	88,227
Energy used (TJ)	1,635	1,680	1,703	2,063	2,164
Water intake (thousands of tons)	1,719	1,707	1,704	2,065	2,152
Water reuse rate	57.6%	62.9%	55.6%	56.0%	57.4%
Total waste emission volume (tons)	32,669	31,669	34,456	38,086	41,993
Recycling rate*5	99.4%	99.0%	99.9%	99.9%	99.9%

Note: Waste includes industrial waste (including ones under special management), as well as municipal solid waste.
*4 Emissions from TIANJIN TSUMURA PHARMACEUTICALS CO., LTD. and CHINA MEDICO CORPORATION have been included in calculations from fiscal 2022.
*5 Recycling rate = recycled volume / total waste emission x 100

Corporate Governance

	2019	2020	2021	2022	2023
Ratio of outside directors	55.6%	55.6%	55.6%	55.6%	55.6%
Ratio of female directors	11.1%	11.1%	11.1%	11.1%	11.1%
Ratio of female executive officers	-	-	-	7.1%	7.1%
Compliance					
Number of consultations received by Tsumura Group Hotline	25	26	10	19	25
Percentage who responded “Agree” or “Somewhat agree” to the question “Do you think it is a <i>bright, transparent workplace?</i> ” on the compliance survey (5-level scale)	59.3%	68.9%	69.7%	70.3%	71.5%

Long-Term Management Vision

Long-Term Management Vision TSUMURA VISION “Cho-WA” 2031

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.

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.

Long-Term Management Vision (Fiscal 2022-2031)

PHC

Personalized Health Care

This means contributing to well-being through evidence-based provision of Kampo and traditional Chinese medicines 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.

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 medicines, with Kampo and traditional Chinese medicines at its core.

Road Map for Achieving the TSUMURA VISION “Cho-WA” 2031

		1st stage 2022-2024 - Germination -	2nd stage 2025-2027 - Growth -	3rd stage 2028-2031 - Flowering -
Prescription Kampo business		Standardization of Kampo treatment Personalization of Kampo treatment	50% or more of physicians prescribing 10 or more formulations	50% of physicians writing basic prescriptions in all treatment areas
Research and development		Personalization of Kampo treatment/ scientific study of pre-symptomatic disease	Research	Develop
China business	Formulation platform	Traditional Chinese medicinal products business	Entry	Build infrastructure
	Crude drug platform	Crude drugs, drug pieces, and health products	Expand sales	Establish brand
	Research platform	Traditional Chinese Medicine Research Center	Establish	Expand functions
Smart factory		Expand scope of automation	Shift monitoring & management	Realize smartification of factories
Labor productivity	Sales	Sales per MR (yen/MR)		
	Production	Physical labor productivity (box/person)		
	Crude drugs	Labor costs for the amount of arranged crude drug (yen/ton)		Productivity doubled (compared to fiscal 2021)

Medium-Term Management Plan

Progress of the First Medium-Term Management Plan

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.

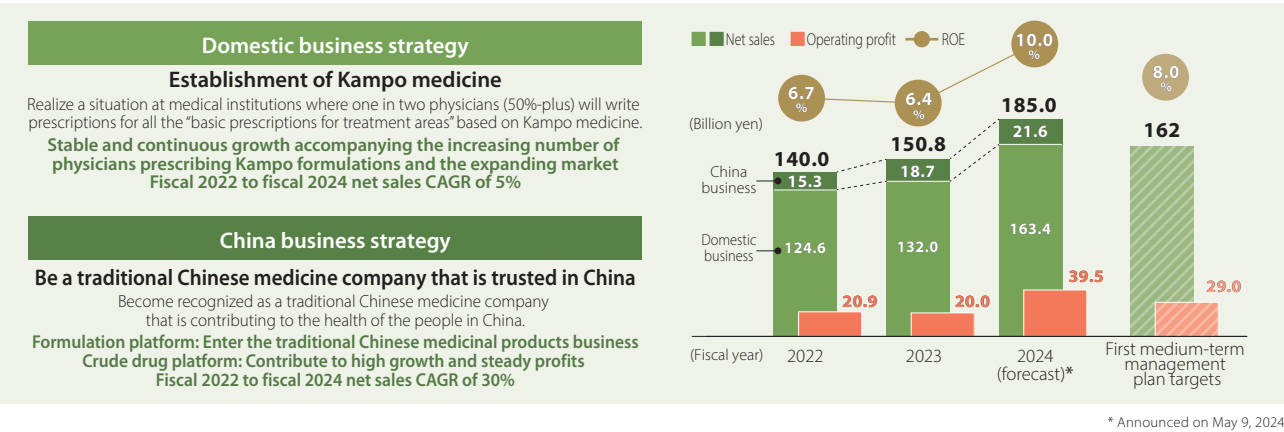
In the China business, we aim for high sales growth with a CAGR of 30% for net sales in the crude drug platform, which is centered on sales of raw material crude drugs and drug pieces. In the formulation platform, we aim to achieve entry into the traditional Chinese medicinal products business through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

Net sales in the domestic business in fiscal 2023 grew 5.9% year on year. In the prescription Kampo business, we strengthened our hybrid-type promotional activities incorporating e-promotion and MR activities, and pushed forward with information provision activities tailored to each physician. These efforts included enhancing the content on our own medical website and increasing the sophistication of our marketing automation system. As a result, the number of physicians prescribing 10 or more prescription Kampo formulations increased by 23,000 year on year, to cover 39% of all physicians.

In the China business, net sales grew 22.2% year on year, as we promoted marketing activities that emphasized product quality as the starting point on our crude drug platform and made progress on developing new customers and expanding the number of products for sale with existing customers. On our formulation platform, we are continuing negotiations with several M&A candidates aimed at entry into the traditional Chinese medicinal products business.

Looking at the numerical targets for the first medium-term management plan, the cost of goods sold has exceeded the initial forecast by a large margin due to an increase in unit prices for certain, mainly wild, crude drugs, the yen's depreciation, and persistently high raw material and energy prices. Nevertheless, we expect to achieve all of the numerical targets as drug prices for money-losing products were raised through price reevaluation.

Numerical Targets and Results



First Medium-Term Management Plan: Strategic Challenges and Growth Investment

Strategic challenges		Fiscal 2022 to 2023 results (investments)	
1	Continuously expanding the Kampo market by providing Kampo solutions that match the needs of each and every physician	● Expansion of e-promotion ● Expansion of medical website content ● Increased sophistication of email marketing	● Kampo custom file with leaflets filed by symptom ● Introduction of in-house training tools to improve the quality of MR interviews
2	Using KAMPOmics to build evidence on Kampo and promote the scientific study of pre-symptomatic diseases	● Research for personalization of Kampo treatments ● Research for scientific clarification of pre-symptomatic diseases	● Research to expand the standardization of Kampo treatments ● US development (TU-100)
3	Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicinal products business	● Expansion of sales of raw material crude drugs, drug pieces, etc. ● Development of health and medicine products ● Construction of a Group governance system centered on Tsumura China Inc.	
4	Innovating the IT platform and crude drug selection, and promoting the implementation of AI and automation toward reforming the Kampo value chain	● Introduction of automation technology at the new plant (Tianjin Plant) ● Introduction of an integrated core system ● Development and introduction of AI-based automated sorting machines	
5	Creating value through organization and human capital and promoting reform to boost job satisfaction	● Program for fostering the next generation of management personnel ● Stock delivery system for employees	● Reskilling with digital literacy education ● Promotion of the development of female managers
Initiatives for realization of the sustainability vision		● Announcement of support for the TCFD recommendations and discussion of scenario-based analysis and response measures ● Registration as a TNFD adopter	

1

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

Strategy Progress

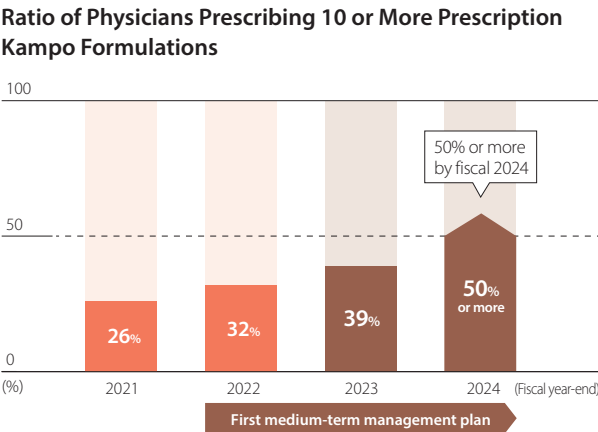
Strategic challenge 1 has the goal of realizing a situation where patients can receive Kampo treatment suited to them individually, regardless of the medical institution or clinical department. Under the first medium-term management plan, as a first step in this direction, we are working to continuously 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 our “basic prescriptions for treatment areas.”*1 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 prescription Kampo formulations based on Kampo medicine by the end of fiscal 2024. Our efforts to provide information to that end resulted in approximately 23,000 more such physicians in fiscal 2023, reaching 39% of clinical physicians. By fiscal 2031, we will establish the personalization of Kampo treatments by realizing a situation where 50% of clinical physicians write all basic prescriptions for treatment areas based on Kampo medicine.

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 improve the volume, speed, 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 content is being viewed, we analyze the individual information needs of physicians to implement more advanced information provision through MR activities and hybrid-type promotional activities.

*1 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 Formulations and “Growing” Formulations

D Drug-fostering program formulations **G** “Growing” formulations

Geriatric health

Symptoms associated with frailty

- G** Ninjin'yoeito
- G** Kamikihito
- G** Hochuekkito
- D** Goshajinkigan + associated formulations

Psychiatric and neurological disorders

- D** Yokukansan + associated formulations

Peripheral symptoms in patients with cardiovascular diseases

- G** Goreisan + associated formulations

Digestive system diseases

- D** Daikenchuto
- D** Rikkunshito + associated formulations

Cancer (supportive care)

Mitigation of side effects, etc.

- D** Rikkunshito
- D** Hangeshashinto
- D** Goshajinkigan
- G** Kamikihito
- G** Hochuekkito + associated formulations

Women's health

Diseases specific to women

- G** Kamishoyosan
- G** Kamikihito + 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 with treatment and low levels of contributions being made by drugs.

Focus Progress towards Expanding the “Number of Physicians Prescribing 10 or More Formulations”

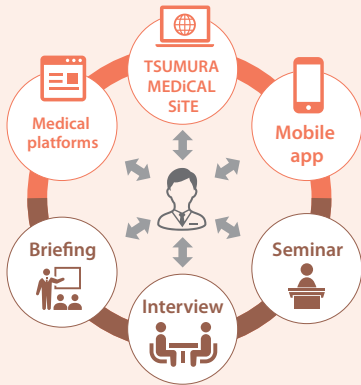
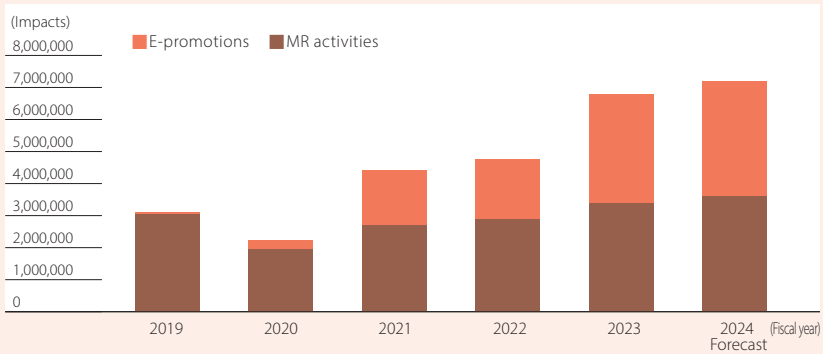
Tsumura is currently engaged in rebuilding its information provision process using digital tools. In fiscal 2023, we increased the number of detailing impacts*2 through measures such as expanding the content on the TSUMURA MEDICAL SITE, with e-promotions in particular growing by 180% year on year. We will strengthen personalized content distribution based on factors such as the status of site viewings, clinical department, and status of prescription, and analyze the digital information to identify medical needs that we could not ascertain through MR activities alone. We will begin to share

these analysis results not only with the head office, but also with each MR, aiming to achieve higher-quality information provision based on physicians’ domains of interest in Kampo medicines and their degrees of interest.

For physicians that have been difficult to approach using our existing methods, we plan to establish activities for communication through remote means, such as remote interviews from the head office and messaging tools. These efforts will contribute to increasing the ratio of physicians prescribing 10 or more formulations.

*2 Number of information recognitions on each channel, such as MR activities and the internet

Number of Detailing Impacts



E-Promotions

We will support individual physicians through MR activities combining digital and real-world approaches

Yukiko Yasuoka

Sales Office Manager,
Yokohama No. 3 Sales Office,
Yokohama Branch,
Sales & Marketing Division



Recently, Tsumura has been working to enhance information provision methods, mainly through e-promotions, such as video streaming and web seminars. The main point of our MR activities is to ascertain latent customer needs by exploring what physicians truly require on the front lines of Kampo treatment. One very helpful method for this has been analysis of data on individual physicians, such as their participation in web seminars and other events and their content viewing history. However, real-world MR activities are essential for confirming whether the digital content delivered to physicians based on the analysis results really met their needs. Therefore, promotion activities that combine the real and digital spaces are able to contribute to using different Kampo formulations according to the patient’s symptoms.

We are also making an effort to increase the capabilities

of our MRs in order to increase the percentage of physicians prescribing 10 or more prescription Kampo formulations. One way that we do this is through the Tsumura Kampo Meister System, for nurturing and designating MRs with a high level of knowledge and experience in Kampo medicine. As a result of introducing a digital learning platform in fiscal 2023, the number of designated Tsumura Kampo Meisters has been increasing. The productivity of group training sessions has increased, and MRs are now taking a multifaceted approach to learning about Kampo medicine, using their downtime and so forth. We have also used video recording and other functions to shift to output-focused training, and this appears to have increased MRs’ ability to explain products to physicians with confidence.

2

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

Strategy Progress

In its research activities, Tsumura is gathering evidence for the efficacy and safety of Kampo formulations, while 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. There were 158*1 write-ups in the treatment guidelines for prescription Kampo formulations in fiscal 2023.

In the personalized medicine area, we conduct research into responder markers through KAMPOmics®, and we are working on the development of an AI Kampo diagnostic support system using DX solutions.

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

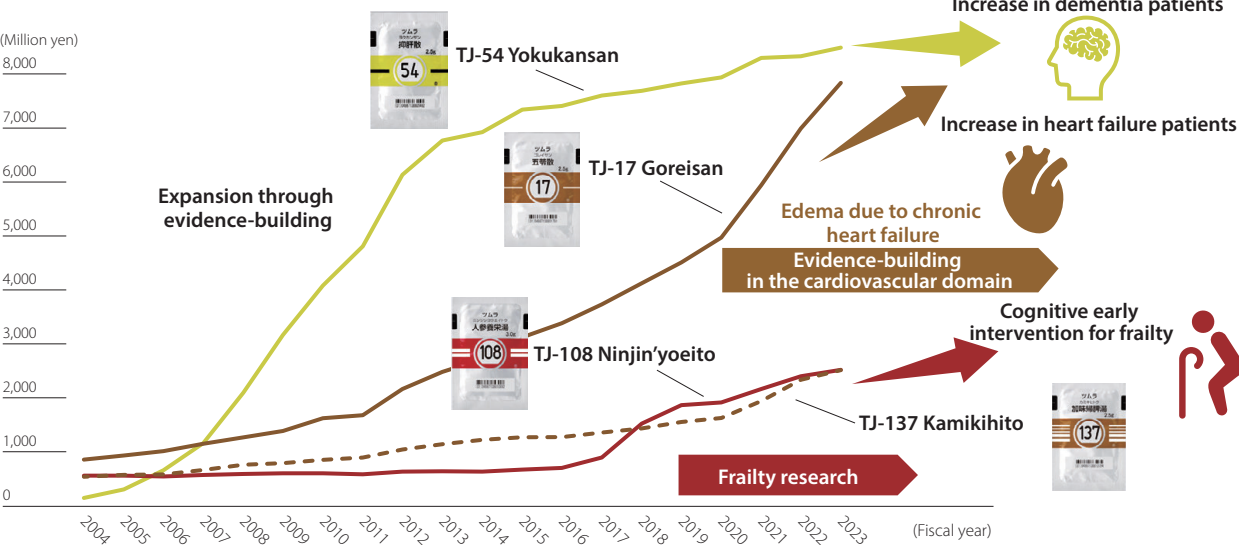
Furthermore, we also aim to address three preventive measures for pre-symptomatic diseases, which are pre-symptomatic treatment (prevention of pre-symptomatic diseases), prevention of aggravation (prevention of disease progression), and prevention of relapses (post-healing care).

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 definition and diagnosis and measurement methods based on scientific evidence, as well as research into reference values. Specifically, we are engaged in elucidation of the mechanisms of action of Kampo medicines and clinical research targeting symptoms of frailty, dementia, and cardiovascular disease among elderly people, supportive care for cancer, and women’s health such as premenstrual syndrome (PMS). In parallel, we are attempting to establish biomarkers that can detect pre-symptomatic disease through KAMPOmics®.

Our main research result in fiscal 2023 was the discovery of a genetic factor related to cold hypersensitivity in a comprehensive genome analysis of about 1,200 adult women who reported experiencing this condition, jointly conducted with Keio University School of Medicine and DeNA Life Science, Inc. The results of this research were published in January 2024 in an international scientific journal.*3 Based on this research result, we have applied for a patent on a method of determining cold hypersensitivity and a method of determining the type of cold hypersensitivity.

*1 A survey conducted by the Japan Society for Oriental Medicine and the Japan Kampo Medicines Manufacturers Association
*2 Kampo formulation is prescribed to match the “patterns” based on the four diagnostic methods used in Kampo medicine: inspection, listening, inquiring, and diagnosis
*3 Sci. Rep. 14, 1918 (2024)

Net Sales and Evidence-Building for Products in the Geriatric Health Domain



Focus Progress on Evidence-Building for Kampo Formulations

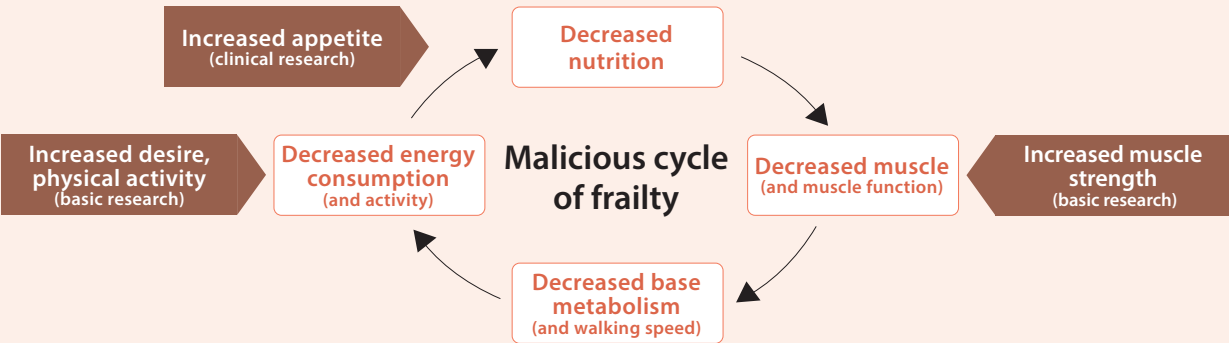
In fiscal 2023, we made progress on establishing Kampo formulations as standard treatments in the dementia and frailty domain. In clinical research on mild cognitive impairment or mild dementia associated with frailty, patients who received Tsumura’s Kampo medicine, Ninjin’yoeito,*4 showed improved appetite. In basic research, Ninjin’yoeito increased the appetite of mice via the dopamine nervous system in the brain, improving appetite loss and motor function. In addition, it was found to ameliorate the decline in physiological and psychological functions associated with aging. The research also showed the mechanism for these effects involves

antioxidant action. By publishing these results in Japanese and international scientific journals, we also contributed to building scientific evidence.

Ninjin’yoeito works with a different mechanism to existing Western drugs, and has the potential to deliver innovative value in treating illnesses experienced by elderly patients. The number of people in Japan either suffering from or at risk of frailty is estimated to reach 19.39 million by 2031, and Tsumura’s research therefore has a significant role to play.

*4 Kampo medicine with indications including reduced physical strength after illness, tiredness, fatigue, and loss of appetite

Clinical and Basic Research on Ninjin'yoeito for Symptoms of Frailty



Research on Ninjin'yoeito

Aiming to realize the most appropriate Kampo treatment for each individual patient



Kampo medicines are multi-component formulations, with a large number of medicinal properties and target molecule candidates to be considered. Accordingly, Kampo research involves hard work, including extensive hypothesis testing. However, when we continue to engage seriously in this work, there comes a moment when we recognize the unique medicinal properties of Kampo medicines. This moment, akin to solving a puzzle, is the real thrill of Kampo research.

Tsumura has been conducting clinical research to demonstrate the efficacy and safety of Kampo medicines and working to build scientific evidence. One of our strengths for promoting Kampo research is that each researcher has multiple specialist skills. Our team combines members who have different fields of specialization and different personalities, and who cooperate and exchange information with our partner companies and research institutes. This increases their level of knowledge and skills as individuals, while also accelerating the

production of results. Looking ahead, we will focus on driving KAMPOmics® and also on the personalization of Kampo treatment and pre-symptomatic disease and science. In the case of Ninjin’yoeito, for example, we will continue research aimed at clarifying the common characteristics of patients for whom Kampo medicines have a pronounced effect on various symptoms related to frailty. We will also look to understand the progression of frailty from a pre-symptomatic disease perspective, and identify relevant biological factors for therapeutic effects. Under the third medium-term management plan, starting from fiscal 2028, we intend to transition the personalization of Kampo treatment and pre-symptomatic disease and science to a social implementation phase. Our aim is to realize the most appropriate Kampo treatment for each individual patient.

3

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

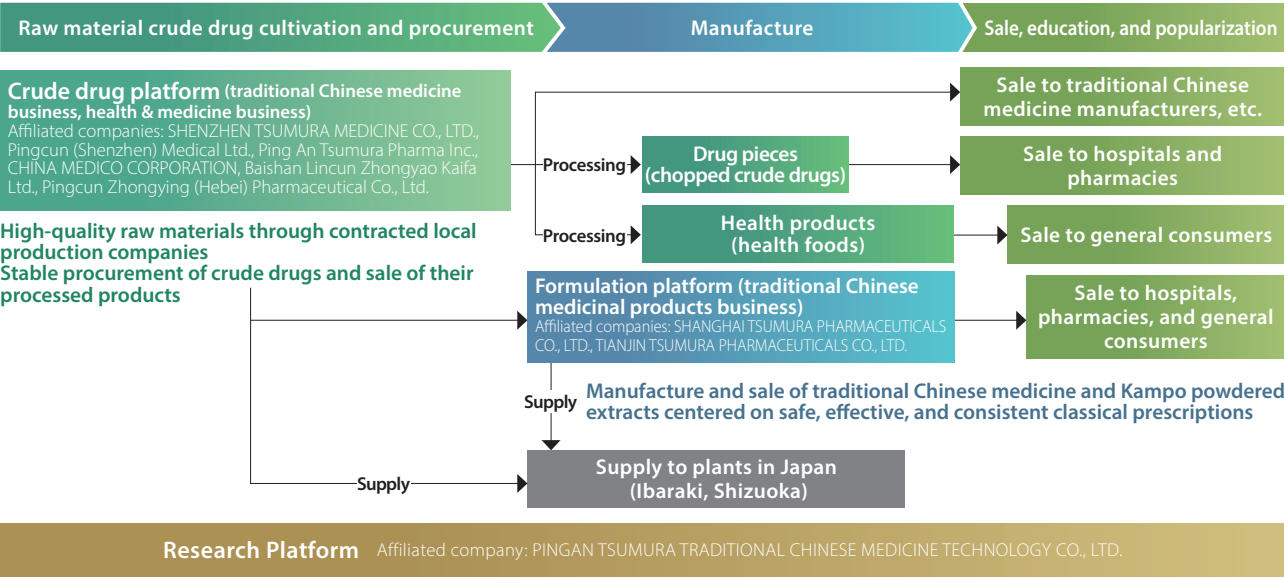
Overview of the China Business

The vision 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 contributes to the development of the traditional Chinese medicine industry. We will develop the health & medicine business, which covers the areas of healthcare and prevention, and the traditional Chinese medicine/medicinal products business, which covers the area of treatment, through the three platforms of crude drugs, formulation, and research.

Three Platforms in the China Business



Research Platform Affiliated company: PINGAN TSUMURA TRADITIONAL CHINESE MEDICINE TECHNOLOGY CO., LTD.

Developing a quality standard for the entire supply chain and conducting production and quality research for crude drugs and quality research for traditional Chinese medicinal products

Milestones for each platform: Aim to achieve an overseas sales ratio of 50% or more and become a traditional Chinese medicine company that contributes to the development of the industry

	First medium-term management plan 2022-2024	Second medium-term management plan 2025-2027	Third medium-term management plan 2028-2031	
Formulation platform	Enter the traditional Chinese medicinal products business M&A of a traditional Chinese medicinal products company Apply for classical prescriptions	Build a foundation for the traditional Chinese medicinal products business External sales ratio: More than 50%	Establish a brand as a traditional Chinese medicinal products company Industry top 10	Sales outlook RMB 7.0 billion or more
Crude drug platform	Increase sales of crude drugs, drug pieces, and health products External sales ratio: More than 50%	Establish a brand for crude drugs, drug pieces, and health products Expand sales routes to public hospitals (including M&A)	Crude drug and drug piece company that contributes to the industry's development	Sales outlook RMB 3.0 billion or more
Research platform	Establish the Traditional Chinese Medicine Research Center	Expand the functions of the Traditional Chinese Medicine Research Center	Develop evidence for traditional Chinese medicinal products	

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 health products in China. With regards to raw material crude drugs, Tsumura holds cultivated land under its 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.

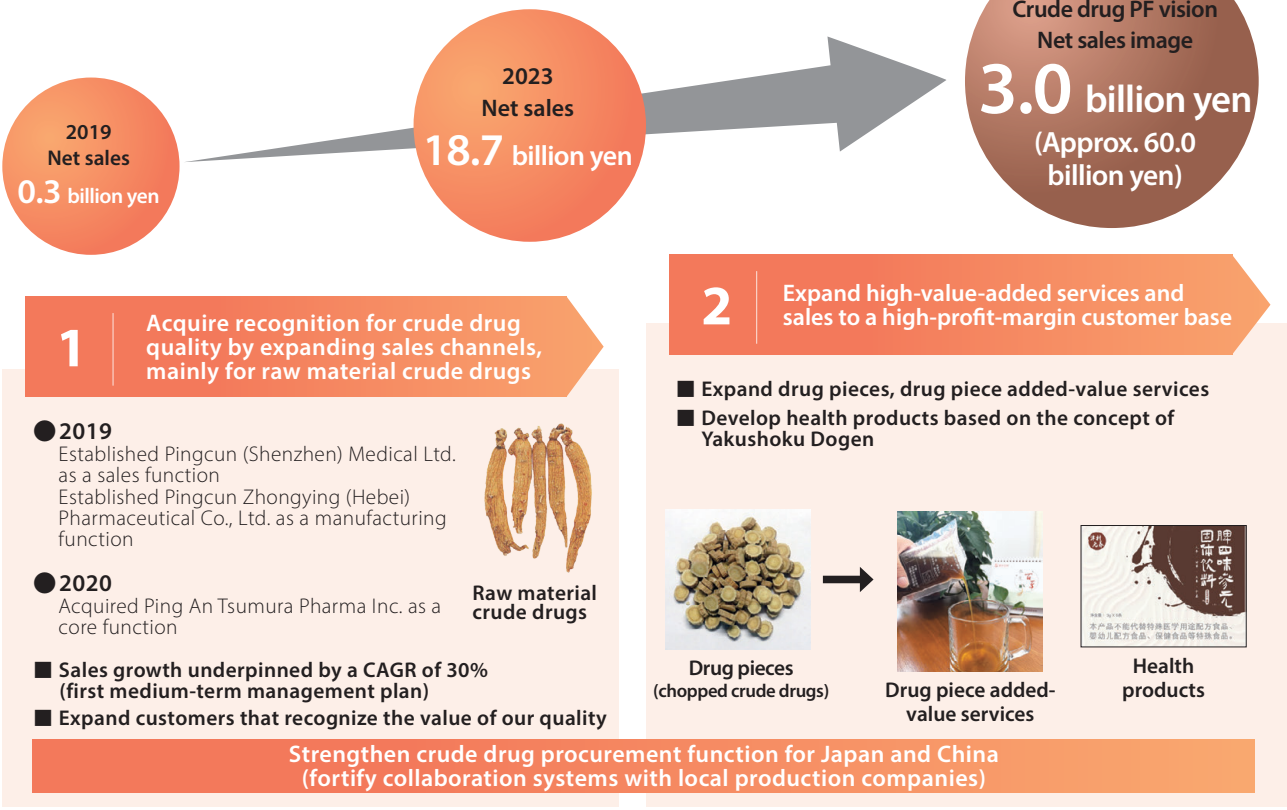
The raw material crude drugs are exported as raw materials for the Kampo formulations in our domestic business. We are also working to develop new external sales channels, such as to traditional Chinese medicinal products manufacturers, by demonstrating our ability to keep the formulation platforms supplied 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 health 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 contribute to the 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 health products.

During the first medium-term management plan, we expect to achieve a CAGR of 30% in sales by steadily progressing the following initiatives.

- Promote the expansion of supplied items and brand penetration for high-quality crude drugs, drug pieces, and health 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 health products, use superior crude drugs to develop high-value-added products that match healthcare and prevention needs.

Crude Drug Platform Strategy



Focus Drug Piece Added-Value Services on the Crude Drug Platform

Traditional Chinese medicine has been used in China for many years, and is deeply familiar to Chinese people. In particular, drug pieces are used for treatments prescribed to suit each individual patient, which matches Tsumura's vision of personalized healthcare (PHC).

Generally, after patients in China receive a prescription for drug pieces from a traditional Chinese medicine physician, they take home a paper bag full of drug pieces, which they decoct themselves before taking. This places a burden on the patient in terms of time, effort and physical exertion for preparation.

Furthermore, since the patients carry out the decocting process themselves, there is an issue in that the decoctions are of low uniformity. Our local Chinese subsidiary Ping An Tsumura Pharma has focused on this issue, and is operating a drug piece added-value service called "personalized medicine." This outsourced service processes high-quality drug pieces into a decoction and sends them in packages to patients by post. This frees patients from the effort of bringing home drug pieces and decocting them, and is expected to help stabilize the extracted compounds and their effects.

Manufacturing Process for "Personalized Medicine"



"Personalized Medicine" Services

The high level of convenience has been praised by physicians and patients, and the repeat rate is increasing

Makoto Saito

Vice President, SHENZHEN
TSUMURA MEDICINE CO., LTD.



The "personalized medicine" service was launched in August 2020 as a new service option for online traditional Chinese medicine treatment. The service aims to reduce the burden on patients and increase the uniformity of decoctions. The construction period, which included constructing a plant, establishing extraction methods, and setting up a delivery system, overlapped exactly with the three-year "Zero COVID" policy of the Chinese government, which presented a host of difficulties for establishing the business. A particularly important point was the process of explaining to prescribing physicians the high level of quality of the drug piece

processing and obtaining their understanding.

After the service started, the high level of convenience was praised by physicians and patients, and the repeat rate is increasing. Looking ahead, we will not only provide the service online, but also expand to providing the service through Chinese clinics and hospitals, with the idea of developing the business so that it can provide even higher added value. In parallel, we will introduce an advanced smart system able to reduce labor and automate small-lot, high-mix production processes, and pursue a low-cost operation by expanding to a large scale.

Research Platform

The research platform will perform the function of deploying 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 contribute to the development of 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.

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 product, 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 to 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.

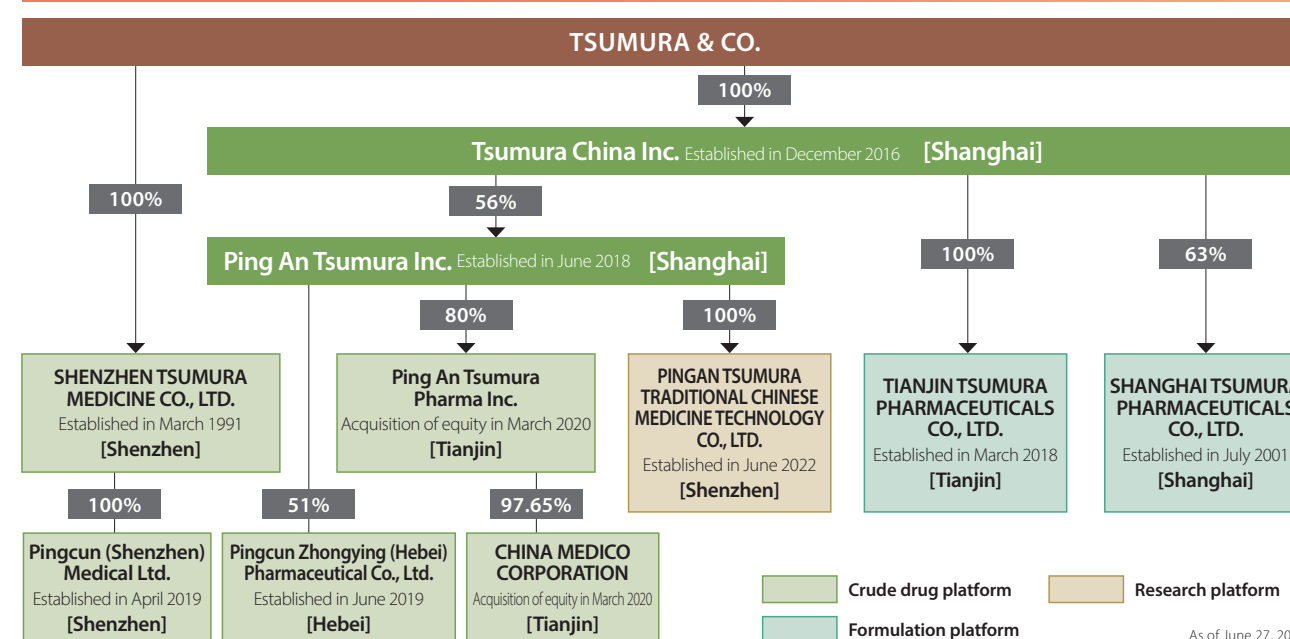
To achieve entry into the traditional Chinese medicinal

products business, we continue to use various means, including M&A negotiations with traditional Chinese medicine companies. We have made establishing a foundation for entry into the traditional Chinese medicine business the priority issue for fiscal 2023, in order to achieve it quickly.

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 200 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 with the announcement of the Regulation Regarding Simplified New Medicine Registration Examination of Compound Formulation for Traditional Chinese Medicine Based on Classical Prescriptions, we are in the process of selecting prescriptions by studying their marketability and engaging in research and development efforts in order to launch them on the market.

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



As of June 27, 2024

4

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

Strategy Progress

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 targeting 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 at 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. For attaching and removing lids on the stainless steel containers holding extract granules, we completed the development of elemental technology enabling basic functions for automated attachment and removal machinery using robotic arms. Following testing of each function as potential facility equipment, our tasks going forward are to create prototypes and carry out related fine tuning for incorporation into production lines. At the same time, we will make progress in cost reductions and other areas.

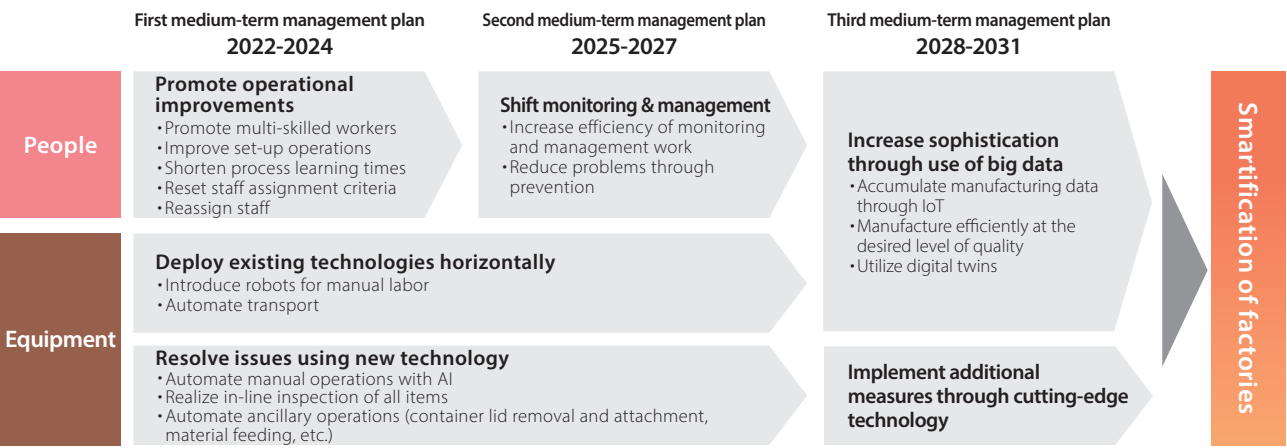
With respect to cultivation and procurement, we first introduced AI-based automated sorting machines at each

site targeting crude drugs with complex shapes, all of which began operating in December 2023. With these devices, the Production Technology Research & Development Center and the Ishioka Center used AI learning to jointly develop a unique sorting algorithm, based on image data that captures distinct crude drug features. With this technology, we are developing a system to automatically identify and remove defective products from the line. With the adoption of AI-based automated sorting machines, it is possible for two individuals to do the visual sorting work once requiring four per line, effectively doubling our labor productivity. Assistance in sorting defective products based on a set of assessment criteria is now a reality regardless of worker experience level. Plans call for extending this technology to other target products going forward.

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. Our focus is on production site expansion and augmenting manufacturing lines to serve as a platform supporting the future growth of our domestic business.

From Increase in Labor Equipment Ratio to Smartification of Factories



Focus Introduction of Planning System for Compounding Crude Drugs

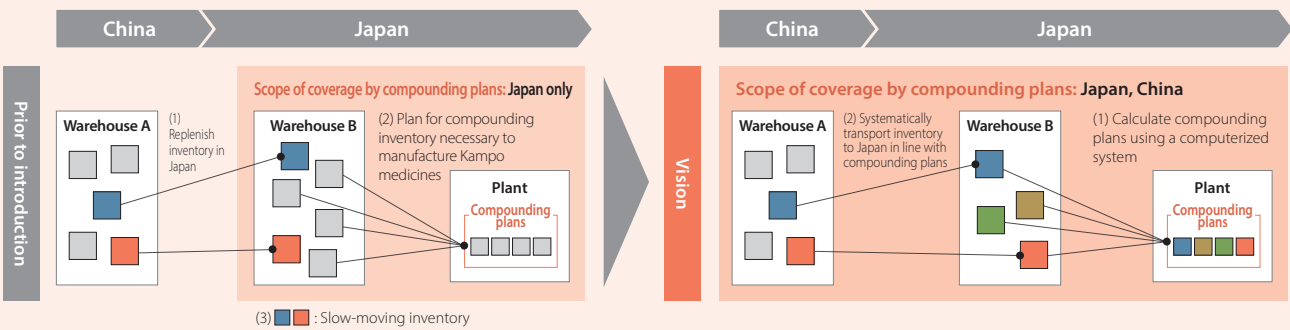
In an effort to promote DX across the entire Kampo value chain, in October 2023, we introduced and began operating an ERP system that underpins our management IT infrastructure. We are taking the adoption of this system for seamlessly linking interconnected business activities such as production, purchasing, accounting, sales and distribution as an opportunity to enhance business management and cost management sophistication.

In the area of DX promotion, we are moving to systematize SCM-related planning work. We are also embarking on data management, selecting clear use cases for data utilization and application, and advancing the development of

platforms and means for mission-critical data provision.

Elsewhere, with the planning system for compounding crude drugs introduced in July 2023, we successfully systematized the complex and specialized operational processes and approaches regarding planning of crude drug lots, a long-standing issue. We recognize lot planning work as the lifeline of the crude drug supply chain, and consider it the heart of the stable supply of high-quality Kampo formulations. Our next step will be to achieve coordination with inventory and arrangement planning, which we believe will contribute to improvements in capital profitability in line with CCC improvement.

Planning System for Compounding Crude Drugs



DX Promotion

With “DX for Purpose” as a slogan, strive for the power to achieve business transformation

Yoshitaka Furusawa
General Manager, Information
Technology Department



To utilize the planning system for compounding crude drugs more effectively, we embarked from July 2023 on the development of maintenance functions connected to the mixing information table master as a follow-up project by members of the Ishioka Center. And we have been using this functionality since June 2024. With respect to lot planning operations, using the planning system for compounding crude drugs as a starting point, we began trying to analyze in a centralized way data scattered across multiple systems in order to maintain the kind of quality and standards we’ve imagined.

As an organization, Tsumura’s DX Promotion Team has a flexible framework centered mainly on members of the Corporate Planning Department and the Information Technology Department. It all started by carefully listening to the issues in-house divisions raised, and these efforts remain

ongoing today. As we collect ideas from people within and outside the Company with specializations and abilities different from DX, we take collective action to address our individual projects. Even as we seek to truly embody our vision to be an “organization mechanism analogous to Kampo medicines,” I want us to be the power that drives business transformation.

At Tsumura, we’ve drafted a Health Declaration and prioritize employee efforts to create healthier lifestyles. Accordingly, since we value the health and well-being of our workforce, we feel it’s necessary to cut down on night shifts at production sites and other issues by effectively utilizing digital tools and robotics. That’s why I take on the work I do every day—to promote DX that assists in ensuring supply stability, improved product value and low-cost operations.

5

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

Human Resource Strategy Coordinated with Management Strategy

In its long-term management vision, TSUMURA VISION “Cho-WA”2031, the Tsumura Group has articulated the concept of Potential-Abilities Development (PAD). Under this concept, 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.

Specifically, in the Kampo and traditional Chinese medicine business, which offers us no guiding business models, we aim to promote an “organization mechanism analogous to Kampo medicines” throughout the Company in order to generate significant synergies by securing human resources with the potential ability to blaze a new trail, and by having them realize their individual potential. We consider the foundation of these initiatives to be full participation by all officers and employees in Philosophy Discussion and Coaching Meetings. Based on dialogues in which our Purpose and Value act as a centripetal force, we share our vision for the Company and encourage employees to strive autonomously to develop their potential abilities.

Moreover, we aim to develop candidates for management who are able to blaze a new trail from a global perspective by building programs for each role, from junior employee to division manager, in order to cultivate the next generation of managers.

Furthermore, we are engaging in the following measures to increase the overall capabilities of our human resources and organization in order to realize our vision. In parallel with this, we are also promoting diversity and inclusion, which is

essential to innovation, by actively hiring and appointing human resources with diverse viewpoints and values, including gender, age, and experience in different cultures. One urgent issue that we are focused on is the ratio of female managers. The close relationship between this ratio and our corporate value was revealed by an analysis of the relationship between various measures and corporate value based on longitudinal data, which we conducted in fiscal 2023. At the start of fiscal 2024, we reached our target of 10% ahead of schedule, and we will now accelerate this effort even further.

We have also centralized the basic information, abilities, and skills of employees and ascertained the career aspirations of each individual, and in fiscal 2023, we introduced a talent management system so that we can reflect these factors in strategic human resource development and assignment of the right people to the right positions.

Moreover, we have formulated a human resource portfolio for realizing our long-term management vision, and we have identified and organized the gaps between the ideal situation for each division and its actual status. Based on these, we have formulated strategic hiring plans from both short- and long-term perspectives and are now working to implement them. Furthermore, we will set specific quantitative targets for all of our human capital policies and make steady progress on them, aiming to resolve the issues we have identified from the standpoints of the five strategic challenges for the Group and each division's current status.

Human Resource Development Policy

Foster a corporate culture that empowers people to develop on their own

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>	<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>	<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>

Improvement Cycle for Increasing Engagement

In formulating and revising its human resource strategy, the Tsumura Group emphasizes employee engagement and has been conducting engagement surveys since fiscal 2019. We track the status of the organization through the survey results, using the information to verify the effects of organization and human capital policies, formulate action plans, and provide feedback to management and each organization. In this way, we work through a PDCA cycle across the board to constantly improve our level of results. We also share the survey results throughout the Company, which helps people to take

personal responsibility for organization issues and promotes understanding of the essential meaning of our organization and human capital policies.

Based on our survey results to date, in fiscal 2024, we introduced the Self-Conducted Career Checkup system, aimed at supporting autonomous, self-directed career formation. We will continue to encourage clear awareness of career advancement in the Company among individual employees, swiftly promoting measures to increase their motivation.

Organization and Human Capital Policies Enhanced under the First Medium-Term Management Plan

Initiative themes		Organization and human capital policies
Improvement in employee engagement and support for autonomous career formation	<ul style="list-style-type: none">Spreading the Company vision and targetsCreating opportunities for communication between management and employeesSharing expertise and knowledgePromoting understanding of human resource systems	<ul style="list-style-type: none">Philosophy Discussion and Coaching MeetingsOne-on-one meetings to strengthen communication between line managers and team membersRoundtable meetings with CEO and CHRO (during training)Career Challenge (internal recruiting system) →①Employee Stock Ownership Plan →②Hitotsumu Knowledge Café →③Self-Conducted Career Checkup →④(Fiscal 2024: Opened the Career Terrace consultation desk)
Securing an organization and human resources for realizing the vision/ building a human resource portfolio	<ul style="list-style-type: none">Training of candidates for managementAppropriate placement of human resourcesIncreasing productivitySupport for upskilling	<ul style="list-style-type: none">T-Next (management candidate development course) →⑤Clarification of organization roles and necessary human resources, and formulation of a skill mapSupport for individual organizations to help form an organization mechanism analogous to Kampo medicinesReskilling (digital literacy education) →⑥Come-Back System (alumni system)
Preparing comfortable workplaces	<ul style="list-style-type: none">Balancing individual life cycle with career formationSupporting diverse and flexible work stylesRealizing physically and psychologically healthy working environments for employees	<ul style="list-style-type: none">Work-from-home systemSelf-reporting systemLimited-area employment systemOutside employment systemPromotion of health and productivity management incorporating “healthcare” →⑦Support for women's active participation in the workplaceEnhancement of childcare and childbirth leave systems

① Career Challenge (Internal Recruiting System)

Since fiscal 2022, we have implemented the Career Challenge (internal recruiting system) to cultivate autonomous, independent employees who are able to make and execute their own career plans by providing them with opportunities to choose their preferred job, organization, and workplace. Through this system, we aim to improve employees' job satisfaction and motivation, and strengthen our organizational capabilities by identifying talented employees, curbing attrition, and ensuring appropriate placement of human resources.

② Employee Stock Ownership Plan

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 Corporate Purpose and our two 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 two visions.

③ Hitotsumu Knowledge Café

Hitotsumu Knowledge Café opened in December 2020, as a learning space where employees can interact with colleagues from other divisions and age groups for mutual stimulation. It provides an opportunity for them to utilize time created by telecommuting for self-improvement to realize their career visions. Courses run online by the café to date include Encountering Kampo in a Relaxed Setting, Study Sessions on Other Industries, Let's Get an MBA, and Introduction to Operations in Each Division. Comment: Chicago Manual 8.87

④ Self-Conducted Career Checkup

We created a new Self-Conducted Career Checkup system to help individual employees carry out autonomous, self-directed career formation and realize fulfilling work styles that propel them towards their own goals. In addition to the existing system of age-based career training and post-training career consultation (interview with a national career consultant qualification holder from the Human Resources Department), we established a career consultation desk (Career Terrace) where employees can casually access consultation at any time. Career Terrace started its service in April 2024.

⑤ T-Next (Management Candidate Development Course)

T-Next is our system for producing the next two generations of management candidates who will drive the Company towards realizing its vision. Based on this system, we have formulated a long-term management vision and our vision for the 10 years beyond that, and we provide this management candidate development course to ensure that we have a sufficient number of high-quality management personnel who can drive the necessary transformations.

⑥ Reskilling (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. To support the acquisition of digital skills and knowledge, the Company provides test fees for acquiring qualifications in MOS Excel and IT Passport.

⑦ Promotion of Health and Productivity Management Incorporating “Healthcare”

As a company that has stated its Corporate Purpose as “Lively Living for Everyone,” we are engaging in health and productivity management centered on healthcare with Tsumura’s distinctive characteristics, with the aim of contributing to the health of people and to the well-being of society. This effort on health and productivity management has been recognized, with the Company’s designation in the 2024 Certified Health & Productivity Management Outstanding Organizations (Large Enterprise Category) by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi. 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, so that they can work in good health and with vigor.

Training of Candidates for Management and Promotion of the Corporate Philosophy

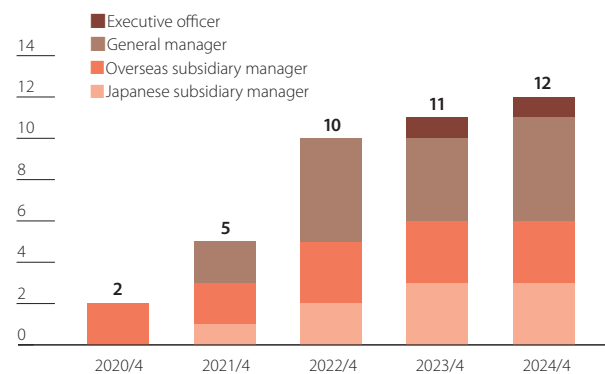
The Tsumura Academy was established as an internal organization for human resource development. President Kato serves as the head of the academy. It has two broad functions.

One of the functions is to develop candidates for management, which involves planning and operating systematic training programs for management personnel and management candidates. As of the end of fiscal 2023, 100 employees completed the basic management course. Several

of the graduates have been appointed as executive officers or general managers.

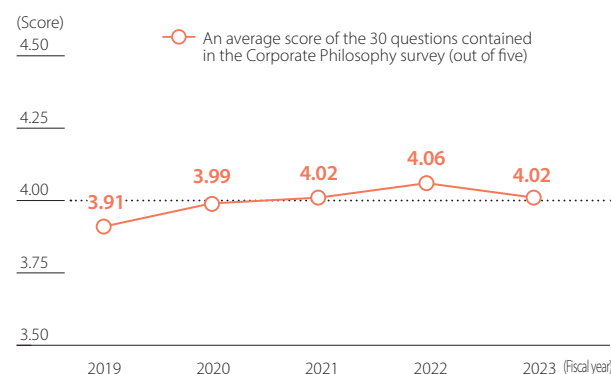
The other function is that of fostering the corporate culture. We are working to develop a corporate culture that promotes propagation of the Corporate Philosophy and draws out the potential of each individual through dialogues in which our Purpose and Value act as a centripetal force.

Number of People Appointed to Management Positions Among People Who Completed or Participated in the Basic Management Course (Cumulative)



Note: Excluding concurrent roles

Corporate Philosophy Survey



Focus Evolution of the Tsumura Academy

The Tsumura Academy was established in 2019 with the purposes of developing candidates for management and fostering a corporate culture. When it was initially established the academy mainly operated programs with external trainers. In 2022, with the aim of further developing a coaching culture, we started developing internal trainers for coaching to encourage propagation of the Corporate Philosophy among individual employees and draw out their potential. Our internal trainers act as drivers for fostering a coaching culture in their own organizations and facilitating discussion at Philosophy

Discussion and Coaching Meetings. In addition, several times each year, the internal trainers meet together to improve their coaching by sharing and reflecting on their coaching practices. As of April 1, 2024, there were 64 in-house trainers.

The level of the results of the Corporate Philosophy survey has been consistently high. Going forward, we will shift the focus of our activities from “understanding the Corporate Philosophy” to “internalizing the Corporate Philosophy and putting it into practice.”

Internal Coaching Trainer

Since becoming an internal trainer, I have come to think deeply about the significance of the work of my division

Miyuki Minari

General Manager, Safety Management
Department, Quality & Safety Management
Division



Once or twice a year, I act as a facilitator for the Philosophy Discussion and Coaching Meetings at the Tsumura Academy and facilitate cross-divisional dialogues. In addition, to develop internal trainers for coaching, I conduct one-on-one meetings for new trainers.

To be able to explain the significance and importance of each level of the TSUMURA GROUP DNA Pyramid, you have to fully understand the Corporate Philosophy first. I have therefore read through the content of the DNA Pyramid over and over again. In the process of doing so, I feel that I have gained an even deeper understanding of the Tsumura Group. I have felt a tremendous sense of satisfaction after the meetings when participants have said that they found the content easy to understand, and that it made sense to them. In addition, inside my department we hold a monthly discussion with an

awareness of our purposes and values as a department. For each individual, we also hold quarterly one-on-one meetings to help them to internalize the TSUMURA GROUP DNA Pyramid by creating their own pyramid, which provides an opportunity for them to reflect on their current status.

Since I started my role as an internal trainer, I think that all of the members of my department have come to think more deeply about the beneficiaries and the purpose of the work they are doing. Looking ahead, I would like to communicate these changes in my own department and the activities of other departments that have a high awareness to people outside the Company as well. I hope to widen the circle of support by doing so and have a beneficial effect on the Company’s value creation process.

Initiatives for Employment of People with Disabilities

The Group aims to enable all of its employees to find satisfaction in their work. We are creating a workplace environment and culture that enable people with disabilities to demonstrate their full potential and achieve self-fulfillment. We provide opportunities for all officers and employees to aim to create an organization mechanism analogous to Kampo medicines in its diversity, and deepen their understanding of and consideration for people with disabilities, in order to create a workplace environment where all employees are accepted and respected.

At TSUMURA & CO., we aim to exceed the statutory employment rate for people with disabilities by about 1%, and to create jobs throughout the Kampo value chain so that people with disabilities make up around 7% to 8% of the workforce, equivalent to the percentage in the overall Japanese population. Currently, we are working with partner companies such as TEMIRU FARM in Hokkaido, which is promoting employment for people with disabilities, as an initiative to create jobs in areas such as cultivation of crude drugs. We will expand these partnerships going forward.



Corporate Governance

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Directors (As of, June 27, 2024)



Terukazu Kato

August 26, 1963

President and Representative Director
CEO

1986

Joined the Company

2001

President and Representative Director of TSUMURA USA, INC.

2011

Director and Executive Officer, Head of Corporate Communications of the Company

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 40,400*



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 (from April), Director Co-COO of the Company (from June, incumbent)

■

Year of assumption of the post of Director 2022

■

Number of shares in the Company held 5,800*



Muneki Handa

July 7, 1962

Director CFO (Chief Financial Officer)

1985

Joined The Mitsubishi Bank, Limited (currently MUFG Bank, Ltd.)

2014

Executive Officer, General Manager of Loan Department of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)

2015

Vice President of Mitsubishi UFJ Capital Co., Ltd.

2016

President of 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 9,500*



Hiroshi Miyake

August 4, 1949

Outside Director

1973

Joined Mitsubishi Corporation

2005

Senior Vice President of Mitsubishi Corporation, President, Deputy Regional CEO for Europe of Mitsubishi International GmbH

2010

Senior Managing Executive Officer of Tokushu Tokai Paper Co., Ltd.

2015

Representative Director of Executive Vice President of 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 3,300*



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 of 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 600*



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. as Executive Director

2009

Rejoined Eisai Co., Ltd. as General Manager of IR Department

2019

Executive Vice President and CFO of Eisai Co., Ltd.

2022

Visiting Professor of Graduate School of Accountancy, Waseda University (incumbent)

2022

Senior Advisor of Eisai Co., Ltd. (incumbent)

2022

Executive Advisor of ABeam Consulting Ltd. (incumbent)

2022

Deputy President of 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 200*



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 (from April), Director and Full-Time Audit and Supervisory Committee Member of the Company (from June, incumbent)

■

Year of assumption of the post of Director 2023

■

Number of shares in the Company held 2,920*



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 3,400*



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 at Akahoshi Audit Corporation (incumbent)

2018

Independent Director and Audit Committee Member of NSK Ltd.

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) of SBI Holdings, Inc. (incumbent)

■

Year of assumption of the post of Director 2019

■

Number of shares in the Company held 2,800*

* As of March 31, 2024

Meetings Attended by Directors

Name	Board of Directors	Nomination Advisory Committee	Remuneration Advisory Committee	Audit and Supervisory Committee	Outside Directors' Meeting	Executive Committee	Executive Officers' Meeting
Terukazu Kato	Chairman	●	●			●	●
Kei Sugii	●					Chairman	●
Muneki Handa	●					●	Chairman
Hiroshi Miyake	●	Committee Chair	Committee Chair		Chairman		
Tadashi Okada	●	●	●		●		
Ryohei Yanagi	●	●			●		
Tomihiro Nagafuchi	●		□	Committee Chair		□	□
Mitsutoshi Matsushita	●	●		●	●		
Akemi Mochizuki	●	●		●	●		

Note: ● indicates a member, □ indicates an observer.

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	●	60		◎	○	○	○	○	○		○
	Kei Sugii	●	54		○	○		◎	○			
	Muneki Handa	●	61		○		○		○	◎		○
	Hiroshi Miyake	●	74	●	○	○	◎	○	○			
	Tadashi Okada	●	68	●	○	◎ (China)		○	○		○	
	Ryohei Yanagi	●	61	●	○	○		○		◎		
Directors who are Audit and Supervisory Committee members	Tomihiro Nagafuchi	●	59					◎			○	
	Mitsutoshi Matsushita (attorney at law)	●	53	●							◎	
	Akemi Mochizuki (certified public accountant)	♀	70	●						◎		

● Man ♀ Woman

Note: Age as of June 27, 2024

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 resource development

Note: Matching the requirements of a skill is indicate by ○ and having particular expertise in a skill is indicated by ◎.

Executive Officers

Terukazu Kato	CEO In charge of External Affairs Department and Internal Auditing Department	Akihito Konda	Executive Officer Head of Research & Development Division, in charge of Marketing Division and International Pharmaceutical Research & Development Division
Kei Sugii	Co-COO In charge of Corporate Communications Department and Sustainability Management Department	Shoichi Kumagai	Executive Officer Head of Production Division
Koin Toda	Co-COO (General Representative for China) In charge of China Coordination Department	Tadahiro Abe	Executive Officer Head of Healthcare Division
Muneki Handa	CFO In charge of Corporate Planning Department, Accounting Department and Information Technology Department	Zhang Liqing	Executive Officer Supervising production in operations in China and supervising formulation platform in China
Susumu Adachi	CHRO In charge of Human Resources Department and Secretary Department	Yoshiharu Watanabe	Executive Officer Supervising crude drug platform in China in charge of Crude Drug Division
Yukinori Sorada	Executive Officer Head of Sales and Marketing Division	Kazushige Mizoguchi	Executive Officer Head of Quality & Safety Management Division
Koji Endo	Executive Officer Head of Tsumura Academy Department	Kouji Shiseki	Executive Officer Head of Legal & Compliance Department, in charge of General Affairs Department and Appropriate Promotion Department



Hiroshi Miyake

(pictured left)

Outside Director
Committee Chair, Nomination Advisory Committee
Committee Chair, Remuneration Advisory Committee
Chairman, Outside Directors' Meeting

Tadashi Okada

(pictured right)

Outside Director

We make sure that the Group follows through on its action plans to realize the long-term management vision and reinforce Tsumura as a corporate group that can thrive through the dramatic changes the future holds.

Status of Priority Themes and Developing Challenges

Looking back on the second year of our first medium-term management plan, how do you assess the progress of our initiatives on the priority themes selected by the Board of Directors?

Miyake: Of the five priority themes, the board has spent the most time on our China business. We are currently negotiating with a manufacturer of traditional Chinese medicinal products as a prospect for acquisition that we hope to complete in fiscal 2024. At the same time, we are looking into likely sales channels in collaboration with companies that have established channels in China.

Furthermore, I feel we are stagnating when it comes to

efforts aimed at environmental issues, and more detailed, closer supervision and monitoring is needed. It can be hard to respond to the themes listed in our environmental goals with a sense of urgency, but for Tsumura to adapt to longer-term economic and social changes, I will focus on promoting truly effective initiatives.

Okada: Regarding a future partner in our China business, I envision a “combination” that complements our respective strengths. In the process leading to any acquisition, nimble decision-making is important. Tsumura’s outside directors meet regularly ahead of board meetings, affording us opportunities to hear from executive officers in charge and division heads who provide direct explanations and share related information in a timely manner. Making the most of this support structure, I am undertaking one effort after another to improve the quality and speed of discussions and decision-making.

Our long-term management vision is very well thought out, providing us a road map for sustainable growth and



I want to be a motivator behind our evolving challenger spirit while assuming responsibility to act on behalf of future stakeholders. — Miyake

As a truly unique pharmaceutical company, we advance our business by putting the patient first.

This is the surest way to fulfill our Corporate Purpose. — Okada

meeting challenges along the way. The path to achieving the vision has three stages, with the first being a three-year medium-term management plan focused on reinforcing our foundation with a view to 2031. For that purpose, we have been undertaking large capital investments and expanding our China business. As Mr. Miyake points out, our initiatives on some themes seem stalled, needing more time, perhaps into the second stage, to achieve the goals.

Miyake: Among the board’s priority themes, I’m seeing major progress with our review of capital policy. Over the past year, we’ve deepened our discussions to determine our ideal balance sheet management approach to thrive in uncertain times and balance efficiency with safety.

Okada: Since Ryohei Yanagi joined the board, we have accelerated our capital policy review and are making progress with specific balance sheet improvements, including quicker collection of accounts receivable and reductions of cross-shareholdings.

Miyake: I’ll say we are also making steady progress in developing management human resources. Under our revised HR system, our T-Next program to identify management candidates has evolved. However, we still face challenges in building our roster of personnel who can handle our new businesses, like healthcare.

Sustainable Growth: Important Viewpoints and Prospects for the Future

Give us some important points to look at in achieving sustainable growth.

Okada: For years, Tsumura has been establishing evidence for the effectiveness of Kampo formulations. With its overwhelming share of the domestic market, now over 80%, the Company is indispensable, so we have to conduct business with each patient as our top priority, and realize our Corporate Purpose by stepping up that effort. The most important point there, I believe, is guaranteeing the quality and safety of our products. With my background at a manufacturer that was strict on quality control management, I’ve been focusing on this point for years, and I evaluate Tsumura highly in that regard.

Miyake: I built my career experience working for a trading company for many years. At trading companies, it’s taken for granted that a business plan will be revised along with



the prospective returns from investments and the different risks that each carries. In Tsumura as well, I make it a point to always offer advice and supervision from the standpoint of cost efficiency, in a disciplined manner. Even when a given project is already approved for investment, I ask the managers to periodically check the effects of cost increases for materials and the difference between the planned schedule and actual progress. To fulfill its responsibility to supply pharmaceuticals to patients and healthcare organizations, Tsumura’s investment strategies, as well as time frames, differ from those of trading companies. Good business continuity planning also requires that it maintain crude drug inventories at certain levels.

Okada: Tsumura is in a business where investment recoupment takes much longer than average, so it’s important to know the right timing for investment. Because we are a truly unique Kampo pharmaceutical company, we must make management decisions with awareness of our public service role. Another important point, in terms of our responsibility as the industry leader, is cultivating personnel who can provide Kampo solutions appropriate to the needs of people on the healthcare front lines. As for personnel who can support management with specialized skills in law, IT and the like, we want to encourage and help with recruiting professionals from outside the Group.

Miyake: We must look beyond our daily business operations and bear in mind our future stakeholders. To reflect this viewpoint, starting in fiscal 2022, we refreshed our executive remuneration system by including long-term incentives, such as accomplishments related to our sustainability vision. I believe the sustainable growth of the Tsumura Group depends on two wheels turning together—enhancing existing businesses and creating new ones. I want to be a cheerleader for employees working to explore new fields, even though growing those seeds may take time.

Basic Concept

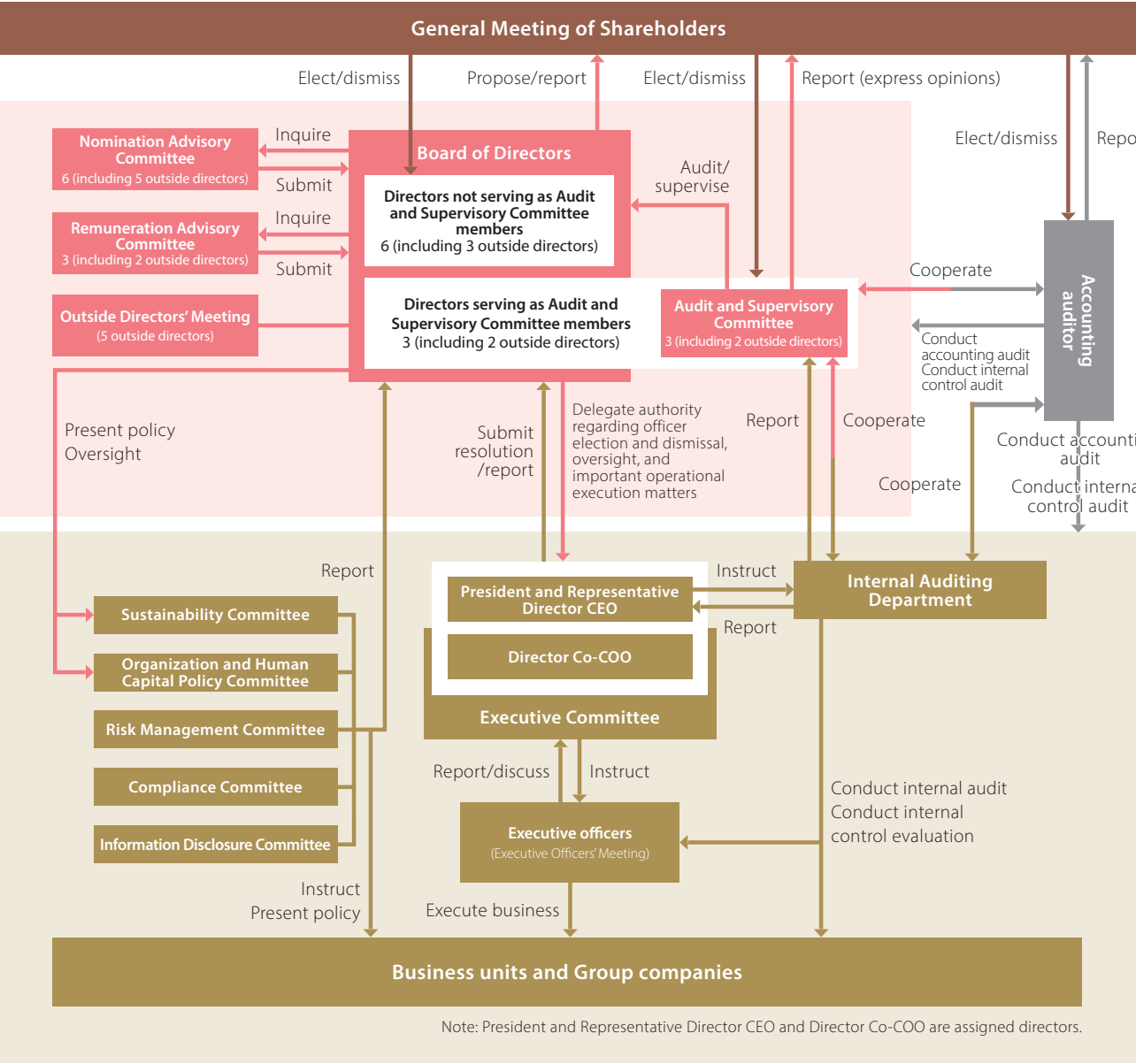
The Tsumura Group is committed to abiding by what we call the “Spirit of Nature’s Laws” and ultimately achieving our Corporate Purpose of facilitating “Lively Living for Everyone.” In conducting our business, we are guided by these two tenets along with our Corporate Value, expressed as the “Best of 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 website for details on the “Corporate Governance Basic Policy” <https://www.tsumura.co.jp/english/sustainability/basic-policy/governance/>

Corporate Governance Structure (As of June 27, 2024)



Themes Discussed by Each Committee in Fiscal 2023

- Board of Directors**
(Number of sessions: 19; Chairman: Terukazu Kato)
- Checking the progress of the first medium-term management plan
 - Monitor the progress of the China business, including establishment of the related corporate governance system
 - Development of management human resources who will embody the corporate purpose and philosophy
 - Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.
 - Capital policies, etc.
- Nomination/Remuneration Advisory Committee*1**
(Number of sessions: 7; Chairman: Hiroshi Miyake*2)
- 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: 18; Chairman: Tomihiro Nagafuchi*2)
- Audit policy and plan
 - Reelection of accounting auditor and consent to remuneration of accounting auditor
 - Opinions on proposals to the General Meeting of Shareholders
 - Opinions on remuneration of directors (excluding members of the Audit and Supervisory Committee), etc.
 - Preparation of audit reports, etc.

- Outside Directors' Meeting**
(Number of sessions: 13; Chairman: Hiroshi Miyake*2)
- 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 on the China business
 - Discussion of important matters, etc.

*1 Separated into the Nomination Advisory Committee and Remuneration Advisory Committee on June 27, 2024
*2 Since June 29, 2023

Approach to Diversity of Directors

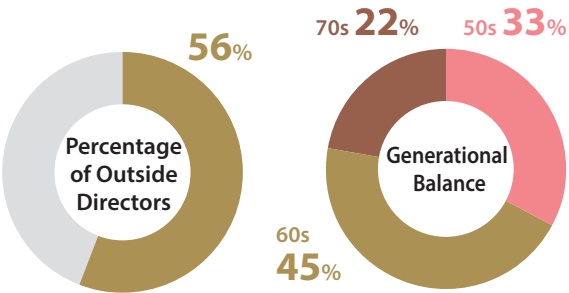
The Tsumura Group formulates its long-term management vision and medium-term management plans in response to social demand and changes in the operating environment, and initiates various measures to achieve them. Along with our value creation cycle, we have, in particular, pursued and evolved a system 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.

Operation of the Outside Directors' Meeting

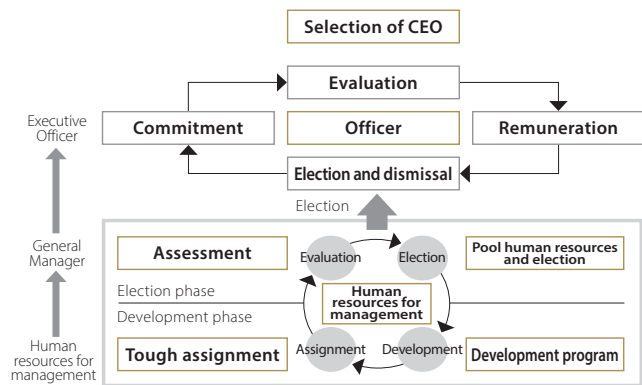
The Outside Directors' Meeting started in 2015 is periodically held as a place for executive officers in charge and division heads to directly explain overviews, decision points, risks, etc. concerning proposals to be resolved in the Board of Directors and proposals determined to require an advance explanation. 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 that information necessary for management decision-making is collected and shared at the Outside Directors' Meeting, and will continue to endeavor to increase the effectiveness of the Board of Directors.



As of June 27, 2024

Succession Plan

Tsumura recognizes that the selection of the top executive (CEO) is one of our most important decisions. The Nomination Advisory Committee is made up of five outside directors and one internal director, is chaired by an outside director, is consulted on the draft of the succession plan (plan to develop the next generation of leaders) and reports to the Board of Directors. For the development of the next top executive (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.



Board Effectiveness Evaluation

Tsumura evaluates and analyzes the effectiveness of the Board of Directors every fiscal year for the purpose of enhancing the Board of Directors' effectiveness. From the perspective of strengthening the supervisory and monitoring functions of the Board of Directors, we are working to ensure continuous improvement and enhanced effectiveness of the Board of Directors with respect to issues identified by analyzing the results of the board effectiveness evaluation. As a result, there was a trend of improvement in the priority issues identified in fiscal 2022. The issues identified based on the results of the board effectiveness evaluation in fiscal 2023 and the specific measures for addressing them were discussed at the Board of Directors meeting held in May 2024, and it was agreed that they should continue to be addressed as important management issues in fiscal 2024. Subsequently, five key themes for the Board of Directors in fiscal 2024 were established and are being addressed.

<Five Key Themes for the Board of Directors in Fiscal 2024>

1. Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan
2. Monitor the progress of the China business, including establishment of the related corporate governance system
3. Based on our Purpose and Corporate Philosophy, pursue sustainability-oriented management, human resource development and initiatives to favor the environment and society
4. Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.
5. Further promote capital policies to build corporate value

Issues and Response Measures in Fiscal 2024

Issue	Response measures
1 Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan	<ul style="list-style-type: none">• Supervise the achievement status of the five strategic challenges and the progress of the action plans for achieving them at the end of the first medium-term management plan, and provide guidance as necessary.• In formulating the second medium-term management plan, the Board of Directors will present basic policies to the executive side with the aim of realizing the long-term management vision and sustainability vision, supervise whether the plan is in line with the basic policies, and provide guidance as necessary.
2 Monitor the progress of the China business, including establishment of the related corporate governance system	<ul style="list-style-type: none">• Decide on basic policies and strategic investments for the China business, give instructions as appropriate, and supervise progress.• Have top management go on-site at appropriate times and communicate with the local management team to supervise the direction of the business and the progress of the plan, and give the necessary instructions.• Supervise and give instructions as necessary regarding risk management in preparation for geopolitical risks and the development of a stable supply system.
3 Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.	<ul style="list-style-type: none">• The Board of Directors makes decisions on the overall picture and direction of strategic investment deals, presents policies to the executive side, and then supervises the progress of the action plan for realizing the long-term management vision.• Consider and make decisions on capital investment for the establishment of systems for stable supply of products from all aspects such as construction cost, securing human resources and smartification of factories.
4 DX	<ul style="list-style-type: none">• Discuss the "ideal way of being" when DX is implemented, present basic policies, and oversee the speed of execution.• Periodically establish opportunities for reporting and oversee issues with the current state of implementation of DX and the status of progress of measures aimed at their resolution.

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

See the website for details
<https://www.tsumura.co.jp/english/corporate/corporate-governance/>

Director Remuneration

Basic Policies

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 Company'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

Type of remuneration		Purpose/outline
Fixed	Basic remuneration (monetary)	Fixed component Fixed component according to role, duties, etc.
		STI (short-term performance-linked component) Annual incentive to reward efforts aimed at the achievement of the Company's performance and operational targets set by individuals each fiscal year <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
		LTI-I (linked to medium-term performance) A medium-term incentive for rewarding efforts aimed at the realization of the medium-term management plan <ul style="list-style-type: none">• Base points are granted and accumulated according to roles, duties, etc. each year, and Company shares equivalent to the total 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 around July immediately after the end of the medium-term management plan
Variable	Performance-linked stock remuneration (non-monetary)	LTI-II (linked to long-term vision) A long-term incentive for encouraging employees to embrace challenges aimed at realization of the long-term vision <ul style="list-style-type: none">• Base points are granted and accumulated according to roles, duties, etc. each year, and Company shares equivalent to the total number of accumulated points, varying according to the level of achievement toward realization of the long-term vision, are delivered after the end of the period covered by the medium-term management plan (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


Long-Term Incentives: LTI-II Approach to Select Indicators

Evaluation indicators		Approach to select indicators
Corporate value	Relative TSR*3 (TOPIX growth rate comparison)	<ul style="list-style-type: none">Indicators to measure the achievement level of the long-term visionMotivate employees to contribute to the realization of the long-term vision and the enhancement of corporate value, and to share value with shareholders
Sustainability	GHG reduction, cultivation of wild crude drugs, etc.	<ul style="list-style-type: none">Indicators to measure the achievement level of the sustainability visionPromote 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.	<ul style="list-style-type: none">Indicators that can measure the degree of achievement of the sustainability vision and promote the achievement of the long-term management visionEncourage 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	<ul style="list-style-type: none">Indicators that can measure the achievement level of the long-term management visionBuild a foundation for overseas operations and increase directors' willingness to contribute to the enhancement of corporate value through growth in overseas markets

*Total shareholder returns: Ratio of Tsumura's TSR to the TOPIX growth rate

Process for Determining Remuneration

- In order to enhance the objectivity and transparency of the deliberation process, the standard amount of remuneration, method of performance evaluation, rules for calculating the amount in accordance with the results of performance evaluation, and procedures for determining remuneration based on these are determined by resolution of the Board of Directors within the total amount resolved at the General Meeting of Shareholders based on reports on the results and process of consultation with the Remuneration Advisory Committee. Of these, the method of performance evaluation and rules for calculating the amount in accordance with the results of performance evaluation shall be stipulated in the internal rules, and any revision of these rules shall be resolved by the Board of Directors based on the deliberation and report by the Remuneration Advisory Committee.
- The Board of Directors delegates the determination of the level of achievement of individually set operational
- targets under the portion of basic remuneration linked to short-term performance and LTI-I to the Remuneration Advisory Committee. The reason for delegation to the Remuneration Advisory Committee is to increase objectivity and transparency of procedures related to remuneration, etc. by delegating to the committee chaired by an outside director and with a majority of members composed of outside directors.
- 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 reason for delegation is because it was determined that he is in a position able to verify the appropriateness of the amount of remuneration based on the results of deliberations by the Remuneration Advisory Committee.

 See the website for details on "Director Remuneration"
<https://www.tsumura.co.jp/corporate/corporate-governance/executive-compensation/>

Total Amounts of Remuneration, etc. in Fiscal 2023

Category	Total remuneration (million yen)	Total remuneration by type (million 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)	246	205	40	3
Directors (members of the Audit and Supervisory Committee) (excluding outside directors)	25	25	—	2
Outside directors	51	51	—	6

Notes: 1 Includes the amount for one outside director (not serving as a member of the Audit and Supervisory Committee) and one director (serving as a member of the Audit and Supervisory Committee) who left office at the conclusion of the 87th General Meeting of Shareholders held on June 29, 2023.
2 Remuneration for directors (not serving as a member of the Audit and Supervisory Committee) does not include the amount of employee salary for directors who concurrently serve as employees.
3 For stock remuneration, the amounts booked in fiscal 2023 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 a corporate culture will develop with each employee consciously acting in accordance with compliance based on high ethical standards, and are thoroughly implementing 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 have established and are operating an internal reporting system (Tsumura Group Hotline) to promptly identify and correct problems within the Group.

Compliance Promotion Activities

Every year, the Compliance Committee formulates and reports to the Board of Directors a policy for compliance promotion activities based on questionnaires implemented and events occurring inside and outside the Company each year. 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 2023, the Tsumura Group Hotline was used 25 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 Group Companies

The Corporate Planning Department establishes and oversees systems for corporate management of Group 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 Group companies on matters requiring prior discussion pursuant to the regulations. Furthermore, the Internal Auditing Department conducts internal audits of Group 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, Executive Committee, Audit and Supervisory Committee and accounting auditor.

Internal Control

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, Executive Committee, Audit and Supervisory Committee and accounting auditor.

Audit and Supervisory Committee

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, Executive Officers' Meeting, Compliance Committee, Risk Management Committee and Sustainability 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 accounting auditor and auditors of Group companies through periodic meetings with them, monitors overall internal control systems of the Company and Group companies through direct reporting from internal control organizations, information exchanges with Group company officers, etc. and provides advice on more efficient operation.

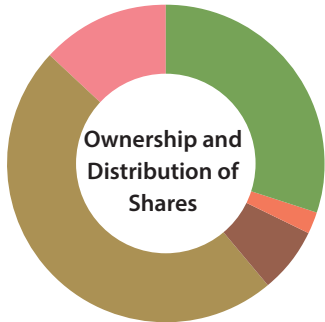
The Audit and Supervisory Committee holds meetings to exchange opinions with internal directors including the President and Representative Director CEO, exchanging information and sharing awareness on matters such as the business environment surrounding the Company and companywide risks and issues. It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

Corporate name	TSUMURA & CO.	Stock exchange listing	Tokyo Stock Exchange Prime Market (Stock Code: 4540)
Head office	2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan	Shareholder register agent for common stock in Japan	Mitsubishi UFJ Trust and Banking Corporation
Founded	April 10, 1893	Accounting auditor	PricewaterhouseCoopers Japan LLC
Incorporated	April 25, 1936	Authorized common stock	250,000,000
Capital stock	30,142 million yen	Issued common stock	76,758,362 (including 229,897 shares of treasury stock)
Number of employees	4,138 people (consolidated)	Number of shareholders	18,103 people (down 2,3340 compared with previous period)
Closing date of accounts	March 31		

Major Shareholders

Shareholder name	Number of shares (1,000 shares)	Percentage of equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,907	14.25
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)	4,111	5.37
STATE STREET BANK AND TRUST COMPANY 505001	2,675	3.50
MUFG Bank, Ltd.	2,197	2.87
Employees' Stockholding	1,751	2.29
BRIGHT RIDE LIMITED	1,692	2.21
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	1,497	1.96
THE BANK OF NEW YORK MELLON 140044	1,310	1.71
JP MORGAN CHASE BANK 380634	1,261	1.65

Note: The percentage of equity is calculated deducting 229,897 shares of treasury stock. The above treasury stock does not include 137,562 shares of treasury stock held as trust assets of the officer remuneration Board Incentive Plan (BIP) trust and 462,412 shares of treasury stock held as trust assets of the share allocation Employee Stock Ownership Plan (ESOP) trust.



- Japanese financial institutions*1 30.20%
- Japanese securities firms 2.18%
- Japanese corporations 6.76%
- Overseas institutions 47.88%
- Japanese individuals and others*2 12.98%

*1 "Financial institutions" includes 137,562 shares of treasury stock held as trust assets of the officer remuneration BIP trust and 462,412 shares of treasury stock held as trust assets of the share allocation ESOP trust.
*2 "Japanese individuals and others" includes 229,897 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 2024 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 2023.
TSUMURA & CO./Logitem Tsumura Co., Ltd./YUBARI TSUMURA CO., LTD. (April 1, 2023 - March 31, 2024)
Tsumura China Inc. and 11 other Chinese affiliates/TSUMURA USA, INC. (January 1, 2023 - December 31, 2023)
Notes are provided in cases where the scope of data collection differs from the above.


Information on the Website



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

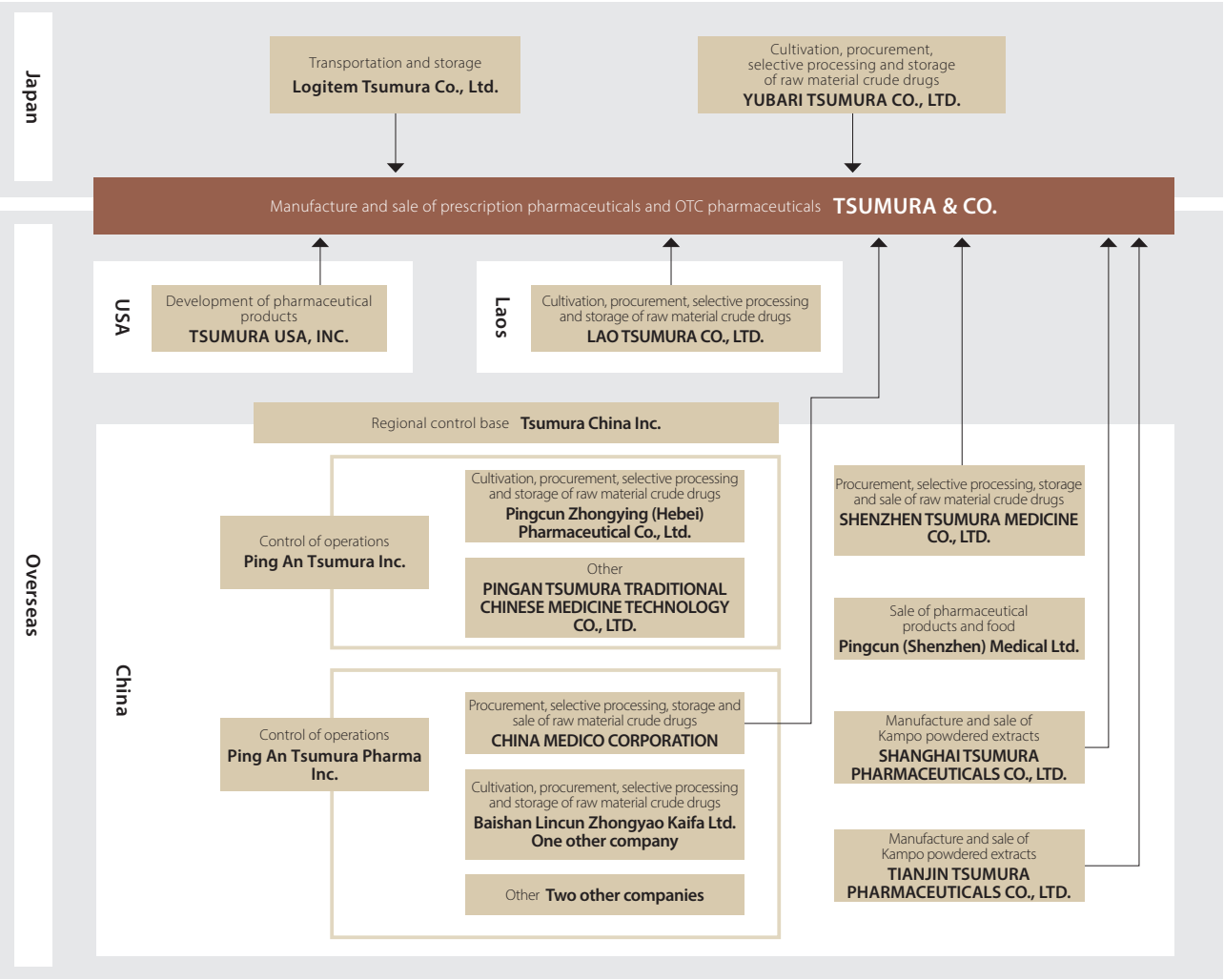
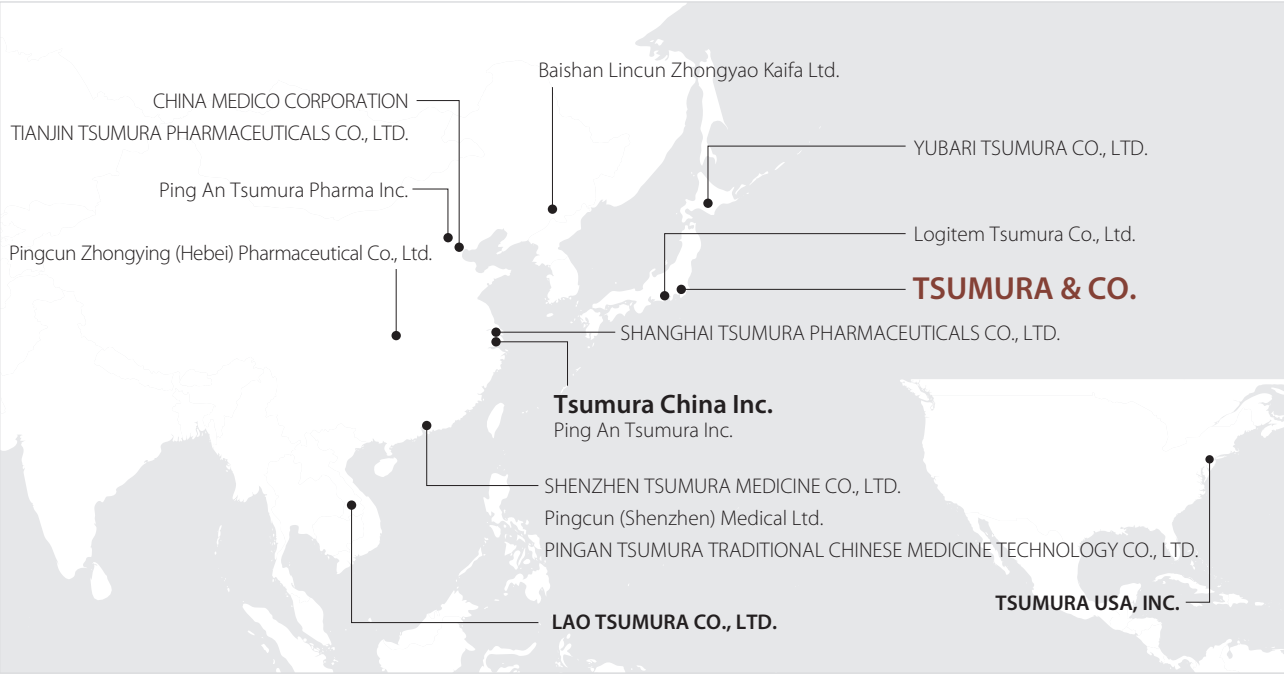


IR Information
<https://www.tsumura.co.jp/english/ir/index.html>



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.