

Integrated Report 2021

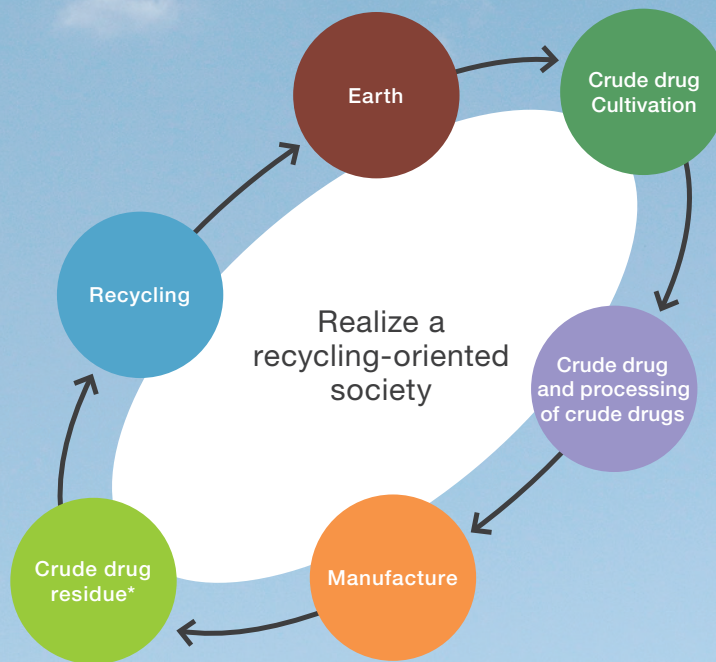


TSUMURA

The Best of Nature and Science

Forests, sun, water.
Kampo comes from nature.
Respecting nature and together
with nature.

Continue to be a company that
is extremely sensitive to changes
in and crises facing the natural
environment.



The main raw materials for Kampo formulations are naturally-derived crude drugs. Tsumura conducts management that sees the natural environment of crude drug production areas as valuable “capital.” Tsumura promotes proprietary natural capital policies, including cultivation research and environmental preservation measures for the purpose of the sustainable procurement of crude drugs. We will pursue the creation of recycling mechanisms to return everything, i.e. not only crude drugs but also water and air, to nature.

*Crude drug residue: Residue left over from extract extricated during the Kampo formulation manufacturing process

The Tsumura-DNA pyramid comprises the most fundamental and most important principles of the “management that is rooted in basic principles” preached by Tsumura.

At the top of the pyramid, “philosophy” refers to Tsumura’s corporate philosophy, which represents its underlying values, and its corporate mission, which is the purpose Tsumura must fulfill in order to continue being deemed necessary by society.

This philosophy is shared throughout the Tsumura Group as an embodiment of its unchanging basic management principles.

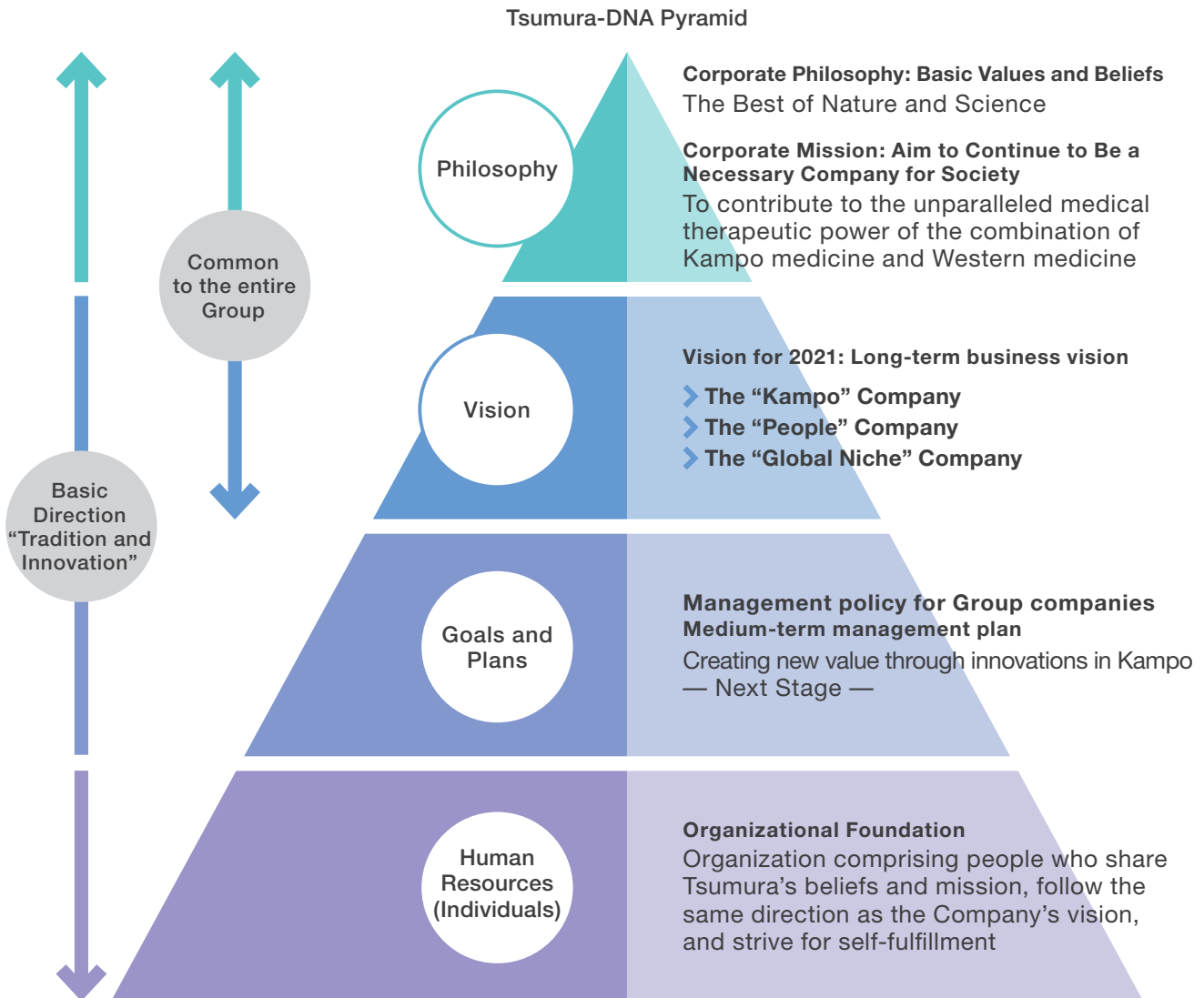
“Vision” is that which we target and aspire toward for the future of the Company in accordance with the basic management policies.

“Goals and plans” (medium-term management plans) are set as milestones for accomplishing our vision, and we diligently work toward these milestones.

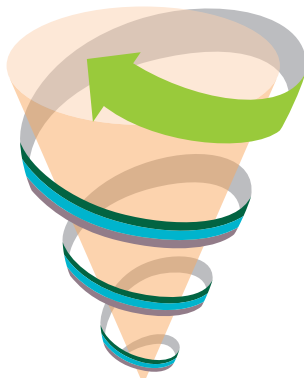
The growth of a company is founded on the growth of its organizations, and the growth of organizations is driven by the growth of the people who work therein. While maintaining our basic direction, which represents Tsumura’s corporate stance and corporate culture, we will share our corporate philosophy and corporate mission among employees to create an environment in which every individual employee is able to realize self-actualization in a manner that aligns with Tsumura’s vision.

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The ESG story conveyed in the Integrated Report.



- E** Integrated Report 2021
- S** Integrated Report 2020
- G** Integrated Report 2019

For three years starting from the Integrated Report 2019, we have been designing and editing our integrated report so that each edition contains a feature that focuses on ESG and highlights its own story line.

Corporate site information



IR information



About Kampo

Editorial policy Tsumura has been publishing integrated reports since fiscal 2018. Integrated Reports are prepared with the goal of communicating and gaining stakeholder understanding of Tsumura’s efforts to improve its corporate value from a medium- to long-term perspective. We look forward to making our future reports more insightful for stakeholders by gaining valuable input and information via interactions with them going forward.

Scope of data collection and applicable period Performance data is from fiscal 2019. TSUMURA & CO./LOGITEM TSUMURA CO., LTD./YUBARI TSUMURA CO., LTD. (April 1, 2019 - March 31, 2020) Tsumura China Inc./SHENZHEN TSUMURA MEDICINE CO., LTD./SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD./Ping An Tsumura Inc./TSUMURA USA, INC. (January 1, 2019 - December 31, 2019) Notice will be provided in cases when the scope of data collection differs from the above.

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

Tsumura in figures

As a long-term business vision (Vision for 2021), the Tsumura Group is declaring its intention for Tsumura to be identified as the “Kampo” Company, the “People” Company, and the “Global Niche” Company.”

The “Kampo” Company

We will contribute to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan.

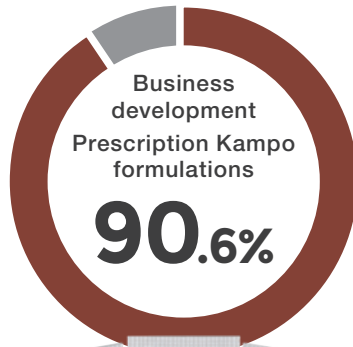


Founded
128
years ago

Domestic market share of
over 80%

No. 1

Boasts an overwhelming
share of the prescription
Kampo formulation market



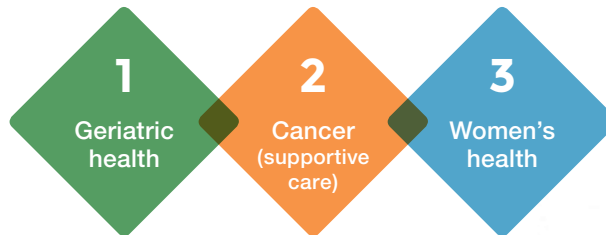
Top three prescription
formulations by net sales

Number of prescription
formulations

129
prescription
formulations

129 prescription Kampo
formulations (of which one
is an ointment) on the NHI
drug price listing

Three important domains for sales initiatives

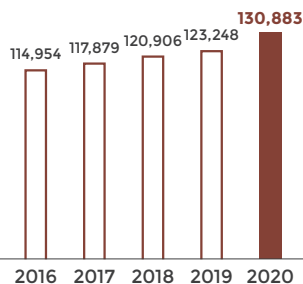


Focus on illnesses that are difficult to
treat using Western medicine
Unmet medical needs

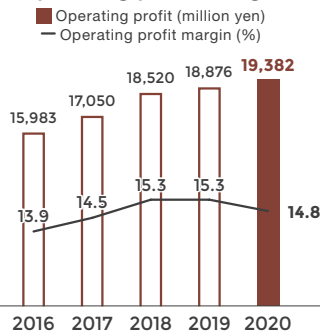


Performance

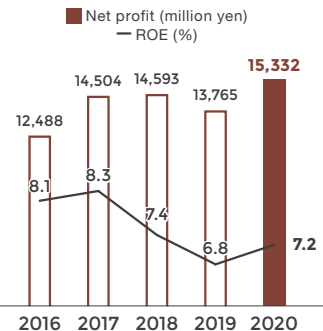
Net sales (million yen)



Operating profit /
Operating profit margin



Net profit / ROE



The “People” Company

We shall evolve into a corporate group comprising people with professional skills who can independently pave the way and who are trusted by all.

Number of employees
(consolidated)
As of March 31, 2021

3,830
people



Training hours
Fiscal 2020: Parent TSUMURA & CO.

1,374 hours per year

Percentage
who are foreign
nationals
As of March 31, 2021



29.6%

Turnover ratio
Parent TSUMURA & CO.,
excluding employees
reaching retirement age

1.8%

Number of employees
that took childcare leave
Parent TSUMURA & CO.

Male	Female
15 people	51 people

Number/
ratio of female managers
Parent TSUMURA & CO.

53 people/ **7.2%**

66
people

The “Global Niche” Company, Tsumura

Establish the Kampo business in China and the US

Overseas sales ratio
Fiscal 2020 results

¥**6.3** billion

Sale of raw-material crude drugs
and crude drug pieces in China

US development
Daikenchuto

TU-100
clinical development

Late Phase II clinical
studies ongoing

A business
like none other
in the world

Possession of the unique and comprehensive Kampo value chain
Technology and know-how capable of mass production of formulations with uniform quality
Business expansion through the leveraging of modernized channels (Ping An Healthcare and Technology (formerly Ping An Good Doctor)
Incorporating the leading corporate in terms of raw-material crude drug export volume in China to the Tsumura Group.

Three Unique Points

Unique point 1

Pharmaceutical manufacturer with three faces

POINT

Kampo is a pharmaceutical product produced using natural substances as its raw material

Build a proprietary value chain from upstream (cultivation of crude drugs) to downstream (Kampo product sales)

Achieve stable procurement of high-quality crude drugs

Control disparities in components as they are derived from natural substances

Stable supply of Kampo formulations owing to proper inventory control of crude drugs



Initiatives for recycling-based agriculture **Face**

Evolution and invigoration of agriculture

Protecting forests and water resources and employing the blessings of nature to improve people's health

A natural environment with rich soil and clean water is essential for the cultivation of crude drugs, the raw materials for Kampo medicines. We are pursuing various types of research and initiatives and efforts to maintain the cycle of preserving forests, protecting water sources, and growing abundant crops. We also aim to evolve and invigorate agriculture through our Kampo and crude drug business by, for example, developing a system to stabilize income from agricultural businesses so that they can be passed on to the next generation, and employing robots and AI technology to reduce the burden of hard physical labor.



Turning Kampo into science **Face**

Scientific analysis based on superior experience

Pursuing the infinite potential of traditional medicines

Kampo medicines are based on a set of rules, and in many cases are made by combining multiple crude drugs. Kampo medicines, which have long been based on experience, covering such matters as how to combine crude drugs containing many ingredients, have been called "unscientific." However, with the progress of medical science and the advancement of scientific and analytical techniques, clinical evidence showing the efficacy and safety of Kampo medicines has been accumulated, their mechanism of action has been clarified, and their medical and economic effects have been verified, and this has all been achieved scientifically. Kampo medicine is an "prescientific" field, parts of which have not yet been scientifically elucidated, and it has infinite potential. We are committed to further research to make the most of this infinite potential for human health.



Pharmaceutical manufacturer **Face**

Employing experience and advanced technology to manufacture high-quality Kampo formulations

Stable supply of uniform-quality Kampo formulations made from natural crude drugs

Crude drugs have variations in components because they are natural products. In order to continue providing safe medicines, it is necessary to control this variability. We have established our own strict standards for the cultivation and procurement of high-quality crude drugs, starting from the cultivation stage. In addition, we have our own expertise in the production of Kampo formulations, which ensures uniformity. Our unique "Kampo value chain," which covers everything from the cultivation and procurement of high-quality raw materials to a production system that pursues uniformity, supports the stable supply of Kampo preparations for medical use.



Ginseng

Unique point 2

Prescription Kampo formulation market share in Japan exceeds 80%

POINT

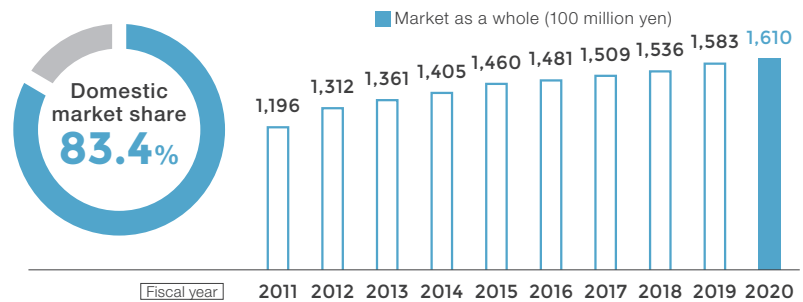
Prescription Kampo formulation market share in Japan exceeds 80%

Share of Kampo medicines in the domestic pharmaceutical market is around 1.6%

There are 148 Kampo formulations covered by the National Health Insurance (NHI) plan, and Tsumura sells 129 of these Kampo formulations

In fiscal 2020, the overall pharmaceuticals market in Japan totaled around ¥10.3 trillion, of which prescription Kampo formulations account for ¥161.0 billion, or a share of 1.6%. However, a recent trend shows that the growth rate for prescription Kampo formulations is growing faster than that for the overall pharmaceuticals market. At present, 148 prescription Kampo formulations have been approved. Tsumura sells 129 of these formulations. This is a share of over 80% of the market.
*Data on the 148 approved Kampo formulations compiled by Tsumura

Domestic market trends for prescription Kampo formulations



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Unique point 3

Challenges and potential in Chinese Operations

POINT

The market scale for traditional Chinese medicines stands at 652.0 billion yuan (2019)

Net sales forecast for 2027 of ¥10.0 billion (image of sales in Chinese Operations)

The Ping An Insurance Group is a business partner (400 million customers, comprehensive strengths in finance and IT)

Citizens in China are very familiar with traditional Chinese medicines. And these traditional Chinese medicines are widely used

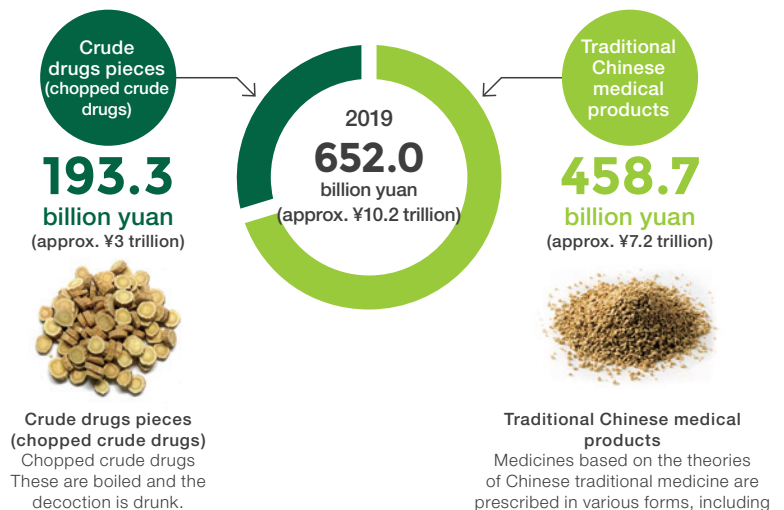
Proprietary technologies can contribute to improving the quality (consistency) of traditional Chinese medicines

Bonds of trust with China that were forged over many years

The platform to be built in the Chinese Operations will further enhance productivity in domestic operations

Our Chinese Operations constitute an important business to realize our long-term business vision. The traditional Chinese medicine market is worth approximately ¥10.2 trillion, but even among the approximately 3,000 traditional Chinese medicine manufacturers, there are no companies with a market share of more than 3%. Traditional Chinese medicines face challenges in terms of quality, such as homogeneity and convenience. We would like to solve such problems with our technology, skills, and know-how that we have acquired through the successful standardization of Kampo medicine. We established Ping An Tsumura Inc. jointly with the Ping An Insurance Group, one of the most innovative integrated financial groups in China and one of the largest insurance companies in the world. It will play a central role in our Chinese Operations, and our aim is for it to become a trusted Chinese medicine company that contributes to the health of the Chinese people through medicines made from high-quality crude drugs, such as crude drug pieces (chopped crude drugs), traditional Chinese medical products, and standardization of classical prescription, as well as health food products such as Yakushokudogen products (products from the same sources as medicinal foods).

Scale of the traditional Chinese medicine market in China



Source: National Bureau of Statistics of China, Ministry of Industry and Information Technology Exchange rate: ¥15.7/yuan (as of the end of December 2019)



President and Representative Director CEO

Terukazu Kato

Contributing to people's mental and physical health and the realization of a sustainable society: our raison d'etre

Ten years of striving for management that integrates our basic philosophy, vision, strategy, and medium-term management plan

We formulated the “Long-term business vision (Vision for 2021) in 2012 based on our basic philosophy (corporate philosophy and mission), and this fiscal year is the final year for it. This fiscal year is also the last stage for the third medium-term management plan, which was launched in fiscal 2019 on the theme of Creating New Value through Innovations in Kampo—Next Stage—. This year is the tenth since I became president of the Company in June 2012. In the past, I was the founding manager of a joint-venture subsidiary in the US that marketed and wholesaled healthcare products, so I have experience of getting a new business of the ground. That company had a multinational workforce, so as the centripetal force for my management, I set out a philosophy and vision as to “why our company was established” and “what value our company provides to our customers”. I have been putting this experience into practice in the management of the Tsumura Group for the past 10 years.

Tsumura has a long history of 128 years. When I took office as president, I repeatedly read through the books written by the second president, Jusha Tsumura, to reconfirm the company's origins. At a time when Kampo was being ridiculed as unscientific, our second president said, “Kampo is pre-scientific, and as medical science advances and science and technology progresses, it will surely come to be elucidated scientifically.”

This way of thinking developed further, and gave birth to “The Best of Nature and Science” concept, which is our corporate philosophy. And in 1957, when the Chujoto Building Clinic (now the Kinkikai Clinic) was established as Japan's first medical corporation specializing in Kampo, the Clinic's first director, Dr. Yoshinori Otsuka began treating patients based on the idea of “harmonizing the characteristics of both Kampo and Western medicine.” It was this approach that led to our corporate mission “to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” In November 2012, I clearly defined our corporate philosophy and mission and positioned them at the top of the Tsumura-DNA pyramid as our basic philosophy.

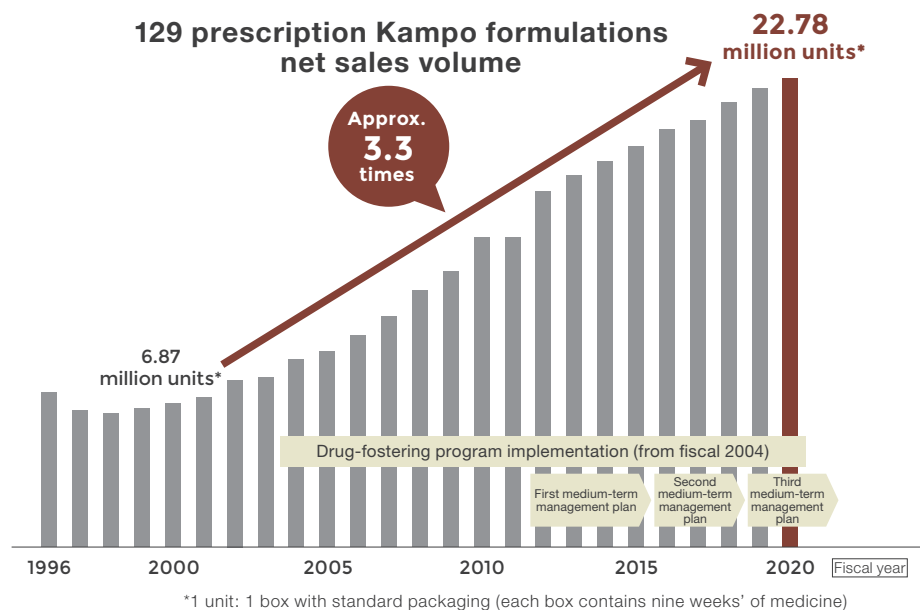
To continuously pursue this basic philosophy, a vision is essential, so as a long-term business vision (Vision for 2021), the Tsumura Group set out the “three Tsumuras concept,” declaring its intention for Tsumura to be identified as the “Kampo” Company, the “People” Company, and the “Global Niche” Company.” Through backcasting, we have divided the medium-term management plan into the first phase (4 years, HOP), the second phase (3 years, STEP), and the third phase (3 years, JUMP) as milestones to realize our long-term business vision. The medium-term management plan is based on our management and business strategies, and strategic issues are clarified and incorporated into KGIs and KPIs on the execution side, and an “organization comprising people with professional skills who can independently carve out its path and who are trusted by all,” as declared

as the “People” company, will ensure the successful implementation of the medium-term management plan. In other words, we have been practicing philosophy-based management, in which the basic philosophy, vision, strategy, and medium-term management plan are skewered and integrated.

Creating new corporate value with the three Tsumuras

The first component of our long-term business vision, the “Kampo” Company, is to “contribute to the realization of a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan. The Company was founded in 1893, but two years later, the Imperial Diet rejected an application for the continuation of Kampo, which effectively excluded Kampo from medical treatment, with Western medicine becoming the sole focus. However, our founder believed in the potential of crude drugs and Kampo, and the Company continued to conduct business and research. This commitment was passed over to the second president. In 1976, Kampo was included in the National Health Insurance (NHI) price list for medical use, and Kampo was restored to its former glory. We have inherited that determination, and will continue to protect Kampo, which is Japan's traditional medicine. During the past 10 years, we have focused on increasing the number of doctors who prescribe prescription Kampo formulations based on Kampo medicine. Due to the Meiji era banishment of Kampo, Kampo medicine education had been offered at only a few universities. However, since 2001, when the Model Core

Curriculum for Medical Education required, for the first time, that students be able to provide a general explanation of traditional Japanese and Kampo medicine, university medical departments and medical colleges nationwide have started to offer education about Kampo medicine. The number of doctors who have studied Kampo medicine continues to increase. In addition, there are more opportunities to prescribe medicine in the three priority areas targeted as social issues (geriatric health, cancer (supportive care), and women-related areas) and diseases associated with changes in the disease structures. As a result, the growth in the number of prescription Kampo formulations prescribed over the past 10 years has been approximately 1.5 times (approximately 3.3 times over the past 20 years). We believe that prescription Kampo formulations, which lie the core of our business, are in high demand among the public and that there is great potential for growth in the future. The concept of the “People” Company, Tsumura first needs to be discussed in the context of history. In the 1990s, Tsumura was plunged into a financial crisis due to problems such as the failure of a business diversification drive and Kampo side-effects. The fourth and fifth presidents, who were brought in from outside the Company, and executives from banks saved the company from the crisis. The only way to carry out painful reforms is from the top down. At that time, I was at the vanguard of reform, as I was in charge of liquidating unprofitable subsidiaries and affiliates. My final task in this regard was the liquidation of our US subsidiary, so I traveled to the US for that purpose. The liquidation of this North American subsidiary took three years, but later, in 2001, we decided to establish a new US joint-venture subsidiary, and as I administered this new subsidiary, I felt strongly that “only people who can think and act on their own can get a new business off the ground.” When I returned to Japan in 2006, I realized that in order for our group to continue



to grow in the Kampo business, which has no precedent in the world, we need people who can pioneer new paths on their own and who are trusted by everyone. In the first five years after I assumed the position of president, we worked on human resource development through repeated trial and error, but it was not until the sixth year that we began to see changes in our people and organization. Now, two years have passed since the establishment of the Tsumura Academy, an in-house human resources development institution, a move positioned as a milestone in our vision. We have also enhanced our programs for the development of managerial personnel and corporate culture, and we are beginning to see the results of these activities. It is said that "management is not accomplished in ten years," and I feel that it was a good idea to set ten years as one term of our long-term business vision through backcasting. The “Global Niche” Company, Tsumura, meanwhile, is taking on the challenge of new business overseas by utilizing the technology, know-how, and human resources of the Group. In our business, from a global perspective, we cannot ignore the Chinese market. The Group manufactures and sells 129 prescription Kampo formulations, and about 80% of the raw materials for these crude drugs are procured

from China. Some crude drugs can be grown in Japan, and although the land area used for cultivation of such crude drugs is expanding, there are many crude drugs that can only be grown in China's climate and soil, so without the cooperation of China, we would not be able to supply Kampo medicines to patients in Japan. In 2017, we entered China to develop it as a new market with the aims of contributing to the health of China's citizens and achieving stable procurement of raw-material crude drugs. Through our Chinese Operations, we aim to improve the quality of crude drugs cultivated in China and to obtain a stable supply of traditional Chinese medicines and medical products. We will contribute to the health of the Chinese people by transforming the untapped area of classical complex formulations of Chinese medicines into something of value, rather than grabbing a share of the existing market for traditional Chinese medical products. We hope to position the Group as an important partner in providing essential products to the Chinese people. Another objective is the approval and launch of TU-100 (Daikenchuto) as a prescription pharmaceutical in the US. Daikenchuto is primarily composed of four crude drugs: Japanese zanthoxylum peel (Japanese pepper), ginseng, processed ginger, and Koi (malt



sugar), and also contains a variety of other ingredients. It is often thought that it should be enough to identify the active ingredients and chemically synthesize them, but Kampo medicine is not that simple. If multi-ingredient Kampo medicines are approved as prescription drugs in the US, the future will be very different. We will continue to take on the challenge of obtaining approval from the US Food and Drug Administration (FDA), which is said to be the most difficult hurdle in the world to overcome, and launching TU-100 in the US market.

Simultaneous formulation of Sustainability Vision 2050 and Long-Term Business Vision 2031

The Group is now working on the formulation of the Long-Term Business Vision 2031, which will cover the next 10 years. At the same time, we have positioned Sustainability Vision 2050, which looks 30 years into the future, as a superordinate concept to the Long-Term Business Vision 2031. We have been practicing sustainability-conscious management for a long time, but the government's commitment to achieve carbon neutrality by 2050, which it made in April of this year, has changed the situation dramatically. The national government's GHG reduction target for fiscal 2030 is a 46% reduction

from fiscal 2013 levels, so we are going to formulate the Long-Term Business Vision 2031 to achieve a 50% reduction. We will reduce our GHG emissions of nearly 100,000 tons to net zero by 2050. We need to tackle climate change on a completely different level than before. Specifically, we must achieve further energy conservation at our production facilities and switch to renewable energy. We are formulating Sustainability Vision 2050 and the Long-Term Business Vision 2031 in parallel to make a new start that links the two together. The business environment is constantly changing and any business goes through various stages. Our ROE was 11.7% on average during the four years of our first medium-term management plan, 7.9% on average during the three years of our second medium-term management plan, and has been 7.0% on average during the two years that have elapsed so far in the implementation of our third medium-term management plan. The main reasons for this decline have been reductions in drug prices, a sharp rise in the price of crude drugs, exchange rate fluctuations, and the allocation of new shares to third parties. We will achieve growth for the Group's business at a cruising speed in Japan, while developing the Chinese market from

a medium- to long-term perspective. In addition, the Group's business is built around the Kampo value chain, which starts with the cultivation of raw-material crude drugs and has a deep relationship with the natural environment. We want to continue to be the most sensitive company to changes and crises in the natural environment by squarely facing the "nature" that forms the basis of our business. We will continue to pursue a cycle that returns everything back to nature, including not only crude drugs but also water and air. While responding flexibly to the ever-changing external and internal environment, we will continue to pursue specific initiatives based on our declared strategic challenges to achieve sustainable growth and enhance corporate value over the medium to long term.

Over the next 10 years, we will pursue DX in the Kampo value chain to further improve productivity

The digital transformation (DX) taking place as a result of the so-called fourth industrial revolution will make things possible that were previously impossible. For example, MRs (medical representatives), who conduct sales activities for drug companies, can only meet with a few doctors a day, mainly before consultations, during lunch breaks, and after consultations. But by utilizing digital, online systems, it may be possible to provide information to 100 doctors at the same time. It also might be possible to create a database of the raw information needed by doctors using big data, and automatically propose prescriptions for prescription Kampo formulations online using algorithms. This is exactly the right time for the Group to build a new mechanism for information provision. I often use the words UX (user experience) and CX (customer experience). With DX education, it is more important to provide the best customer experience, which is the way customers can experience the new value, than to understand the

mechanism. But it is essential to have human resources who can create such an information-provision mechanism, so that when a doctor looks at a computer or smartphone before a consultation, all the information about Kampo that he or she needs is available.

DX is also useful for managing and utilizing safety information on Kampo formulations: By compiling a database of the vast amount of past information on adverse drug reactions and drug interactions with Kampo formulations, which contain 119 types of crude drug, it is possible to predict which Kampo formulations have a higher risk of adverse drug reactions when combined with treatment involving new drugs.

Regarding the manufacturing process of Kampo formulations, we have completed a series of automation and robotization initiatives. Next, we will be automating the monitoring mechanism to create so-called smart factories. As for the supply chain, we are putting the finishing touches to technology for automating the sorting of crude drugs. This technology combines AI with color recognition/selection.

Moving further upstream, with respect to the cultivation of crude drugs, tractors can now operate autonomously, with positional errors of only a few centimeters, so if the AI can be made to learn to identify crude drugs and weeds, it will be possible to automate the removal of weeds with pinpoint accuracy. As a result, the

amount of pesticides used and pesticide residues could be greatly reduced, so there is a possibility that safer and more secure cultivation of crude drugs can be achieved. In this way, as smart agriculture progresses, we can expect to see a reduction in the physical burden of farm work and stable income from contract farming. This will attract young people to the agricultural industry, which will help secure more farm workers.

In general, agricultural machinery is developed for major crops first, but medicinal plants, which are raw-material crude drugs, are minor crops, so there is no dedicated machinery for them. Therefore, it is necessary for us to spend money and time to improve machines developed for rice and vegetables. The key to the challenge of automating and labor-saving in the cultivation and processing of crude drugs is to be able to speedily customize existing technologies and implement them in our business.

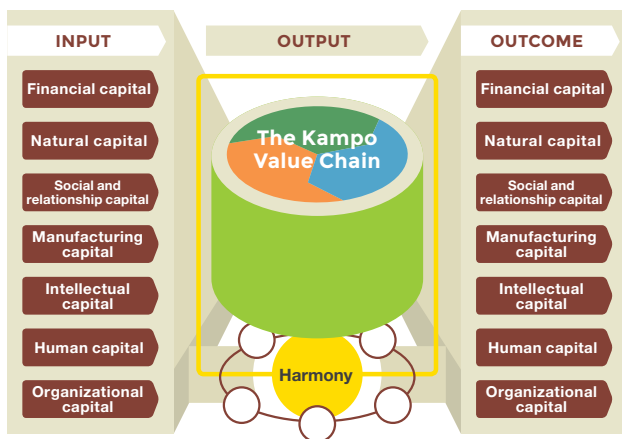
At the center of the seven capitals for creating corporate value is organizational capital

In the International Integrated Reporting Framework, there are six types of capital: financial capital, natural capital, social and relationship capital, manufacturing capital, intellectual capital, and human capital. However, we have added another type, organizational capital, which

gives us seven capitals. We added it because we believe that it is the organization that is the source for the generation of new value and profits. The concept of organizational capital is one that is unique to the Group, and shows that we are a harmonious organization, much like Kampo medicine itself.

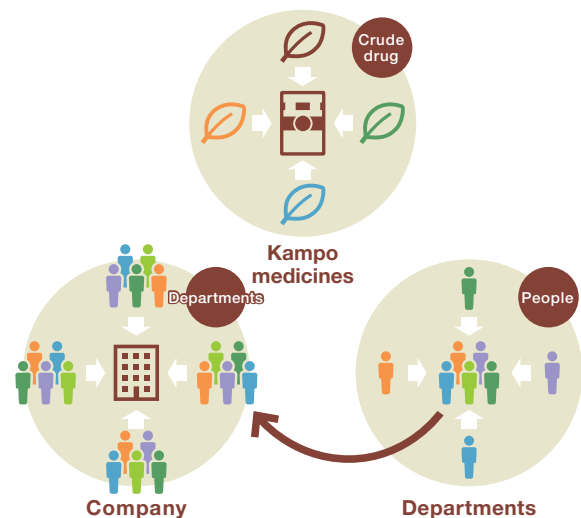
Unlike Western medicines, Kampo medicines are composed of a combination of several crude drugs. Each crude drug has many components that have medicinal properties and are recognized for their pharmacological effects. In other words, each one has its own power and personality. Based on their respective roles, crude drugs in Kampo medicine are classified into four categories: Kuniyaku, which is the central crude drug; Shinyaku, which assists and strengthens the action of Kuniyaku; Sayaku, which regulates the efficacy of Kuniyaku; and Shiyaku, which regulates the auxiliary role and action of Kuniyaku and Sayaku. For example, ginseng (Asian ginseng) has a saponin component called ginsenoside, which is a central crude drug in Rikkunshito, while in Bakumondoto, it serves as a Sayaku to regulate the effects of the Kuniyaku and Shinyaku. In other words, although crude drugs are effective enough on their own, they are naturally combined with other crude drugs and organized into teams according to their roles, and play an important role as medicines with new efficacy and

Process for value creation



Type of people required and human resources to aim to become

Harmonious organization, much like Kampo medicine



effects as multi-component complex Kampo medicines. We firmly believe that a harmonious organization, much like Kampo medicine itself is the ideal that we should aim for in terms of our human resources and organization. We view divisions/people as crude drugs and the Company/divisions as Kampo medicines. Put another way, we firmly believe that the Kampo medicine that is the Company is composed of crude drugs called divisions, which each have their own independent functions, and that they should harmonize and cooperate with each other to produce great results. We also believe that the Kampo medicines that are departments are composed of crude drugs called people, each of whom has different strengths, and that they can achieve the goals of the departments through cooperation and collaboration. When it was founded in 1893, the Company's original name was Tsumura Juntendo, which incorporates the "spirit of obeying the heavens." As the Tsumura-DNA, our principles tell us not to disobey the laws of nature in carrying out our business operations. We need to firmly pass on this DNA. In my view, organizational capital, which is the capital for the growth of people and the organization, forms the core of

capital in the process of corporate value creation.

Preparing to take up a position at the Tsumura Academy

It is said that "the position nurtures the person" but if you just give positions to people who are not prepared, they will not succeed. We opened the Tsumura Academy in 2019 to enable our management personnel and management candidates to prepare (to learn). It is difficult to gain a lot of on-the-job experience in a short period of time, so in order to practice management, employees need to study anthropology, improve their character, and be constantly aware of what knowledge they need and what they need to absorb. By learning, the breadth of information you can pull out of yourself increases. This is the sort of thing you can learn through the programs at Tsumura Academy. If you don't have anything in your drawer, you can't run a company unless you start by preparing to put the knowledge necessary for management into your drawer. Two years have passed since the establishment of the Tsumura Academy, and a cumulative total of 3,850 people have undertaken a

program on fostering corporate culture, taking courses on such topics as propagating and nurturing our corporate philosophy and coaching. Furthermore, a cumulative total of 330 people have participated in a program to develop managers, taking a basic management course as well as other courses taught by myself as Dean or by outside lecturers. I feel that we are steadily building a human resource development system that will continue to support management based on our philosophy. For the Group to achieve sustainable growth and increase its corporate value, it is essential that our business model and management strategy be linked to our human resources strategy. Only the Group's personnel can think of ways to enhance the Group's business to a value that customers have never experienced before. We expect each and every one of our employees to act with a sense of ownership toward the realization of our vision, keeping in mind the five elements of human resources that we seek and aim for: aspiration/passion, sense of mission, professionalism, independence, and altruism.

October 2021



President and Representative Director CEO

Process for value creation

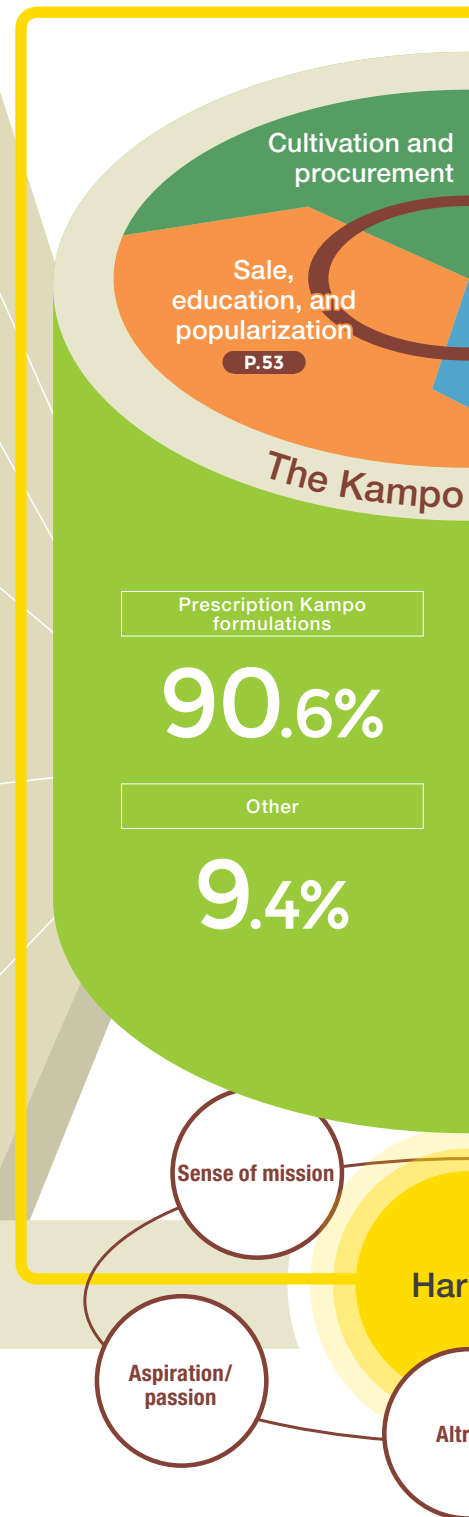
The Tsumura Group is engaged in business activities to address a variety of social issues, including the super-aging society, increasing medical costs, and responses to climate change. The value creation process is a mechanism for contributing to the realization of a sustainable society and continuously enhancing the corporate value of the Tsumura Group.

INPUT

<p>Financial capital</p> <p>Capital, business alliances</p>	<ul style="list-style-type: none"> Total assets: ¥319,063 million Shareholders' equity: ¥233,169 million Interest-bearing liabilities: ¥53,096 million (Rating and Investment Information, Inc. rating: A)
<p>Natural capital</p> <p>Protection of nature and resources, recycling-based model</p>	<ul style="list-style-type: none"> Crude-drug input volume: 14,170 t Energy used: 1,680 TJ Water used: 1,707,000 t
<p>Social and relationship capital</p> <p>Creation of shared value, brand</p>	<ul style="list-style-type: none"> Optimization of the Kampo value chain, building of trust e-promotion via the Internet Web seminars: Held 20 times with 331,990 participants 13 events with 3,864 participants held for general consumers Number of consultations from customers: 35,360 per year
<p>Manufacturing capital</p> <p>Production equipment, production technology</p>	<ul style="list-style-type: none"> Capital expenditures: ¥11,161 million Countries supplying us with crude drugs: China approx. 80%, Japan approx. 15%, Laos etc. approx. 5% Selection and processing, quality management: 2 Japan sites, 2 China sites Manufacturing plans: 2 Japan sites, 2 China sites (1site under construction) Research centers: 1 Japan site, 1 China site (under construction)
<p>Intellectual capital</p> <p>Intellectual property, knowhow</p>	<ul style="list-style-type: none"> R&D expenses: ¥6,631 million Consistent support for Kampo medicine education before graduation, immediately after graduation, and post-graduation - Provision of Kampo medicine education at all university medical departments and medical colleges nationwide Tsumura GACP*¹ Tsumura Quality Management System
<p>Human capital</p> <p>Development of human resources and capabilities</p>	<ul style="list-style-type: none"> Number of employees (consolidated): 3,830 people Training expenses (parent): ¥253 million Training hours (parent): 1,374 hours per year Number of training sessions conducted (parent): 224 Number of training participants (parent): 3,416 people Annual training hours for each MR: 106.6 hours Percentage of employees with disabilities (parent): 2.91%
<p>Organizational capital</p>	<p>Harmonious organization, much like Kampo medicine</p>

*The above figures are for March 31, 2021 or fiscal 2020.

OUTPUT



Type of people required and

Seven capitals for corporate value creation

Financial capital, natural capital, social and relationship capital, manufacturing capital, intellectual capital, and human capital, all centered on organizational capital, are the cornerstones of the Tsumura Group's tradition of continuous innovation and the source of our strength and profits.

We will add and accumulate value through organizational capital, which is the tacit knowledge (Tsumura-DNA Pyramid) we have built up over the 128 years since our foundation, and provide it to our stakeholders, society, and the natural environment. The seven capitals are the source of creation of shared value for society and the Tsumura Group, and are indicators for working toward the realization of a sustainable society.

PUT



OUTCOME Creation of shared value with society

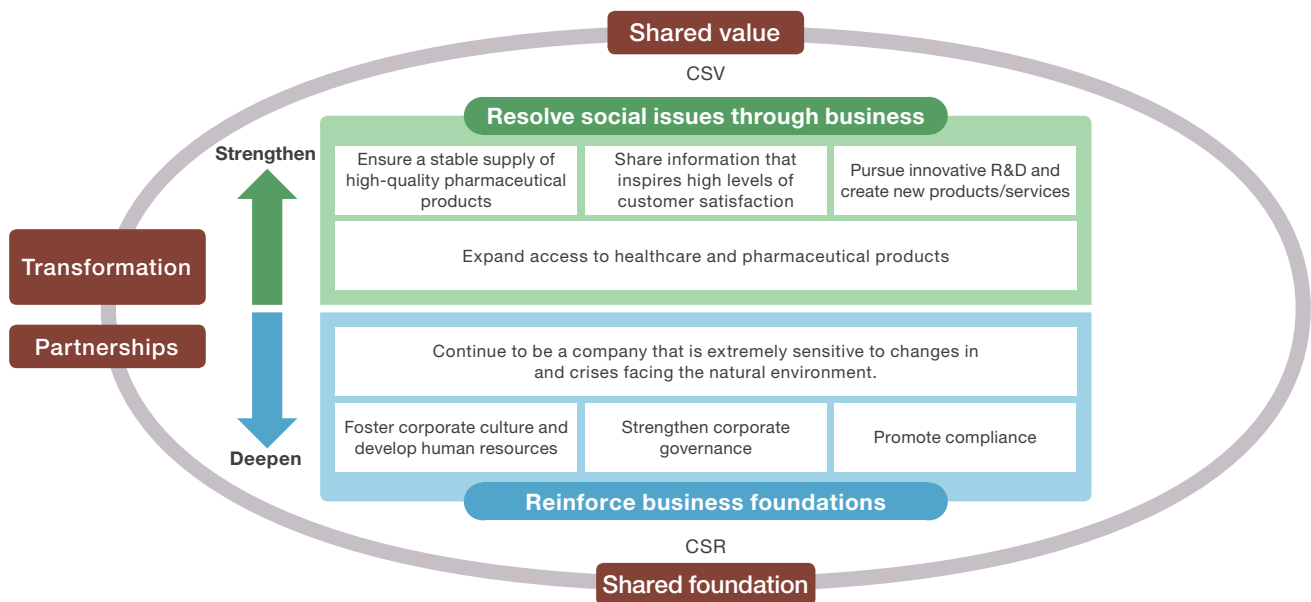
Financial capital Capital, business alliances	Net profit: ¥15,332 million, ROE: 7.2%, ROA: 6.1% Total dividends: ¥4,896 million Share price: ¥3,955
Natural capital Protection of nature and resources, recycling-based model	CDP*2 climate change assessment: C CDP water security assessment: C Contribution to decarbonization: Group's GHG emissions increased 0.1% from the previous fiscal year Contribution to recycling-based society: Water reuse rate (Ibaraki, Shizuoka, Shanghai): 62.9% on average Reuse of crude drug residue: Percentage of crude drug residue traded for money: 25.6% Zero emission of industrial waste: Percentage of industrial waste recycled: 99.9% (domestic)
Social and relationship capital Creation of shared value, brand	Prescription Kampo formulations: 83.4% Percentage of consumers recognizing our brand: 76% (Fiscal 2020 consumer survey) Nikkei SDGs Management Survey 2020: Adjusted standard deviation score of 58.9 Toyo Keizai CSR Ranking 2021: 260th (previous year: 237th) Excellence in Corporate Disclosure ranking: 16th (of 19 companies) (The Securities Analysts Association of Japan)
Manufacturing capital Production equipment, production technology	Improvement of labor productivity Average overtime hours (Fiscal 2020): 12.7 hours per month Powdered extract production capacity: 5,400 t per year Expansion of cultivated land under own management*3
Intellectual capital Intellectual property, knowhow	Physicians with experience of prescribing Kampo medicines: 97.1% of total (according to survey conducted in 2011 by the JKMA) Number of physicians capable of distinguishing between at least 10 Kampo medicines: Approx. 50,000 (according to survey by Tsumura) Write-ups on Kampo medicines in medical treatment guidelines: 149 (according to survey by the Japan Society for Oriental Medicine and the Japan Kampo Medicines Manufacturers Association (JKMA)) Establishment of crude-drug traceability system Realization of consistent Kampo formulations Fostering of Tsumura Quality Culture*4
Human capital Development of human resources and capabilities	14 of initial intake of Tsumura Academy complete the three-year program Turnover ratio (parent): 1.8% Percentage still on payroll after three years (parent: payroll as of April 1, 2021): 100% Ratio of female managers (parent): 7.2% Number of employees that took maternity leave (parent): 34 people (percentage that returned to work: 97.5%) Number of people that took childcare leave (parent): 66 (of which 15 were men) Percentage of paid leave actually used (parent): 58.7%
Organizational capital	Organizations in which human resources with diverse abilities and personalities bring about harmony, in much the same way as Kampo medicines

*1 GACP: Good Agricultural and Collection Practice (standards for the management of crude-drug production)
 *2 CDP: An international NPO working in the environmental field. It is an assessment body that represents institutional investors and requires organizations to disclose information on climate change, water resources, etc. and to pursue initiatives in such areas.
 *3 Cultivated land under own management: Land with regard to which Tsumura can provide direct cultivation guidance and maintain an understanding of cultivation costs, based on which it can set crude drug procurement prices.
 *4 Tsumura Quality Culture: Our policy of emphasizing quality to improve our reliability by pursuing quality and safety in all of the Tsumura Group's products, and a situation in which all employees understand the corporate philosophy and use it as the basis for their values, judgements, and actions.

Materiality (priority issues) for further pursuing sustainability

The Tsumura Group has determined priority issues (materiality) for enhancing added value for the seven capitals in line with our corporate philosophy and thereby ensuring the sustainable development of both society and Tsumura. In fiscal 2021, we reviewed the impact that the Tsumura Group has on society through its business activities and the issues that we need to address for sustainable development.

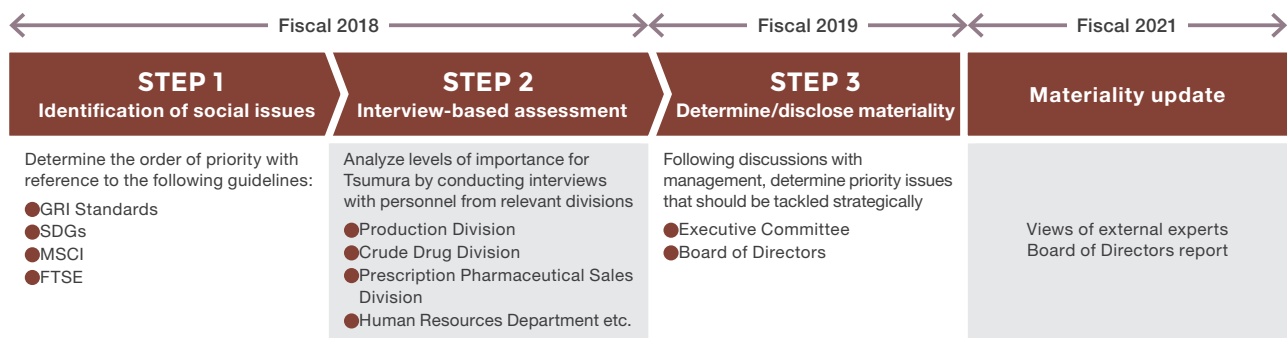
Tsumura Group's materiality



Process for determining materiality










We identified the social issues that the Tsumura Group should address, with reference to international guidelines on sustainability. In addition, we conducted interviews with divisions that have a significant connection to these issues, assessed and prioritized the importance of both social issues and issues facing the Tsumura Group

as we move toward sustainability, and disclosed our materiality (priority issues) in fiscal 2019. In fiscal 2021, we reviewed and updated both the issues with respect to which the Tsumura Group can contribute to society through its business activities and the materiality related to strengthening the business foundations that makes this possible.

















Specific details of materiality

Resolve social issues through business

Materiality	Main initiatives	SDGs
Expand access to healthcare and pharmaceutical products	<p>Domestic</p> <ul style="list-style-type: none"> Development of drug-fostering program formulations, “Growing” formulations, and related formulations in the three important domains <p>Overseas</p> <ul style="list-style-type: none"> Manufacture/sale of raw-material crude drugs and crude drug pieces. manufacture/sale of classical prescriptions of Chinese medicines 	
Ensure a stable supply of high-quality pharmaceutical products	<ul style="list-style-type: none"> Stable procurement of high-quality crude drugs Stable supply of high-quality Kampo formulations Consistent Kampo formulations Propagation of the Tsumura Quality Culture Respecting human rights across the Group’s supply chain 	     
Share information that inspires high levels of customer satisfaction	<ul style="list-style-type: none"> Support consistent Kampo medicine education before graduation, immediately after graduation, and post-graduation Support activities to provide medical personnel with information and lifelong Kampo education Activities to raise awareness of Kampo among general consumers 	
Pursue innovative R&D and create new products/services	<ul style="list-style-type: none"> Establish evidence of efficacy of Kampo formulations, and promote their use during the pre-symptomatic disease stage Develop products that meet the needs of medical institutions and patients Develop TU-100 in the US 	

Reinforce business foundations

Materiality	Main initiatives	SDGs
Continue to be a company that is extremely sensitive to changes in and crises facing the natural environment.	<ul style="list-style-type: none"> Procure and recycle raw materials sustainably Responding to climate change Use energy more efficiently Safeguard water resources Manage waste 	    
Foster corporate culture and develop human resources	<ul style="list-style-type: none"> Continue to raise awareness of our philosophy through dialogue Working environments that offer safety and peace of mind Diversity & Inclusion (D&I) Develop candidates for management and core human resources (global and professional) Raise levels of engagement among employees 	    
Strengthen corporate governance	<ul style="list-style-type: none"> Ensure the transparency, enhance the efficiency, and maintain the soundness of Board of Directors effectiveness evaluations Strengthen Group governance Strengthen risk management 	  
Promote compliance	<ul style="list-style-type: none"> Eliminate antisocial forces Prohibit the giving/receiving of bribes Trade fairly with business partners Disclose information in a timely and appropriate manner Further reinforce structures for ensuring compliance with pharmaceutical laws and regulations 	

Policies and plans for the future

We plan to determine targets for each KPI in conjunction with the launch of Sustainability Vision 2050 and Long-Term Business Vision 2031, which we are currently in the process of formulating.

Interview with Crude Drug Division General Manager

Kampo begins in the fields: Working together with nature and producers

Crude Drug Division General Manager
Takemi Hirate

Continuing to pursue sustainable cultivation of crude drugs with less impact on the environment

The Group's business is based on benefitting from the blessings of nature. Reducing the burden on the natural environment is inseparable from our business activities. For example, we are promoting field cultivation of ginseng in China to prevent the decline of natural forests due to the traditional method of cultivating ginseng, a raw material for crude drug. Ginseng prefers a relatively cool and well-ventilated environment without direct sunlight. In addition, it takes four to five years to grow and consumes a lot of nutrients in the soil, making it impossible to grow ginseng again in the same soil after harvesting (replant failure). For this reason, traditional practice has been to cut down new forests and grow ginseng in the new soil. However, if we can convert to field cultivation, we will be able to reduce this deforestation and realize sustainable production, we thought, and finally, the first such harvest took place last year, and we were able to meet our target harvest volume per unit of area. In the future, we will continue our research to stabilize production and improve productivity. The promotion of field cultivation of ginseng will also lead to the conservation of forest-related biodiversity. For producers, it also facilitates systematic management and stabilizes costs. And since field cultivation is easier than forest cultivation, it is expected to create stable employment opportunities and contribute to the local economy.

In addition, we are reviewing our standards for the selection of crude drugs, reducing crude-drug selection loss and promoting reuse, and taking other measures to prevent the waste of nature's blessings. We will continue to pursue sustainable cultivation of crude drugs by further promoting the utilization of crude drug residue, which is the material left over after extraction during the manufacturing process of extracts for Kampo.



Land used for ginseng cultivation (China)

Our duty is to stably procure crude drugs

Climate change is definitely a risk for us in growing and procuring raw crude drugs. In order to mitigate this risk, we always maintain a certain amount of inventory, while at the same time increasing the number of contract farmers and decentralizing land used for the cultivation of crude drugs. To ensure a stable supply of Kampo formulations, we believe that it is our responsibility to stably procure raw-material crude drugs.

When you hear the word "inventory", you probably think of "stuff" in a warehouse, but we manage our inventory from the stage of cultivation in the field. Some crude drugs can be harvested in one year, while others take more than five years. The procurement risk is different for each crude drug, so control is not easy. Fluctuations in inventory of crude drugs need to be checked periodically, and proper inventory management is required, taking into account the balance with production (cultivation) volume. With this kind of inventory control, decisions are made based on human experience, and the selection of the lots to be used in the formulations is also left to expert professionals, who make their judgements based on their own quality evaluations. Although we cannot completely eliminate human hands in the field to produce raw crude drugs, we will be able to support them with AI and digital technology in the future. In addition to developing systems to automate this know-how, we will continue to tackle climate change as an "opportunity" by conducting research on cultivation techniques that are resistant to environmental changes.

Controlling quality based on the Tsumura GACP

With crude drugs, it is important to control not only the inventory but also the quality. In China, the country from which we procure about 80% of our crude drugs, we conduct audits based on the Tsumura GACP of all producers and ensure quality by purchasing raw crude drugs only from certified companies. As for safety, we have formulated Standard of Botanical Raw Material Production, which specifies the pesticides that can be used for each crude drug, as well as the methods of use of pesticides. We instruct all contract farmers to follow this standard. In addition to pesticide residues, we also conduct thorough testing for fungal toxins and heavy metals. In addition to pursuing research on cultivation methods, we are also making efforts to further enhance the traceability* of crude drugs.

Since crude drugs are natural substances of natural origin, their quality and ingredients vary depending on the weather, where they were grown, and other factors. To ensure a high level of homogeneity and a stable supply of Kampo formulations made from these raw materials, we believe that in the future the key point will be the extent to which the quality of raw-material crude drugs can be controlled through cultivation methods.

Standing side by side with producers in tackling the challenges we face

As the population ages, we believe that the demand for Kampo formulations will increase more than ever before. In order to meet this demand, the stable cultivation, procurement and supply of crude drugs is a key issue. The number of farmers is declining not only in Japan but also in China. To make agriculture a viable business, we need to encourage a shift from individual farmers to corporations, increase the area under management per farmer, and raise productivity. We have been providing cultivation guidance to each individual farmer, but now we need to make changes in line with the external environment, such as establishing technical guidance methods suitable for corporatization and large-scale farming. We would like to create a model for this in Japan first, and then roll it out to China. The relationships of trust with producers that the Tsumura Group has built up since its first forays into the realm of Kampo are irreplaceable. But in order for us to move to the next stage, we need to be more proactive in heading out to the production frontlines, meeting the producers face to face, standing side by side with them in tackling the challenges we face, and working on the same page. I myself will take the lead in this effort.



Surveying the citrus Unshiu peel production area (China)

Interview with Production Division General Manager

Taking measures to both protect the environment and boost productivity

Executive Officer
Production Division General Manager

Kei Sugii



Putting together an eco-conscious production structure

The raw materials for Kampo medicines are natural substances of natural origin. We at Tsumura believe that it is our responsibility to continue to pursue a production structure that takes the natural environment into consideration. This awareness has taken root as part of our corporate culture, but over the next 10 years we will focus even more on recycling resources as much as possible and using all of nature's blessings to the fullest.

A lot of water is used in the process of manufacturing Kampo formulations. At present, we are making efforts to save water and recycle water more than ever before. Specifically, we will be able to reuse water in part of the Ibaraki Plant by the end of fiscal 2021. Although we have had experience in reusing water outside of the manufacturing process, this will be our first attempt to reuse water on a large scale in the extraction process, which is the process that uses the most water. Another issue is crude drug residue, the squeezed remnants that remain after extraction in the process of manufacturing Kampo formulations. We still sell the residue to external parties as compost or fuel, so it is not wasted, but the ideal would be to recycle it within Tsumura's own Kampo value chain. We will continue to study this matter together with the Pharmaceuticals Division, and hope to realize this ideal in the next 10 years. As for electricity, the Shizuoka Plant has been promoting energy conservation since 2021, when it introduced a system that makes power consumption

visible in real time. We are planning to roll out this system to other plants in the future. In addition to adopting renewable energies, we will also consider other energy switches, such as from gas to hydrogen, while following the trends of the world. But for starters, we are going to install solar power generation systems at the Shizuoka Plant in fiscal 2021 and at the Ibaraki Plant in fiscal 2022.

And with an eye to the decarbonization of society, the Group will be making capital investments in accordance with the concept of ICP (internal carbon pricing)*¹. One of the risks of the transition to decarbonization is the increase in costs due to the rise in unit energy prices, but we will aim to decarbonize while minimizing the impact on our manufacturing sites. The Japanese government has also set a goal of carbon neutrality*² by 2050. As the company that should be the most sensitive to the natural environment, we at Tsumura will contribute to the realization of a decarbonized society by setting and achieving standards and targets that are stricter and higher than the government's plans and targets.



September 2021: Solar panels installed on the crude drug warehouse at the Shizuoka Plant

*1 ICP (internal carbon pricing): A mechanism to create economic incentives for reducing CO₂ emissions by pricing carbon internally and identifying CO₂ emissions as a cost as part of efforts to move toward a decarbonized society

*2 Carbon neutral: Situation in which the amount of greenhouse-gas emissions less the amount absorbed by forests etc. is zero

*3 SD: Stands for "spray dryer," a device that ejects the extract from the top of the dryer in the form of mist and cools it at the same time as instant drying so that it is not affected by heat to make an extract powder

Realizing enhanced productivity through DX

One of the strategic issues in the third medium-term management plan is "improving productivity using new technologies," and we are aiming to put together a future-oriented production structure by expanding capacity in line with rising demand and employing new technology. In 2020, the Ibaraki Plant's third SD*³ building was completed and went into operation in June of the same year, boosting annual production capacity from 2,400 tons to 3,350 tons. In addition, we are constructing the Tianjin Plant of Tianjin Tsumura Pharmaceuticals Co., Ltd. in China with the aim of starting operations in May 2022. This is expected to further increase the annual production capacity of the entire Group by about 750 tons.

In addition to expanding production capacity, we in the Production Division are aiming to achieving laborsaving. In the newly constructed Ibaraki Plant's third SD building, we have deployed the latest robots to the process for cutting raw-material crude drugs. A robot arm is now employed to automate the feeding of raw-material crude drugs, a procedure that used to be carried out manually. We have also replaced the process of scraping raw-material crude drugs with robots, and have improved work efficiency by 25% by using smartphones for monitoring. As Japan's working population decreases, it will become more difficult to secure human resources for night work. If we can automate ancillary work, such supplying packaging materials, and monitoring work, which are currently performed by people, we can reduce errors and have valuable human resources engage in work that cannot be done by machines. We will therefore be gradually automating the existing facilities at each plant.

AI technology is also essential to realize laborsaving. I feel that the business of Tsumura has a very high affinity with AI. It is extremely difficult to hand down to others decision-making techniques based on the experience of skilled people, but it is possible to do so by using AI learning programs, and we are now on the verge of automating the sorting of crude drugs, which had hitherto been performed manually and visually.



The Ibaraki Plant's third SD building, completed in December 2019, is fully automated. Realization of labor saving and robotization for the work of scraping crude drugs.

Contributing to health through uniform-quality Kampo formulations

For each product, we control the temperature and pressure to prevent changes in the ingredients of Kampo formulations during the manufacturing process. As for safety, with respect to substances such as pesticide residues and mold toxins, we follow not only Japanese standards but also European standards, which are even stricter. Raw-material crude drugs are natural substances, which means that there are variations in their ingredients. Therefore, it is very important for the homogeneity of Kampo formulations to determine which lots of raw material are used. However, the management of lots is very complicated, and short-term planning is all that is possible for humans. If we can systemize lot management, we will be able to make medium- and long-term plans, and we will be able to go back to the fields upstream and manage them on a long-term basis. For example, we could say that "the amount of crude drugs to be planted from now on will be the amount to be used on October XX, five years from now." Currently, we can only manage the total quantity of crude drugs, but in the future, we hope to build a more precise supply and production system for crude drugs based on the quality (ingredients) of each lot. We will pursue the optimization of inventory based on scientific figures by systematizing the series of flows such as cultivation, processing, and transport based on production plans, and also by quantifying risks along the entire supply chain.

Developing human resources with an emphasis on the Monozukuri Philosophy

As a unique initiative of the Production Division, which is in the business of monozukuri [manufacturing], we created and distributed a handbook called the Monozukuri Philosophy Handbook, which describes the attitude toward and approach to monozukuri that we value. It's very basic, but it's a good way to ask ourselves, "What should we be? For what purpose and with what philosophy do we work?" I believe that it is very important to go back and share the fundamentals of our work. I joined Tsumura in 2009, and my number-one reason for joining the Company was its high level of contribution to society. Although there are many pre-scientific aspects of Kampo, its potential is immeasurable. I believe that the feeling that my work is useful to the world is what makes my work worthwhile and motivates me to make products. So please look forward to the future of the Production Division.



Responding to climate change

Information disclosure based on the TCFD* framework

We believe that in order for the Tsumura Group, which employs crude drugs, which are a blessing of nature, as raw materials, to grow sustainably, we must be most sensitive to changes and crises in the natural environment. In addition to working to reduce greenhouse-gas emissions in order to achieve carbon neutrality, it is necessary to respond to climate-change risks such as changes in temperature and precipitation.

Response to the Task Force on Climate-related Financial Disclosures (TCFD) framework

Based on the final report from the Task Force on Climate-related Financial Disclosure (TCFD), we are recognizing and considering the four disclosure categories (Governance, Strategy, Risk Management, and Metrics & Targets) as management issues.

In fiscal 2021, we held a management review meeting with outside experts on the risks and opportunities for our business due to climate change, and identified risks and opportunities. We will continue to study the issues and expand our disclosures in stages.



*TCFD: Stands for Task Force on Climate-related Financial Disclosures. It was established by the Financial Stability Board (FSB) at the request of the G20, and recommends that entities understand financial impacts and disclose information with respect to the risks and opportunities posed by climate change. <https://www.fsb-tcfid.org/>

Governance

Item	Description
Board of Directors oversight structure	The Board of Directors is responsible for making important decisions on risks and opportunities, including climate change, and for ensuring the sustainable growth of the Tsumura Group and the enhancement of corporate value over the medium to long term. The Board of Directors provides advice and oversight on the status of business execution, which is reported monthly in accordance with the Rules of the Board of Directors. With regard to climate change, we have two committees: the Sustainability Committee (established in October 2021), which mainly deals with sustainability-related themes, and the Risk Management Committee (meets twice a year), which deals with BCP-related themes. Of the topics discussed by the two committees, important matters are reported to the Board of Directors. The Sustainability Committee is monitored by the Board of Directors.
Role of management	The executive officer responsible for tasks related to sustainability, including climate change, is the officer responsible for the Sustainability Promotion Office, who is also the CFO. The CFO is responsible for overseeing both the assessment and management of climate change-related risks and opportunities, and receives information related to such tasks from the Executive Officers' Meeting, the Tsumura Group Sustainability Committee, the Risk Management Committee, and the Sustainability Promotion Office.

Strategy

Item	Description				
Risks and opportunities	The risks and opportunities related to climate change in the Kampo value chain, which is the foundation of the Tsumura Group's business, are as follows: <table border="1"> <tr> <td>Risks</td> <td>Climate change will affect the growth, yields, quality, and prices of raw-material crude drugs. Climatic disasters directly affect crude-drug cultivation areas, production sites, distribution infrastructure, and sales activities, as well as the system for supplying medical personnel (and via them, patients). Climatic disasters and the introduction of carbon taxes have financial implications such as higher manufacturing costs, and there are also concerns about the impact on financing of delays in addressing climate change related issues. Response To mitigate climate-change risk, we are implementing measures to conserve energy and resources (e.g. introducing energy-efficient technologies and equipment), in addition to initiatives such as duplication of crude-drug cultivation sites, cultivation of climate-change-resilient varieties, revamp of crude-drug cultivation technologies, and maintenance of appropriate inventories.</td> </tr> <tr> <td>Opportunities</td> <td>We believe that measures to manage risks and seize opportunities through the Kampo value chain will enhance our shared value with society and increase our competitive advantage. · Attracting new farmers by offering the kind of compensation that only the Tsumura Group can provide · Improving productivity and reducing environmental impact through innovations in agriculture-related and production technologies With climate change triggering changes in disease structures, we expect to see an increase in opportunities where Kampo formulations is useful.</td> </tr> </table>	Risks	Climate change will affect the growth, yields, quality, and prices of raw-material crude drugs. Climatic disasters directly affect crude-drug cultivation areas, production sites, distribution infrastructure, and sales activities, as well as the system for supplying medical personnel (and via them, patients). Climatic disasters and the introduction of carbon taxes have financial implications such as higher manufacturing costs, and there are also concerns about the impact on financing of delays in addressing climate change related issues. Response To mitigate climate-change risk, we are implementing measures to conserve energy and resources (e.g. introducing energy-efficient technologies and equipment), in addition to initiatives such as duplication of crude-drug cultivation sites, cultivation of climate-change-resilient varieties, revamp of crude-drug cultivation technologies, and maintenance of appropriate inventories.	Opportunities	We believe that measures to manage risks and seize opportunities through the Kampo value chain will enhance our shared value with society and increase our competitive advantage. · Attracting new farmers by offering the kind of compensation that only the Tsumura Group can provide · Improving productivity and reducing environmental impact through innovations in agriculture-related and production technologies With climate change triggering changes in disease structures, we expect to see an increase in opportunities where Kampo formulations is useful.
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Impact on business strategy and financial planning	Typhoons, heavy rains, and droughts have caused damage to areas where crude drugs are grown, and climate change may have a direct and significant impact on our business strategies and finances in the future. We also see opportunities in the development of crude drugs that are resistant to climate change (i.e. the development of improved varieties), the establishment of new cultivation techniques, and the design of manufacturing processes that reduce environmental impact.				
Scenario analysis	We have identified risks and opportunities in the Kampo value chain, but have not yet published a detailed analysis based on climate-change scenarios (1.5°C scenario and 2°C scenario). The Sustainability Promotion Office and Sustainability Committee, which we established in October 2021, will therefore be working with external experts to verify our analysis and publish the results in stages.				

Risk management

Item	Description
Risk screening/assessment and risk management processes	<p>Risk assessment levels are prioritized, and each department implements initiatives to respond to risks and opportunities based on the Risk Management Rules.</p> <p>With regard to climate change-related risks, the Sustainability Committee and the Risk Management Committee, which were established in October 2021, assess and manage these risks while sharing information.</p> <p>Risks handled by each committee</p> <ul style="list-style-type: none"> ● Sustainability Committee: Climate change-related risks related to medium- and long-term management strategies ● Risk Management Committee: Risks including BCP responses in such events as plant shutdowns related to climate change
Integration with comprehensive risk management	The risks considered by the Sustainability Committee and the Risk Management Committee will be integrated and managed as business risks.

Indicators and targets

Item	Description
Assessment indicators	We monitor environmental performance indicators such as energy consumption, GHG emissions, water consumption, and waste emissions. These indicators are subject to annual verification by a third-party organization to ensure the validity of the calculation processes and the accuracy of the information.
Actual GHG emissions for Scope 1, 2, and 3	<p>Fiscal 2020 GHG emissions</p> <p>Tsumura Group's total emissions 96,486 t (0.1% increase YoY)</p>
	<p>Scope 1</p> <p>Direct emissions from the combustion of fuel by the entity</p> <p>37,632 t (3.3% increase YoY)</p>
	<p>Scope 2</p> <p>Indirect emissions such as those associated with energy supplied from outside the entity</p> <p>58,849 t (1.9% decrease YoY)</p>
	<p>Scope 3</p> <p>Supply chain emissions</p> <p>2,434 t (7.7% increase YoY)</p> <p>"Category 4 (Upstream Transportation and Distribution), Category 5 (Waste Generated in Operations)</p>
Targets and actual performance	<p>Our domestic production sites (Shizuoka Plant, Ibaraki Plant, and Ishioka Center) have set targets to manage risks and opportunities identified by their production departments based on the ISO 14001 environmental management system.</p> <p>At present, the Tsumura Group as a whole has not set any medium- to long-term targets, but we are in the process of formulating the Tsumura Group Sustainability Vision 2050, which will begin in fiscal 2022. This vision is positioned next in importance to the Company's basic philosophy, and with this as a premise, the Company is also formulating the Long-Term Business Vision 2031 and a new medium-term management plan.</p>

Executive review meeting with external experts

With Mr. Ryuji Tsutsui of the Japan Noharm Association* as a facilitator, we held a review meeting for management, heads of related departments, and executives of Group companies to discuss the risks and opportunities that climate change poses to the business of the Tsumura Group. Through multiple discussions, risks, opportunities and responses were identified. The meeting also provided an opportunity for the executives to share their perceptions, and each department plans to conduct a more detailed analysis in the future.

*Japan Noharm Association: A general incorporated association aiming to achieve sustainable development of the economy, environment, and society through SDG management support and propagation activities
<https://noharm.or.jp/> (Japanese Only)



Executive review meeting

Future plans

We will continue to study the risks and opportunities of climate change based on, for example, the 2°C scenarios. In addition, we are currently formulating our Sustainability Vision 2050, Long-Term Management Vision 2031, and new medium-term management plan. Alongside these initiatives, we plan to set medium- and

long-term targets, and notified the TCFD of our support in October 2021. With regard to Scope 1 and 2, we are establishing new sites in China in conjunction with the expansion of our business there, and will be adding them to the scope of calculation. As for Scope 3, we will continue to monitor CO² emissions in all applicable categories.



As the guardian of corporate value, aiming to enhance corporate value in terms of both financial capital and nonfinancial capital on a sustainable basis

Director CFO
Muneki Handa

As CFO, I have two main roles. My first role is to be the guardian of corporate value. In order to realize business growth strategies and increase corporate value, it is essential to formulate business plans, manage their progress, and allocate resources appropriately. In particular, it is important to maximize the benefits of large-scale investments such as capital expenditures, M&A, and R&D, and I recognize that my mission is ultimately to provide returns that exceed the cost of capital. For capital expenditure and M&A, we have developed a framework for each stage of the process: pre-investment investigations, decision-making, and post-investment management. We examine consistency with our business strategy, the financial impact on consolidated performance, likelihood of recouping the investment, and the profitability of the investments based on indicators such as ROIC. As for R&D, we invest ¥6-7 billion per year. Although we are not developing new drugs, we are conducting research to demonstrate the usefulness of Kampo formulations by building evidence of their efficacy and

safety, clarifying the mechanism of action of multi-ingredient systems, and verifying their medico-economic effects.

Furthermore, we will be pursue mathematical scientific elucidation and the development of Daikenchuto in the US from a medium- to long-term perspective to raise the presence of Kampo formulations.

My second role is exercising accountability to our stakeholders. Since my appointment as CFO in fiscal 2018, I have been increasing opportunities for dialogue with investors in Japan and overseas to take them to levels that are higher than ever before. Since I came to the Company from the outside, I will fulfill my mission of providing accurate information in a timely and easy-to-understand manner to help shareholders and investors understand the corporate value of the Group, while empathizing with their questions and needs and responding to their requests.

There are five strategic issues that we need to address in order to successfully implement the third medium-term

management plan, and I would like to support this by making optimal investments in measures that will be effective in the short term.

The numerical targets for the final year of the third medium-term management plan were net sales of over ¥135 billion, operating profit of over ¥19 billion, and ROE of over 6.0%. Since the revised accounting standard for revenue recognition became effective in April 2021, the net sales target under the new standard is over ¥120 billion. The forecasts for fiscal 2021 are net sales of ¥122.5 billion, operating profit of ¥19.5 billion, and ROE of 6.4%, so we expect to achieve all our numerical targets.

This fiscal year is also the period for the formulation of the next medium-term management plan. We will steadily improve our corporate value by working on the sustainable expansion of the domestic Kampo market and building a foundation for our Chinese Operations, and will continue to do so into the next fiscal year.

In our Chinese Operations, we invested approximately ¥40 billion

over the two-year period from fiscal 2019 to fiscal 2020. Looking ahead, we plan to invest in the construction of Traditional Chinese Medicine Research Center, M&A, R&D, and human resources. Our business itself is one that utilizes the blessings of nature, and plants in particular. It is characterized by its long supply chain, which stretches from cultivation and procurement of raw-material crude drugs to manufacturing, sales, and R&D. We are thinking of upgrading our unique Kampo value chain with new technologies. This will be our most important task in the future, and I believe that these technologies will serve as a barrier to entry and a source of competitiveness. I also believe that we can provide value in a variety of ways to society through the Kampo value chain, including cultivation, procurement, manufacturing, sales, and R&D. These sustainability-related issues and initiatives are linked to business strategies based on our basic philosophy and our new Sustainability Vision 2050, and we will prioritize them and allocate resources appropriately. In order to further strengthen our

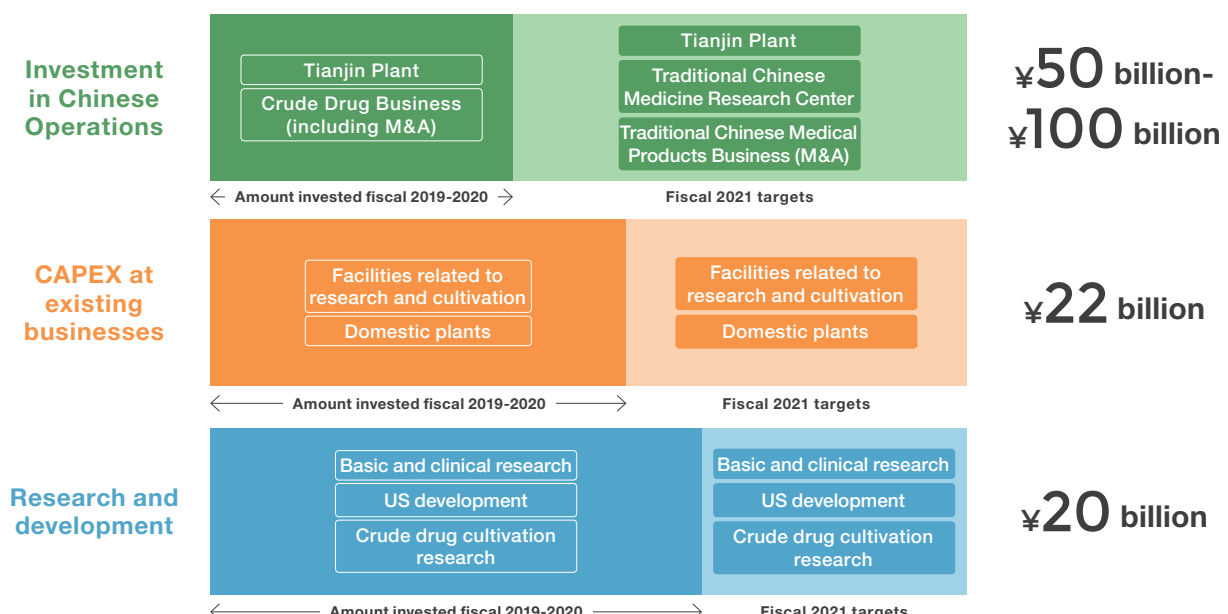
cash flow management, we will improve our CCC (cash conversion cycle) based on the balance and risk of the entire supply chain. As a result of the acquisition of Ping An Tsumura Medicine Co., Ltd. (formerly Tianjin China Medico Technology), our raw-material inventory temporarily increased, but we will be taking steps to optimize inventory levels of crude drugs throughout the Group. I am confident that the Tsumura Group will achieve sustained growth. In our domestic business, for example, there are dozens of Kampo medicines prescribed for female-specific symptoms in the women's health field, but the percentage of physicians who use more than 10 different formulations is still less than 20% of the total. But if we can communicate information that will lead to improved health among patients to more physicians, the Kampo market has considerable room for growth. As for Chinese Operations, in addition to the huge scale of the market for traditional Chinese medicines, the common philosophy of contributing to the health of China's citizens that we share with Ping An Insurance of China and platform operated by Ping An Healthcare and Technology (formerly

Good Doctor) platform of Ping An Insurance of China, the business in China will be coupled with strengths of the Group, such as our ability to procure high-quality crude drugs and our proprietary manufacturing technologies. If we can make the most of these strengths, we can expect rapid growth in our business. With regard to shareholder returns, we would like to increase our corporate value over the medium to long term by sustainably expanding the domestic market and building a foundation in the Chinese market, while providing stable dividends after taking into account cash flow conditions. We will continue to focus on IR activities and SR activities (dialogue with those responsible for exercising voting rights), as dialogue with shareholders and investors is valuable opportunity for us to learn and become more aware. We will share your opinions with the Board of Directors and use them as a reference in business operations and capital policies. We will also continue to practice sound financial and capital management to achieve sustainable growth and enhance the corporate value of the Tsumura Group.

Allocate resources that reflect the intentions of management from a medium- to long-term perspective

Third medium-term management plan (Fiscal 2019–Fiscal 2021)

Published figures from the third medium-term management plan



*CCC (cash conversion cycle): A financial indicator that is the number of days from purchase to the collection of cash

Dialogue with stakeholders

We focus on deepening mutual understanding and building long-term trust by responding sincerely to diverse expectations and requests, by proactively creating opportunities for dialogue with all our stakeholders. In fiscal 2020, we engaged in the following dialogues:



Shareholders and investors

The Tsumura Group places importance on dialogue with shareholders and investors, and strives to ensure that management strategies and financial information are easily understood through timely and appropriate information disclosure. As such, from time to time we organize one-to-one or small-group meetings between management and domestic and overseas individual investors. In fiscal 2020, we held four financial results briefings and accepted 181 individual interviews from institutional investors and analysts. In addition, we held two web seminars for individual investors. We will continue dialogue on ESG issues and our contribution to achieving the SDGs through the General Meeting of Shareholders and by agreeing to individual interviews from investors and analysts. We will also conduct tours of facilities such as the Kampo Memorial Museum, plants, and laboratories as the situation demands.



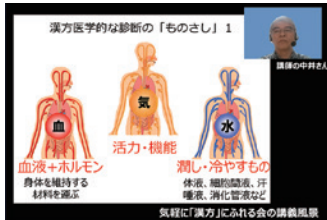
General consumers and medical personnel

Tsumura receives various inquiries from customers, which we respond to promptly via our customer consultation desk. In fiscal 2020, there were approximately 35,000 customer consultations. 55% of them were with general consumers and 40% with medical professionals (physicians, hospitals, pharmacies, and drugstores). The top consultation topics are safety in taking medicines, names and efficacy of medicines, and how to take and store medicines. Our customer consultation desk not only responds to inquiries but also actively provides information by, for example, distributing various materials that are useful for taking medicines. We also endeavor to collect various information based on laws and regulations to ensure that our customers can take their medicines safely.

Employees and their families

The Human Resources Department takes the lead in providing opportunities for diverse employees to work with satisfaction and learn independently.

Hitotsumu Knowledge Café



In December 2020, the Human Resources Department opened the Hitotsumu Knowledge Café as a place for employees across departments and age groups to interact, mutually stimulate each other, and learn in order to enable them to use the time generated by teleworking as an opportunity for self-development toward the realization of their own career visions.

The name reflects our desire to create a so-called “third place” for everyone, like a cafe, where people can casually drop by and learn and talk in a relaxed atmosphere.

The cafe is actually online (Office 365 Teams), and is open to anyone who is interested in or wants to learn about the themes covered. So far, we have held study sessions in various genres such as Kampo, crude drugs, languages (English and Chinese), money planning, contemporary meetings [gatherings for employees who joined the Company at the same time], and other industries. In addition to participating, anyone can plan and organize an event.

Off-site meeting to consider job satisfaction

Employees involved in operations from the upstream to the downstream along the Kampo value chain come together in a cross-departmental setting to discuss their sense of mission, enjoyment, and hardships in their work so as to enhance their job satisfaction.

In accordance with the action plan we produced pursuant to the Act on the Promotion of Female Participation and Career Advancement in the Workplace, we have been working on improving the environment and enhancing systems to make it easier for female employees to work. We are now moving on the next step, endeavoring to improve the job satisfaction of all employees. Off-site meetings to discuss job satisfaction are a part of this effort, and we hope that many employees will participate in these meetings so that they can become more aware of their own job satisfaction and make their workplaces and organizations more lively. Ultimately, it is our desire to create a company that is full of job satisfaction by propagating our philosophy, pride in our work, respect for our colleagues, and a strong sense of solidarity.

Business partners

Reduction environmental impact with increased citrus Unshiu peel production

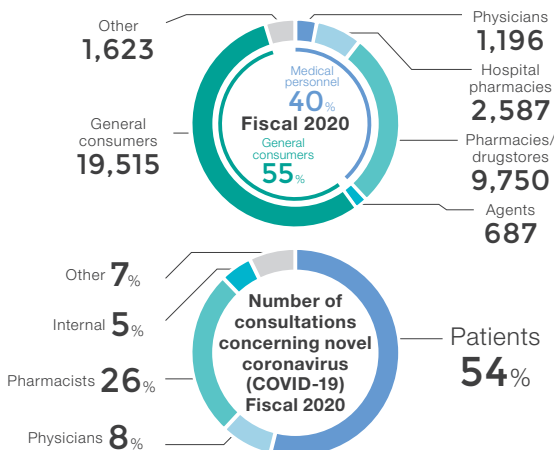
Most of the raw mandarin peel generated during the production of canned mandarin oranges, juice, and other processed products is disposed of as industrial waste, but with proper processing, it can be converted into citrus Unshiu peel, a raw material for crude drugs. With the cooperation of business partner, Sowa Orchards Co., Ltd., Tsumura spent three years developing a new production line and establishing a system to increase production of citrus Unshiu peel with labor-saving and automation. In fiscal 2020, we were able to use more than 200 tons of raw mandarin peel, which had not been effectively used until now, as a raw material for crude drugs. As a result, the domestic procurement rate of citrus Unshiu peel has dramatically improved.



Sowa Orchards in Arita City, Wakayama Prefecture

Raw mandarin peel generated during the manufacture of processed mandarin products

Breakdown of consultations based on type of customer (Fiscal 2020)



Long-term business vision

Under the long-term management vision of "Aiming to be a value creation company that contributes to people's health through its Kampo business," we aim to realize the three Tsumuras: the "Kampo" Company, the "People" Company, and the "Global Niche" Company, Tsumura.

The "Kampo" Company

We will contribute to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan.

The "People" Company

Kampo medicine is a pioneering field with no precedent to build on worldwide. Therefore, we shall evolve into a corporate group comprising people with professional skills who can independently pave the way forward for our Kampo business and who are trusted by all.

The "Global Niche" Company, Tsumura

Leveraging the technology and know-how of the Tsumura Group to their fullest extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.

First medium-term management plan

2012-2015

HOP

Strengthening growth foundations to achieve greater value creation

Fiscal 2015 (year to March 2016)

Numerical targets

Net sales	¥123billion
Operating profit	¥29.5billion
ROE	14%

Actual

Net sales	¥112.6billion
Operating profit	¥19.8billion
ROE	8.3%

Looking back on the seven years of the first and second

As the "Kampo" Company, our aim has been to contribute to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan. In 2016, we determined three priority areas (geriatric health, cancer (supportive care), and women's health) for key measures to expand the Kampo market, and have strengthened our activities to provide information in line with the diversifying needs of medical personnel, such as for basic and clinical evidence of the efficacy of Kampo formulations and information about the prescription of Kampo formulations. In addition, we have been promoting activities to enhance consistent education in Kampo medicine for undergraduates (medical students), recent graduates (trainee physicians), and graduates (physicians) by supporting the establishment of on-campus Kampo study groups at university medical departments and medical colleges, supporting the establishment of outpatient Kampo clinics, and conducting Kampo seminars. As a result, the number of prescriptions written for the 129

Second medium-term management plan

2016-2018

Third medium-term management plan

2019-2021

JUMP

– Next Stage –

STEP

Creating new value through innovations in Kampo

Fiscal 2018 (year to March 2019)

Numerical targets

Actual

Net sales ¥120billion
Operating profit ¥14billion
ROE 6%

Net sales ¥120.9billion
Operating profit ¥18.5billion
ROE 7.4%

Domestic Operations

Establishment of the concept of Kampo medicine

Having one in every two physicians writing over 10 Kampo prescriptions

Chinese Operations

Contribution to the health of China's citizens

Become a trusted traditional Chinese medicine company in China

plans

prescription Kampo formulations has grown by 28.1% in monetary terms over the past seven years, despite the impact of four rounds of NHI price revisions. On a volume basis, the number of prescriptions increased by 42.7%, and the number of medical guidelines that include Kampo formulations increased from 71 to 132.

As the "People" Company, in 2017 we began holding off-site meetings, with the aim of building a structure for developing people who will continuously support management based on our philosophy. And in January 2019, we established the Tsumura Academy to train management personnel and foster our corporate culture. In addition, to realize the 2021 Vision, we have established a new education system and have been working to transform employee attitudes based on our human resources development policy of fostering a corporate culture that develops people capable of growing on their own. We have also invested in human resources by implementing educational programs for globalization, enhancing our language support system, and starting to hire and train executive candidates for our Chinese Operations. As the "Global Niche" Company, Tsumura, we have

stepped up our efforts to establish new businesses in China. In 2016, we concluded a business alliance agreement with Ping An Tsumura Pharmaceuticals Co., Ltd. (formerly Tianjin China Medico Technology Co., Ltd.), with which we have a close relationship in the trading of raw materials for crude drugs, to strengthen our crude-drug procurement. In 2017, we entered into a capital and business alliance with Ping An Insurance (Group) of China, which has a customer base of approximately 200 million people, and the following year, we established a joint venture company, Ping An Tsumura Inc., for the purpose of developing businesses related to traditional Chinese medicines and health foods, analytical research related mainly to Chinese traditional medicines, and strengthening our crude-drug procurement structure. By investing aggressively in growth, we have built a business foundation that contributes to the health of the Chinese people as well as the Japanese people by promoting the stable securing of raw-material crude drugs and the development of a system for the stable supply of high-quality products.

Progress with the Third Medium-Term Management Plan

2019-2021

Fiscal 2021 is the final year of our long-term business vision (Vision for 2021), which we announced in 2012, as well as for the third medium-term management plan, which we unveiled on May 9, 2019. To realize the vision, “Creating New Value through Innovations in Kampo--Next Stage--,” we set five strategic challenges, with the domestic business strategy being “sustained expansion of the Kampo market” and the Chinese business strategy being “building a foundation for the Chinese business.” The period of the plan is positioned as the stage for investment in growth to jumpstart our domestic and Chinese businesses in 2022 and beyond, and we will work on the five strategic challenges to achieve sustainable growth and enhance our corporate value.

Numerical targets in the Third Medium-Term Management Plan

As a result of the application of the revised Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), from fiscal 2021 we have changed the numerical targets in the third medium-

term management plan as follows:

For fiscal 2021, we are forecasting a level of performance that will enable us to achieve these numerical targets.

Numerical targets

	2018	2019	2020	2021
Revised standard				
Net sales	—	—	¥116.4 billion	Over ¥120 billion
Operating profit	—	—	¥19.3 billion	Over ¥19 billion
ROE	—	—	7.2%	Over 6%
Old standard				
Net sales	¥120.9 billion	¥123.2 billion	¥130.8 billion	Over ¥135 billion
Operating profit	¥18.5 billion	¥18.8 billion	19.3 billion	Over ¥19 billion
ROE	7.4%	6.8%	7.2%	Over 6%

Background to the targets
Social issues

Super-aging society

Increase in healthcare spending

Changes in disease structures

Increase in cases of dementia and disorders unique to women

Declines of primary industries

Climate change

Depletion of water resources

Strategic pillars

Domestic Operations

Chinese Operations

Five strategic challenges

01

Ongoing expansion of Kampo market and establishment of presence therein **▶ P.33 ▶**

02

Investing in growth and building business foundations in China **▶ P.37 ▶**

03

Improving productivity using new technologies (AI, Automation, and RPA) **▶ P.41 ▶**

04

Fostering a corporate culture through philosophy-based management and developing diverse human resources **▶ P.43 ▶**

05

Promoting the SDGs through the Kampo value chain **▶ P.47 ▶**

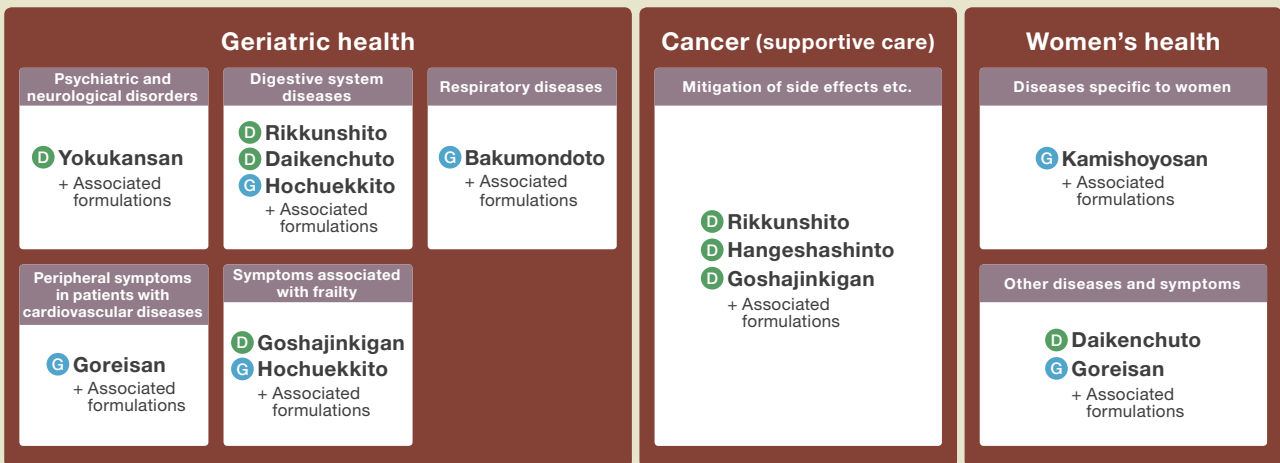
Strategic Challenges
01

Ongoing expansion of Kampo market and establishment of presence therein

We aim to contribute to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan. To create this medical environment, we aim to realize a situation in which one in two physicians is able to prescribe at least 10 or more Kampo formulations. As of the end of fiscal 2020, there were around 330,000 clinical physicians in Japan. Of this, our survey estimates there are around 50,000 physicians that distinguish between the use of 10 or more Kampo formulations. Around 800 MRs are conducting activities to provide information to physicians in this manner and to expand their circles.

Three important domains

D Drug-fostering program formulations
G "Growing" formulations



Drug-fostering program formulations and "Growing" formulations

Drug-fostering program formulations

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

"Growing" formulations

The Company aims to have these formulations listed in medical treatment guidelines as strategic formulations following the five "drug fostering" program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.

Activities aimed at development of drug-fostering program formulations, "Growing" formulations, and related formulations in three important domains

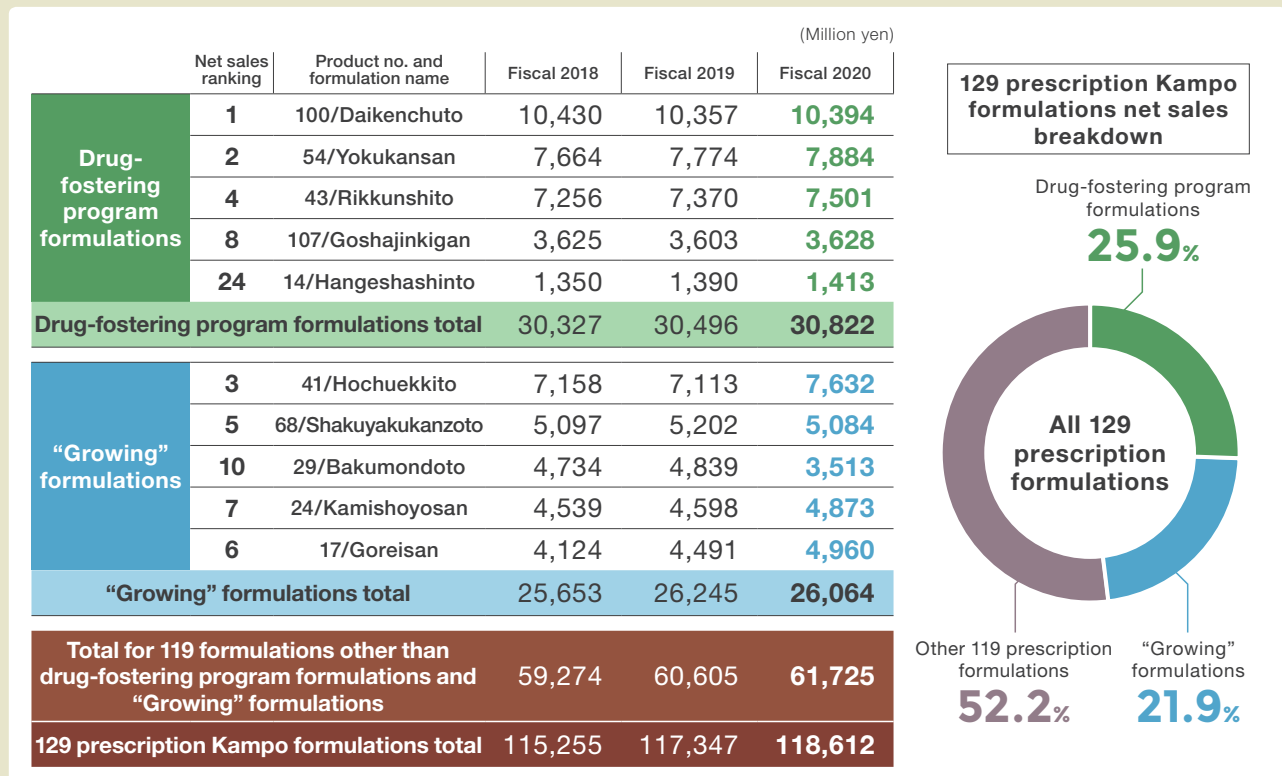
To expand the Kampo market, we have positioned geriatric health, cancer (supportive care), and women's health as our three important domains, and are concentrating on them. With a focus on drug-fostering program formulations and "Growing" formulations, we provide basic and clinical evidence of the efficacy of Kampo formulations related to these areas, information on medical treatment guidelines with write-ups on Kampo formulations, and information on the use of different Kampo formulations. As such, we are continuously striving to encourage relevant formulations to be prescribed. In the three important domains, we are addressing medical needs for diseases for which the level of satisfaction with

treatment is currently low. Specifically, we are aiming to expand sales of formulations related to BPSD, frailty, cancer supportive care, and women's life stages. From fiscal 2020, we have added peripheral symptoms in patients with cardiovascular diseases and symptoms associated with frailty as priority areas for which there is a great market need in the domain of geriatric health, and we will also work to produce basic and clinical evidence that will contribute to the prognostic management of heart failure in the elderly, improvement of QOL with respect to patients' general condition, and extension of healthy life expectancy.

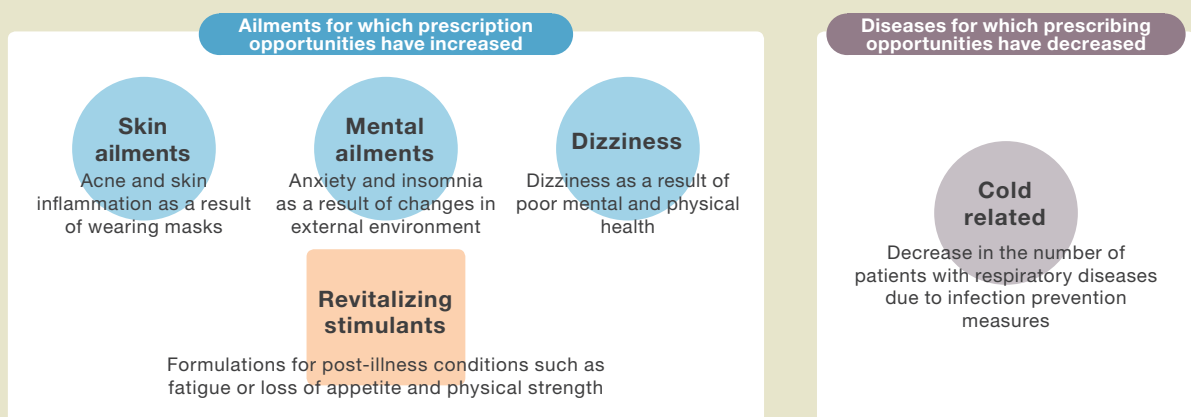
Net sales of drug-fostering program formulations and “Growing” formulations

Despite the impact of the NHI price revisions of April 2020 and the curtailment of medical consultations due to COVID-19, sales of the 129 prescription Kampo formulations increased by 1.1% in fiscal 2020 over fiscal 2019. Sales of the five drug-fostering program formulations increased by 1.1% compared to fiscal 2019, while among

the five “Growing” formulations, sales of Hochuekkito, Kamishoyosan, and Goreisan, were brisk. In addition, sales of cold-related formulations decreased due to the practice of wearing masks and other infection prevention measures, and sales of Bakumondoto dropped by 27.4% compared to fiscal 2019.



COVID-19 symptoms and prescription opportunities



Prescribing opportunities for skin ailments and mental disorders that are associated with COVID-19 as they reflect changes in the external environment and the use of masks, continued to increase. Prescriptions for addressing post-illness conditions, such as fatigue or loss

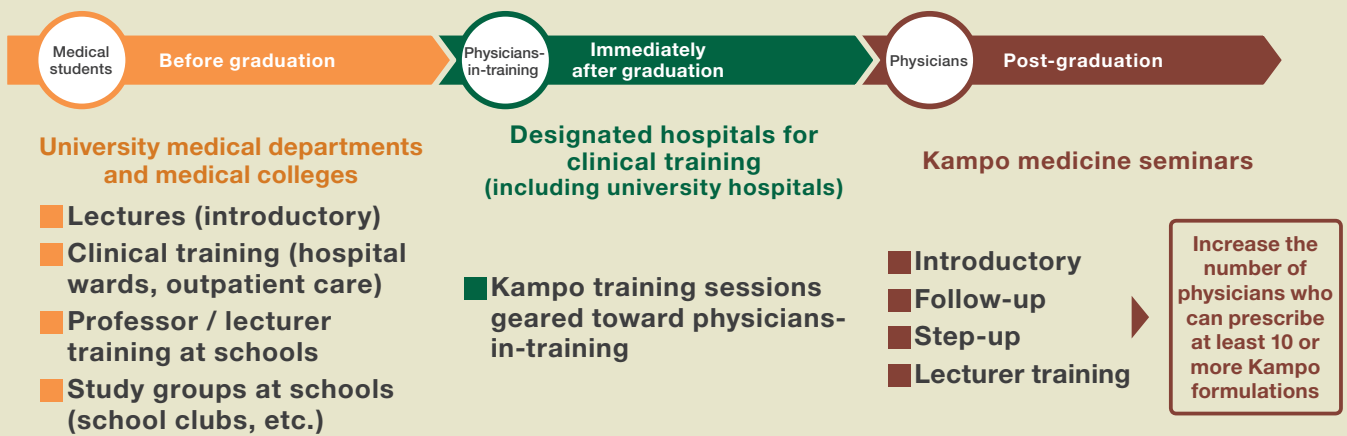
of appetite and physical strength, also continued to grow. There was also an increase in prescriptions for dizziness caused by physical and mental disorders. On the other hand, prescriptions related to colds are decreasing due to the promotion of infection prevention measures.

Support for Kampo education

At medical colleges and university medical departments, Tsumura provides support with Kampo medical education, assists with Kampo training sessions for physicians-in-training working at clinical training hospitals, runs various seminars for medical practitioners, and conducts promotional activities in a systematic fashion. We recognize that providing support for consistent Kampo medicine education, beginning before graduation and continuing immediately after graduation and post-graduation, is important, and that

is why we have pursued such activities.

Today, education in Kampo medicine is included in the curriculum of all university medical departments and medical colleges in Japan, and most universities have started to improve their hospital environment by, for example, organizing compulsory lectures and establishing outpatient Kampo clinics. Their initiatives are centered on departments that recognize the importance of Kampo medicine.



Enhancement, entrenchment, and evolution of Kampo education

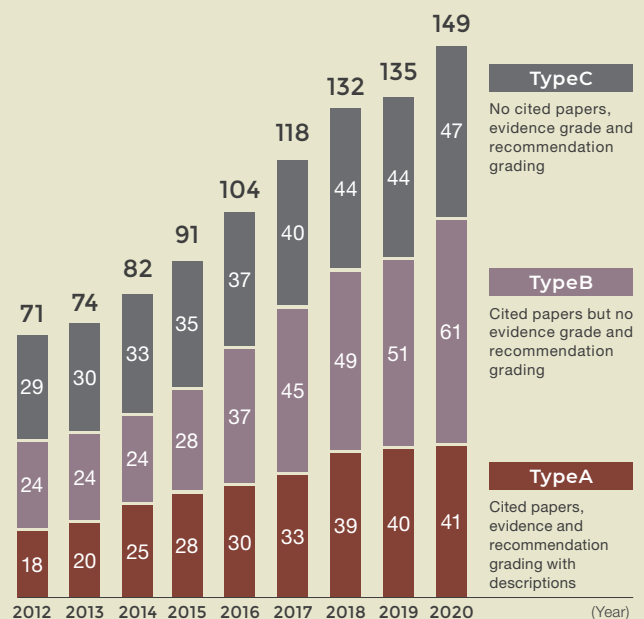
Medical treatment guidelines and Kampo medicine

With regard to prescription Kampo formulations, in recent years there has been a rapid increase in the number of write-ups in medical treatment guidelines in tandem with the further elucidation of the efficacy and mechanism of action of prescription Kampo formulations.

According to research by The Japan Society for Oriental Medicine and Japan Kampo Medicines Manufacturers Association (JKMA), the number of write-ups on prescription Kampo formulations has doubled, from 71 write-ups in 2012 to 149 in 2020. In addition, 112 formulations were mentioned in the medical treatment guidelines in 2020. At present, there are 148 prescription Kampo formulations that have been approved in Japan. Accordingly, around 73% of these are covered in the medical treatment guidelines.

One of our drug-fostering program formulations, Rikkunshito, was recommended in the Guidelines for the Treatment of Functional Gastrointestinal Disorders 2021 - Functional Dyspepsia (FD), Revised Second Edition as being useful as a treatment with an evidence level of A. A gradual expansion in the opportunity for use on the medical frontlines going forward is anticipated as progress is made in the scientific investigation of Kampo medicines.

Write-ups on Kampo medicines in medical treatment guidelines



01 Strategic Challenges
Ongoing expansion of Kampo market and establishment of presence therein

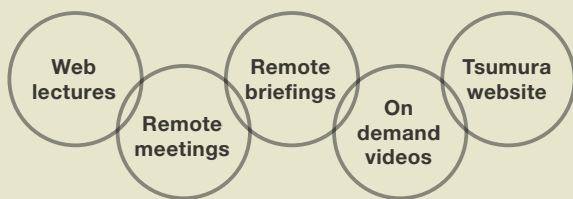
Activities to provide information in new ways

Expansion in information provision via e-promotion

In response to the impact of COVID-19, we are working to expand our information provision activities through the use of e-promotion to accompany our conventional information provision activities, which have been based around personal visits.

Kampo medicines allow us to provide explanations to each hospital department simultaneously. Taking advantage of this, we are holding briefing sessions in real time for medical institutions across the country,

thereby expanding opportunities to provide information. In addition, we extensively revamped our website for medical professionals, with the new version going live on April 1, 2021. We have established an environment in which medical professionals can learn about Kampo at any time. Specifically, physicians can study Kampo medicine throughout their lives, learn about Kampo through videos, and watch live streams of web lectures.



TSUMURA MEDICAL SITE

Learn about Kampo at any time 24 hours a day: TSUMURA MEDICAL SITE

- Explanations of how to use different Kampo medicines
- Easy-to-understand explanations in the context of Western medicine
- Web lectures can also be accessed
- A wealth of video content

Web lectures that meet local healthcare needs

As area initiatives, we continue to provide detailed information that takes into account attributes of the region and characteristics of the facilities there. In addition to the three important domains of geriatric health, cancer (supportive care), and women's health, there are needs for Kampo in many other domains,

which we are responding to through area initiatives. By constantly producing new lecturers from each region through the area web lectures, the foundation for the proliferation of Kampo will expand, leading to the sustained expansion of the Kampo market.

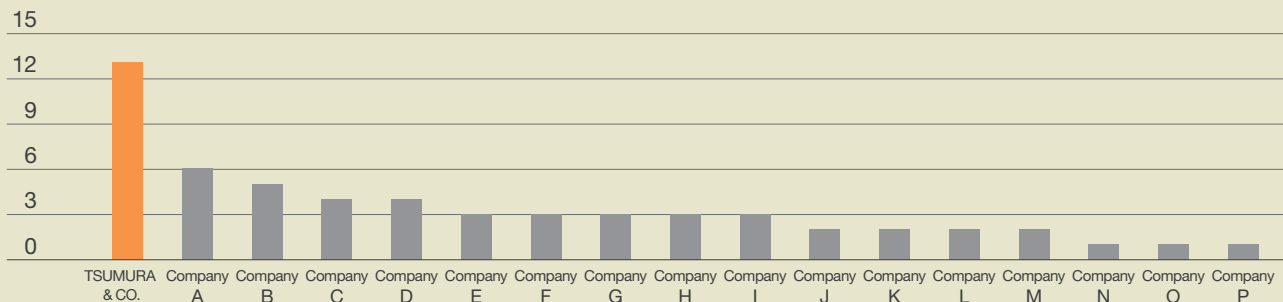
Number of products with a track record for delivery to more than 50,000 medical institutions and pharmacies

The graph shows the results of an external survey on the number of products that have a track record for delivery to more than 50,000 medical institutions and pharmacies, from among the 20 pharmaceutical companies (excluding generic manufacturers) with top ranking sales in April 2020 to March 2021. Even

compared to major pharmaceutical companies, the results indicated Tsumura's 13 Kampo formulations were the most popular. Demand for Kampo formulations exists in various clinical departments. This can be said to indicate that Kampo is useful at many medical institutions and pharmacies.

Total number of products: Delivered to over 50,000 medical institutions, etc.

Track record of delivery to a wide range of facilities



April 2020-March 2021 20 pharmaceutical companies (excluding generic manufacturers) with the top ranking sales

■ HP+GP+PH=Total: Number of products delivered to over 50,000 medical institutions, etc.

Source : Number of hospitals= IQVIA JCC...Limited to IQVIA JPM 20 sales promotion companies with top sales (excluding generic manufacturers).
 Extracted data on the number of IQVIA hospitals by sales promotion company and by product. Total for HP, GP and PH

Strategic Challenges
02

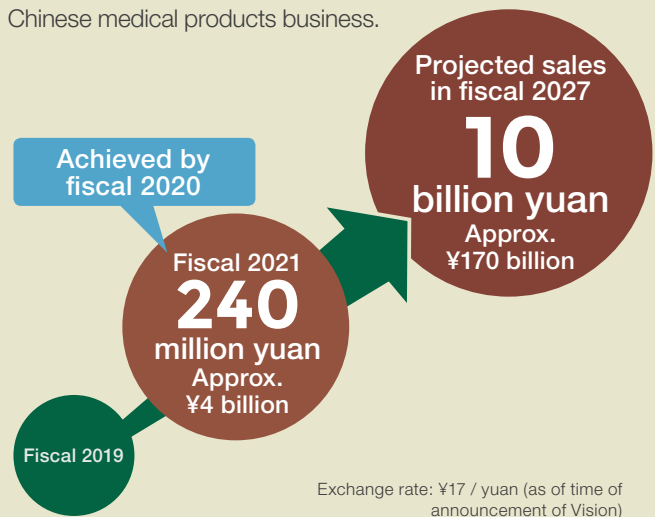
Investing in growth and building business foundations in China

As the “Global Niche” Company, Tsumura, we are developing our business in China with the aim of contributing to the health of the Chinese people and ensuring the stable procurement and supply of raw-material crude drugs. Our goal is to grow our business to a level where overseas sales account for more than 50% of the total sales of the Tsumura Group.

Medium-term management plan for Chinese Operations

We launched our Chinese Operations in earnest in fiscal 2017 and now are working to build a foundation for them, aiming for sales of approximately ¥170 billion by 2027. The total market for traditional Chinese medicines, including both traditional Chinese medical products and crude drugs, is worth approximately ¥10.2 trillion as of fiscal 2019, of which traditional Chinese medical products account for approximately ¥7.2 trillion and crude drug pieces (chopped crude drugs) for approximately 3 trillion yen. In 2027, the projected sales for the crude-drug platform include approximately ¥51 billion from the sales of raw crude drugs, crude drug pieces (chopped crude drugs), and health food products such as Yakushokudogen products, while projected sales for the formulation platform are approximately ¥119 billion from the sale of traditional Chinese medical products and classical complex formulations of Chinese medicines. The sales target of approximately ¥4

billion for fiscal 2021 was achieved ahead of schedule in fiscal 2020. In addition, we are investing ¥50 to 100 billion to build a foundation for the full-scale launch of a traditional Chinese medical products business.



Establishment of business foundations

Given rising demand among citizens in China for high-quality Kampo formulations, we are putting together a structure based on the crude-drug platform, the formulation platform, and the Traditional Chinese Medicine Research Center by leveraging the Group’s know-how and alliances with local partners, including Ping An Insurance (Group) Company of China, as strengths. To achieve the objectives and vision for Chinese operations, namely to ensure the stable procurement and supply of raw-material crude drugs, we are reinforcing our

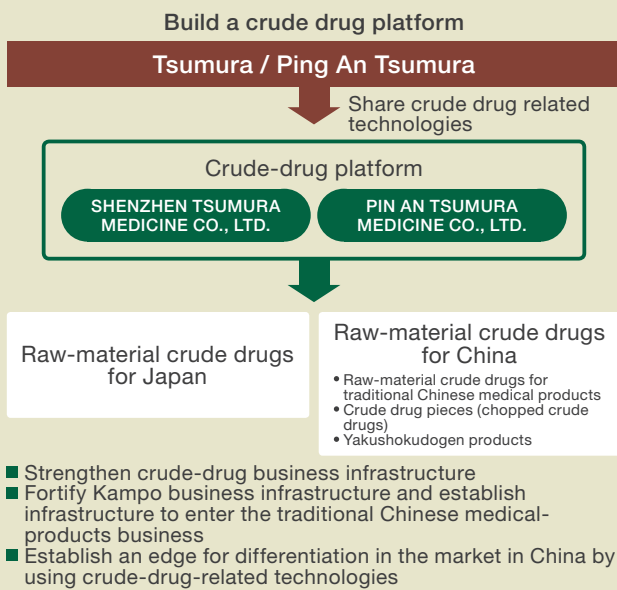
structure for the stable procurement of high-quality crude drugs via the crude-drug platform. And to contribute to the health of China’s citizens, we plan to build a business foundation centered on traditional Chinese medical products via the formulation platform. The Traditional Chinese Medicine Research Center will be responsible for building evidence for quality assurance from raw-material crude drugs to finished products, new product development and launch, and post-marketing research.

<p>Crude-drug platform</p> <p>Stable production of high-quality raw-material crude drugs Production of crude drugs for China and for Japan</p> <p>Projected sales (2027): 3 billion yuan (approx. ¥51 billion)</p>	<p>Formulation platform</p> <p>Manufacturing and sale of traditional Chinese medicines</p> <p>Projected sales (2027): 7 billion yuan (approx. ¥119 billion)</p>
<p>Traditional Chinese Medicine Research Center</p> <p>Quality assurance, evidence building, new product development and launch, post-marketing research</p>	

Future prospects for the crude-drug platform business

SHENZHEN TSUMURA MEDICINE CO., LTD. and PIN AN TSUMURA MEDICINE CO., LTD. are responsible for the cultivation, procurement, sorting, processing, and storage of raw-material crude drugs throughout China, as well as the sale of crude drug pieces (chopped crude drugs) and health food products such as Yakushokudogen. In addition to reinforcing the stable supply of raw-material crude drugs for the Japanese market, where demand

is expected to increase, we will pursue the expansion of Chinese Operations by combining the knowledge and expertise of SHENZHEN TSUMURA MEDICINE CO., LTD. and PIN AN TSUMURA MEDICINE CO., LTD. And through Ping An Healthcare and Technology (formerly Ping An Good Doctor), we offer the value-added service of processing crude drug pieces (chopped crude drugs) into fluid extracts, decoctions, granules, and other products for patients.



Services involving crude drug pieces

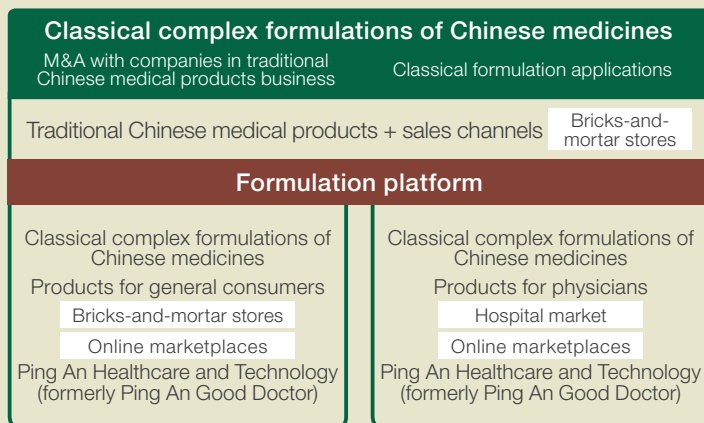
Service involving the processing crude drug pieces into fluid extracts, decoctions, granules, and other products, and then supplying them to customers (sale in online marketplaces)



Future prospects for the crude-drug platform business

With the formulation platform, in addition to the function of manufacturing powdered extracts for the Japanese market, we will also build a manufacturing function for traditional Chinese medical products for the Chinese market. In addition, we plan to take on the product sales functions of M&A partners through M&A deals. Furthermore, TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. (currently TIANJIN

TSUMURA PHARMACEUTICALS CO., LTD), which was established in March 2018, is engaged in the manufacture of Kampo powdered extracts, an intermediate for Kampo formulations for the Japanese market. In addition, the Tianjin Plant is scheduled to start operations in May 2022, and we are considering entering the business of manufacturing and selling traditional Chinese medical products for the Chinese domestic market in the future.



TIANJIN TSUMURA PHARMACEUTICALS CO., LTD



Contributing to the health of people around the world through crude drugs and traditional Chinese medicine

Co-COO (General Representative for China)
Koin Toda



Gang Li, CEO, PIN AN TSUMURA MEDICINE CO., LTD.
(right in photograph)

Q What is your role as the general representative for China.

I believe that my role is to realize a stable supply of raw-material crude drugs, contribute to the health of the China's citizens, and enhance corporate value in accordance with our basic philosophy, vision, and medium- and long-term plans. Over the past 40 years, through business and exchanges in the fields of crude drugs and traditional Chinese medicines, we have built a relationship of trust with the Chinese government and industry, and have developed personal networks. At the root of this is our strong desire to contribute to the health of people around the world through crude drugs and traditional Chinese medicines. In the future, I would like to further realize this desire by creating strategies and business plans from a larger perspective.

Q What do you need to do to achieve your sales projection of 10 billion yuan (about ¥170 billion) by 2027, and what are your competitive advantages in the market?

With the formulation platform business, which will account for 70% of the 10 billion yuan, our top priority is to enter the market for traditional Chinese medical products by concluding M&A deals with manufacturers of such products and obtaining products to sell and sales channels through which to sell them. We are currently negotiating with a number of parties, with a particular focus on entering the market for classical prescription formulations, which are medicines that have been formulated in granule, pills or other forms based on formulas derived from famous Chinese medical books from long ago. Tsumura's Kampo formulations also follow classical prescriptions, and we believe that our greatest strength and competitive advantage lies in our ability to utilize know-how in manufacturing technology, quality control, and analytics, as well as basic and clinical evidence, which the Tsumura Group has cultivated over many years in the field of Kampo formulations. By adding new value to the wonderful classical formulations of Chinese medical tradition, we will develop a Ping An Tsumura brand backed by efficacy, safety, and homogeneity, and provide products that contribute to the health of China's citizens. The traditional Chinese-medicine market is worth 652 billion yuan (about ¥10.2 trillion) (Fiscal 2019), so even if we achieve 10 billion yuan, our market share will be only about 1.7%. But first of all, we want to value this 1.7% level of trust above all else. The larger the market

02 Strategic Challenges
Investing in growth and building business foundations in China

size, the more rapidly the situation changes, so we believe it is important to be sensitive to such changes and respond to them in an agile manner.

Q What effects is the construction of the crude-drug platform going to have?

Since 2020, PIN AN TSUMURA MEDICINE CO., LTD. has been part of the Tsumura Group, and together with SHENZHEN TSUMURA MEDICINE CO., LTD, the functions of the crude-drug platform are now in place. As a result, the series of processes from cultivation to processing of crude drugs comply with the Tsumura GACP, and the level of quality has been improved. In addition, the platform has led to the strengthening of the system for the stable supply of raw-material crude drugs to Japan. While quality is improving, the prices of crude drugs are on the rise, and we recognize this as a major issue. At present, we are growing sales mainly of raw-material crude drugs, but in the future we will increase the ratio of sales of crude drug pieces etc., and provide high value-added products that meet the needs of the Chinese people.

Q What sorts of initiatives are you currently taking with the Ping An Insurance Group (below, “Ping An Insurance”)?

Ping An Insurance is a huge global company ranked 16th in the Fortune Global 500 list with sales of 1,321.4 billion yuan (approx. ¥21 trillion) and net income of 159.3 billion yuan

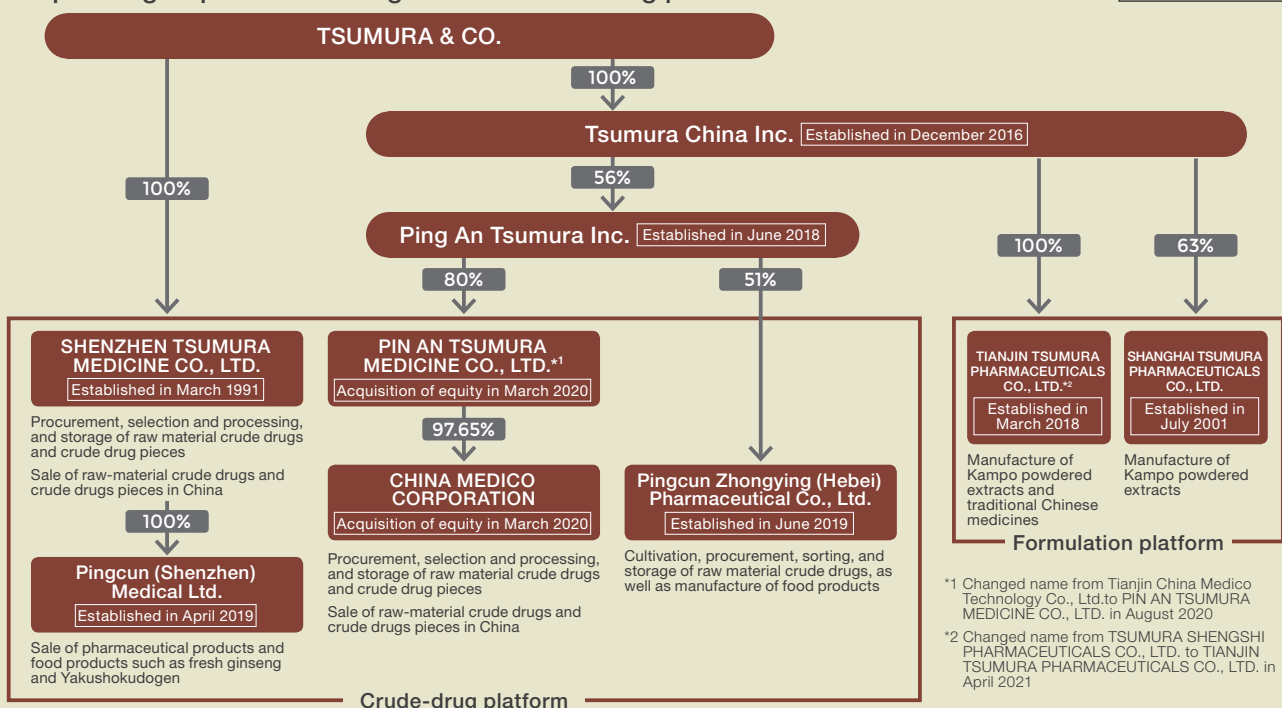
(approx. ¥2.6 trillion) in fiscal 2020. The company is currently focusing not only on finance but also on AI technology and healthcare, and is the most important business partner for the Tsumura Group to build sales in China. Ping An Healthcare and Technology (formerly known as Ping An Doctor), which is operated by Ping An Insurance, is a massive channel with approximately 400 million registered users, 38,000 affiliated physicians, 2,000 in-house online physicians, and 900,000 daily users (as of the end of June 2021). We will be selling our products through this channel. We will continue to strengthen our relationship as a business partner with Ping An Insurance Chairman and CEO Ma Mingzhe, Ping An Life CEO Yang Zheng, Ping An Healthcare and Technology Chairman and CEO Fang Weihao, and others.

Q What are your thoughts on the future prospects for Chinese Operations?

Adhering to the belief of our founder, Jusha Tsumura, that "quality medicine is guaranteed to sell," we are developing new products for diseases that are difficult to treat in China. While leveraging the strength and experience of the Group's supply chain, we aim to work together with traditional Chinese-medicine manufacturers in China to develop the entire traditional Chinese-medicine industry and contribute to the health of the China's citizens. We are committed to benefitting the health of not only the Chinese people but rather all the people of the world through our crude drugs and traditional Chinese medicines, and to making Tsumura a world-class corporate group.

Corporate group relational diagram and crude-drug platform

As of April 30, 2021



Strategic Challenges
03

Improving productivity using new technologies (AI, Automation, and RPA)

Tsumura is using artificial intelligence (AI), automation, robotic process automation (RPA), and other new technologies to improve efficiency in cultivation, crude drug processing, production, sales activities, and routine work in order to boost productivity in response to increased Kampo product demand and to cut costs and to ensure continuous stable supply via laborsaving measures.

We will also continue to implement supply chain management (SCM) reforms, which we have been doing in stages since the first medium-term management plan, and aim to improve production efficiency through optimal inventory allocation by raising the achievable level of overall optimization from demand forecasting to crude drug arrangement plans.

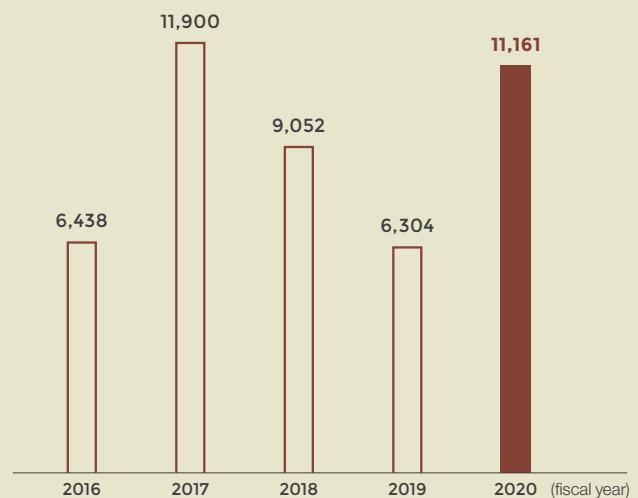
Measures to improve productivity

Cultivation	Processing of crude drugs	Production	Sales Activities / Routine Work
<ul style="list-style-type: none"> Utilization of cultivation management systems (data collection / analysis) to improve yields and ensure stable supplies of crude drugs 	<ul style="list-style-type: none"> Automated sorting of crude drugs through AI image recognition 	<ul style="list-style-type: none"> Laborsaving measures at factories through the use of robots in production processes Equipment failure prevention with AI-based abnormality detection and failure prevention system 	<ul style="list-style-type: none"> Analysis of sales activities with AI Automation of routine work through RPA

Productivity improvement via capital expenditures

Under the medium-term management plan, we are working on production system reforms that will enable us to respond to the growth in sales of prescription Kampo formulations based on demand forecasts, and the operations began in the third SD building at the Ibaraki Plant and the administrative QC building at the Shizuoka Plant started in June and July 2020, respectively. In January 2022, we plan to complete construction of the second crude-drug QC building at the Ishioka Center, which will increase our storage and testing capacity. Furthermore, in May, the Tianjin Plant of TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. (currently Tianjin Tsumura Pharmaceuticals Co., Ltd.) is set to go into operation. At this plant, we will be deploying new production technologies, such as robotics, to automate the manufacturing process and improve labor productivity. In order to maintain and strengthen the structure for ensuring the stable supply of our products, we plan to systematically and gradually increase the number of production lines and make capital investments in automation and labor saving.

Capital expenditures (million yen)



Development of an AI-driven, automatic crude-drug sorting system at the Ishioka Center

Currently, good and bad raw-material crude drugs are separated by humans relying on their own eyes, but with laborsaving the objective, we are now developing a

device that can identify and eliminate defective products through image recognition by having AI learn the pattern images of good and bad products in advance.

Deployment of robot technology in every production process

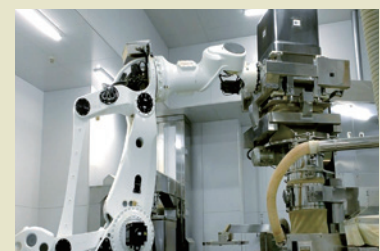
The Ibaraki Plant's third SD building, which started operations in June 2020, is a state-of-the-art powdered extract manufacturing facility that complies with the GMP for pharmaceuticals, a global standard. The building handles everything from the cutting and weighing of crude drugs to the drying of extract liquid. We endeavored to improve both labor productivity and the work environment by introducing robotic technologies into the crude drug chopping and weighing process and in the process for injecting crude drugs into the extraction

device, for which automation was said to be difficult due to the irregular form of crude drugs. Through this we achieved automation and saved on labor.

We realized the deployment of a series of robotic technologies covering all the manufacturing processes for Kampo formulations with the new construction of the Shizuoka Plant's granulation and packaging building and the Ibaraki Plant's third SD building, which started operations in 2016.

Introduction of an AI system in the mixing process at the Ibaraki Plant

In the mixing process, the constituent crude drugs of the Kampo formulations to be manufactured are chopped up, weighed in the quantities specified for each formula, and then blended. Since crude drugs are natural substances, their ingredients vary from lot to lot, and operators have had to be present at all times to perform the above tasks. However, with the introduction of the AI system, it is now possible to mix the ingredients automatically.



Robotization initiatives and environmental considerations at the Tianjin Plant

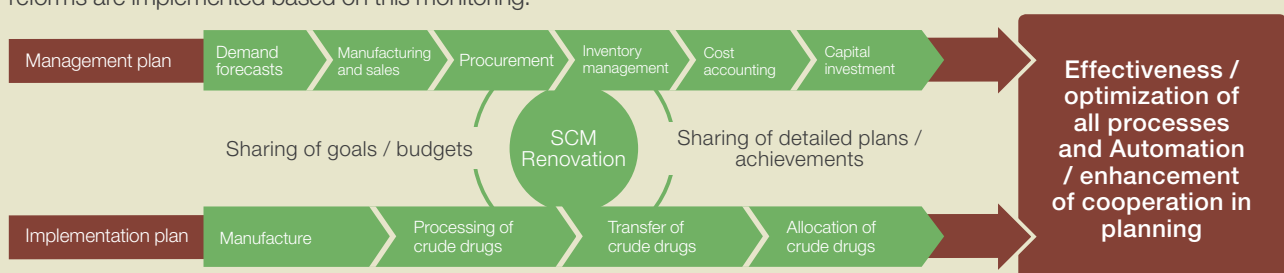
The Tianjin Plant, which is scheduled to start operation in May 2022, will manufacture Kampo powdered extracts which are intermediates for Kampo formulations for the Japanese market. We are also thinking about entering the business of manufacturing and selling traditional Chinese medical products for the Chinese market. In addition to the introduction of mixing robots and unmanned transport robots (both made in China) to save manpower and labor, the plant will feature manufacturing equipment that delivers the same quality as the current process for producing powdered extracts, such as centralized management of

plant equipment by a central control computer. And for the first time, we are introducing an outside air dew-point control system for circulatory air conditioning. This is a system in which exhaust air from the manufacturing rooms is mixed with the outside air as return air instead of being dumped into the outside air, thereby suppressing overcooling and reheating of the air. Environmental measures across of the entire plant, including this air conditioning system, are expected to result in an annual reduction of 1,479 tons of CO₂ (compared to the conventional system).

Total optimization of the Group's supply chain

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

Since the first medium-term management plan, we have continued to pursue supply chain management (SCM) reform for realizing further efficiency and optimization. Going forward, we will continue to aim to improve production efficiency by making all processes more efficient and optimizing them, automating planning and strengthening collaboration to achieve concrete results, and optimizing inventory volume and allocation.

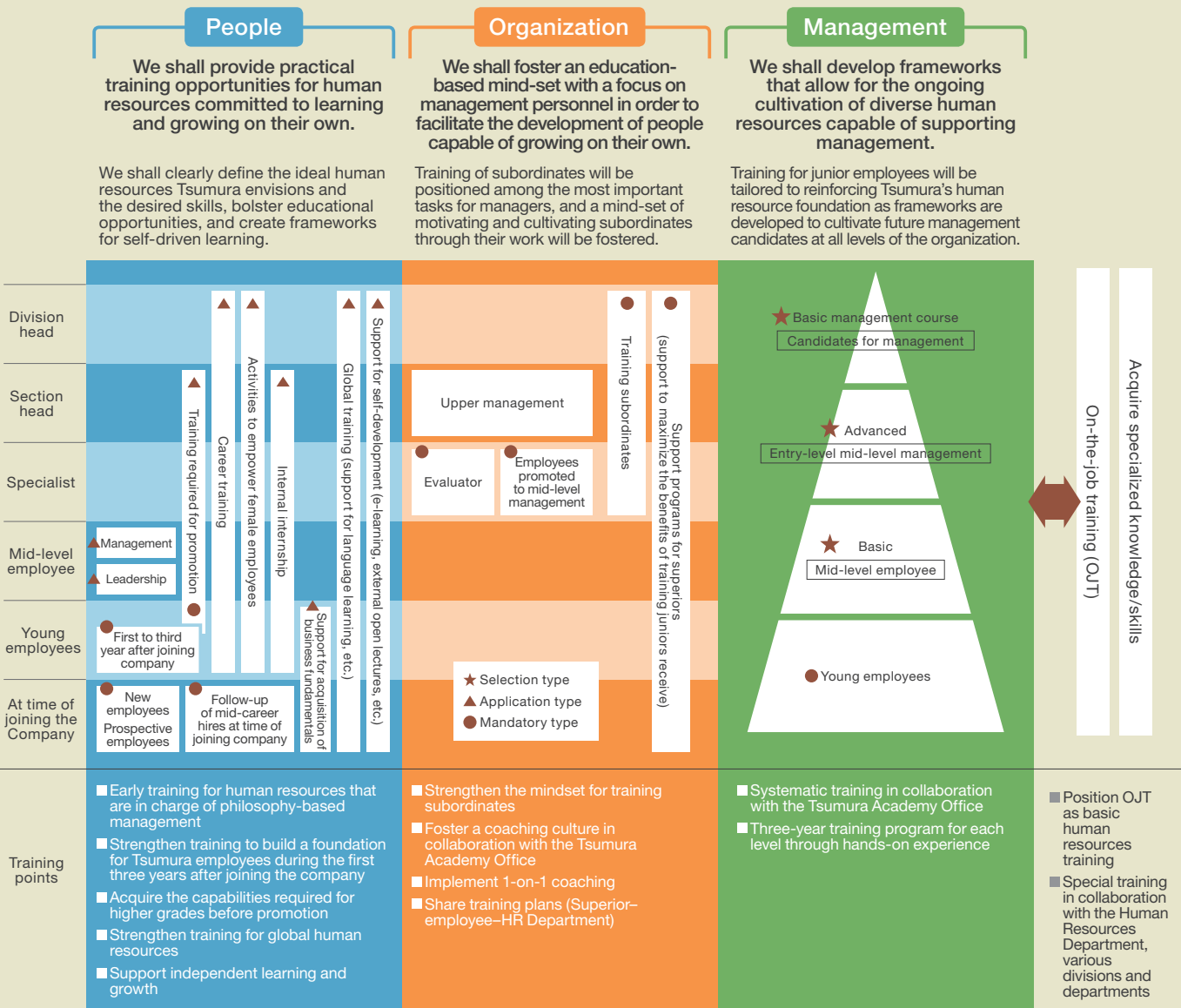


Strategic Challenges
04

Fostering a corporate culture through philosophy-based management and developing diverse human resources

Tsumura Human Resource Development Policy

The Tsumura Group has declared a human resources development policy of fostering a corporate culture that develops people capable of growing on their own, provides educational opportunities for each level from the perspectives of [people], [organization] and [management] and is supporting the independent career development of employees.

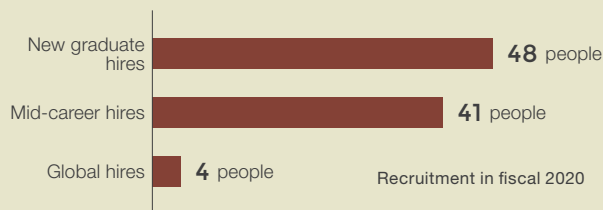


Introduction of new personnel system

We introduced a new personnel system in April 2021. The objectives of the new system are to respond to the external and internal environment so as to realize our vision based on our corporate philosophy, to create value and results by clarifying the roles of each employee, and to increase productivity through diverse work styles.

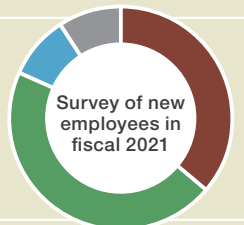
Under the new system, we will develop next-generation management candidates and management personnel as independent and self-reliant human resources based on our human resource development policy of fostering a corporate culture that develops people capable of growing on their own.

Recruitment of human resources

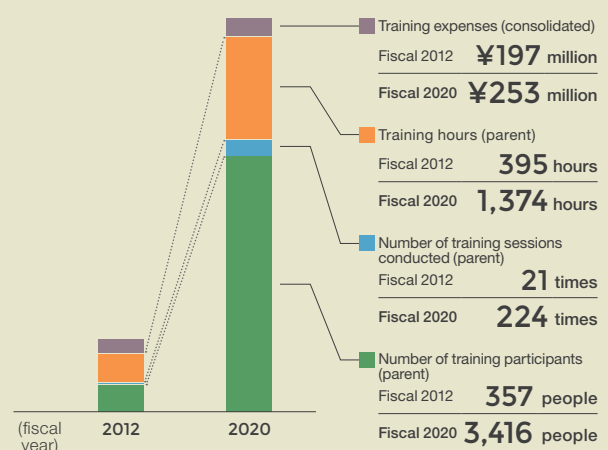


Reasons why unofficial candidates choose to join Tsumura

- Appeal of employees that work at Tsumura 37%
- Potential of Kampo formulations and Kampo medicine 45%
- Ability to put competences and skills to use 9%
- Other 9%




Development of human resources




Fiscal year	2016	2017	2018	2019	2020
Number of female managers (people)	38	43	44	50	53
Ratio of female managers (%)	4.9	5.5	5.6	6.6	7.2
Number of employees that took maternity leave (people)	14	12	20	22	34
Number of employees that took childcare leave (people)	27	32	21	48	66
Male (people)	1	2	1	5	15
Female (people)	26	30	21	43	51
Ratio of female employees that returned to duty after taking childcare leave (%)	100	100	100	100	97.5
Average overtime hours (hours, including work on a day off)	15.5	14.7	14.5	13.8	12.7
Number of days of paid leave taken (days, per person)	12.0	12.1	12.2	11.6	10.8
Ratio of paid leave taken (%)	60.4	62.0	65.2	61.7	58.7
Turnover ratio (%)	0.70	0.90	0.95	0.98	1.80



Government-issued badge certifying the Company as highly progressive and parent friendly (affectionately known as the "Platinum Kurumin" mark)



Government-issued badge certifying the Company as progressive and parent friendly (affectionately known as the "Kurumin" mark)



Government-issued badge certifying the Company as supportive of female empowerment (affectionately known as the "Eruboshi" mark)



Government-issued badge certifying the Company as proactive in promoting work-nursing care balance (affectionately known as the "Tomomin" mark)

COVID-19 measures and workstyle reforms

Workstyles are drastically changing due to impact from the spread of COVID-19. We have been working to improve systems that facilitate web conferencing etc. In April 2021, we established telecommuting rules to

create an environment that enables employees to work from home. The telework rate at Head Office from October 2020 to August 2021 was 84.7%.

Supporting employees in improving their health

We have been working on health management by formulating the Tsumura Health Declaration and Health Policy since 2017. Our efforts have won praise, and we have been continuously certified as "gold" in the list of healthy companies announced by the National Federation of Health Insurance Societies since 2019. To improve the health literacy of each and every employee, we disseminate information on infection prevention, diet, exercise, and smoking cessation through the intranet, bulletin boards, and seminars.

We achieved our goal for smoking cessation in fiscal 2020 by prohibiting smoking during working hours, smoking on the premises, and smoking outside designated areas. In addition, we have established a support system that allows employees who have taken a leave of absence due to cancer, mental illness, or other personal illness or injury to return to work in stages without difficulty. We have also introduced a scheme that allows employees to visit a hospital or clinic as an outpatient 12 times a year.

Tsumura Academy

Based on the belief that people, the foundation of an organization, are the foundation of a company, one component of our long-term business vision is to be the “People” Company, Tsumura. President Kato serves as the dean of the academy, and he himself gives lectures in the management candidate development program, focusing on the practical development of candidates for management based on our philosophy and vision.

The Tsumura Academy has two main functions in order to create an unwavering human resource development system that will continue to support our core value of philosophy-driven management.

The Tsumura Academy has two main functions in order to create an unwavering human resource development system that will continue to support our core value of philosophy-driven management.



Tsumura Academy Dean
Terukazu Kato



1 Training of candidates for management

Produce a continuous stream of management candidates who are capable of practicing philosophy-driven management through a series of mechanisms for selecting, training, deploying, and assessing human resources.

2 Fostering corporate culture

Pursue the penetration of the philosophy throughout the entire Tsumura Group and aim to develop an organization that enhances the potential of each individual and achieves results through the fostering of a coaching culture etc.

Diagram of programs at the Tsumura Academy

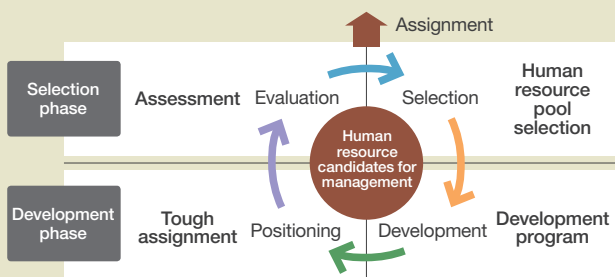
Dean of the Tsumura Academy: President Kato

Position	Training of candidates for management	Fostering corporate culture	
Board of directors			
Executive Officer	Management performance seminar	<div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 5px;">Off-site meetings for philosophy propagation</div> <div style="border: 1px solid black; padding: 5px;">Coaching lectures</div> <div style="border: 1px solid black; padding: 5px;">Analects School (Rongo-juku)</div> </div>	
General managers			Rijihouon-juku (General Manager gratitude repayment school)
Division head	Basic management course Third year Second year First year		
Chiefs			Seminars to nurture basic skills (Liberal arts) Social Natural Environment
Section heads			
General staff			
Companywide	Tsumura Academy newsletter (Letter from the Dean) / Letter from Lecturers (Leader) From the Tsumura Academy Office / Images of various lectures	Disseminated companywide via intranet Free browsing of the library	

Training of candidates for management

We conduct a basic management course, which consists of a series of programs held over three years, and a management performance seminar, which is carried out based the theme of economic analysis and management philosophy. This basic management course attracts the next generation of management candidates from various

departments, and by the end of fiscal 2020, the first 14 students had completed the three-year program.



Program composition

Rules and principles of management	Development through lectures by the dean and lecturers, dialogues with other participants, drills, presentations and other exercises
Dean's lecture	Development of a historical viewpoint and vision of the future based on lectures from the dean himself on the rules and principles of management
View of management	Development of a management outlook (philosophy) to discuss and implement philosophy-based management using your own words
Basic human skills	Learn about the fundamental culture required of management, including society, nature, and way of life
Output	Every year, participants write a 10,000-character report from the perspective of being the company president and present the report to all the directors

04 Strategic Challenges
Fostering a corporate culture through philosophy-based management and developing diverse human resources

Fostering corporate culture

Activities to instill corporate philosophy

A meeting is held off-site on instilling the corporate philosophy. This is an opportunity for thinking and having awareness through dialogue for each participant regarding sharing management philosophy and continually fulfilling the company's corporate mission. These meetings are held every year for the entire company, including executive officers, and as of August 2021 are in their fifth year.

Coaching lectures

We are holding coaching lectures with the goal of organizational development and nurturing a corporate culture that trains human resources through coaching. The lectures aim to develop independent employees that think and act on their own, which we aim to instill as part of our corporate culture. At the same time, this is an opportunity to create a team that produces results by considering and establishing an ideal image of the coach, mindset, and way of thinking through dialogue.



Executive Officer, Manager of Tsumura Academy
Ryoichi Murata

Nurturing basic human skills

Seminars to nurture basic human skills and Rongo-juku (school for classical analects) are regularly held. Participants learn about the universal principles of the people, society and natural environment. Through exposure to interdisciplinary knowledge from various fields, participants deepen their education and develop their thinking skills.



Interview Fostering a coaching culture

Murata, the Manager of the academy office, interviewed Mr. Kazuyuki Shirai and Ms. Naoko Ishikawa, external instructors on the coaching course.

Baseball pundit / former head coach of the Nippon Ham Fighters professional baseball team

Mr. Kazuyuki Shirai



Representative Director, Yumekana Co., Ltd.
 Coach / trainer

Ms. Naoko Ishikawa

Murata Please tell us about your goals with coaching and the current situation at the Company.

Ms. Ishikawa Coaching is a form of communication that creates spontaneity in people. The aim is to develop human resources who can think and act on their own. This is exactly what Tsumura is using coaching for. At the same time, I feel that Tsumura is also using coaching to improve the atmosphere in the workplace, or rather, to improve communication and trust among employees. I believe that offering coaching will increase motivation among employees, which will lead to more satisfaction and a feeling that their work is worthwhile. It should also improve the quality of their responses to customers and other parties they interact with.

Murata Please tell us about the changes at the Company that have occurred and other things that you have noticed since you started coaching.

Ms. Ishikawa From the beginning, I noticed that the Company is full of people with high morals. I felt that they were polite and had a positive attitude toward their work. However, in reality, there are times when things don't go as planned or it is difficult to boost figures like sales and profits. As such, I feel that the coaching has helped them to shift their stance from blaming others to blaming themselves. In other words, instead of blaming the other person for not being able to do the job, they are now asking themselves what they can do. I feel that their relationships of mutual respect, which have always existed, have become even stronger.

Mr. Shirai As Ms. Ishikawa said, coaching is focused on the spontaneity to think and act on one's own and on goals (purpose), or in other words, on philosophy and vision. It is also about asking oneself what one can do, what results and outcomes one's actions will lead to, and what value will be created. If such value can be created, one's mindset will become

one of wanting to do things oneself, and wanting to do more. If each and every person has such a mindset, great power will be created as an organization. When everyone works together and moves in the same direction, human relationships improve. It is said that the biggest stressor in the world today is human relationships, but it is also true that human relationships generate a great deal of power. The aim of coaching is to build better relationships, to build trust, and to enable people to work together toward a goal. When I see Tsumura employees, even during the COVID-19 pandemic, practicing coaching on a daily basis with an attitude of focusing on the goal and on asking themselves what they can do and what they should do, I feel that a coaching culture has taken root, is being nurtured, and is propagating. Through the training, I have noticed a strong response from the employees, namely that they are regarding matters as their own business, rather than focusing on where the problems and results are and on who is responsible for them.

Murata Now, through participation in the philosophy propagation and coaching lectures, employees are repeatedly learning the importance of focusing on purpose and value. By continuing to run these lectures, what sort of company will Tsumura become in the future?

Mr. Shirai **Ms. Ishikawa** I think it'll be a company that lasts for 300, 400, or even 500 years (smiles).

Mr. Shirai I imagine it becoming a company that contributes to society, is needed by society, and continues to grow on a permanent basis. I believe that it will be a company that attracts large numbers of wonderful people, and also one that develops high-caliber human resources internally. I think that the continuous growth of people means that the Company will continue to prosper over the long term as an organization that can meet the demands of society and as a company that can contribute to society.



Pursuing the SDGs through the Kampo value chain

Tsumura delivers Kampo formulations to medical institutions and patients after going through the process (Kampo value chain) of cultivating and procuring crude drugs, which are the raw materials used in Kampo formulations, manufacturing and selling extract formulations, educating and popularizing Kampo, conducting research and development, and quality assurance. This integrated management of our business activities, from upstream to downstream, is the source of our competitive advantage in providing a stable supply of high-quality Kampo products.

In addition, the Kampo value chain is deeply connected with the farmers who grow crude drugs and with the natural environment. We aim to become a value-creating company that continues to grow together with society by creating value that is shared between society and the Kampo business and is centered on the Kampo value chain, while also aiding in the accomplishment of the United Nations Sustainable Development Goals (SDGs).

TOPICS Pursuit of activities by newly-established Sustainability Promotion Office

We recognize that addressing issues related to sustainability, including consideration of global environmental issues such as climate change and respect for human rights, is an important management issue. So to address such issues, in October 2021 we established the Sustainability Promotion Office, which is responsible for planning, implementing, and managing the sustainability activities of the entire Group. We have also established a new Sustainability Committee, chaired by the Director Co-COO, to consider policies, targets, and measures, and also, through regular reports to the Board of Directors, to have its

opinions and advice reflected in initiatives. In addition, with a view to developing our recently-announced CSR Basic Policy and Sustainability Vision 2050, which will begin in fiscal 2022. This vision is positioned next in importance to our basic philosophy, and with this as a premise, the Company will also formulate the Long-term business vision 2031 as our new medium-term management plan.

 Sustainability Vision
<https://www.tsumura.co.jp/corporate/csr/sustainability/>

Related SDGs



THE KAMPO VALUE CHAIN

Cultivation and procurement



Competitive advantage

- Management of crude drug production in line with Tsumura GACP
- Operation of a crude drug traceability system
- Cultivation and expansion by using cultivated land under own management
 - Development a double track framework comprising suitable land for cultivation and production areas in China, Japan and Laos
 - Increase in and stabilization of crop yields through the deployment of a cultivation management system
- Joint research with China Academy of China Medical Sciences and others (research on the development of cultivation of wild crude drugs in China)

Manufacture



- Productivity improvements that utilize new technologies, including automation and AI
- Optimization of inventory quantity and allocation by promoting supply chain management reforms
 - Incorporation of a recycling system and promotion of effective use and preservation of water and other resources

Sale, education, and popularization



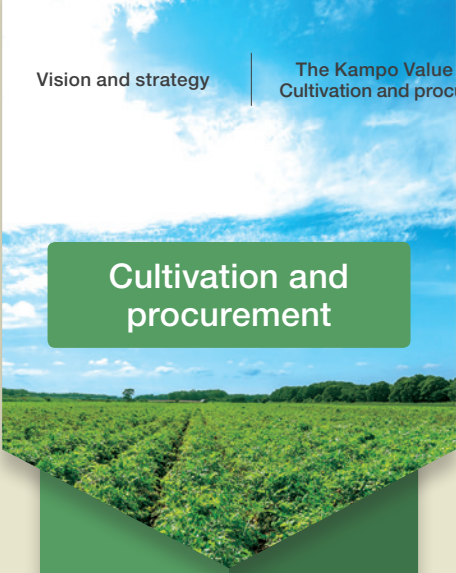
- Increase in the number of physicians that prescribe Kampo formulations by implementing Kampo medicine education
 - Consistent support for Kampo medicine education at university medical departments and medical colleges including those beginning before graduation and immediately after graduation and post-graduation
- Focal activities, including medical needs for patients with low treatment satisfaction
- Building of evidence to enhance treatment benefits (safety and efficacy)
- Popularization of Kampo and Kampo educational activities for the general public

Creation of diverse value through Kampo and crude drug businesses

Foundation that supports business activities



Cultivation and procurement



1
Raw-material crude drug cultivation and procurement

The manufacture of Kampo formulations requires the securing of high-quality crude drugs. Tsumura has installed frameworks for procuring crude drugs directly from producing regions in Japan, China, and other locations. This decision was prefaced on the importance of clearly identifying producing regions and production processes, to ensure the quality and safety of crude drugs through procurement based on our belief that the quality of Kampo products begins from the growing fields.

Reliable crude drug procurement based on cultivation contracts

To secure a stable supply of crude drugs of uniform quality, we formulate and implement medium- to long-term procurement plans based on long-term demand forecasts for Kampo formulations.

Tsumura only procures raw material crude drugs for Kampo formulations from suppliers who comply and operate in line with the Standard of Botanical Raw Material Production to ensure quality. These standards stipulate factors, including the cultivation and processing methods and use of agrochemicals, as designated under the Tsumura GACP. We achieve stable procurement by deciding on procurement quantities and prices in advance with producers that we have concluded cultivation contracts with.

These contracts generally allow us to purchase the producer's entire crop of crude drugs whose quality is guaranteed by GACP, so the producers continuously cultivate them for us in a stable fashion. This enables us to procure raw-material crude drugs in a stable manner and to keep costs stable.

2
Preparation, processing and storage

Raw-material crude drugs, which are collected by production groups, are prepared and processed, including the removal of unnecessary parts, drying and steaming. After this, a careful check is conducted to ensure there are no foreign substances or impurities mixed in, and only items that have passed this check are delivered to the Tsumura Group.



Processing of shakuyaku (peony root) (producer in China)

3
Quality testing, selection and storage

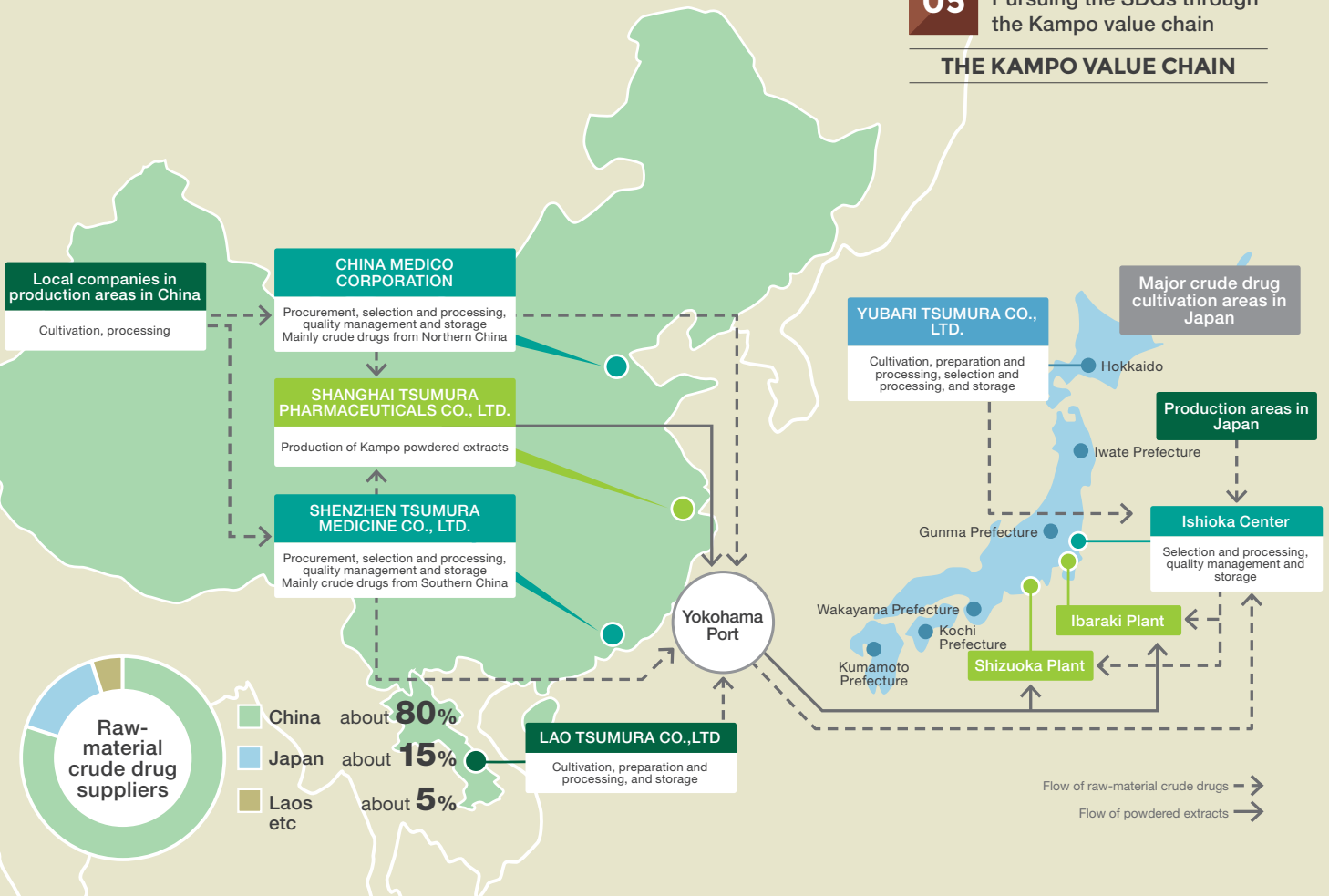
Delivered crude drugs undergo a quality test, to check for contaminants such as agrochemical residues, microbials and heavy metals, after which the selection process is carried out. The crude drugs are then stored in a refrigerated warehouse. Only raw-material crude drugs that clear quality standards are supplied to each plant where they are manufactured into Kampo formulations.



Crude drug warehouse (SHENZHEN TSUMURA)

05 Strategic Challenges
Pursuing the SDGs through the Kampo value chain

THE KAMPO VALUE CHAIN



Dryer (YUBARI TSUMURA)

Improvement of crude drug cultivation technologies

Tsumura is conducting research with the aim of achieving 100% cultivation of plant-based crude drugs through development of cultivation technologies. In addition to research into the cultivation of crude drugs grown in the wild, we are also researching the improvement of harvest yields and quality stabilization on our own and in partnership with affiliate organizations. As a result of this research, Tsumura has been able to switch completely to artificial cultivation for wild-grown ephedra herb, a crude drug used in Kakkonto and other Kampo formulations. In addition, we are improving the precision of cultivation technologies for glycyrrhiza, a crude drug which is used in about 70% of the total 129 formulations we manufacture and sell. We are also carrying out research for sustainable cultivation methods for ginseng, used in formulations such as Rikkunshito, that do not require deforestation.



Selection process (Iishioka Center)

Continued expansion of cultivated land under own management

As a measure to stabilize the prices and quantities of raw-material crude drugs and to strengthen quality assurance, we are continuously working to expand cultivated land under own management. This refers to farms for which Tsumura directly provides cultivation guidance and has an understanding of cultivation costs based on which it can set crude drug procurement prices. Not only limited to farms directly operated by the Tsumura Group, these farms also include those operated by partner companies.

Actions to expand crude drug production in Japan

In addition to the expansion of cultivation land in Japan and abroad in tandem with an increase in demand for Kampo formulations, we are improving productivity, including the introduction of large-scale cultivation technologies through automation and revisions to cultivation technologies. We are automating operations by introducing machinery. This includes the automation of washing and drying after harvesting, operations which crude-drug cultivators carried out manually thus far.



Manufacture

4

Chopping
Weighing and
mixing

We manufacture everything from crude drugs to Kampo formulations, and have a unique business model. We have accrued knowledge internally concerning manufacturing technology and have built highly original manufacturing equipment.

Raw-material crude drugs that have passed quality tests are stored nearby in their original form. After being transported to the manufacturing plant, they are cut up into a prescribed size that suits their respective attributes.

Shizuoka Plant

Ibaraki Plant

SHANGHAI TSUMURA
PHARMACEUTICALS CO., LTD.

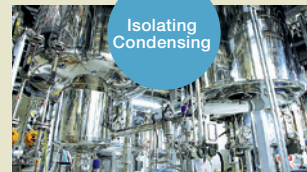


*Shanghai Tsumura manufactures powdered extract from cutting to drying. Powdered extract manufactured in Shanghai is transferred to both the Shizuoka and Ibaraki Plants and is sent to the next process after granulation.

5

Extracting,
isolating and
condensing
Drying

The prepared crude drug is put into one of our proprietary extraction devices to extricate the ingredients in a manner similar to that used to produce decoctions. The extracted liquid is condensed at low heat over a short period of time.



Crude drug residue

6

Extract granule
manufacturing
Packaging and
labeling

A filler such as lactose is mixed in with the powdered extract and condensed into a molded product. After this, the molded powder is crushed into extract granules.



Extract granule
manufacturing



Extract granules

7

Shipment,
storage and
transport

Products shipped from both the Shizuoka and Ibaraki Plants are stored at the distribution centers and then delivered to pharmaceutical agencies.



Shizuoka Plant
(Fujieda City, Shizuoka Prefecture)



Ibaraki Plant
(Amimachi, Inashiki-gun, Ibaraki Prefecture)

Shipment



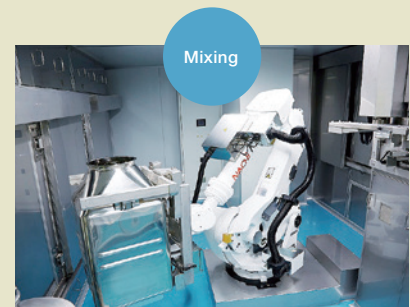
05

Strategic Challenges

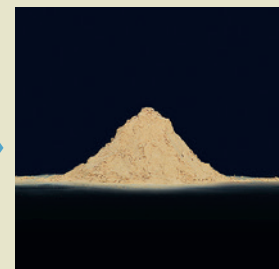
Pursuing the SDGs through the Kampo value chain

THE KAMPO VALUE CHAIN

Chopped crude drugs are weighed for each crude drug so that they meet the prescribed blending ratio, and then they are put into a large formulation container layered like mille-feuille.



The extracted liquid is finely sprayed in mist form from the top of a large spray-drying device that we developed in-house, and is then instantly dried so as to keep its quality, and form the powdered extract.



Powdered extract

The extract granules that have passed a rigorous quality check are sheet packaged into one-day dosages, bundled into seven sheets (one week's dosage), boxed and shipped.



Prescription Kampo formulations



East Japan Distribution Center (storage in Kuki City, Saitama Prefecture)



West Japan Distribution Center (Ono City, Hyogo Prefecture)

Sale, education, and popularization



8

Pharmaceutical agencies

In line with our corporate mission to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine, we are taking action to assist in the creation of a healthcare environment where all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan.

Once the products reach the agencies, our sales representatives (MS*) sell the products to medical institutions and dispensing pharmacies. A characteristic of Tsumura's Kampo formulations is that they are widely used at a number of facilities. In promoting the proper use of Kampo formulations, it is vital to gain the cooperation of pharmaceutical agencies and ensure they have correct knowledge and information on Kampo formulations.

In addition, many physicians are seeking information on how to use different formulations, and we are working with agencies to achieve our goal of having one out of every two physicians prescribe at least 10 different Kampo formulations for different purposes.



*MS: Stands for marketing specialist

9

Hospitals, clinics and pharmacies

Medical representatives (MR*) visit medical institutions and dispensing pharmacies to provide them with information on Kampo medicines according to their needs. In recent years, the needs of medical professionals with respect to Kampo medicine have been diversifying. To accompany the information provision activities by MRs, we also provide information that meets the needs of medical personnel, such as basic and clinical evidence, medical guidelines on Kampo formulations, and information on the use of different Kampo formulations, through e-promotion via the Internet.

*MR: Stands for medical representative

10

Patients
General consumers

Based on the physician's prescription, the pharmacist dispenses the Kampo formulation and delivers it to the patient. We are also active in raising awareness of Kampo by sponsoring forums and events related to medicine and health for the general public.

Forum & Events

Sponsorship of forums and events for the general public -- raising awareness of Kampo

As one of the activities to popularize and educate people about Kampo, we co-sponsor forums and events related to medical care and health for the general public, and provide a variety of information on Kampo, medical care, and health.

Activities targeting cancer patients and their families
Sponsoring a forum on “living with cancer”

Sponsored by NHK Public Welfare Organization, NHK Enterprises, and Yomiuri Shimbun, the event was held live online from three locations across Japan, and was based on the theme of being one’s self in both mind and body. A total of 2,070 people participated. Experts presented the latest medical information in response to this question: “What kind of support do I need to live my life in my own way after being diagnosed with cancer and continuing treatment?” In addition, viewers were invited to answer a questionnaire about cancer in real time, and received various answers from the panelists.



Forum on “living with cancer”

Activities targeting senior citizens
Sponsoring a forum on “living in an ultra-aging society”

Sponsored by NHK Public Welfare Organization and NHK Enterprises, the event was held live online from two locations across Japan, and amid the COVID-19 pandemic, covered such themes as a town that coexists with dementia and how to live and prepare for a long life with frailty. A total of 967 people participated. Panelists discussed topics such as the mutual support needed to deal with COVID-19 and how to live and prepare for an ultra-aging society during the pandemic.



Forum on “living in an ultra-aging society”



Health Support Festa

Activities targeting health-conscious people
Sponsoring Health Support Festa

Sponsored by NHK Educational Corporation, the event was held at three locations across Japan and a total of 1,077 people participated. Under the main theme of improving the health of middle-aged and elderly people, the fiscal 2020 event was titled “A Heart-Friendly Society for the Elderly: Considering Heart Failure Medicine in the New Era.” The TV personalities and physicians introduced in an easy-to-understand manner the pathogenesis of heart failure in the elderly, points to note, treatment methods, local initiatives, and how to use Kampo.

Activities targeting women
Sponsoring a “Kampo seminar for women”

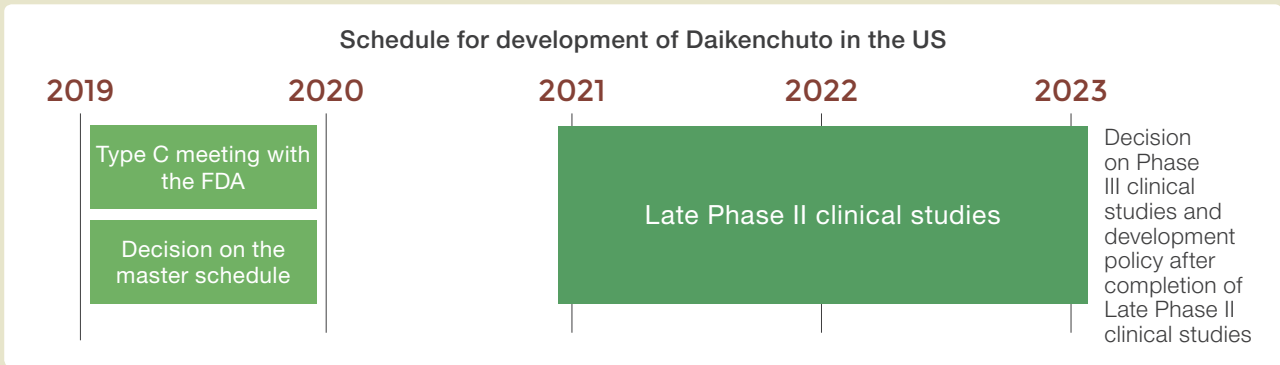
The event was planned, produced and broadcasted by Iwate Menkoi TV and NST Niigata Sogo Television. Under the themes of “Kampo for Mind and Body: Women, Kampo, and Beauty” and “More Sparkling Days: Thinking about Women’s Health,” the program focused on common ailments that women tend to endure, such as feeling cold, stress, constipation, and stiff shoulders. The program also featured an explanation by a physician about the treatment of women’s diseases with Kampo medicines, and a talk show featuring TV personalities and a physician aimed at benefitting women’s beauty and health.

Research and development

Progress of development of Daikenchuto in the US

As a disease that is difficult to treat with Western drugs and for which Kampo formulations show specific efficacy, we have concentrated on postoperative ileus (POI) and are aiming to obtain approval for and to launch Daikenchuto as a pharmaceutical product in the United States. With a vision to help treat patients in the US, we have organized a system to link the technologies and know-how developed through our Kampo and crude drug businesses as well as our latest basic and clinical research data in Japan accrued through our drug

fostering program with product development in the US. We are currently aiming to perform Late Phase II clinical studies and complete them at an early stage. In the US, where laparoscopic surgery is widely used, there is a high medical need for POI, and Daikenchuto has received positive recognition as a promising treatment. Our goal is for Kampo formulations to become medicines that are also chosen by patients overseas, and for us to thereby become a value-creating company that contributes to people's health through Kampo.



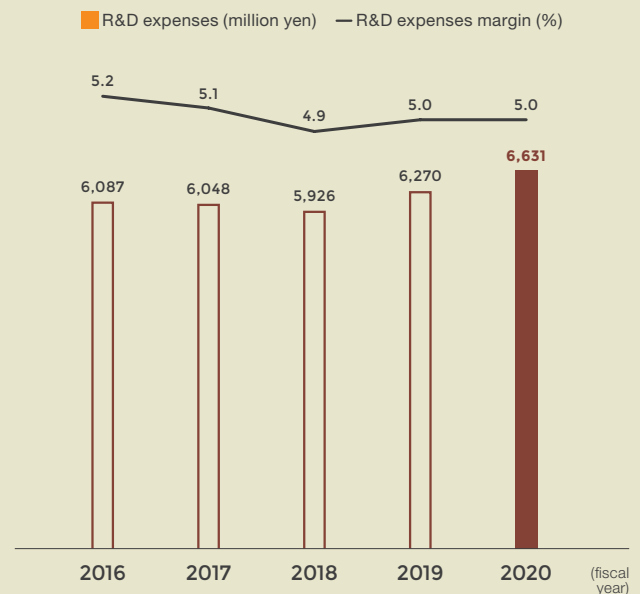
Establishment of scientific evidence

Since fiscal 2004, Tsumura has been concentrating its resources on the establishment of scientific evidence for its Kampo formulations in its research activities. This is because we thought that, if Kampo formulations are to become a trusted treatment option in Japan today, it will be necessary for these formulations to be understood through the framework of Western medicine. As a product of these efforts, theses on such scientific evidence published in domestic and overseas academic journals have been contributing to a noted change in

the perception of medical practitioners with regard to Kampo formulations and Kampo medicine as a whole.



R&D expenses / R&D expenses margin



Raising the presence of Kampo formulations

Since fiscal 2004, Tsumura has been working on the establishment of scientific evidence on the efficacy and safety of Kampo formulations, namely, the five “drug fostering” program formulations, which have been demonstrating special efficacy for certain diseases in fields where medical treatment needs are high and that are difficult to treat with Western drugs. In addition, we defined the five “growing” formulations in fiscal 2016. Since then, we have been advancing research with the goal of having these formulations listed in medical treatment guidelines.

We will continue to provide information, including

supplying basic and clinical evidence, and the use of different Kampo medicine approaches, pertaining to the “drug fostering” program formulations, the “growing” formulations, and formulations related to the Company’s three important domains (geriatric, cancer (supportive care) and women). In addition, we aim to collaborate with external research institutes to verify the efficacy of Kampo to treat COVID-19. We are cooperating in various basic and clinical research. Through these efforts, we plan to enhance the presence of Kampo formulations and to expand the Kampo.

Scientific analysis of Kampo medicine using new technologies

A characteristic of Kampo medicines is that they comprise various naturally derived substances. Accordingly, scientific analysis of these medicines can be incredibly difficult. Tsumura has thus endeavored to establish scientific evidence on these medicines through various research projects carried out over the course of many years. In recent years, in order to demonstrate the usefulness of Kampo, we have been conducting not only clinical research and building evidence to show the efficacy and safety of Kampo medicines, but also research on advanced technologies (systems biology, metabolomics, intestinal bacterial analysis, big data analysis, etc.) to demonstrate Kampo’s viability by elucidating the mechanisms of component substances, scientifically describing sho, a diagnosis unique to Kampo medicine, and verifying the health economics of Kampo medicines. Furthermore, we have seen advancements in new

technologies owned by the Department of Health Services Research in the Graduate School of Medicine of the University of Tokyo, the Systems Biology Institute, and the National Institute of Advanced Industrial Science and Technology. These advancements have led to progress in Kampo medicine research and analysis using IT technologies and new analytical methods. In fiscal 2021, the departments related to advanced technology at the Tsumura Kampo Research Laboratories were combined into one, and the Tsumura Advanced Technology Research Laboratories was launched as a new organization. Here, we are developing KAMPOMics®, our original research package for the integrated understanding of traditional Kampo medicine and multi-component, complex Kampo medicines, to accelerate the application of science to pre-scientific Kampo and to develop new systems.

Major new technologies



System biology

System biology is a biological approach for elucidating the relationships among individual organisms and genes and their various roles through the use of artificial intelligence (AI), physiological approaches, and biotechnology to achieve an integrated understanding, as opposed to analyzing individual biological functions.

Area of analysis

Multi-component networks*1



Metabolomics

A change in metabolites inside the body or density will occur due to environmental changes such as temperature and light, and external stimuli including diet and drug intake. This is a method of analyzing these metabolites using a mass spectrometer or other equipment, and a research domain applied to the diagnosis of illnesses.

Area of analysis

Biomarkers*2 / Responders, non-responders*3



Analysis of intestinal flora

There are a wide variety of microorganisms living in the intestines. This is a domain in which by researching their type and drug-metabolizing functions, we can see the correlation with illness and the responsiveness to drugs.

Area of analysis

Responders, non-responders



Utilization of big data

Utilization of big data entails using huge volumes of everyday medical data in epidemiological studies for the assessment of quality of medical care and analysis of health economics.

Area of analysis

Health economics

*1 Kampo medicines are considered to exhibit medicinal efficacy due to their having multiple components that act on different parts of the body. A multi-component network is an action mechanism to show the relationship of those components by analyzing them in a comprehensive manner.

*2 Biomarkers are a biological factor that enables physicians to evaluate disease states, changes, and degrees of recovery or healing.

*3 Responders and non-responders are, respectively, people for whom drugs are effective and people for whom drugs are not effective.



Tsumura believes that pursuing the quality and safety of its products is a theme of the utmost importance. The Tsumura Quality Culture, a concept that emphasizes quality, is the platform upon which the Kampo value chain stands. We are undertaking the constant improvement and strengthening of our quality assurance.

Tsumura Quality Management System

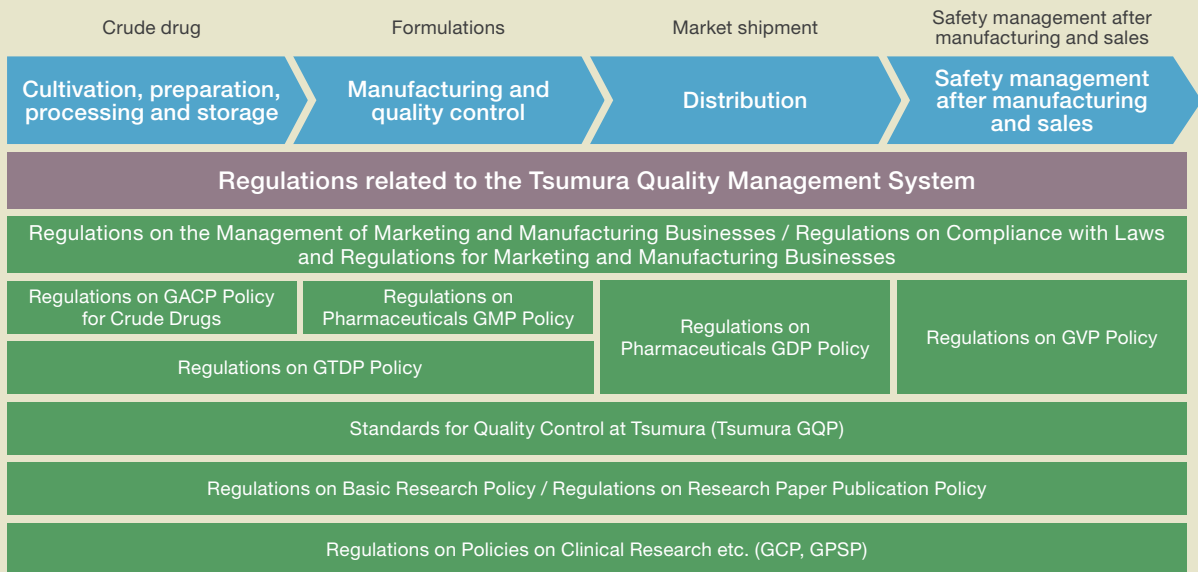
Tsumura enacted “Regulations related to the Tsumura Quality Management System,” to further aim to enhance the quality assurance system based on Tsumura’s Quality Policy. The Company is building a system that can properly respond to matters, including revisions to laws and ordinances and globalization (including PIC/S*2). In this manner, we are implementing actions that emphasize quality. Beyond comprehensively encompassing the entire Group, the Tsumura Quality Management System has further clarified management’s accountability in quality control. Based on the Regulations related to the Tsumura Quality Management System, we have systematically established documentation that specifies legal compliance and standards that Tsumura should comply with for the entire supply chain from crude drug cultivation to the shipping of final products. This quality management system serves as the foundation

Quality Policy

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

*PIC/S: Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme

for building a quality-oriented system for all businesses at Tsumura and Group companies and for activities that provide high-quality Kampo formulations to patients.



GACP | Good Agricultural and Collection Practice **GMP** | Good Manufacturing Practice **GTDP** | Good Trade and Distribution Practice
GDP | Good Distribution Practice **GVP** | Good Vigilance Practice **GQP** | Good Quality Practice
GCP | Good Clinical Practice **GPSP** | Good Post-marketing Study Practice

05 Strategic Challenges
Pursuing the SDGs through the Kampo value chain

THE KAMPO VALUE CHAIN

Realize consistent Kampo formulations

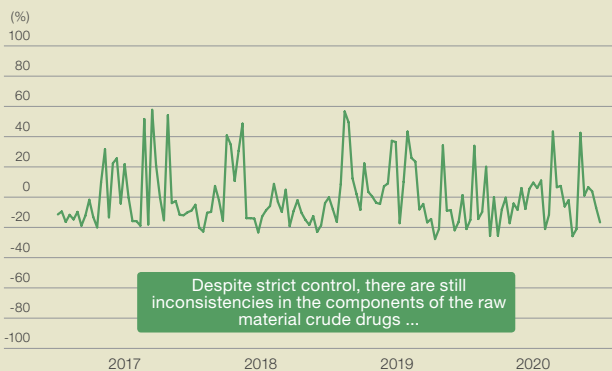
The pursuit of quality in all processes related to our Kampo formulations, including cultivation and procurement of crude drugs, quality testing, accumulation of data for each lot, and proprietarily developed manufacturing equipment, was deemed difficult for naturally-derived Kampo formulations but we are achieving consistency.

Control inconsistencies in naturally-derived crude drugs

Given that crude drugs are natural substances, their quality and components vary depending on the weather, production area and other factors. With our latest products, however, we have endeavored to ensure homogeneity in Kampo formulations. To always manufacture Kampo formulations that maintain uniform quality, we are undertaking the cultivation of crude drugs. By specifying production areas for crude drugs and providing guidance on cultivation methods, and only using crude drugs that have passed standards set by us, we have been able to reduce the inconsistencies in raw material crude drugs.

Shakuyaku (peony root) divergence distribution

(For peoniflorin divergence (measured value - mean value)*100/mean value)



Despite strict control, there are still inconsistencies in the components of the raw material crude drugs ...

Pursue consistency in manufacturing processes

Even if only crude drugs that have passed Tsumura standards are used, there are still inconsistencies with ingredients (lower left table). By accumulating and managing data pertaining to the ingredients contained in each crude drug lot, we are able to further optimize the balance of components in the manufacture of formulations. To manufacture formulations by minimizing changes in the components of the extricated extract, we developed a proprietary production line as well as computers to control each formulation. This is how we realized a consistent final product (lower right table).

TJ-68 divergence distribution

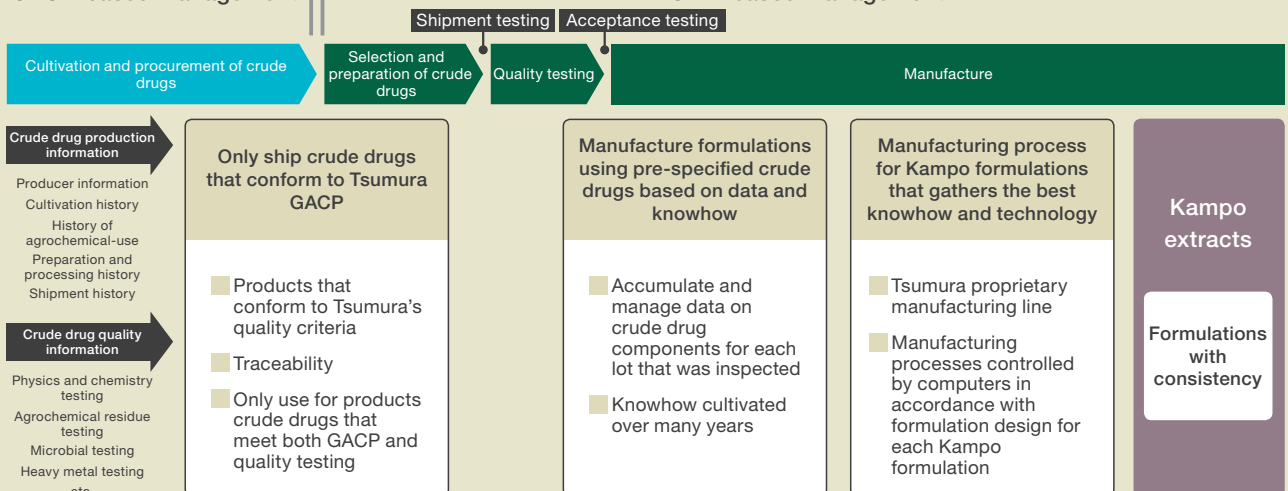
(For peoniflorin divergence (measured value - mean value)*100/mean value)



Become very small when it is turned into a product

GACP-based management

GMP-based management



Directors (as of June 29, 2021)



Terukazu Kato August 26, 1963

President and Representative Director CEO

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

Year of assumption of post of Director 2011

Number of shares in the Company held 30,000 shares (as of March 31, 2021)

Susumu Adachi February 3, 1963

Director Co-COO

- 1987 Joined the Company
- 2016 Executive Officer,
Head of Corporate Planning Department of the Company
- 2018 Director and Managing Executive Officer,
Head of Corporate Planning Department of the Company
- 2019 Director and Managing Executive Officer, COO of the Company
- 2021 Director Co-COO of the Company (incumbent)

Year of assumption of post of Director 2011

Number of shares in the Company held 13,900 shares (as of March 31, 2021)



Muneki Handa July 7, 1962

Director CFO

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

Year of assumption of post of Director 2019

Number of shares in the Company held 3,000 shares (as of March 31, 2021)



Kenichi Matsui July 5, 1949

Director (Outside Director)

- 1972 Joined Idemitsu Kosan Co., Ltd.
- 2005 Managing Director, Idemitsu Kosan Co., Ltd.
- 2010 Representative Director, Idemitsu Kosan Co., Ltd.
- 2014 Outside Director of The Mie Bank, Ltd.
(currently San ju San Bank, Ltd.)
- 2015 Outside Director of TSUMURA & CO. (incumbent)

Year of assumption of post of Director 2015

Number of shares in the Company held 4,100 shares (as of March 31, 2021)



Hiroshi Miyake August 4, 1949

Director (Outside Director)

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

Year of assumption of post of Director 2018

Number of shares in the Company held 1,500 shares (as of March 31, 2021)



Tadashi Okada May 1, 1956
 Director (Outside Director)

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

Year of assumption of post of Director 2020
 Number of shares in the Company held 100 shares (as of March 31, 2021)



Kimikazu Okochi October 8, 1958
 Director and Full-Time Audit and Supervisory Committee Member

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

Year of assumption of post of Director 2017
 Number of shares in the Company held 6,100 shares (as of March 31, 2021)



Mitsutoshi Matsushita October 3, 1970
 Director (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 post of Director 2017
 Number of shares in the Company held 1,300 shares (as of March 31, 2021)



Akemi Mochizuki June 10, 1954
 Director (Outside Director) and Audit and Supervisory Committee Member

- 1984 Joined Aoyama Audit Corporation
- 1988 Registered as Certified Public Accountant
- 2018 Independent Director and Audit Committee Member of NSK Ltd. (incumbent)
- 2018 Partner, Akahoshi Audit Corporation (incumbent)
- 2019 Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO.
- 2021 Outside Audit and Supervisory Board Member of Asahi Kasei Corporation (incumbent)

Year of assumption of post of Director 2019
 Number of shares in the Company held 600 shares (as of March 31, 2021)





Discussion between investors and outside directors

Future of the Tsumura Group

The Company's five outside directors got together to talk about the future of the Tsumura Group, and they were joined by Shinichi Kohguchi*

*See p.64 for his profile.

Sharing detailed information before making decisions to enhance the quality and effectiveness of meetings of the Board of Directors

Kohguchi I am an investor, so I am greatly interested in how boards of directors, which operate at the core of management, function. To enable outside directors to supervise execution, is necessary information being shared for the purpose of facilitating correct decision making?

Okada I feel that the quality and effectiveness of the discussions at the Board of Directors meetings are improving, as regarding matters to be discussed by the Executive Committee and the Board of Directors, there is more dialogue with the executive side when explanations are provided in advance. We are also able to have detailed discussions on matters that are not covered during the Board of Directors meetings. Since I was appointed to the post last year, I have not yet been able to visit plant facilities or research sites due to the spread of the novel coronavirus (COVID-19), but I would like to have the opportunity to visit such frontlines as soon as possible to get a feel for them firsthand.

Kohguchi In the past, you outside directors visited the Ping An Insurance (Group) Company of China, Limited (below, "Ping An Insurance"), and met with chief executive Peter Ma Mingzhe, and toured the company's facilities. Once the COVID-19 situation settles down, I would like to see you resume such activities to check out the frontlines with your own eyes. By the way, are the opinions of the outside directors reflected in the decision-making process of the Board of Directors, and not only with respect to Chinese operations?

Miyake I have expressed my opinions quite a bit, and they are reflected. We ask questions and engage in lively

discussions until we are satisfied that we have understood the progress being made with business activities, the operations of subsidiaries, and policies regarding major investment projects.

Kohguchi As chair of the Outside Director's Meeting, how do you feel about that?

Matsui One of the great things about this company is that the so-called "raw data" produced by each department is used directly as material for the Board of Directors meetings. Therefore, it is necessary for the Board of Directors to narrow down the information to what is necessary for decision making, but on the other hand, it also has the advantage of allowing us to immediately ask questions to the executive officers about any points or issues that we notice in the materials, which leads to us obtaining detailed information about the activities of the executive side. At the Board of Directors meetings, we are subject to time constraints, so feel under pressure, but everyone explains things in an easy-to-understand manner, which helps us to understand projects in depth. I believe that the decision-making process is enhanced by each of the outside directors expressing their opinions from diverse standpoints. The presence of the Ping An Insurance Group strengthens governance.

Presence of the Ping An Insurance Group strengthening governance

Kohguchi Recently, external stakeholders, including us investors, have been paying particular attention to the China business, which is also a future growth driver. What were some of the risk-taking or risk hedging decisions made by the outside directors?

Matsui We thoroughly discussed the possible risks in partnering with a huge company like Ping An Insurance. Following this discussion, we felt that we could only find



Kenichi Matsui



Akemi Mochizuki



Hiroshi Miyake

out certain things by actually visiting the company, so all the directors traveled to Ping An Insurance in Shenzhen, China in 2019 to gauge the views of Ping An Insurance's top management and share their perceptions of the future prospects and issues for our Chinese operations.

Mochizuki I also joined the tour and I was overwhelmed by the fact that China has developed more than I had imagined. The size of China, in terms of both land area and population, and the speed and strength of its economic growth filled me with both expectations and anxiety, and it was difficult for me to express my feelings, but Chairman Ma's friendly and open conversational style caused my expectations to outstrip my anxiety.

Matsushita It was great to actually meet Mr. Ma and directly feel his desire to "contribute to the health of the Chinese people." I think it was also very good that we were able to convey our seriousness to him. Since we have yet to realize an M&A deal with a Chinese manufacturer of traditional Chinese medical products, we need to be fast enough to keep up with the expectations of Ping An Insurance. However, not only the gas pedal but also the brake pedal is important, so it is imperative to follow a selection process that can be explained to all stakeholders. Since I am a lawyer, I pay particular attention to such points when I speak at Board of Directors meetings.

Kohguchi Some people think that progress with this M&A deal is slow, but I see it as a positive sign that they are doing their due diligence carefully. It's a big thing to be a joining hands with Ping An Insurance, isn't it? I feel that Ping An Insurance is a very good business partner

as its presence acts as a deterrent within China. Do you have a well-functioning group governance system for your business in China?

Mochizuki I am also a member of the Audit and Supervisory Committee, so when I talk with the management and employees of Chinese group companies, I always mention group governance. What I notice is that there are differences in the ways people think about governance. The local personnel in China feel that governance is about transferring decision-making authority to them and allowing them to proceed with their business. Group governance is not possible without cooperation with the parent company, so I intend to keep a close eye on that aspect. On the other hand, I also believe that governance is effective in some areas due to the presence of Ping An Insurance.

Kohguchi Governance is a concept that came from the West, so there are different ways of thinking about it among Japanese people, and it is only natural that Chinese people have a different understanding of it.

Mochizuki I think it would be better to communicate things in more concrete terms without using the word "governance. This is easier said than done due to the language barrier, but I will continue to communicate what needs to be communicated.

Tsumura Academy fostering successors to lead the next generation

Kohguchi It has been ten years since Mr. Kato took over as president, but is the issue of a successor being



Mitsutoshi Matsushita



Tadashi Okada



Shinichi Kohguchi

considered on a regular basis? In particular, I would like you to ask the executive side what is required of the next generation of leaders. I would also like to know what kind of scheme you employ for succession planning.

Matsushita Regarding succession planning, the Nomination / Remuneration Advisory Committee has been actively discussing which processes are necessary for quite a while, but I think it's now time for the Board of Directors to discuss this issue as well.

Matsui We haven't discussed specific criteria that the next president should satisfy, but since efforts to achieve our current long-term business vision will come to an end in 2021, with this being the target year, we are now in the process of setting out a new vision for 2031. So it would be desirable to have someone who can serve as leader for moving toward that vision over the next 10 years. The new vision will include challenges that we have never taken on in the past, so the best candidate will be a person of character who will get the people who should support the leader feel that they want to do their best for him or her. Any succession plan must be considered in a multilayered manner, including the organizational structure. Also, since we are a company in the business of Kampo, a distinctive type of product, I don't think we can bring in people from outside just because they fit the conditions. I don't know what kind of discussions will take place at the Board of Directors meetings, but if the succession planning mechanism is properly followed, governance will be strengthened considerably. Since assuming office, President Kato has been working to strengthen governance and is aiming for further evolution.

Miyake Three years ago, the Board of Directors identified the succession plan as a priority issue. At the same time, we created the Tsumura Academy, a structure and program for fostering successors, and President Kato himself continues to communicate his thoughts directly to the participants. We also attend the annual presentations from the management candidates, and I highly rate this systematic program that leads to the accumulation of knowledge and experience concerning important management issues.

Okada I think the onus is on the outside directors to establish the mechanism for succession planning, make sure it is implemented as it should be, and monitor the situation.

Kohguchi How is remuneration determined? What points do you take into consideration in your deliberations?

Matsui Several times a year, all executive officers take part in commitment and KPI report meetings, where they present their plans for the year and quarterly progress with respect to the themes they have determined. Since we cannot view execution status directly, we ask them to show us a lot of information such as KPIs, and we try to look at them impartially. I believe that the introduction of the new personnel system this year will lead to more appropriate evaluations. And I expect that as the system starts to function as planned in the future, results will improve.

Kohguchi I would like to ask you about modes of working for women. What are your thoughts on the current situation and issues?

Mochizuki Since there are also female employees

involved in this interview, I feel that the Company is one in which women can easily play an active role. In addition, I have seen the activities of female employees in various situations, such as during operational explanations and reports from individual departments. Moreover, for several years 100% of women taking maternity leave have returned to their work at the Company afterwards, so I feel that the Company is a good place to work regardless of gender.

Future of the Tsumura Group as seen by the outside directors

Kohguchi Looking ahead to 2030 and 2050, what kind of company do you think the Tsumura Group should become? Each of you, please share with me what you would consider to be ideal.

Mochizuki I have two thoughts: One is that I want Tsumura to push ahead to be regarded as the Kampo company, but the other is that I wonder if it will be enough to just be the Kampo company. Tsumura possesses strong competitive superiority in the realm of Kampo, so I want it to expand outwards beyond Japan into the entire region. I hope that in 10 years' time, the Tsumura name will have reached not only China, but at least much of Asia, too.

Matsushita I think that the Company's fundamental stance of providing good medicines to the patients that need them must not be shaken. I hope that the Company will establish its Chinese operations by 2030 and spread its wings to the world by 2050. I believe that the success of the clinical development of TU-100 (Daikenchuto) in the U.S. will lead to Kampo, which are plant-derived medicines, becoming more firmly established there, so I can say that this is a major turning point.

Miyake As for the cultivation and procurement of crude drugs, which are the raw ingredients for the formulation of Kampo, I think it could be expanded beyond just China and Laos to other countries as well. There are also concrete examples of exchanges with other industries through Kampo and crude drugs. With online medical consultations starting to be offered and other services being launched, I see the Company as a very exciting one, considering the ways it can play a role in the smart city concept.

Matsui I believe that there are things that can be done only by Tsumura, which has the largest share of the Kampo market. It has been about 40 years since the current system for prescription Kampo formulations was established, but there is still a long way to go. There may be risk factors such as technological innovation and changes in medical systems, but I believe that there are many things that can only be done by Tsumura as the Kampo company, and things that are only possible because Tsumura exists, so I hope that the Company will continue to take on challenges.

Okada The approach of mibyō [pre-symptomatic

disease], which goes beyond conventional concepts of disease treatment, is also unique to Kampo medicine, and I am very attracted to the fact that the theme of the Company is the fusion of Kampo medicine and Western medicine. I believe that the Company will continue to survive as a unique company and become more and more prominent in the future. It really is a company with a dream.

Kohguchi I believe that Tsumura is a truly unique company with a business like none other. Before we go, do you have a message for the employees of Tsumura?

Okada It is a unique company, so I would like you to take on challenges in connection with various themes to drive the Company forward.

Matsui Since the Company is involved in the fascinating business of Kampo, I hope that you challenge yourselves with big dreams.

Miyake I think it is a fun company where you can do many different things. For this reason, self-improvement is important, and I hope that you will achieve personal growth while maintaining a broad perspective.

Matsushita Tsumura has such a long history and is a company unlike any other in the world. While it is important to spread the name of Tsumura throughout the world and expand its business, I hope you will not forget the Company's commitment to providing good medicines to patients.

Mochizuki Be confident and proud of your company, your work, your products, and their value to the people around you.

Profile Shinichi Kohguchi

Following the discussion

I felt the strong determination of the outside directors to understand the execution of Tsumura's business from their respective standpoints and to fulfill their checking functions.

Kampo medicines are natural drugs with a long history originating from Japan, yet they are still not fully understood. But this means that Kampo medicine has great potential. Through the realization of its corporate philosophy of "the Best of Nature and Science," I hope that Tsumura promotes awareness and understanding of the efficacy of Kampo medicine, and achieves sustainable growth by contributing to the health and medical care of people not only in Japan, but also in China, the U.S., and the wider world.

Sumitomo Mitsui Trust Asset Management Co., Ltd.
Senior Stewardship Officer, Stewardship Development Department

After graduating from Waseda University in 1989, he worked at Wako Economic Research Institute (a predecessor company of Japan Investor Relations and Investor Support, Inc.) before joining The Sumitomo Trust and Banking Co., Ltd. (now Sumitomo Mitsui Trust Bank, Limited) in 1998. Later, following a company split in 2018, he moved to Sumitomo Mitsui Trust Asset Management Co., Ltd. Since 1990, he has been engaged in corporate value analysis and investment decision making as a stock analyst, focusing on the healthcare and cosmetics/toiletry sectors. In his current position since 2021, he has been working to promote the resolution of ESG issues through dialogue with companies and to realize sustainable growth for companies and society as a whole. He is certified as an analyst by the Securities Analysts Association of Japan.

Corporate Governance

Basic policy

The basic principles of Tsumura are encapsulated in its corporate philosophy of “the Best of Nature and Science” and in its corporate mission of “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” Guided by these basic principles, we adhere to a policy of implementing continuous improvements to corporate governance in order to realize ongoing growth and medium-to-long-term increases in corporate value. From June 2017, Tsumura shifted from a Company with Company Auditor(s) to a Company with Audit

and Supervisory Committee to further strengthen the oversight 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.

Nomination / Remuneration Advisory Committee



Chairman
Kenichi Matsui

Number of meetings held in Fiscal 2020 **7** times

The Nomination / Remuneration Advisory Committee is a voluntarily established advisory body to the Board of Directors. The committee is composed of a majority of outside directors who have also been designated as independent directors as stipulated by the Tokyo Stock Exchange (including outside directors who are members of the Audit and Supervisory Committee). These independent outside directors provide advice on matters related to the nomination and remuneration of directors and executive officers based on inquiries by the Board of Directors and also submit reports to the Board of Directors on these subjects. There are six members of the committee, and five of them, including the chairman, are independent outside directors.

Number of Nomination / Remuneration Advisory Committee members: 6 (Of whom, 5 are outside directors)

85th
term
Key
matters

- Proposal concerning election and dismissal of directors to be put before the General Meeting of Shareholders
- Draft proposal concerning selection and dismissal of representative directors to be put before the Board of Directors
- Draft proposal concerning candidates for executive officers to be put before the Board of Directors
- Policy and procedures for selection of directors and executive officers
- Draft proposal concerning remuneration for each individual director and executive officer
- Policy and procedures for determination of matters such as a composition of director remuneration

Outside Directors' Meeting



Chairman
Kenichi Matsui

Number of meetings held in Fiscal 2020 **13** times

The Outside Directors' Meeting collects and shares the information necessary for management decision-making. At the same time, it acts as a venue for the exchange of opinions regarding the necessity of discussions and other matters with the Board of Directors.

Number of Outside Directors' Meeting members: 5

85th
term
Key
matters

- Advance explanation of agenda for Board of Directors meeting
- Follow-up on evaluation of effectiveness of Board of Directors
- Explanation of matters deliberated on by Executive Committee
- Progress report on Chinese operations

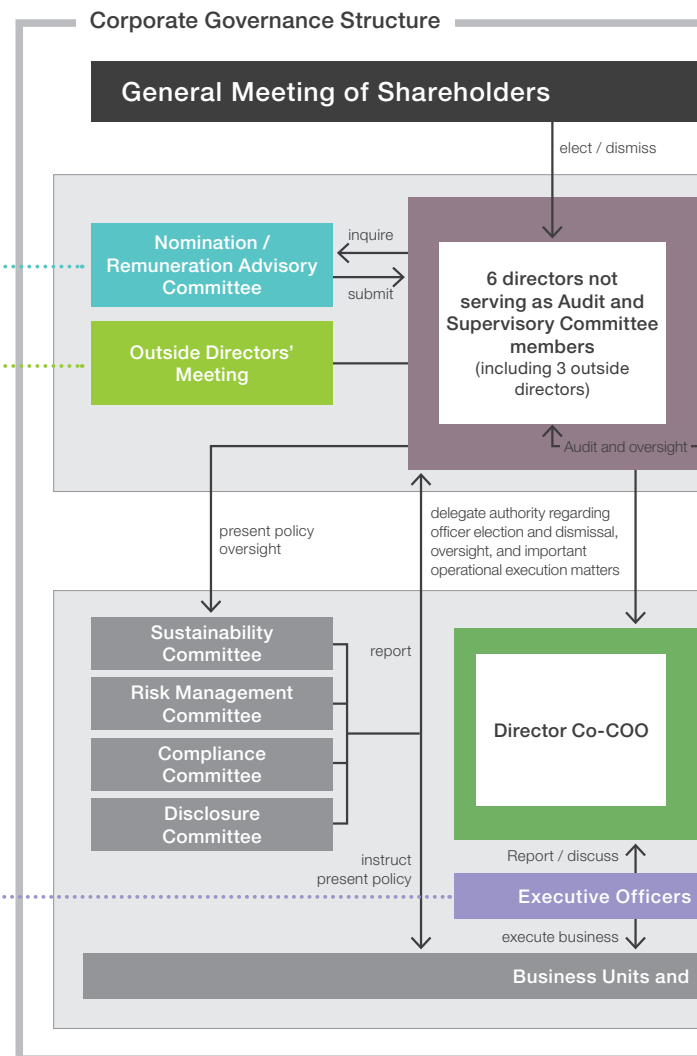
Executive Officers' Meeting



Chairman
Muneki Handa

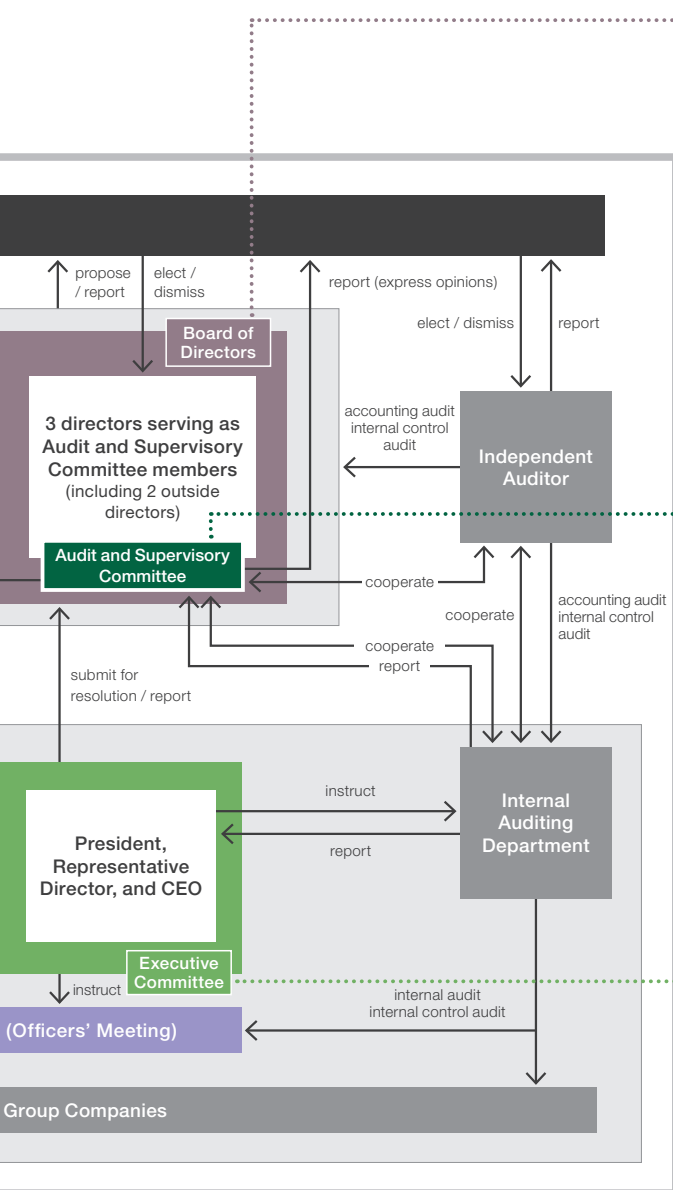
Number of meetings held in Fiscal 2020 **17** times

The Executive Officers' Meeting comprises all the executive officers, who share information and discuss important matters related to general management.



Evolution of corporate governance system

2003	Executive officer system introduced
2004	Outside director appointed and term of directors made one year
2012 Long-term vision announced	
2015	Female director appointed and executive officer system introduced
2017	Outside directors made the majority, shift to Company with Audit and Supervisory Committee effected, and Nomination / Remuneration Advisory Committee established
2019	CxO system introduced



Board of Directors



Chairman
Terukazu Kato

Number of meetings held in Fiscal 2020 **18** times

The Board of Directors makes important decisions to ensure sustainable growth and enhance corporate value over the medium-to-long term. The Company aims to accelerate decision-making by separating business execution functions from the Board of Directors. At the same time, we are strengthening the supervisory function of general management by appointing outside directors to comprise the majority of the Board of Directors and appropriately reflecting their objective views from an independent perspective as experts with extensive experience.

Number of Board of Directors members 9 (Of whom, 5 are outside directors)

85th
term
Key
matters

- Progress with the Third Medium-Term Management Plan
- Progress monitoring and follow-up with respect to Chinese operations
- Confirmation of progress status of large investment projects
- Formulation of plan for human resources development (future management candidates) and reporting of action status
- Direction for new medium-term management plan
- Evaluation of effectiveness of Board of Directors and determination of key themes

Audit and Supervisory Committee



Chairman
Kimikazu Okochi

Number of meetings held in Fiscal 2020 **18** times

The Audit and Supervisory Committee audits the legality and appropriateness of the execution of duties by the directors. Specifically, it performs systematic audits in cooperation with the Internal Auditing Department, while Audit and Supervisory Committee members themselves interview executive officers on the status of operational execution, attend important meetings such as those of the Executive Committee, exchange information with the directors and statutory auditors of subsidiaries, and monitor/verify the development and operation of internal control systems, including internal control over financial reporting.

Number of Audit and Supervisory Committee members 3 (Of whom, 2 are outside directors)

85th
term
Key
matters

- Audit policy/plan formulation
- Reappointment and remuneration of independent auditor
- Proposals to be put before the General Meeting of Shareholders
- Preparation of audit report
- Hotline consultation status

Executive Committee



Chairman
Susumu Adachi

Number of meetings held in Fiscal 2020 **24** regular meetings, **2** extraordinary meetings

The Executive Committee is composed of executive directors (the chief executive officer (CEO), the chief operating officer (COO) or the co-chief operating officers (Co-COOs), and the chief financial officer (CFO)), and the executive officer responsible for the Personnel Department. This committee is responsible for deliberating and making decisions on important items related to operational execution with regard to general management and for discussing matters to be presented to the Board of Directors prior to meetings.

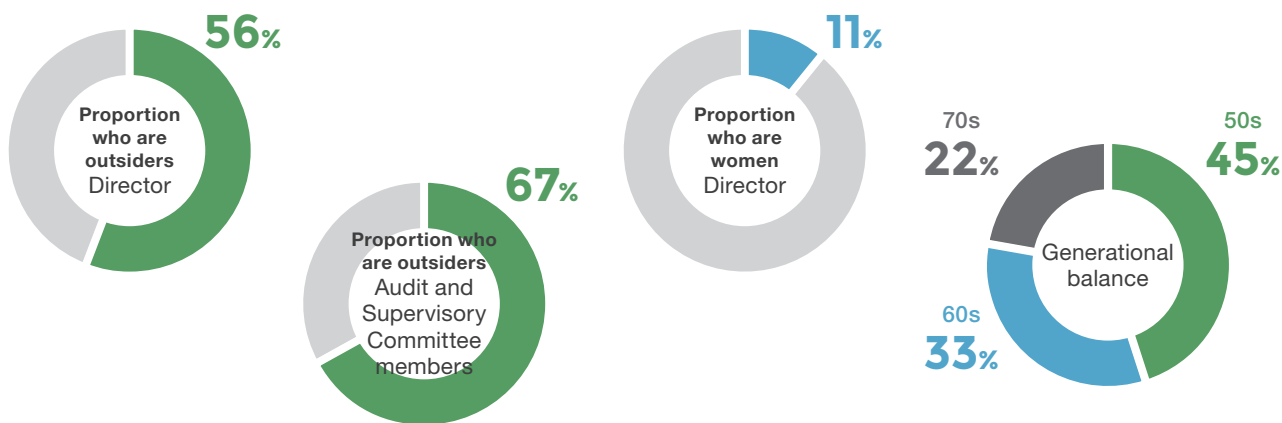
Approach to diversity of directors

The Tsumura Group formulates its long-term management visions and medium-term management plans in response to social demands 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 making appropriate and prompt decisions regarding corporate governance, the foundation of management. At present, outside directors account for the majority of the number of Board of Directors. We are building a highly effective governance system to make decisions on important matters from diverse perspectives, such as those of people with corporate management experience,

lawyers, and CPAs, and to ensure that decisions are not made based solely on the knowledge of Tsumura’s inside directors.

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

Number of times Board of Directors meetings were held	Number of times Audit and Supervisory Committee meetings were held
18/18 times All 9 members: 100% attendance	18/18 times All 3 members: 100% attendance



Skill matrix

(as of October 1st, 2021)

Position	Gender	Age	Corporate management	Global	Sales/ marketing	SDGs ESG	IT	Financial accounting	Legal risk management	Human resources management
Terukazu Kato President and Representative Director CEO	Male	58	●	●	●	●	●	●		●
Susumu Adachi Director Co-COO	Male	58	●	●	●	●		●		
Muneki Handa Director CFO	Male	59	●		●	●	●	●	●	●
Kenichi Matsui Outside Director	Male	72	●			●		●	●	
Hiroshi Miyake Outside Director	Male	72	●	●	●	●	●		●	
Tadashi Okada Outside Director	Male	65	●	●		●	●		●	
Kimikazu Okochi Director Full-Time Audit and Supervisory Committee Member	Male	62		●				●		
Mitsutoshi Matsushita Outside Director Audit and Supervisory Committee members	Male	50							●	
Akemi Mochizuki Outside Director Audit and Supervisory Committee members	Female	67						●		

Evaluation of the Board of Directors' Effectiveness

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

The Company shifted to a company with an Audit and Supervisory Committee in 2017 to strengthen the supervisory function of the Board of Directors and further enhance the soundness and transparency of management. We have put in place a system that enables swift and resolute decision-making by separating the business execution function from the Board of Directors. Therefore, from the perspective of strengthening the supervisory and monitoring functions of the Board of Directors, we are working to ensure continuous improvement with respect to the issues identified through the analysis of the results of the evaluation of the effectiveness of the Board of Directors and are endeavoring to further improve the effectiveness of the Board of Directors. Regarding the effectiveness of the Board of Directors in fiscal 2020, a questionnaire evaluation was conducted for all nine directors, and the issues identified and specific measures for addressing them were discussed at the Board of Directors meeting held in May 2021. This year, we believe that we were able to conduct a more objective evaluation and analysis by utilizing an external organization to analyze proposals, design the questionnaire, analyze the evaluation results, and suggest measures to tackle the issues.

1 Evaluation items (6 categories, 25 items)

The evaluation for fiscal 2020 was conducted from the perspectives of confirming the status of efforts to address issues identified in the results of the analysis of the previous year's effectiveness evaluation, confirming the themes that require priority supervision in order for the Board of Directors to fulfill its role, and identifying issues and considering measures for addressing them so as to further improve effectiveness in the future.

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

2 Evaluation of the effectiveness of the Board of Directors

- As a result of this year's analysis and evaluation, it was confirmed that the Board of Directors is fulfilling its role and function, with active discussions aimed at ensuring substantial supervision and monitoring of business execution.
- In the effectiveness evaluation questionnaire for each director, a certain percentage of the respondents answered "accomplishing sufficiently" or "accomplishing overall" to many of the questions.
- As for the composition of the Board of Directors, the number is appropriate for active discussion and exchange of opinions. In addition, the Board of Directors is composed of diverse members with various types of experience and expertise, which is required for matters to be properly discussed at the Board of Directors meetings. Furthermore, the Board of Directors operates in an atmosphere that encourages the frank, free, and open expression opinions.
- Based on the Group's basic principles, the Board of Directors assessed the status of the realization of the long-term management vision for the period from fiscal 2012 to fiscal 2021 and the achievement of the goals of the third medium-term management plan for the period from fiscal 2019 to fiscal 2021. After confirming the future long-term management direction and priority issues, it engaged in discussions toward the formulation of a new vision to be accomplished by fiscal 2031.
- As Chinese operations constitute a strategic challenge with high level of importance for our sustainable growth and the enhancement of our corporate value over the medium to long term, the activities of Chinese operations have been regularly reported to the Board of Directors and discussions have been held concerning policies, plans and strategies for the operations. In fiscal 2020, for example, we increased the number

of opportunities to report on Chinese operations report to the Board of Directors.

- The status of efforts to address the issues identified in the evaluation of the effectiveness of the Board of Directors in the previous fiscal year (fiscal 2019) is as follows:
- With regard to the governance of Group companies, we are striving to strengthen the governance systems of Group companies, particularly those engaged in Chinese operations, by reinforcing their management structures and securing human resources as the scale of their businesses and their organizations expand through, for example, M&A activity.
- As for dialogue with stakeholders, including shareholders, we are taking steps to increase the amount of information we disclose and to improve tools for disclosure. We are also expanding opportunities for dialogue. For example, we now hold an earnings briefing every quarter.
- Regarding training for directors, as a supplement to decision-making by the Board of Directors, we regularly invite experts with a high level of expertise to give lectures. These lectures might cover the latest developments in China or provide a grounding in the essentials of sustainability management. As such, directors are able to find out about matters such as the business situation in China and operational risks, knowledge that is essential for new business development.
- With respect to the digitization of Board of Directors information, we are working to improve remote infrastructure, establish a management information website and grant access privileges to it, and share various materials using dedicated tablet PCs. We are also beefing up information security. The purpose of such initiatives is proper operation of the Board of Directors and the prompt sharing of accurate information.

Issues and Response Measures

- Based on the results of this effectiveness evaluation, we will take the following measures to further improve the effectiveness of the Board of Directors:
- On the topic of climate change, we recognize it as a risk to the Kampo business and are responding to it, but as an even more urgent task for the future, all members of the Board of Directors must share a common understanding of climate change, discuss it from the perspectives of both social responsibility and issues for corporate management, and consider how we will respond it.
- As for the building of governance systems for Group companies, we will establish a governance system for Chinese Group companies and strengthen the governance of the entire Group. Specifically, we will establish a governance system to supervise the execution status of each Group company, centered on Tsumura China Inc., the company that controls all our operations in China. We will also strengthen supervision and monitoring by the Board of Directors. (As such, we will be establishing and implementing governance systems based on the three-lines-of-defense approach.)
- With respect to the enhancement of information disclosure, we will strengthen our IR function to increase opportunities for dialogue and foster an environment for information dissemination with a wide range of stakeholders, including general consumers, in mind.

In this fiscal year also, we will be focusing on tackling five items as key management issues. The Company will continue to implement its unique PDCA cycle with the aim of realizing further improvements in the effectiveness of its Board of Directors.

Director Remuneration

Basic idea behind the officer remuneration system

The Company's director remuneration is designed so that remuneration standards and components are commensurate with their roles and duties of the officers concerned, and adhere to a basic policy of contributing to sustainable growth through improved business performance and the enhancement of corporate value over the medium to long term.

- Among directors (excluding directors who are members of the Audit and Supervisory Committee), remuneration for executive directors, including representative directors, is based on the remuneration standards for roles and duties and consists of basic remuneration reflecting short-term performance, such as the Company's performance in each fiscal year and the degree of achievement of business targets set by each individual director, and performance-linked stock-based remuneration reflecting medium- to long-term performance.
- The amount of employee's salary for directors who concurrently serve as employees, if any, is determined in consideration of the salary level of the Company's employees.
- Among directors (excluding directors who are members of the Audit and Supervisory Committee), non-executive directors, including outside directors, are, in light of their role in supervising business execution, are paid only basic remuneration, the amount of which is fixed.
- Given their roles and duties, remuneration for directors who are Audit and Supervisory Committee members also comprises only fixed basic remuneration.

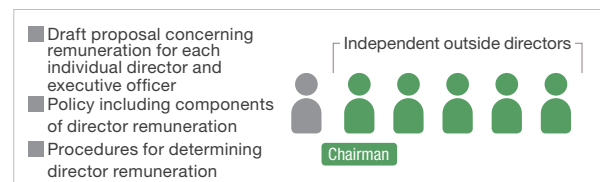
Remuneration levels

Given the business environment, the Company 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 on the salary levels of the Company's employees provided by third-party specialists, and sets remuneration levels that are consistent with their roles and duties.

Process for determining remuneration

- The Board of Directors, as the body that supervises the directors, deliberates and decides on matters related to director remuneration based on deliberations by and reports from the Nomination / Remuneration Advisory Committee.

- The Board of Directors established the Nomination / Remuneration Advisory Committee to strengthen independence and objectivity in the functioning of the Board of Directors and to ensure its accountability through the receipt of ap-propriate advice from and other involvement by outside directors, including de-cisions on the selection, dismissal, and remuneration of executive directors and executive officers.
- The Nomination / Remuneration Advisory Committee is a voluntarily established advisory body to the Board of Directors. The committee is composed of a majority of outside directors who have also been designated as independent directors as stipulated by the Tokyo Stock Exchange (including outside directors who are members of the Audit and Supervisory Committee). These independent outside directors provide advice on matters related to the nomination and remuneration of directors and executive officers based on inquiries by the Board of Directors and also submit reports to the Board of Directors on these subjects.
- The Nomination / Remuneration Advisory Committee consists of six members, five of whom are independent outside directors, including the chairman.
- The Nomination / Remuneration Advisory Committee deliberates on the following main issues regarding remuneration:



- The Board of Directors consults the Nomination / Remuneration Advisory Committee on nomination procedures for the selection and dismissal of executive directors and executive officers, evaluations of their performance, and procedures for determining their remuneration based on these evaluations. Regarding the results of and background to that, the Board of Directors receives a report from the Nomination / Remuneration Advisory Committee before making its final decisions. In addition, the Company has established corporate regulations such as the Director Remuneration Regulations, Director Stock Remuneration Regulations, and Executive Officers Remuneration Regulations.

Remuneration components

The components of remuneration for directors etc. are as follows:

Among directors (excluding directors who are members of the Audit Committee), executive directors, including representative directors

Fixed component 60%	Short-term performance-linked component 30%	Medium-term performance-linked component 10%
Basic remuneration (monetary)		Stock remuneration

*Among directors (excluding directors who are members of the Audit and Supervisory Committee), remuneration for executive directors, including representative directors, comprises the above components, so as to ensure that they contribute to sustainable growth and the enhancement of corporate value over the medium to long term by improving corporate performance. *The component ratios reflect the standard amounts of remuneration for each role and duty. *This is a model where the target achievement ratio related to performance-linked remuneration is 100%. *The allocation ratios for each performance-linked component are as shown on the next page.

Short-term performance-linked component

Consolidated net sales and consolidated operating profit, which are used as indicators for numerical targets in the medium-term management plan, are also important evaluation indicators for the short-term performance-linked component of remuneration, and the achievement ratios with respect to the fiscal-year forecasts for consolidated net sales and consolidated operating profit are reflected. In addition, the achievement ratios with respect to business targets set by each director as the person responsible for business execution are also reflected. Note also that allocation ratios are determined in light of role.

Evaluation indicators	Allocation ratios
Consolidated net sales	25-35%
Consolidated operating profit	25-35%
Achievement ratio for operational target set by individual	30-50%*

*The portion related to the "achievement ratio for operational target set by individual" is set to vary within the range 70-120% depending on the evaluation results.

Medium-term performance-linked component

In order to contribute to sustainable growth through improved business performance and to enhance corporate value over the medium to long term, the Company has set consolidated net sales, consolidated operating profit, and consolidated ROE, which are numerical targets in the medium-term management plan, as important common evaluation indicators, and the achievement ratio with respect to each indicator is reflected. In addition, among the evaluation indicators for the medium- to long-term performance-linked component, we place particular importance on consolidated net sales, and have set the allocation ratio for each evaluation indicator as follows:

Evaluation indicators	Allocation ratios
Consolidated net sales	40%
Consolidated operating profit	30%
Consolidated ROE	30%

Among directors (excluding directors who are members of the Audit and Supervisory Committee), non-executive directors, including outside directors, and directors who are members of the Audit and Supervisory Committee

Basic remuneration (fixed/monetary)	100%
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*Only fixed basic remuneration is paid, given that their role is to supervise business execution.

Targets for indicators related to performance-related remuneration

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

		Target figure
Medium-term management plan (For fiscal 2021)	Consolidated net sales (100 million yen)	1,350
	Consolidated operating profit (100 million yen)	190
	Consolidated ROE (%)	6

Note: These targets were approved at the 83rd Ordinary General Meeting of Shareholders held on June 27, 2019.

Total remuneration for each category, total remuneration by type, and total number of directors applicable

Category	Total remuneration (¥ in millions)	Total remuneration by type (¥ in millions)		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)	197	178	19	3
Directors (Audit and Supervisory Committee Members) (excluding outside directors)	25	25	—	1
Outside directors	51	51	—	6

Note 1: Figures include one outside director (excluding directors who are members of the Audit and Supervisory Committee) who resigned as of the conclusion of the 84rd Ordinary General Meeting of Shareholders held on June 26, 2020.

2: Remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) does not include the amount of employee's salary for directors who concurrently serve as employees.

3: For stock remuneration, the amounts booked in the fiscal year under review are presented.

Compliance

Compliance Promotion Frameworks and Systems

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

In addition, we have established and are operating an internal reporting system (Tsumura Group Hotline) to promptly identify and correct problems within the Group, and the status of its operation is regularly

reported to the President and Representative Director CEO, who is also the Chief Compliance Officer, and other internal directors.

Note that the director in charge of compliance periodically reports to the Board of Directors on matters such as the verification of the results of questionnaire surveys conducted following the introduction of policies or activities.

Tsumura Code of Conduct

With the dignity of life as our first priority, and based on our corporate philosophy of "the Best of Nature and Science," we aim to contribute to the health and medical care of people and the realization of a sustainable society through the scientifically backed fusion of "Kampo medicine" and "Western medicine" cultivated in the Japanese tradition. To this end, the Company and its officers and employees will comply with all relevant laws, regulations, international rules, and the spirit thereof, both within and outside Japan, based on the following principles of conduct, and will fulfill our social responsibilities with high ethical standards:



Tsumura Code of Conduct

- 1 Contribute to medical care through the provision of high-quality Kampo medicines
- 2 Conduct rigorous scientific research
- 3 Promote appropriate use
- 4 Build trust with medical personnel, patients, etc.
- 5 Ensure appropriate trading and distribution through free and fair competition
- 6 Properly safeguard and strictly manage information
- 7 Disclose information proactively and fairly to make the Company open to the world
- 8 Enthusiastically take action to achieve harmony with the environment
- 9 Respect the diversity of employees and create working environments that are safe and motivating
- 10 Contribute to the development of society through social participation
- 11 Ensure thorough crisis management
- 12 Respect the human rights of all people and the laws, regulations, and culture of each country
- 13 Have top management lead by example in embodying the spirit of this Code of Conduct to ensure that the Company behaves ethically

Tsumura Compliance Program

Tsumura Code of Conduct

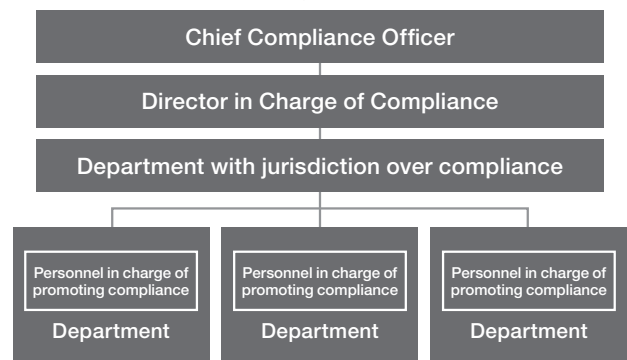
Tsumura Compliance Program Regulations

Compliance Committee

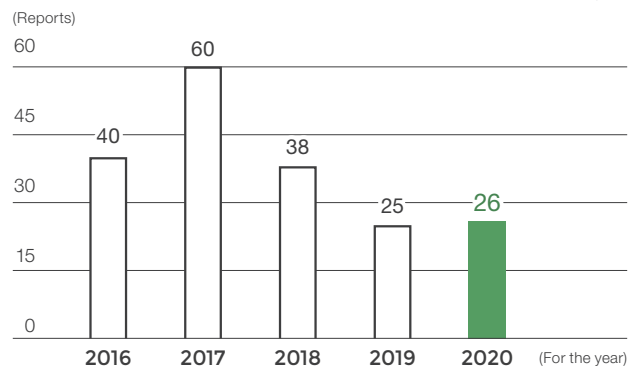
Compliance Promotion System

Tsumura Group Hotline

Compliance Promotion System



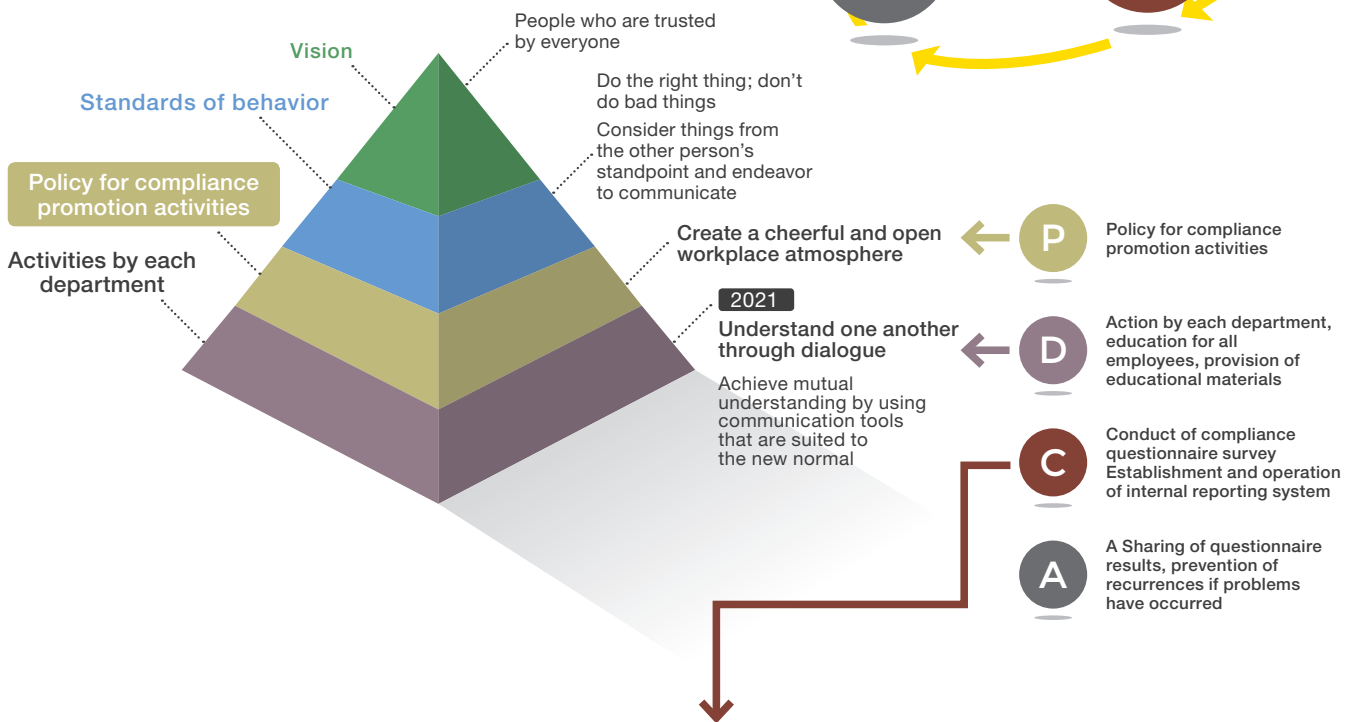
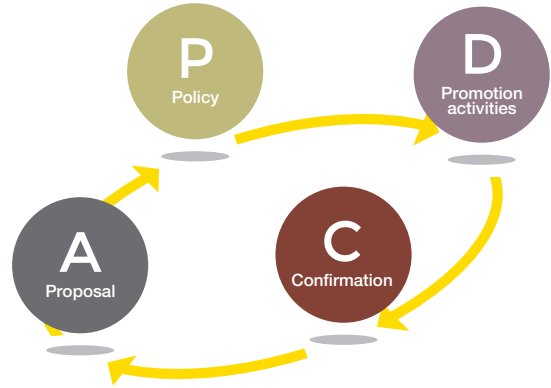
Trend in number of reports received via Hotline



Tsumura Group's compliance promotion activities

Based on the results of the annual questionnaire survey and internal and external incidents, the Compliance Committee deliberates on and formulates a policy for compliance promotion activities, which is then presented to each operational department and Group company, which are announced or instructed to implement it.

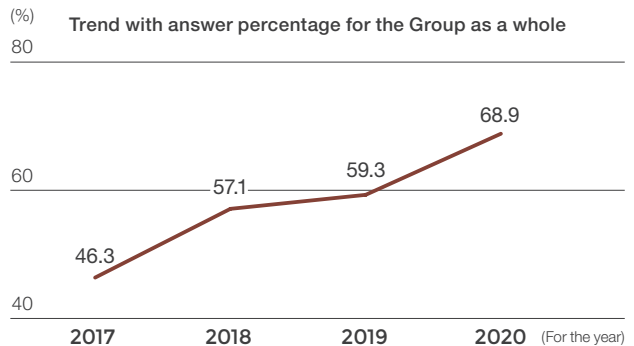
PDCA for compliance promotion activities



Questionnaire content

Question
Do you think your workplace is "cheerful and open?" (5 ranks of answer)

Answer
"I think so" + "I somewhat think so"



Code of Practice

The Company has established the Tsumura Code of Practice (below, 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 promote Tsumura prescription pharmaceuticals in an appropriate manner.

Risk Management

Risk Management Systems

Provisions Related to Information Management

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

Matters Related to Risk Management

In its risk management practices, the Group takes steps to confirm the status of initiatives for addressing management risks as well as the necessary measures for responding to risks that may materialize in the future. Such confirmation is carried out through risk meetings between the division responsible for risk management (the General Affairs Department) and relevant operating divisions and members of senior management at Group companies and through meetings of the Risk Management Committee. The Group has also established a business continuity plan (BCP) to further strengthen crisis management initiatives and to ensure that operations can be restored in the event of an emergency. The BCP describes its purpose and basic policies, the scope of application for management under the plan, provisions pertaining to strategies and evaluations of the impacts of emergency situations, business continuity measures, and business restoration procedures. We are preparing a business continuity management (BCM) system to promptly and accurately respond should risks occur. In addition, we have updated our disaster response and portable disaster preparedness manuals, which are being utilized in disaster preparedness drill at various Group bases.

Risk items

- 1 Risks related to the medical system
- 2 Risks related to the supply of products
- 3 Risks related to product safety and adverse reactions
- 4 Risks related to international business
- 5 Risks related to R&D
- 6 Risks related to intellectual property (IP)
- 7 Risks related to human resources
- 8 Risks related to competitiveness
- 9 Risks related to changes in exchange rates
- 10 Risks related to finance
- 11 Risks related to taxation
- 12 Risks related to the environment
- 13 Risks related to litigation
- 14 Risks related to information management
- 15 Risks related to internal control
- 16 Other

Details of significant risks	Risk mitigation measures
<ul style="list-style-type: none"> ■ Risks related to administrative developments such as government policies to curb healthcare spending ■ Risk of domestic/overseas regulations concerning the development and manufacture of pharmaceutical products 	<ul style="list-style-type: none"> ■ Nurturing understanding of the value of Kampo formulations ■ Cooperation with industry bodies and recommendations to relevant ministries and agencies ■ Establishment of evidence of efficacy of prescription Kampo formulations ■ Activities to raise profile of prescription Kampo formulations
<ul style="list-style-type: none"> ■ Procurement risk in case of raw-material crude drugs due to unforeseen weather conditions, natural disasters, etc., changes in the scope of legal restrictions on imports and exports, or unexpected changes in political and economic conditions ■ Procurement risk in case of secondary raw materials and other materials due to sudden supply-and-demand-related distribution concerns caused by natural disasters or unstable social conditions ■ Risk of loss of production and distribution functions due to natural disasters, fires, power outages, etc. 	<ul style="list-style-type: none"> ■ Securing 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 ■ Diversification of manufacturing sites and product-supply sites ■ Introduction of earthquake mitigation/resistance measures at production facilities
<ul style="list-style-type: none"> ■ Risk of occurrence of product-quality or safety problems ■ Risk of unexpected side-effects 	<ul style="list-style-type: none"> ■ Compliance with quality control standards in the country or region ■ Promotion of initiatives that emphasize quality with respect to not only our own products, but to all products, including ones we manufacture under contract ■ Thorough management of raw-material crude drugs in accordance with the TSUMURA GACP for Crude Drugs
<ul style="list-style-type: none"> ■ Risk that contingent liabilities or unrecognized liabilities will be discovered after acquisitions or alliances related to the launch of Chinese operations, and that the expected business value and future synergies from business integration will not be realized ■ Risk of unexpected changes in laws/regulations or in political/economic conditions 	<ul style="list-style-type: none"> ■ Conduct of careful due diligence concerning the financial condition, dealings, etc. of companies/businesses subject to M&A ■ Reinforcement of business management functions through the establishment of Tsumura China Inc.
<ul style="list-style-type: none"> ■ Risk of being unable to achieve growth or maintain/improve performance in the future 	<ul style="list-style-type: none"> ■ Establishment of evidence of the efficacy of Kampo formulations domestically and overseas ■ R&D for new products and technologies
<ul style="list-style-type: none"> ■ Risk of decline in competitiveness due to IP rights infringement by third parties ■ Risk of disputes stemming from third-party IP rights infringement 	<ul style="list-style-type: none"> ■ Thorough information management in accordance with Company rules ■ Acquisition of industrial property rights such as patents and trademark rights in connection with newly-developed technologies, new products, etc. ■ Investigation of 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 resources ■ Risk of a decline in societal standing due to insufficient action to tackle occupational health and safety issues, harassment, etc. 	<ul style="list-style-type: none"> ■ Clarification of human-resource criteria and personnel numbers required for management strategy execution, and establishment of recruitment techniques ■ Securing of global human resources for the development of Chinese and US operations ■ Cultivation of personnel who can conduct business based on the Group's basic principles and development of diverse human resources through the Tsumura Academy ■ Systematic development of human resources based on the Human Resources Development Policy ■ Provision of thorough labor-affairs management education and increase in opportunities for communication through utilization of modes such as one-on-one dialogue
<ul style="list-style-type: none"> ■ Risk of entry into prescription Kampo market by domestic/overseas pharmaceutical companies 	<ul style="list-style-type: none"> ■ Ensuring superiority through the stable procurement of safe crude drugs, the steady supply of prescription Kampo formulations of uniform quality, and the accumulation of evidence that they are safe and effective
<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 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 obligations ■ Risk of having to fulfill debt guarantees ■ Risk of price fluctuation for marketable securities 	<ul style="list-style-type: none"> ■ Fundraising risk ■ Early identification of changes in the external environment, market environment, circumstances at related companies, etc. and swift action to respond to such changes
<ul style="list-style-type: none"> ■ Risk of being charged additional tax or subject to double taxation due to differences of opinion with the tax authorities in each country 	<ul style="list-style-type: none"> ■ Calculation of taxation amounts and proper payment thereof in accordance with the tax laws of each country ■ Compliance with the transfer-pricing tax regimes applied in each country
<ul style="list-style-type: none"> ■ Risk of violating laws or regulations by causing soil contamination, water pollution, etc. 	<ul style="list-style-type: none"> ■ Compliance with environment-related laws and regulations ■ Preservation of natural environments through eco-conscious activities
<ul style="list-style-type: none"> ■ Risk of various lawsuits being filed for, for example, side-effects of pharmaceutical products including Kampo medicines, harm to health, product liability, labor issues, infringement of intellectual property rights, contract nonperformance, environmental pollution, etc. 	<ul style="list-style-type: none"> ■ Activities where compliance is assured
<ul style="list-style-type: none"> ■ Risk of IT systems malfunctioning due to large earthquakes or other disasters such as fire, power outages, etc. ■ Risk of systems failing or confidential information being leaked as a result of cyberattacks by malicious third parties, carelessness or negligence by employees, etc. 	<ul style="list-style-type: none"> ■ Proper investment in strengthening IT systems ■ Formulation of a business continuity plan (BCP), conduct of drills envisaging 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 operations ■ Risk of being unable to ensure the integrity of financial reports ■ Risk of unlawful conduct, fraud, etc. 	<ul style="list-style-type: none"> ■ Establishment and operation of internal control system ■ Establishment and operation of internal management standards ■ Periodic internal audits and internal control evaluations
<ul style="list-style-type: none"> ■ Risk of business being suspended as a result of the domestic or worldwide spread of the novel coronavirus (COVID-19) 	<ul style="list-style-type: none"> ■ Measures to prevent infection and halt the spread of the disease ■ Put together a structure for the stable supply of products based on the business continuity plan (BCP) ■ Acquire infrastructure for working from home (mobile PCs, web meeting systems)

Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries

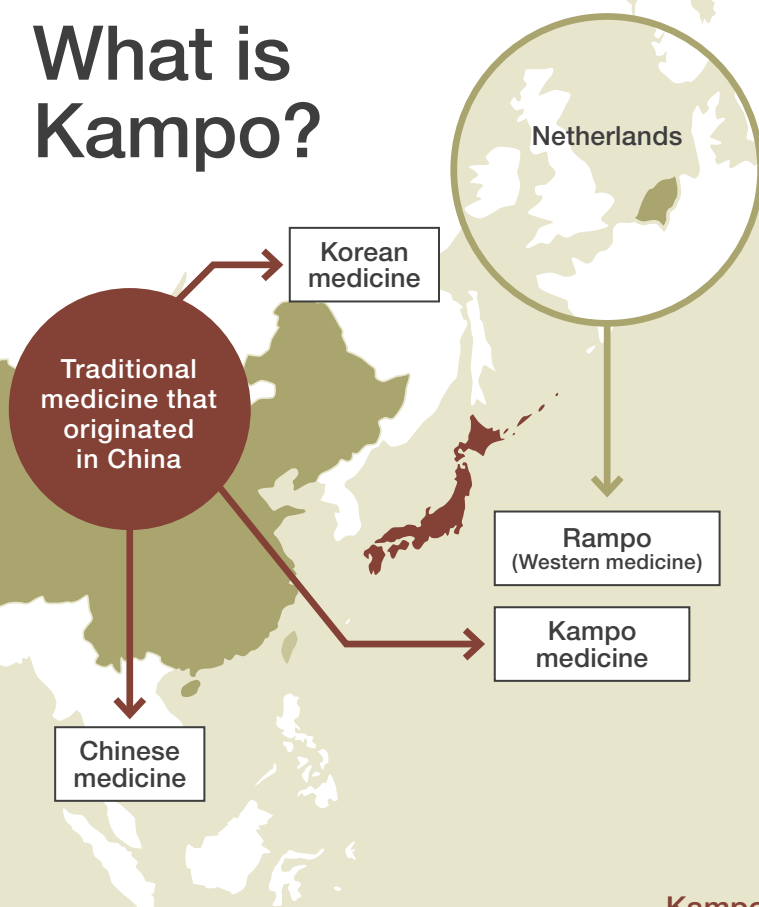
	2010	2011	2012
(For the year)			
Net sales	94,778	95,450	105,638
Cost of sales*	29,435	29,944	35,927
Gross profit	65,342	65,505	69,711
Selling, general and administrative expenses	43,789	44,271	46,586
Operating profit	21,553	21,233	23,124
Ordinary profit	21,725	21,783	24,310
Profit before income taxes	21,058	22,448	24,062
Profit attributable to owners of parent	12,945	13,431	15,373
(At year-end)			
Inventories	22,057	30,570	35,565
Property, plant and equipment, net	42,154	44,869	50,657
Non-current liabilities	8,587	8,093	9,448
Total liabilities	50,394	49,633	51,929
Net assets	91,154	102,240	118,537
Total assets	141,549	151,874	170,466
Other selected data			
Capital investment for property, plant and equipment	5,264	6,425	9,328
R&D expenses	4,123	4,565	4,904
Depreciation	3,453	3,850	4,049
Free cash flow	5,232	1,972	3,988
Cash flows from operating activities	12,047	7,314	12,011
Cash flows from investing activities	(6,815)	(5,342)	(8,022)
Cash flows from financing activities	(3,355)	(5,272)	(4,275)
Cash and cash equivalents at end of period	17,198	13,906	13,762
Per share data (yen)			
Profit attributable to owners of parent	183.55	190.45	217.98
Dividends	58.00	60.00	62.00
Net assets	1,274.06	1,430.94	1,658.88
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	68.9	68.6	66.0
Selling, general and administrative expenses	46.2	46.4	44.1
Operating profit	22.7	22.2	21.9
Ordinary profit	22.9	22.8	23.0
Profit before income taxes	22.2	23.5	22.8
Profit attributable to owners of parent	13.7	14.1	14.6
ROE	15.0	14.1	14.1
ROA	15.6	14.5	14.3
Current ratio	189.1	207.8	222.5

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

¥ million

2013	2014	2015	2016	2017	2018	2019	2020
110,057	110,438	112,625	114,954	117,879	120,906	123,248	130,883
38,787	41,859	45,055	49,454	49,603	49,451	50,747	55,951
71,269	68,578	67,569	65,499	68,275	71,455	72,500	74,931
48,808	49,087	47,743	49,516	51,224	52,935	53,623	55,548
22,461	19,491	19,826	15,983	17,050	18,520	18,876	19,382
23,966	21,583	19,494	16,399	17,914	19,702	19,649	20,866
28,118	20,078	18,898	17,184	20,284	19,897	19,223	20,456
18,050	14,075	12,557	12,488	14,504	14,593	13,765	15,332
43,424	50,716	52,348	52,138	49,994	51,808	75,806	80,755
57,148	60,624	62,822	64,686	71,329	73,703	77,207	84,176
9,126	23,339	23,063	32,727	47,080*	47,861*	49,516	37,513
54,305	64,706	66,765	64,611	95,846*	81,181*	97,993	85,894
133,318	150,947	155,702	157,397	196,533	206,141	213,997	233,169
187,623	215,654	222,468	222,008	292,379*	287,322*	311,990	319,063
8,991	8,428	9,638	6,438	11,900	9,052	6,304	11,161
5,949	6,252	5,968	6,087	6,048	5,926	6,270	6,631
4,871	5,387	5,059	5,629	6,157	6,362	6,406	8,210
4,214	(5,691)	10,109	14,614	(2,288)	(2,247)	(5,297)	8,750
5,908	4,992	17,570	21,065	21,066	5,450	18,191	16,102
(1,694)	(10,683)	(7,461)	(6,451)	(23,354)	(7,697)	(23,488)	(7,352)
(4,575)	10,408	(4,608)	(9,572)	50,305	(18,528)	7,111	(10,425)
14,418	19,343	25,128	29,901	78,313	56,243	57,692	59,668
255.94	199.58	178.06	179.46	200.55	190.87	179.96	200.40
64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00
1,860.14	2,103.04	2,169.13	2,250.34	2,532.11	2,639.59	2,684.38	2,846.58
64.8	62.1	60.0	57.0	57.9	59.1	58.8	57.3
44.3	44.4	42.4	43.1	43.5	43.8	43.5	42.4
20.4	17.6	17.6	13.9	14.5	15.3	15.3	14.8
21.8	19.5	17.3	14.3	15.2	16.3	15.9	15.9
25.5	18.2	16.8	14.9	17.2	16.4	15.6	15.6
16.4	12.7	11.1	10.9	12.3	12.1	11.2	11.7
14.5	10.1	8.3	8.1	8.3	7.4	6.8	7.2
12.5	9.7	9.1	7.2	6.6	6.4	6.3	6.1
240.6	310.6	305.9	422.4	391.4*	570.3*	406.3	422.2

What is Kampo?



A traditional form of Japanese medicine that originated in China



Kampo medicine originates in a medical approach that was introduced to Japan directly from China or via the Korean Peninsula sometime in the fifth or sixth century. Since then, over a period of 1,400 years, Kampo medicine went on to evolve as a distinctive Japanese medical tradition. This medical approach that originated in China developed independently and came to be known as Chinese medicine in China and Korean medicine in South Korea, forming medical systems that differ from Kampo medicine. These medicinal formulations prescribed for each of these medical systems are referred to as Kampo, traditional Chinese medicines/traditional Chinese medical products and Korean medicines. In the mid-Edo period, owing to the introduction of Western medicine from the Netherlands, which came to be referred to as “Rampo,” it was necessary to distinguish between the two types of medicine. Conventional medicine came to be known as “Kampo,” as the classics were mainly written during the Han dynasty.

Kampo is a pharmaceutical product produced by combining a large number of different crude drugs.



Kampo, in most cases, is produced by combining several crude drugs, which are plants or minerals found in the natural world, in accordance with established rules. Based on treatment experience accumulated over thousands of years, Kampo prescriptions have been organized into a system that tells us what sorts of effects there are when different crude drugs are combined, and allows us to confirm whether there could be any harmful effects. Using the latest technology, they are processed into what we call “formulations,” which draw out the efficacy of the crude drugs and are also easy to take and store.

In Japan, most Kampo medicines prescribed by hospitals are covered by public health insurance as so-called “prescription Kampo formulations,” of which 148 have been approved for prescription by the Ministry of Health, Labour and Welfare.

Kampo medicines not the same as folk remedies



Folk remedies tend to be a single type of medicinal herb, such as geranium thunbergii or swertia japonica, that have been used for centuries based on experience that they work. They have been used for injuries and symptoms that can be treated at home. There is no medical background to their usage. Kampo medicines, meanwhile, are typically produced by combining several crude drugs. They are officially recognized as medicines with therapeutic effects, and the conditions under which they can be used have been meticulously defined based on Kampo medical principles.

Kampo medicines

Based on the theories of Kampo, which constitutes Japan’s traditional approach to medicine, Kampo medicines are pharmaceutical products created through the combination of natural crude drugs. They are used mainly on the frontline of healthcare.

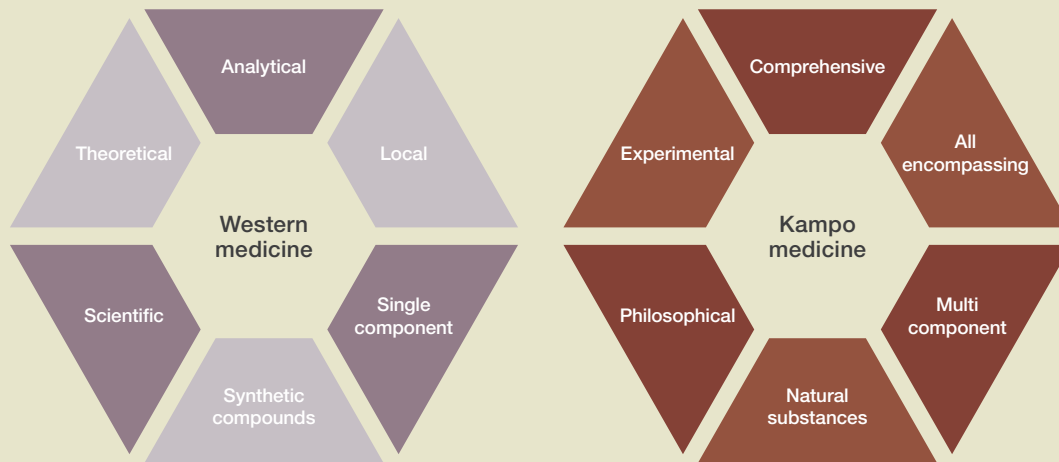
Folk remedies

They embody lifestyle wisdom that has been inherited from our ancestors and that is firmly rooted in the geographies in which they are widely used.

Differences with Western medicine



While Western medicine is scientific and theoretical in nature, Kampo medicine is philosophical and experimental at its heart. In Western medicine, the site of the illness is ultimately localized using analytical methods and observations. In contrast, in Kampo medicine, the pathology, which differs for each individual patient, is comprehensively understood from both mental and physical perspectives, and the overall balance of the patient is adjusted. Accordingly, Kampo medicine is sometimes referred to as “personalized medicine.” Most Western medicines are comprised of a single ingredient that has been synthesized in the laboratory and that is used for the treatment of a single pathogen. Kampo medicines, on the other hand, consist of numerous ingredients that are produced by combining a multitude of crude drugs, so a single prescription can be expected to demonstrate efficacy toward multiple symptoms.



Fusion of Kampo medicine and Western medicine



There are areas in which Western medicine is particularly effective, such as lowering blood pressure or killing bacteria, and treatment based on Western medicine should also be prioritized in situations where surgery is required. However, even in these modern times, when medicine has advanced so much, there are huge numbers of patients suffering with disorders that do not show up in tests and complaints that are difficult to treat with Western medicine. Kampo is a holistic form of medicine that is based on the view that the mind and body are one, so it can also be expected to be effective toward such symptoms.

Kampo medicines can reduce the side-effects of Western medicines, making it easier for the patient to continue with the treatment, and in fields in which effective treatments have yet to be established, Kampo medicines can be useful for alleviating patients’ suffering. These are just a couple of examples of the high hopes for treatment involving Kampo. In fact, there have been reports that when Kampo was incorporated into cancer treatment, side-effects were alleviated and a higher percentage of treatment programs were completed. The fusion of Kampo medicine and Western medicine brings out the advantages of both, and can be said to be a distinctive Japanese approach to medical treatment.

Column Taking Kampo medicines

Kampo medicines differ from Western medicines in a number of ways, including the number of ingredients they contain and the lengthiness of their effects. As a rule, they should be taken on an empty stomach either before or between meals. Kampo medicines and Western medicines may be used in combination, but it is important to remember that some combinations are contraindicated or should be used with caution. Kampo medicines are also pharmaceutical products and have side-effects. Furthermore, taking medicines that are not suitable for your symptoms or constitution, or taking them in large doses, may cause unexpected symptoms. It is necessary to strictly follow the recommended dosage and administration method, as well as to seek guidance from a doctor or pharmacist.



Founder's Belief

“Quality Medicine Is Guaranteed to Sell”

In 1893, based on the belief that "good medicine is guaranteed to sell," our founder, Jusha Tsumura, established Chujoto Honpo Tsumura Juntendo, the predecessor of our company, and began selling Chujoto," a medicine for women.

“Good medicine” means medicine that is superior in terms of safety, efficacy, and quality. Our corporate philosophy, “the Best of Nature and Science,” expresses our determination to continue the search for “good medicine” to further enhance the value of Kampo formulations.

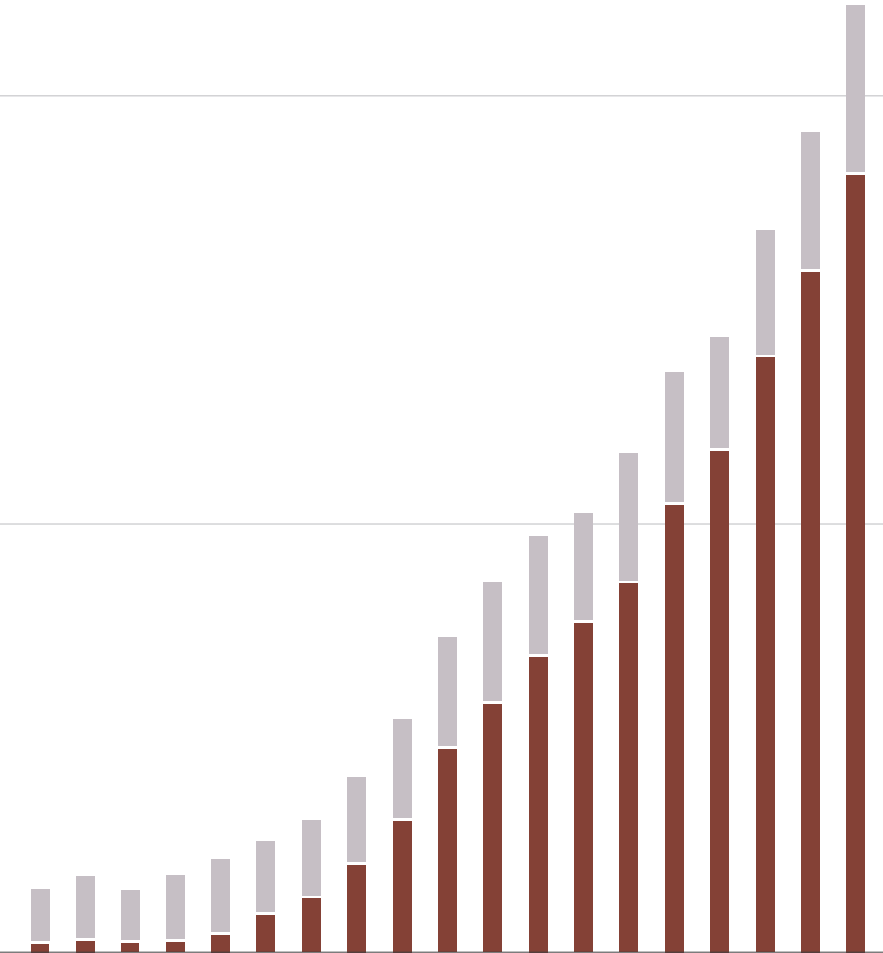


Founder
Jusha Tsumura
(first president)

Net sales trends
(100 million yen)

■ Pharmaceutical products
■ Household products

1893 1919 1924 1930 1957 // 1972 1975 1980 1985 1990



Main events at Tsumura

1800s-1960s

- 1893** Tsumura Juntendo is founded. Starting the manufacture and sale of Chujoto medicine for women.
- 1919** Meguro Plant is granted a usage permit
- 1924** Tsumura Research Institute for Pharmaceutical Science is opened. Tsumura Medicinal Plant Garden is opened.
- 1930** Bathclin aromatic bath salt is launched.
- 1957** Chujoto Building Clinic is opened.



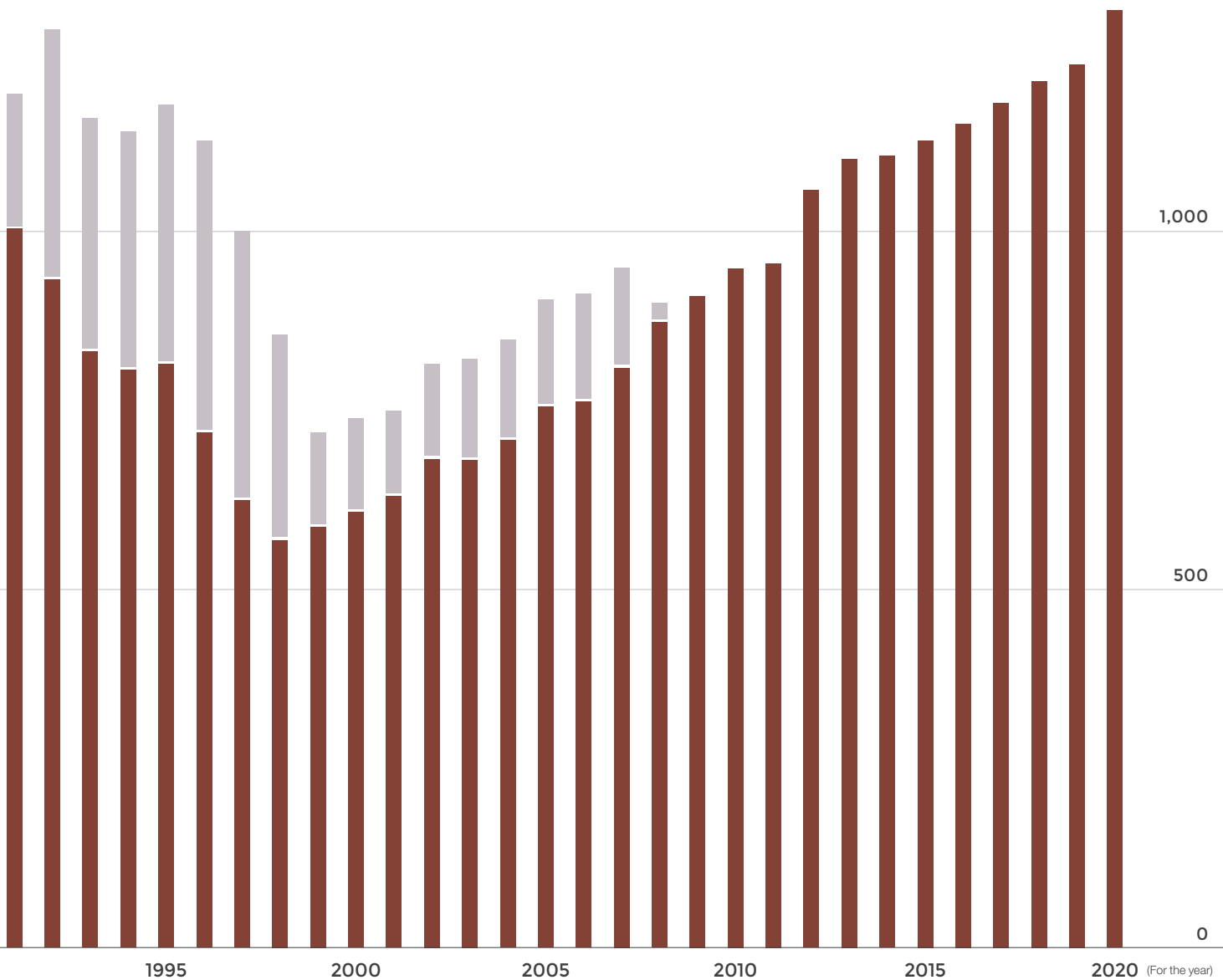
1970s-1980s

- 1964** Shizuoka Plant newly established.
- 1974** Sales of prescription Kampo products begin.
- 1976** A total of 33 prescription Kampo formulations are added to the National Health Insurance (NHI) drug price list.
- 1982** Tsumura's stock is listed on the First Section of the Tokyo Stock Exchange.
- 1983** Ibaraki Plant newly established.
- 1987** The total number of prescription Kampo formulations listed on the NHI drug price list reaches 129.
- 1988** Company name is changed to TSUMURA & CO.



(100 million yen)

1,500



1990s-2000s

2010s onwards

- 1991** SHENZHEN TSUMURA MEDICINE CO., LTD. is established.
- 1995** Side-effect of interstitial pneumonia is caused by Shosai-koto.
- 2001** SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. is established.
- 2007** Head office building is relocated to Akasaka.
- 2008** Shares of stock in Tsumura Lifescience Co., Ltd. (household products business) are sold.
- 2009** YUBARI TSUMURA & Co. established.



- 2010** LAO TSUMURA CO., LTD. established.
- 2016** Tsumura China Inc. established.
- 2017** A business alliance is formed with Ping An Insurance (Group) Company of China, Ltd.
- 2018** TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. (now TIANJIN TSUMURA PHARMACEUTICALS CO., LTD.) established.
- 2019** A business alliance agreement is concluded with Tianjin China Medico Technology Co., Ltd. (now PIN AN TSUMURA MEDICINE CO., LTD.) is established.



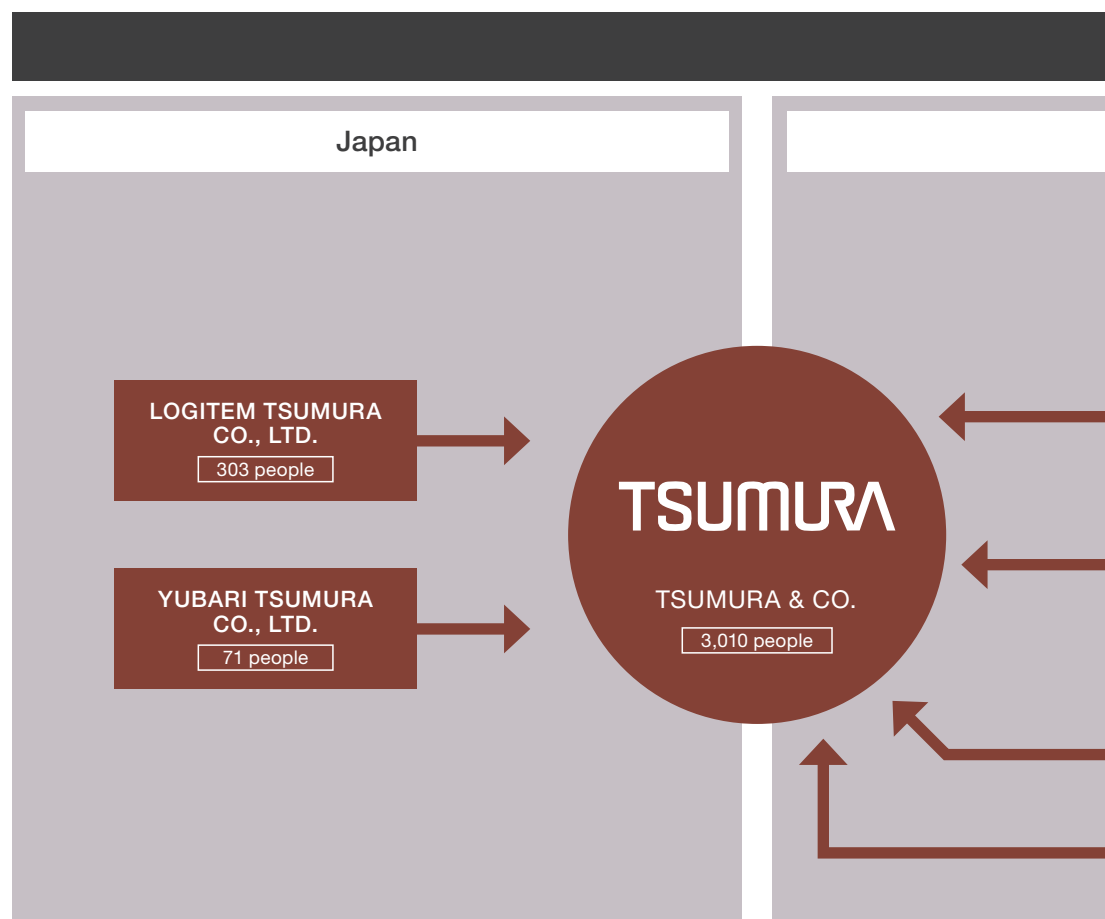
Corporate Data

Corporate Name	TSUMURA & CO.	Stock Exchange Listing	Tokyo Stock Exchange (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 P.O. Box 29, Shin-Tokyo Post Office, Tokyo 137-8081, Japan
Founded	April 10, 1893	Independent Auditor	PricewaterhouseCoopers Aarata LLC
Incorporated	April 25, 1936	Authorized Common Stock	250,000,000
Capital Stock	¥30,142 million	Issued Common Stock	76,758,362 (Including 250,402 shares of treasury stock)
Number of Employees	3,830 people (consolidated)	Number of Shareholders	12,475 (Decrease of 1,293 compared with previous period)
Closing Date of Accounts	March 31		

Group structure diagram

Current as of March 31, 2021

□ indicates the number of employees (regular employees + contract employees)

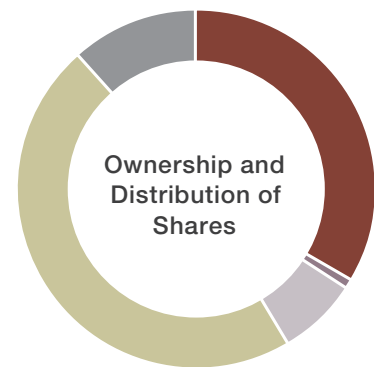


Major Shareholders

(as of March 31, 2021)

Shareholder name	Number of shares (1,000 shares)	% of equity
The Master Trust Bank of Japan, Ltd. (Trust Account)	7,765	10.15
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	7,675	10.03
Custody Bank of Japan, Ltd. (Trust Account)	3,602	4.71
Custody Bank of Japan, Ltd. (Trust Account 9)	2,837	3.71
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,780	3.63
MUFG Bank, Ltd.	2,197	2.87
THE BANK OF NEW YORK MELLON 140051	1,826	2.39
Employees' Stockholding	1,787	2.34
BRIGHT RIDE LIMITED	1,692	2.21
JP MORGAN CHASE BANK 380634	1,461	1.91

Note: The % of equity is calculated deducting 250,402 shares of treasury stock.



Japanese financial institutions	33.50%
Japanese securities firms	0.76%
Other Japanese corporations	7.27%
Foreign institutions	47.01%
Japanese individuals and others*	11.46%

*"Japanese individuals and others" includes 250,042 shares of treasury stock.

Pharmaceutical product business

Overseas Affiliates



Tsumura China Inc. 12 people

Ping An Tsumura Inc.
12 people

Pingcun (Shenzhen) Medical Ltd.
7 people

Pingcun Zhongying (Hebei) Pharmaceutical Co., Ltd.
122 people

PIN AN TSUMURA MEDICINE CO., LTD.
9 people

CHINA MEDICO CORPORATION
190 people

Baishan Lincun Zhongyao Kaifa Ltd.
164 people

2 other companies
40 people

SHENZHEN TSUMURA MEDICINE CO., LTD.
501 people

SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.
236 people

TIANJIN TSUMURA PHARMACEUTICALS CO., LTD.
63 people



LAO TSUMURA CO., LTD. 74 people



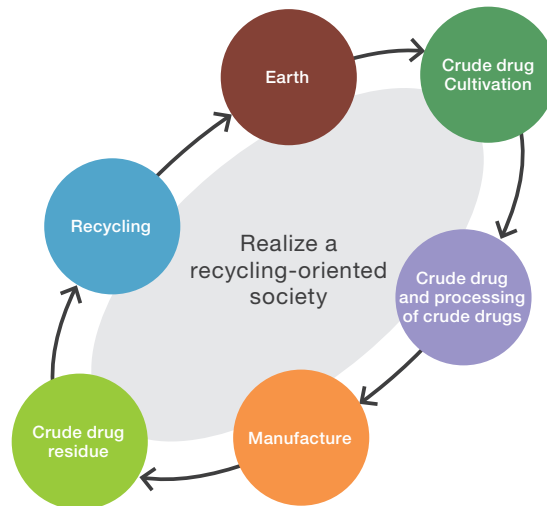
TSUMURA USA, INC. 0 people

TSUMURA & CO.

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Cover story

We have designed and edited the Integrated Report 2021 to focus on the E (environment) of ESG and highlight its own storyline. Our commitment to realizing a recycling-oriented society can be seen in these photographs of our business activities.



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