

TSUMURA

Lively Living for Everyone

INTEGRATED
REPORT 2022

TSUMURA & CO.



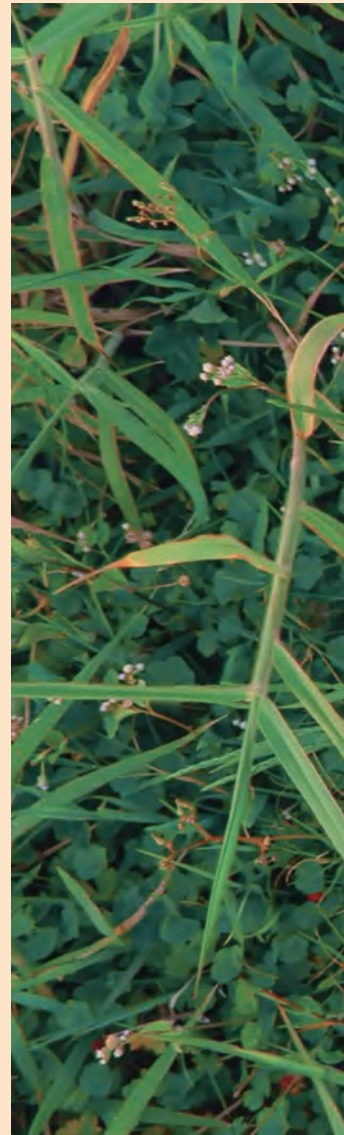
Corporate Purpose

Lively Living for Everyone

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



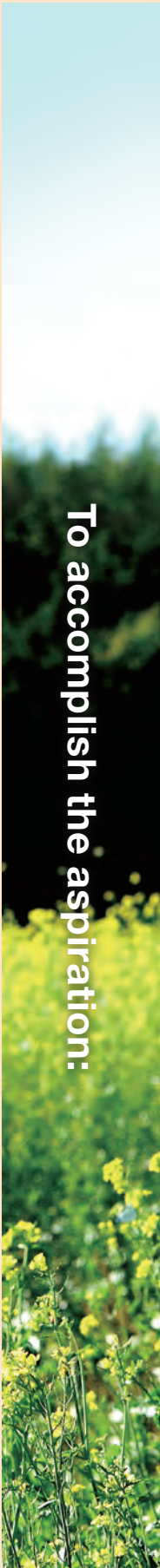
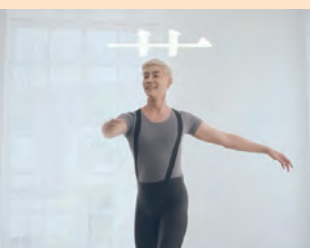
Corporate Purpose: Video
<https://www.tsumura.co.jp/english/corporate/policy/index.html>





A future created by Tsumura
 Imagine a future where aging isn't a reason to retire and gender is no longer an issue
 Imagine a future where a physical condition doesn't determine a schedule and chronic illness doesn't limit potential

The Chinese character for "medicine" consists of one component representing "herb" and another signifying "joy." Tsumura aspires to deliver Kampo medicines that bring joy to people's lives.



To accomplish the aspiration:

Corporate Value

The Best of Nature and Science



The Best of Nature and Science represents our aspiration to elucidate the action mechanisms of Kampo medicines and to help cure diseases with evidence-based Kampo treatment. This is the unwavering, basic value that we all share, based on our beliefs about the right way to do business.



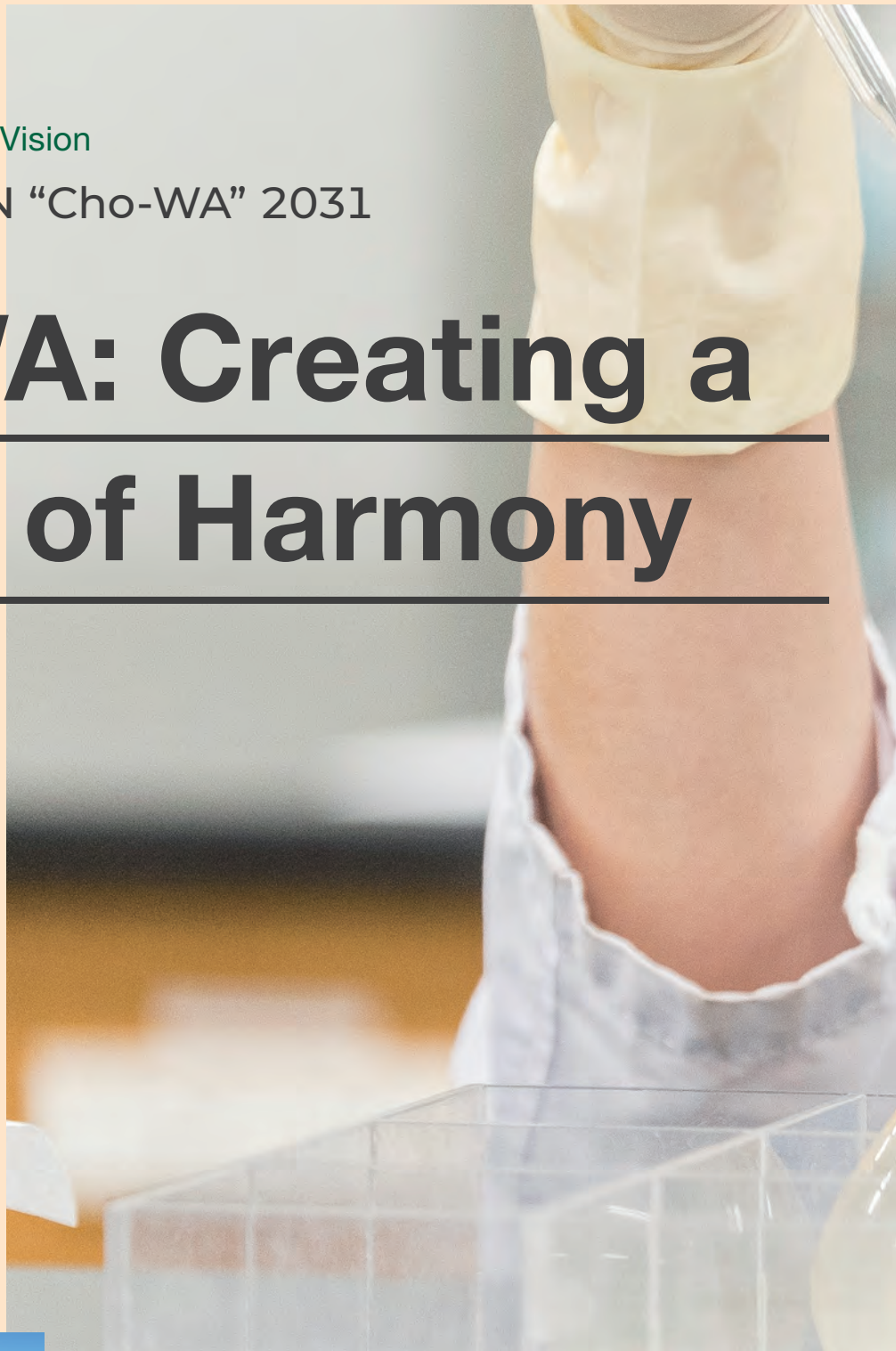
What will we work on?



Long-Term Management Vision

TSUMURA VISION “Cho-WA” 2031

Cho-WA: Creating a Future of Harmony



As its vision for 2031, the Tsumura Group aims to create a future that achieves “Cho-WA” (harmony) between mind and body and between individuals and society by promoting the three Ps: Personalized Health Care (PHC), Pre-symptomatic Disease and Science (PDS) and Potential-Abilities Development (PAD).



Taking an evidence-based approach, we will contribute to people's well-being by providing them with Kampo medicines, Chinese medicines and other products and services tailored to their life stage, symptoms, genetic makeup and living environment.



TSUMURA GROUP

The TSUMURA GROUP DNA Pyramid illustrates the most fundamental and essential concepts underpinning the Group's business operations, culminating in our Corporate Philosophy.

Since its foundation, Tsumura has upheld Principles that promote a "spirit of obeying the heavens" as the backbone of the Company and its business operations. The Principles represent our commitment to living up to our belief that "those who obey the laws of nature will thrive, while those who disobey will perish" and our promise to "obey the will of the heavens and satisfy the desires of the people."

The Corporate Purpose, "Lively Living for Everyone," is the founding aspiration of Tsumura and constitutes the Business Commitment we intend to ultimately achieve. The Purpose serves to draw a line from our foundation to the future of 50 or 100 years from now. It inspires the Tsumura Group to be instrumental in helping each person to live a healthy life, helping to create a diverse society and fostering a future in which everyone can live a life of happiness in a human-centered creative society in the coming digital age.

The Corporate Value, "The Best of Nature and Science," is Tsumura's unchanging and fundamental business value, shared by people who are striving to elucidate the action mechanisms of Kampo medicines and to contribute to the cure of diseases through evidence-based Kampo treatment.

The Corporate Mission, "To contribute to the unparalleled medical therapeutic power of Kampo medicine and Western medicine," embodies both our belief that "there is no East or West in the treatment of disease" and our aim to "leverage Japan's unique position

to help doctors use both systems of medicine to cure illness." This is our *raison d'être*, or reason to exist, and also how we will continue to be needed by society.

Our Basic Keynote, "Tradition and Innovation," manifests an enduring tradition backed by Tsumura's history. Tradition is created and passed down through a series of innovations. "Tradition and Innovation" is the idea and action guideline that sets the direction for the Company and its employees, and from it stems the corporate attitude and corporate culture.

Our visions, meanwhile, describe our ideal future and are a concrete expression of our dreams.

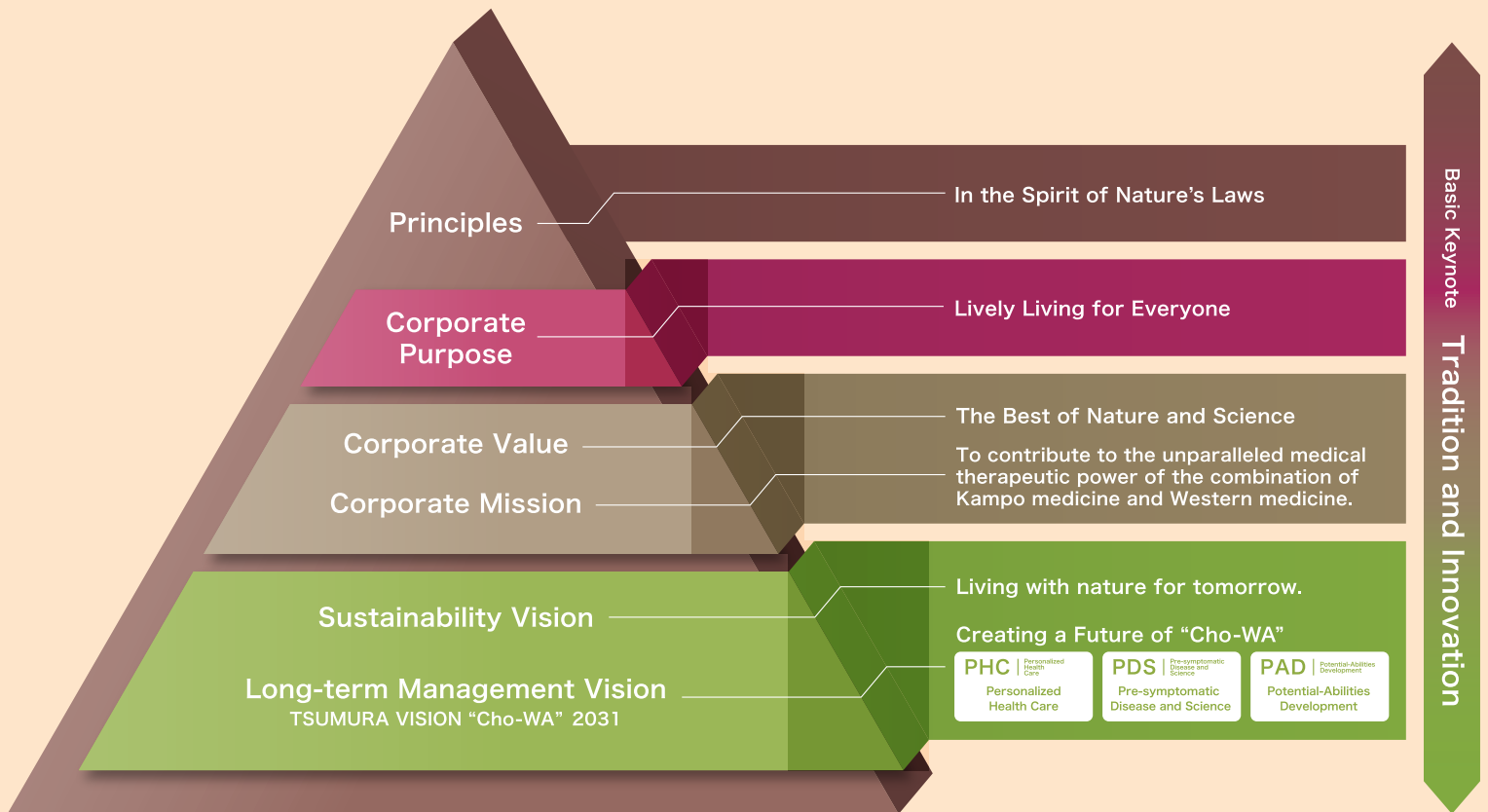
The Tsumura Group's Sustainability Vision, "Living with nature for tomorrow," is positioned above our Long-Term Management Vision. It expresses our aim to realize a sustainable society of a kind that only the Tsumura Group can achieve through its Kampo value chain.

The Long-Term Management Vision, "TSUMURA VISION 'Cho-WA' 2031," upholds the slogan "Cho-WA: Creating a Future of Harmony." The Tsumura Group aims for the realization in the next ten years of a harmonious society where people can benefit from harmony between body and mind and between individuals and society. We will achieve such a society through the three Ps: Personalized Health Care (PHC), Pre-symptomatic Disease and Science (PDS) and Potential-Abilities Development (PAD).

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DNA Pyramid



Information on the corporate website

Sustainability



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 2021.
TSUMURA & CO./LOGITEM TSUMURA CO., LTD./YUBARI TSUMURA CO., LTD. (April 1, 2021 – March 31, 2022)

Tsumura China Inc./SHENZHEN TSUMURA MEDICINE CO., LTD./SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD./Ping An Tsumura Inc./TSUMURA USA, INC. (January 1, 2021 – December 31, 2021)

Notes are provided in cases where 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 VISION “Cho-WA” 2031

Aiming to realize the new long-term management vision

President and Representative Director CEO

Terukazu Kato

Achievements made and issues identified by management over the past decade

A full decade has already passed since I became president of the Company in 2012. Over the past ten years, we have dedicated ourselves to realizing the previous long-term management vision of “aiming to be a value creation company that contributes to people’s health through its Kampo business,” which was launched shortly after the start of my presidency for the period up to fiscal 2021 as the final year. Under that vision, we have taken on a slew of challenges, aiming to achieve the three Tsumuras—the “Kampo” Company, the “People” Company, and the “Global Niche” Company. Looking back on the management activities that we have engaged in over this past decade, we have identified issues to address in the following decade.

In 2012, we also established the TSUMURA GROUP DNA Pyramid. The pyramid was designed to provide action and judgment guidelines to our employees, based on our belief that people, the foundation of an organization, are the foundation of a company, and in order to realize the company’s vision, the growth of its people is essential. With this philosophical framework in

place, we promoted efforts to familiarize employees with our philosophy and to develop our human resources while building a long-term perspective and ongoing systems essential for this purpose. Thus, looking ten years ahead, we began to implement relevant human resource development strategies early on, which represented a significant achievement.

In April 2022, as a new item added to the TSUMURA GROUP DNA Pyramid, we established our corporate purpose of “Lively Living for Everyone.” This statement represents the ultimate goal commitment of our business, based on the “spirit of obeying the heavens,” the unchanging principle established by our founder and the superordinate concept to the corporate philosophy and corporate mission that we have been consistently working to put into practice. Going forward, we will pursue management based on our philosophy, including the corporate purpose, and implement the medium-term management plan, which describes milestone targets set using the backcasting method, thereby aiming to realize the new long-term management vision.

The major issue we identified over the past decade was the need to accelerate the expansion of the

Kampo market. We have engaged with this issue over a number of years, focusing on the following three key areas: (1) promotion of Kampo education; (2) elucidation of action mechanisms as well as accumulation of evidence; and (3) formation of supply chains. For promoting Kampo education, in addition to seminars, lecture meetings and study sessions run on an ongoing basis, we began to provide webinars and video distributions, primarily as a measure to prevent the spread of COVID-19. Now, however, we do believe that we should have utilized capabilities to go online well before the pandemic broke out, and regret that we didn't. In the area of elucidating action mechanisms and accumulating evidence, progress has been made, as indicated by the fact that the number of write-ups on Kampo medicines appearing in medical treatment guidelines has increased to 112 out of a total of 148 formulations approved at present in Japan, in a total of 108 guidelines. However, we need to further improve recommendation gradings. With respect to forming supply chains, we have achieved the target of increasing the percentage of cultivated land under our own management to 80% of the total, a requirement for the effective application of our crude drug traceability systems established in the belief that the quality of Kampo products begins from the growing fields. Nevertheless, we recognize the need to make a higher-level achievement in increasing the cultivation of wild crude drugs, a substantial technical challenge. In order to develop business, we need to establish proprietary systems for a range of processes from raw material crude drug procurement and production capacity

improvement to sales of Kampo formulations and related information provision, for which external resources are virtually unavailable. Considering these factors in a balanced way, we set the optimal "cruising speed" for expanding the Kampo market. Looking to the future, demand for Kampo products will likely continue to rise, reflecting the demographic trend in Japan for our main consumer base—people aged 65 and above—to keep growing until around 2040. With this expectation, we will set a new cruising speed, factoring in productivity enhancements enabled by digital innovation, in a bid to accelerate the expansion of the Kampo market.

Two new visions for pursuing growth and sustainability in tandem

In April 2022, we announced two new major visions the TSUMURA Group Sustainability Vision and the long-term management vision, TSUMURA VISION "Cho-WA" 2031 along with our Principles and Corporate Purpose.

The long-term management vision has been formulated to summarize growth strategies for a time frame of ten years. The Sustainability Vision has been created for the period up to 2050, with milestone targets every decade, in line with the government's commitment to achieving carbon neutrality by that year. The first milestone targets for fiscal 2031 have been set to deal with three issues: reducing GHG emissions by 50%; conversion to environmentally friendly packaging; and recycling water and waste (crude drug residue). The Tsumura Group's business is built around the Kampo value chain, which starts with the

cultivation of raw-material crude drugs and is highly reliant on the natural environment. Thus, we wish to continue to be the company that is the most sensitive to changes and crises in the natural environment, on which our entire business is based. Based on this recognition as well as the determination to protect our rich natural environment for the future, we have formulated the message of the Sustainability Vision as "Living with nature for tomorrow." Looking to justify this message, we will implement initiatives for the sustainability of our lifestyles, our society and our environment.

To implement the long-term management vision, we have drawn up a three-phase road map (three medium-term management plans). For the first phase, starting in fiscal 2022, massive investments are planned for supporting the sustainable, stable growth of the domestic Kampo business, specifically for improving production facilities (100 billion yen) to enhance production capacity and productivity (automation, DX promotion) and conducting R&D projects for Kampo formulations (24 billion yen). We also have plans to invest in Chinese operations (15 billion yen), chiefly to develop the Traditional Chinese Medicine Research Center and IT infrastructure. In terms of major investment plans, a three-step execution schedule is set for the entire target decade: make up-front investments in implementing next-generation DX technologies and others in the first three years; bring target businesses and facilities into full-scale operation in the following three years; and substantially recover the investments in the remaining four years. We have set performance targets for the first phase, including 162 billion yen in sales, 29 billion yen in operating profit and 8% in ROE.

Carrying out the above plans, we will enhance our business, particularly to address issues related to the super-aging society, such as prevention of frailty, a geriatric condition characterized by the gradual decline of health and various physical and mental functions due to aging and disease. In this way, we will contribute to the creation of a society where many people can enjoy health and longevity.

Enhancing group-based execution systems with newly established CHRO position

For the purpose of implementing initiatives to achieve the two visions, we have enhanced our group-based execution systems. One such major example is the co-COO system. Launched in fiscal 2021, this system provides for the appointment of two COOs one in Japan and one in China who work in close cooperation to pursue expansion in both markets.

Also, from April 2022, we appointed our first Chief Human Resources Officer (CHRO) to carry

out sustainable value creation activities by mobilizing the Group's overall organizational and human capital, which we position as the core of the seven types of capital defined as the source of our profit generation and which are essential to management based on our philosophy of corporate value creation. The CHRO's goal is to realize the two visions by effectively linking human resources strategies to management and business strategies, principally through policy development and institutional design, for the personnel affairs of the entire Group, including recruiting, training, evaluation, assignment, promotion and teambuilding. In order to achieve the long-term management vision, TSUMURA VISION "Cho-WA" 2031, we will utilize and expand to the extent possible our organizational and human capital under the leadership of the CHRO while developing the Group's business in harmony with the social and global environment, with the aim of creating new corporate value and social value.


Enhancing and accelerating disclosure of pre-financial (non-financial) information, and increasing investment in organizational and human capital

Looking ahead to the next ten years, I will be working out the direction the Company should take in order to move forward, before passing the baton on to future leaders. One of my important responsibilities in this regard is to disclose our pre-financial* information to allow evaluation of the real value of Tsumura, while striving to increase its financial value with greater speed. This involves visualizing the value of our organizational and human capital, the core of our pre-financial assets; tasking the organizational and human capital policy committee under the direct control of the Board of Directors with taking charge of future financial asset building; and enhancing the disclosure of pre-financial information, which is conducive to increasing the value of financial assets. In addition to implementing DX, robotization, automation and other technologies for improving efficiency and environmental performance, we will invest substantially in human capital to build related advanced operational skill sets as well as organizational capital to develop teambuilding and other capabilities, with a view to helping young employees take on various challenges.

We at the Tsumura Group are determined to put our full efforts into meeting your expectations.

October 2022

President and Representative Director CEO



* Pre-financial assets: Our original term referring to assets that are not recorded as financial assets but are just as important. Similar to non-financial assets.

President and Representative
Director CEO**Terukazu Kato**

Special Talk

Pursuing Management Based on on Pre-financial Assets

Opening up new frontiers while preserving the spirit of the founder for 130 years

Nawa Tsumura has preserved the “spirit of obeying the heavens” for 130 years since its founding, reformulating it as the present Principles. At the same time, the Company has been striving to open up new frontiers in keeping with the changes of the times and looking ahead to its future. Tsumura’s history is the very embodiment of a long-time challenge to overcome the conflict between tradition and innovation. In this light, the Company should in many ways provide a distinctive model to be emulated by other long-standing Japanese companies.

Kato I greatly appreciate your praise. Our Principles for conducting business are based on the “spirit of obeying the heavens” (*juntendo* in Japanese), which derives from Chujoto Honpo Tsumura Juntendo, the name of the original entity founded in 1893. In those days, companies generally used the name of their main product—usually all by itself—as their registered trading name. In contrast to this practice, our founder included an additional term, “Juntendo,” which was not a product name. I became curious about the

reason for this and conducted research to see if I could find anything suggestive. I arrived at two key phrases from classical Chinese literature. One comes from the Book of *Mencius*, and can be translated as “Those who obey the heavens will survive, those who go against the heavens will perish.” The other is from the *I Ching*, and can be translated as “Obey the will of heaven, respond to people’s wishes.” Jusha Tsumura, the founder of our company, became a member of the House of Peers in 1925, and publicly criticized the military for its ignorance of public opinion, for which he was placed under investigation in the first-ever session of the House of Peers’ disciplinary committee. As a result, he chose to resign from office. I respect him for this, as I believe that it must have required tremendous courage to act so properly in the interests of the public, given the social situation of that time. I note the fact that the Juntendo part of the company name was thus chosen by a person of courage, and we should make studious efforts to really understand the meaning of that word—the spirit of obeying the heavens—taking into consideration the founder’s thoughts and actions.

Nawa Many companies have begun

to formulate corporate purpose statements. My impression is that many of such statements sound good rhetorically but may fall short in terms of their effectiveness. In comparison, Tsumura’s corporate purpose embraces the Principles—the spirit of obeying the heavens—as a solid base for effectiveness. This is vitally important. I like the phrase “Lively Living for Everyone,” invented for the statement. Will you describe the actual process of preparing and establishing the statement, and the amount of time taken to complete the process?

Kato Tsumura Juntendo was founded to manufacture and sell Chujoto, a medicine for women. This product was named after Princess Chujo, a great-granddaughter of Fujiwara no Kamatari, the founder of the most powerful aristocratic family of ancient Japan. The product package bears a depiction of her image. The princess temporarily lived with the Fujimura family (in present-day Uda City, Nara), of which Jusha’s mother was a member, and shared with the family the prescription for the predecessor of the medicine later marketed as Chujoto. The Fujimura family, who ran a medical business for generations, provided the medicine for free to patients receiving



Visiting Professor, Hitotsubashi
University Business School
Professor, Kyoto University of
Advanced Science

Takashi Nawa

Principles and Purpose, and Focusing

treatment. Jusha was told of the distinctive efficacy of the medicine from childhood, making him strongly confident in its value, and he subsequently moved to Tokyo to start a business to sell the product across the country. Chujoto is still marketed today under the charge of the Healthcare Division, which created the commercial message, “Pay attention to the life of everyone, address the health of everyone,” reflecting the founder’s business aspiration. We noted that this message represents our basic business attitude, and decided to adopt it for our purpose statement, setting a schedule to publicly announce it in April 2022. Preparations were then started to refine the expression, principally by shortening the sentence and improving its comprehensibility for both internal and external stakeholders, and employing external services. After about four months, we finally established the statement of “Lively Living for Everyone,” which was published in Japanese, English and Chinese. I think the short and simple phrase effectively represents our ultimate business goal commitment.

Nawa You have chosen a good method—that of refining original

thoughts into a short verbal expression—given the ease of its subsequent dissemination. Also, it was good that you completed the task in a short period of time. Drawn out discussions tend to invite too many factors, often resulting in a dull mixture of the original and many other elements, even if they are important thoughts.

Kato In 2012, we established the Tsumura-DNA pyramid, a philosophical system that organizes our most fundamental principles. Over the ten years since then, we have pursued philosophy-based group management, setting the vision and using the backcasting method for achieving it. Against this background, we faced a disagreement among board members over the plan to establish the corporate purpose. Typical of the objections expressed were concerns about reorganizing the existing philosophical system in order to newly add the corporate purpose, given that the system had already firmly taken root in the Group over the past decade. Behind those concerns was a terminology issue. In the recent business context, the term “purpose” is used to mean “raison d’être,” which we already use to represent our corporate mission. I looked for an answer to this problem, and found

one in your book, titled Purpose Management. In the book, you present a definition of “purpose” as “commitment,” which straightened out my thinking. “Commitment” and “raison d’être” (corporate mission) are similar, but I would clarify the difference between the two terms as follows. Corporate mission refers to social mission, set based on how the company independently defines itself, while commitment is related to a sense of responsibility for taking action in response to what the world and society expects of the company. The two concepts involve very different approaches in terms of timescale and scope of target. So, I insisted on establishing the corporate purpose at meetings of the Board of Directors, which eventually did approve my proposal.

In April 2022, we launched the reorganized philosophical system, which is composed of the Principles based on the founder’s spirit of obeying the heavens, the newly established Purpose, the Sustainability Vision, and the long-term management vision, titled TSUMURA VISION “Cho-WA” 2031. We gave an external prior presentation on March 29, and then, on April 1, I sent messages out to the officers and employees of the Tsumura



Takashi Nawa

Visiting professor, Hitotsubashi University Business School; Professor, Kyoto University of Advanced Science. Upon receiving his Bachelor of Arts in Law from the University of Tokyo, he joined Mitsubishi Corporation. He then got his MBA from Harvard Business School and went to work as a consultant at McKinsey & Company for 20 years, chiefly engaging in next-generation growth strategy and structural reform projects for companies in various industries inside and outside of Japan. He has served as a senior advisor for Boston Consulting Group, Accenture, Interbrand and other enterprises. He currently serves as an outside director at Fast Retailing, Ajinomoto and SOMPO Holdings. His major publications include: *Purpose Management: Looking at the Present from the Perspective of 30 Years Ahead*; *CSV Management Strategy*; *Textbook on Corporate Transformation*; *The Complete Book of Management Transformation*; and *Learning-oriented Management*.

Glossary

Yin and Yang Philosophical theory that describes the whole universe in terms of two opposite but interconnected principles, represented by “yin” and “yang.”

Wuxing (Five Phases) Fivefold conceptual scheme used to describe a wide array of changing and interconnected universal phenomena. The Five Phases are Wood, Fire, Earth, Metal and Water.

Group. This was followed by visits to 18 locations across Japan to hold briefings for local employees in May and June. Internal post-briefing surveys were conducted and we found that the Purpose came an overriding first in the ranking of inspiring items, and the “Cho-WA” long-term management vision placed second. These survey results filled me with a strong feeling of having been successful in establishing the Purpose. Going forward, it is important to continue working to ensure that each of the Tsumura Group’s officers and employees will demonstrate a sense of ownership and be inspired to serve the Purpose in order to fulfill the ultimate business goal commitment.

Cho-WA (harmony)

Promoting the spirit of harmony, the most fundamental of traditional Japanese values, to spread our wings around the world

Nawa The central word of the new vision is Cho-WA. Chowa (harmony)

is a very familiar Japanese word. Does this word have any special meaning to Tsumura? And what are the reasons for the unique rendering of the word as indicated in the title of the vision? There must be some special thought behind this.

Kato We place special significance on the concept of chowa, which is related to the philosophy and thoughts of Dr. Yoshinori Otsuka, who had a close relationship with Tsumura. Dr. Otsuka first studied Western medicine and ran a medical practice, and then he also went on to study Kampo medicine. In 1957, he became the first director of the Chujoto Building Clinic (now the Kinkikai Clinic), which was established by Jusha Tsumura, the second president. The doctor also became the first director of the Kitasato University Oriental Medicine Research Center in 1972. In his book, he described the importance of “harmonizing the characteristics of both Kampo and Western medicine,” which reflects his policy as a practitioner to the effect that “there is no such thing as ‘Western’ diseases and ‘Eastern’

diseases. All diseases should be treated by making effective use of the respective strengths of Kampo (Eastern) and Western medicine.” We adopted this policy as a basis for formulating our corporate mission, maintaining the idea underlying the policy while replacing “chowa” with “combination” as part of careful wording efforts.

The composition of the hyphenated mixed-case “Cho-WA” appearing in the title of the new long-term management vision is an outcome of the related wordsmith process as per my suggestion. I will explain the reasons. The Chinese character for “cho” has the meaning of “coordination,” and the character for “wa” primarily stands for “harmony,” one of the most essential traditional Japanese values. I believe that each of the two items independently suggests key approaches to successful global business partnerships, and “chowa,” resulting from the two characters put together, indicates the strongest approach to the purpose. This bears significant meaning for companies seeking overseas expansion, given the fact that international business operations are often confronted by issues related to political frictions and national sentiments. We are engaged in Kampo medicine, which was originally derived from traditional Chinese medicine, and China is an essential procurement source for us for a broad range of crude drugs used to manufacture Kampo medicines for sale in Japan. We therefore believe that we should draw on our techniques and expertise built up over the years in order to facilitate the quality improvement of crude drugs for traditional Chinese medicines and standardization of prescriptions for traditional Chinese medical products, wishing to contribute to increasing the health of the Chinese people and also hoping that this will encourage a closer friendship between Japan and China. At the same time, I believe such endeavors will serve to support the continuous progress of Kampo medicine, a discipline of traditional Japanese medicine developed over 1,300 years, as well as facilitating the future development of the traditional medicine of each country.

Nawa “Wa” as the traditional Japanese value has a long history, as it can be traced back to the “constitution” authored by Prince Shotoku (604), which laid emphasis on the importance of ensuring peace and harmony. Japanese companies are good editors and good learners, which I view as their most competitive advantages. A good editor is able to avoid an either-or choice and reconcile conflicts to create new value. A good learner is not only able to acquire new knowledge from other countries but also to scrap it and break new ground to achieve a breakthrough. It can be said that similar abilities have been exercised to develop and enhance Kampo, based on the Chinese tradition, to create a traditional Japanese medical culture over the course of 1,300 years.

Converting artisanal techniques into systems

Building an integrated Kampo value chain ranging from cultivation to formulation

Kato You’re quite right. Kampo medicine and medication has followed a very different development pathway from that of traditional Chinese medicine and medication. Chinese treatment approaches center on tailor-made prescriptions applying the yin and yang principle and Wuxing (Five Phases) scheme to each case based on the person’s comprehensive health condition. In comparison, Japanese approaches are to prescribe Kampo formulations according to findings from clinical recognitions of the medical disease state, thus attaching considerable weight to the clinical process.

The quality of medications is also an issue. Kampo medicines manufactured by Japanese companies are predominantly extract formulations, which have adequate levels of efficacy, safety and consistency. In contrast, traditional Chinese medications are chopped crude drugs formulated for personal administration at home, which inevitably entails inconsistent quality. In Japan, Kampo medicine has developed robust quality control techniques in order to satisfy strict requirements by effectively presenting

Western medicine-based evidence and scientifically clarifying the efficacy of multi-ingredient medicines, and has accumulated evidence through providing high-quality, standardized (consistent quality) prescription Kampo formulations to many patients. Among a host of plant-based pharmaceuticals available around the world, it can be said that Japan’s Kampo medicine is outstanding in a number of ways, particularly it being subject to national healthcare insurance systems, the publication of English reports on the evidence-based efficacy and effectiveness of multi-component formulations, and its increasing acknowledgment as a useful treatment option.

Nawa Japanese companies are highly skilled at on-site operations, organizational activities and the use of meditation, which I collectively refer to as the “Three World Heritage Skill Sets” of Japanese companies. I think your story suggests a good practice case where such skills for on-site operations have been demonstrated. Chinese medicines made by Chinese physicians were refined by individual on-site Japanese professionals into high-quality medicines as they simultaneously developed artisanal techniques. Then, by evolving the individual artisanal techniques into organizational systems, which is vitally important, Japan’s Kampo medicine was established.

Kato In order to procure raw-material crude drugs, our predecessors began to negotiate with Chinese traders even before the

normalization of Japan-China diplomatic relations, and formed a number of joint ventures across China over a period of more than ten years. However, they could not procure materials of a quality able to meet their initial expectations, and decided to rebuild supply chains. Aiming to create a major business base in the vast country, they concluded cultivation contracts with leading regional producers managing a large number of local farmers, and formed appropriate procurement networks. This was a significant achievement in that these networks were later utilized to establish a traceability system for crude drugs. This was made possible by enormous efforts exerted by our predecessors over 30 to 40 years to establish the foundation of our competitive advantages that have brought us to where we are today.

Nawa Tsumura’s past challenging endeavors for raw material procurement from China is another embodiment of the process of converting artisanal techniques into an organizational system. What has impressed me is that Tsumura began to address the issue of traceability early on, before it became a social agenda.

Kato Yes. Unlike many Japanese companies purchasing crude drugs from the Chinese crude drug market, we conclude cultivation contracts with local producers (farmers) to procure crude drugs from China, based on our belief that the quality of Kampo products begins in the growing fields. When buying from the market it is difficult to ensure traceability as well as



safety and consistency due to the difficulty in confirming the details of the chemicals used, such as type and method of use, as well as mixed packaging that contains products from more than one farmer and location.

Because they are natural products, the components of crude drugs can vary depending on climate and soil conditions. In order to continue providing medicines of consistent quality, it is necessary to control this variability. For this purpose, we have established our own strict standards for the cultivation and procurement of high-quality crude drugs, starting from the cultivation stage. We also have proprietary expertise to ensure consistency for multi-component formulations in the production of extract formulations. Our unique “Kampo value chain,” which covers everything from the cultivation of high-quality raw materials to production of formulations of consistent quality, supports the stable supply of Kampo preparations for medical use.

Making profits in accordance with the Purpose

Pursuit of “pre-financial” asset-building producing thrills, liveliness and happiness

Nawa I am intrigued by Tsumura’s history as you have described it today, including the founder’s spirit and early and recent initiatives. Now I’d like to ask a question about human capital. Today, many companies are facing what I refer to as the m-shaped curve of human capital. This phenomenon is visually represented by an m-shaped

curve on a line chart, with data for employee engagement and age assigned to the longitudinal and horizontal axis, respectively. The curve indicates an age-based variation pattern in employee engagement levels. Higher levels are attributed to new hires aged 20 to 25 and those in their 50s, who rekindle their passion for pursuing individual aspirations after leaving highly responsible positions. These groups are also eager to participate in activities to fulfill the corporate purpose. In contrast, those aged 30 to 45, comprising the main workforce of the company, tend to be too busy to be able to address purpose-related issues in earnest. What is the situation at Tsumura with respect to this issue?

Kato We identify such tendency as an issue that we will need to address in the coming years. As a step to overcome this issue, we established the Tsumura Academy in January 2019. This in-house institution offers two major courses: for developing the corporate culture and for developing managerial personnel. Since it started, the former course has registered a cumulative total of 7,267 participants, chiefly for programs for creating familiarity with the corporate philosophy and learning about coaching. The latter course has been attended by a cumulative total of 568 participants seeking to learn the basics of management and receive guidance on building resourcefulness. I feel these programs are producing the effect of steadily developing personnel who will continue to support philosophy-based management. We are aiming at having meaningful

dialogues with employees about purposes and values as a unifying force so that they will actually feel thrilled to engage with the corporate purpose, visions and other philosophical principles and display a lively attitude at work, making our customers and many other people in society ever-happier. This is what I envision as an ultimate goal.

Nawa I like the idea of aiming to deliver thrills, liveliness and happiness. I understand such a state can result from the pursuit of pre-financial asset building. Japan’s business sector often refers to the management philosophy embraced by Omi merchants in the early modern period, which is known as sanpo-yoshi (three-way satisfaction). This philosophy says that a good business should be able to contribute to society in addition to satisfying the seller and the buyer. In this concept, I think the key is that the seller has a good motivation and good will. Outside Japan, similar ideas are known as multistakeholderism (analogous with the please-everyone policy, in my view), which has a definite order of controlling power, placing the seller at the top. First and foremost, the seller must have a strong passion for business in order to attract the buyers of the world. In light of this, I think Tsumura is playing its role properly.

Organizational capital—our unique concept of capital

Building a Kampo medicine-like harmonious organization as the source of generating new value and profits

Kato In addition to the six types of capital defined by the International

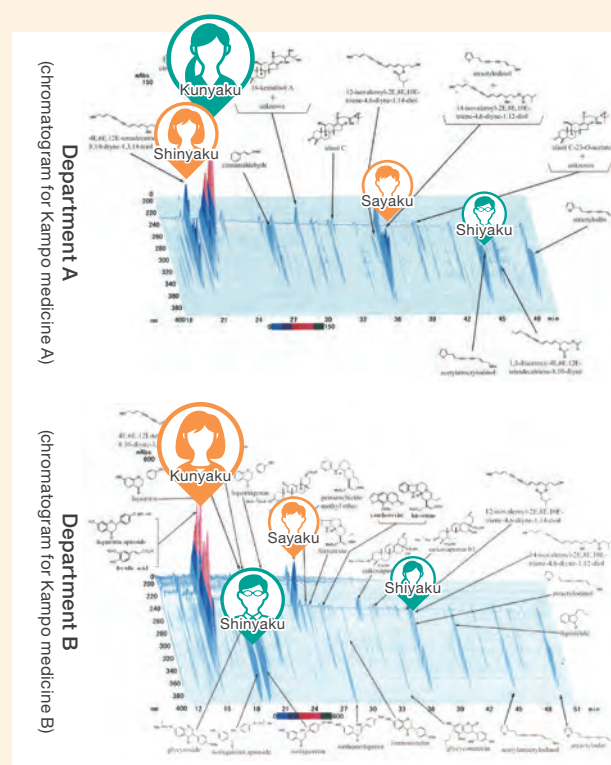
Major characteristics of Kampo medicine (medication)

- (1) **Philosophical and experiential**
Based on accumulated treatment experiences of earlier patients
- (2) **Treats the mind and body as one**
Holistic form of medicine for adjusting overall balance
- (3) **Pays attention to the constitution and characteristics of individual patients when assessing symptoms**
Capable of treating unexplained complaints and pre-symptomatic diseases
- (4) **Uses Kampo medicines made from a blend of naturally produced crude drugs**
A single prescription contains multiple ingredients and thus can be expected to demonstrate efficacy for treating multiple symptoms.

Major characteristics of Western medicine

- (1) **Empirical and scientific**
Based on objective analyses
- (2) **Focuses on physical health centering on internal and external organs**
Treatment of localized sites of disease
- (3) **Uses objective and analytical methods to specify the disease**
Uses standardized treatment methods
- (4) **In general, uses Western medicines made up of refined genuine drugs**
Comprised of a chemically synthesized single ingredient designed to treat a single pathogen

<p>Organization mechanism analogous with Kampo medicines</p> <p>Using the analogy of Kampo medicines, each department is composed of a multiple of crude drugs (people), each of which has different strengths and cooperates and works together with others to achieve the goals of the department.</p>	<p>Ideal team</p> <p>All members are altruistic, respect each other's abilities, encourage each other to improve their abilities, and work together to achieve goals</p>
<p>Kunyaku</p> <p>Central crude drug for formulation. Sufficiently effective on its own, and also can be combined with other crude drugs to demonstrate efficacy for treating various symptoms.</p>	<p>Leader</p> <p>Competent as an individual, and plays a leading role in ensuring that the team will achieve substantial success by bringing out the potential of each member</p>
<p>Shinyaku</p> <p>Assists and strengthens the action and efficacy of Kunyaku.</p>	<p>Assistant leader</p> <p>Adequately understand the goals of the team, and supports the leader, even beyond the scope of the given role if necessary</p>
<p>Sayaku</p> <p>Regulates the efficacy of Kunyaku and Shinyaku, and reduces side-effects and assists administration.</p>	<p>Partner</p> <p>Adequately understands the given role, and acts for the team in an efficient manner</p>
<p>Shiyaku</p> <p>Assists and regulates the action of Sayaku.</p>	<p>Supporter</p> <p>Acts without hesitation to support other teams by exercising their abilities when necessary</p>



Integrated Reporting Framework, we recognize organizational capital, which gives us seven types of capital in total. The concept of organizational capital is our own original concept and represents our wish to create a “harmonious organization that can be likened to a Kampo medicine.” We believe such an organization, if established, will become the key source of new value and profits.

Unlike Western medicines, Kampo medicines are composed of a combination of several crude drugs. Each crude drug contains a variety of ingredients with acknowledged pharmacological properties. To put it another way, each one has its own power and personality. Based on their given roles, crude drugs in Kampo formulations are classified into four categories: Kunyaku, the central crude drug; Shinyaku, which assists and strengthens the action of the Kunyaku; Sayaku, which regulates the efficacy of the Kunyaku and Shinyaku; and Shiyaku, which assists and regulates the action of crude drugs in the other three categories. Let me explain using an example. Asian ginseng has a saponin component known as ginsenoside, which is a central crude

drug (Kunyaku) in Rikkunshito, while in Bakumondoto, it serves as a Sayaku to regulate the effects of the Kunyaku and Shinyaku. Generally, while crude drugs are effective enough on their own, they can be combined with other crude drugs and organized into “teams” according to their roles to play an important part in the preparation of multi-component complex Kampo medicines with new efficacy and effectiveness. And this process takes place in a natural manner.

In order to envision an ideal state of organization, we use as a model the structure of Kampo formulations, comparing departments and people to crude drugs and the company and departments to Kampo medicines. We believe we should aim to achieve a harmonious organization according to the model provided by Kampo medicine, and develop human resources and organizations in line with this. From this perspective, the Company should increase its organizational capital to promote the growth of people and organizations, which will be a key driver of corporate value creation.

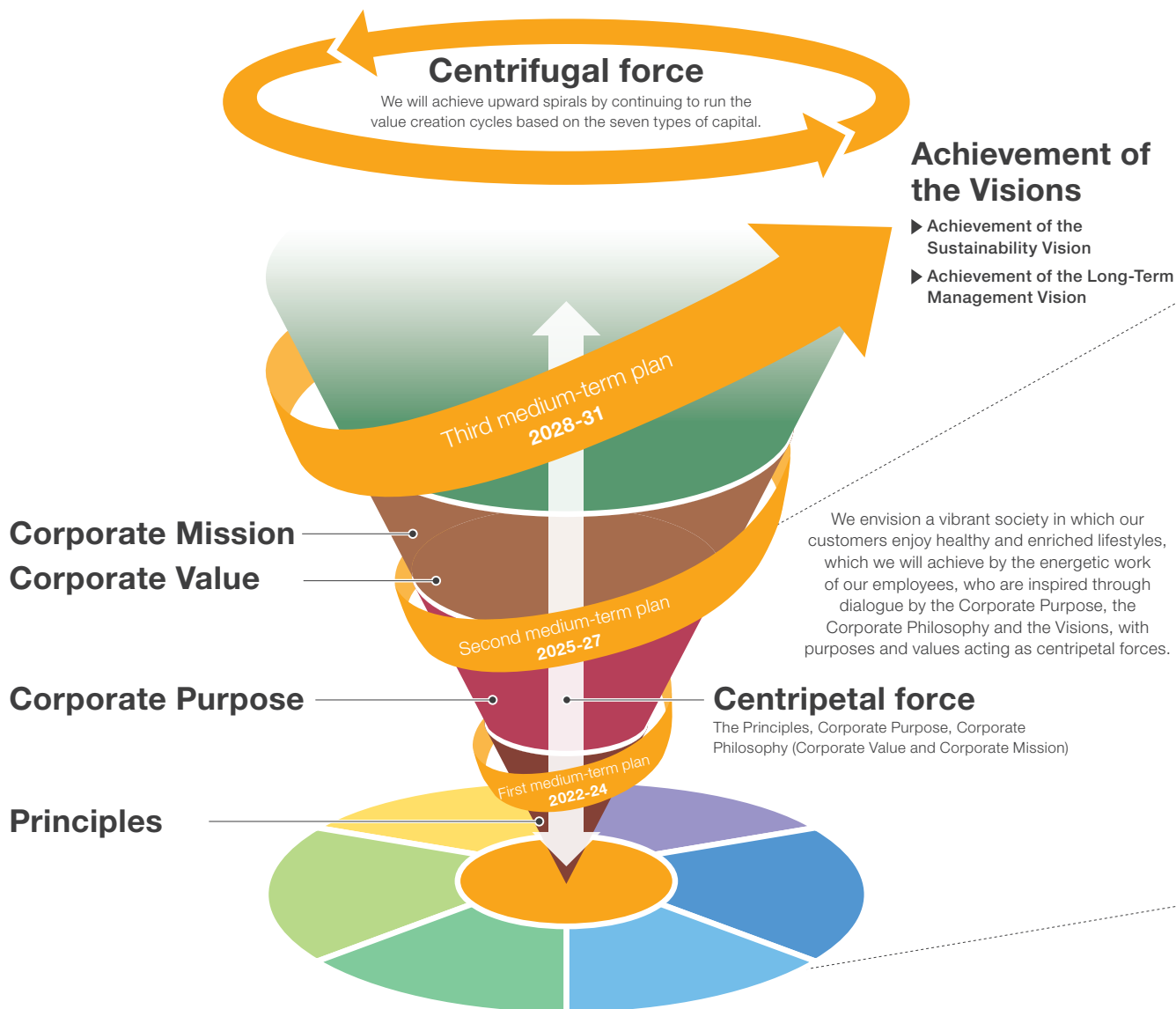
Nawa That is a very unique and interesting idea. I would suggest this become a model for other Japanese

companies to emulate. Previously, employees of Japanese companies were generally strong team players, due in part to their racial homogeneity. Going forward, however, as diversity and inclusion is becoming a major social issue, these companies should have effective personnel management strategies to unify their diverse workforces comprised of individuals with different backgrounds. To this end, it is important to establish a good corporate purpose that can serve to unify the organization. The concept of a Kampo medicine-like harmonious organization can provide an excellent model for this.

From your story today, I understand that Kampo medicine originated in China and has developed independently in Japan until today, when it is contributing to the technical and quality improvement of Chinese medicine to increase demand for resulting products. From this point of view, Tsumura will be acting as a bridge between Japan and China. Today's talk has cemented my confidence in Tsumura's potential for long-term future growth. I look forward to seeing the Company making its visions and goals a reality.

A story of value creation based on seven types of capital

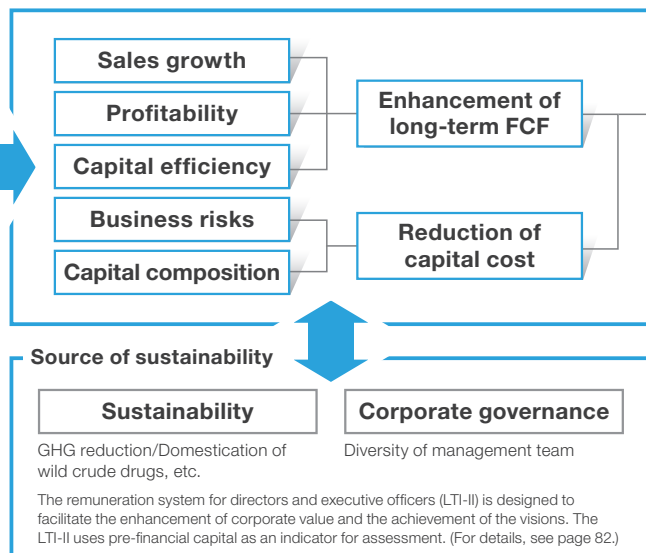
Through realizing our visions, we strive to enhance our corporate value in a sustainable manner by harnessing the Group's organizational capital as a centripetal force and its value creation cycle built on the seven types of capital as a centrifugal force.



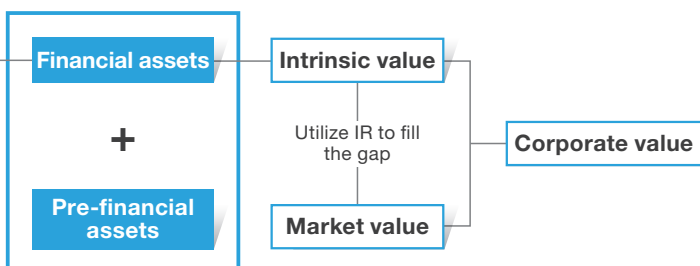
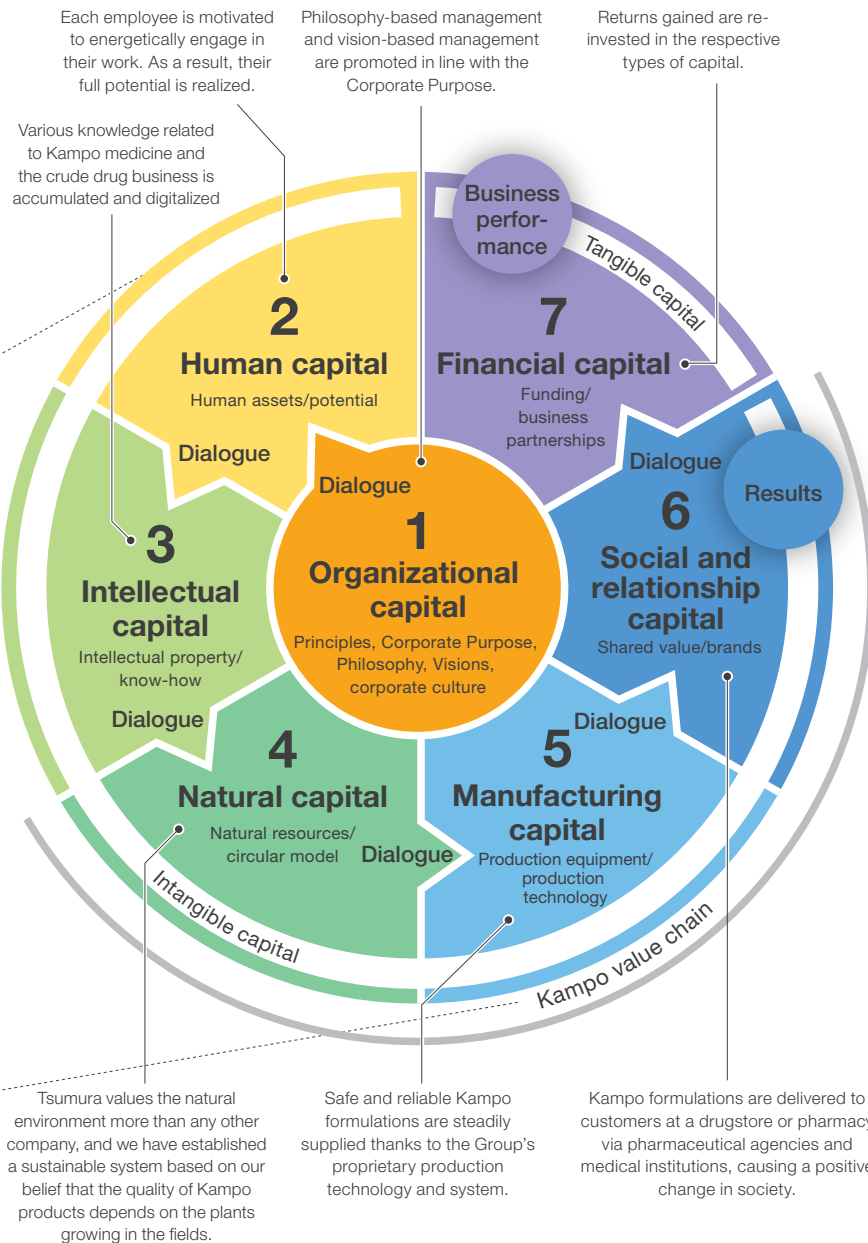
Value Creation Tree



By leveraging the seven types of capital to drive a cycle of value creation, the Tsumura Group aims to achieve its visions and enhance its corporate value.



A continuing cycle of value creation



Fill the gap between the market value and the intrinsic value based on the financial and pre-financial assets through IR activities.

Enhance corporate value by effectively communicating to society a long-term value creation story based on financial and pre-financial assets

Results and business performance

Results means positive changes (value) offered to patients, customers and society, or any advantageous changes brought about to customers, whereas business performance refers to sales, profits or something we have earned. Results are a source of business performance measures such as sales and profits.

1 Organizational capital

A source of new value and profits; Can serve as a centripetal force

A harmonious organization inspired by Kampo medicine

129th anniversary of founding

Corporate philosophy survey 4.02

2 Human capital

A Kampo medicine-inspired harmonious organization, in which new value is created through the harmonious collaboration of willing workers striving to fulfill their potential

Number of employees (consolidated) 3,921 people

Training expense (parent) ¥319 million per year

Training hours (parent) 825 hours per year

Percentage of employees with disabilities (parent) 2.91%

3 Intellectual capital

Know-how and intellectual property pertaining to Kampo and crude drugs, which has been accumulated since the Company's founding

R&D expenses ¥7,313 million

Raw Materials for Crude Drug Traceability System based on Tsumura GACP

Tsumura Quality Management System to ensure the uniform quality of Kampo formulations

Research for Kampo formulations to be included in medical treatment guidelines

Research on domestication of wild crude drugs

4 Natural capital

Cultivation research and environmental preservation measures aimed at protecting the natural environment in crude drug production areas

Crude-drug input volume 13,828t

Energy used 1,703TJ

Water used 1,703,800t

Water recycling rate (Ibaraki, Shizuoka and Shanghai) 55.6% on average

Percentage of industrial waste recycled 99.9% (in Japan)

CDP climate change B-

CDP water B

5 Manufacturing capital

Supplying high-quality Kampo formulations in a stable manner by leveraging Tsumura's proprietary manufacturing technology

Countries supplying crude drugs China approx. 90% Japan, Laos and others approx. 10%

Percentage of cultivated land under the Group's own management 79.6%

Selection and processing, quality management 2 sites in Japan, 2 sites in China

Manufacturing plants 2 sites in Japan, 2 plants in China

Research centers 1 site in Japan, 1 site in China

Capital expenditures ¥11,456 million

6 Social and relationship capital

Contribution to diseases that are difficult to treat with Western medicine

Percentage of doctors writing 10 or more Kampo prescriptions: Approx. 26%

Internet-based e-promotion

Continuous support for consistent Kampo medicine education prior to and immediately after graduation, and post-education

Kampo medicine education being implemented at all university medical departments and medical colleges nationwide

7 Financial capital

1Business performance outcomes derived from capital types 1 to 6

Net sales ¥129,546 million

Operating profit ¥22,376 million

Free cash flow ¥12,203 million

Total assets ¥350,981 million

Shareholders' equity ¥239,770 million

Interest-bearing liabilities ¥20,000 million (Rating and Investment Information, Inc. rating: A)

Resources for value creation

1 Organizational capital

A source of new value and profits; Can serve as a centripetal force

2 Human capital

A Kampo medicine-inspired harmonious organization, in which new value is created through the harmonious collaboration of willing workers striving to fulfill their potential

3 Intellectual capital

Know-how and intellectual property pertaining to Kampo and crude drugs, which has been accumulated since the Company's founding

4 Natural capital

Cultivation research and environmental preservation measures aimed at protecting the natural environment in crude drug production areas

5 Manufacturing capital

Supplying high-quality Kampo formulations in a stable manner by leveraging Tsumura's proprietary manufacturing technology

6 Social and relationship capital

Contribution to diseases that are difficult to treat with Western medicine

7 Financial capital

Business performance outcomes derived from capital types 1 to 6

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.

Kampo value

Quality assurance Research and development

STEP
01

Cultivation and
procurement

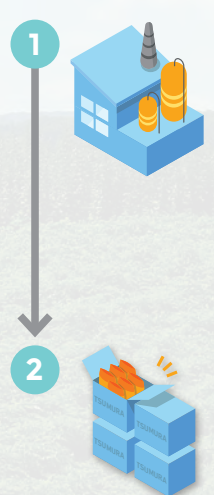
STEP
02



1 We cultivate and procure crude drugs used as raw materials for Kampo products in China, Japan, Laos and other countries.

2 We check for amounts of crude drug ingredients, pesticide residues and microorganisms to comply with legal standards and our own quality standards.

3 Raw-material crude drugs are stored in temperature- and humidity-controlled warehouse facilities.



chain

Manufacture

STEP
03

Sale, education, and popularization

Chopped raw-material crude drugs are placed into Tsumura's proprietary devices and their ingredients are extracted in a manner similar to that of the traditional Kampo preparation method. The extracted liquid is filtered and condensed for a short period at a low temperature. It is then dried instantly to avoid any heat-related effects to produce a powdered extract.

The powdered extract is mixed with fillers*¹ to make granules, which are then packaged and boxed for shipment as products.



Products shipped from plants are transported to distribution centers and pharmaceutical agencies and then delivered to medical institutions.

Information on the proper use of Kampo formulations is provided to medical professionals and general users.

Corporate value to be created

Economic value

Net sales

¥129.5 billion > ¥162.0 billion
Fiscal 2021 result Fiscal 2024 plan

Operating profit

¥22.3 billion > ¥29.0 billion
Fiscal 2021 result Fiscal 2024 plan

ROE

8.2% > 8%
Fiscal 2021 result Fiscal 2024 plan

Social value

Expand access to healthcare and pharmaceutical products	5 Gender equality	
Ensure stable supply of high-quality pharmaceutical products	1 No poverty	2 Zero hunger
	9 Industry, innovation and infrastructure	12 Responsible consumption and production
Share information that inspires high levels of customer satisfaction	4 Quality education	17 Partnerships for the goals
Pursue innovative R&D and create new products/services	9 Industry, innovation and infrastructure	
Continue to be a company that is extremely sensitive to changes in and crises facing the natural environment	6 Clean water and sanitation	7 Affordable and clean energy
	12 Responsible consumption and production	
	13 Climate action	15 Life on land
Foster corporate culture and develop human resources	4 Quality education	5 Gender equality
	8 Decent work and economic growth	10 Reduced inequalities
Strengthen corporate governance	4 Quality education	8 Decent work and economic growth
	16 Peace, justice and strong institutions	
Promote compliance	16 Peace, justice and strong institutions	

*1 Fillers: Additives to improve the handling or molding of pharmaceuticals or to make them easier to take



Creating value from organizational and human capital

Why has a CHRO been appointed now?

In April 2022, the position of Chief Human Resources Officer (CHRO) was newly established and I was inaugurated as the first CHRO. The role of the CHRO is to ensure the embodiment of the Corporate Purpose and Corporate Philosophy and the achievement of the Visions through such measures as recruitment, evaluation, assignment, promotion, and organizational development across the Group.

The business environment is becoming increasingly complex and unpredictable. In order to realize a multidimensional vision in such an environment, it is necessary to foster a corporate culture that embraces change and the diverse values held by individuals. It is also necessary to create a strong and flexible organization that aligns with business strategies. To this end, human resources departments must shift from their traditional role of managing human resources and transform themselves into a strategic unit that leads organizational change and promotes business strategies. The CHRO position was established to consolidate responsibility and authority for such reforms so that

they can be achieved in a swift and ongoing manner.

Fostering the corporate culture

Since the establishment of the Tsumura Academy in fiscal 2018, the Tsumura Group has exerted more efforts to spread the Corporate Philosophy and to foster a coaching culture. Our efforts have resulted in the expansion of the Kampo product market since fiscal 2021.

We previously expanded the Kampo product market by identifying customer needs, mainly through in-person, face-to-face activities. However, the COVID-19 pandemic drastically changed the situation, forcing us to move our activities online. In response to this situation, marketing departments and area managers used coaching-based dialogue to encourage junior employees to come up with ideas. This engagement led to new promotional activities, including the organization of numerous online events.

We believe that the key to our success in using our organizational strength to overcome this difficult situation was the “culture of dialogue” that we created by promoting our philosophy and fostering a culture of coaching. Through dialogue, the quality of relationships among organizational

(team) members is enhanced, which boosts the quality of their own thinking, leads to behavioral changes and generates positive results. We will continue to place these activities at the center of our organizational capital policy.

Seeking greater diversity of personnel to achieve the visions

The new visions of the Tsumura Group envisage an ambitious and exciting future. Yet some of the challenges we face, such as developing new markets in Japan and China, will be extremely difficult. In order to realize the visions, it is essential to have a diverse organization and human resources capable of generating innovation and creating new value. Among our priority themes are a global mindset, professional human resources and the advancement of women.

We are actively recruiting mid-career hires with global and professional skills. In addition, it is becoming more important to offer an environment that motivates our current employees to grow and to embrace challenges. Therefore, we are promoting the effective allocation of human resources and the introduction of a flexible evaluation and promotion system.

It is even more imperative to create an environment that inspires more female employees to achieve self-fulfillment through work. The percentage of women among new graduates has already reached 50%, and they are demonstrating remarkable performance. Going forward, we will work to address the under-representation of women in executive management based on a concrete policy.

Keenly aware of the expectations directed toward the CHRO as defined above, I will contribute to the sustainable enhancement of our corporate value by aligning our management strategies with our human resources and organizational strategies.

Guidelines for Organizational and Human Capital Policies

The growth of a company is founded on the growth of its organizations, and the growth of organizations is driven by the growth of people who work therein.

We believe that corporate management rests on the concept that “a company is only as good as its people,” and the foundation of corporate management thus consists of so-called human capital, or the ability of each individual, and organizational capital, or the strength of the team. Since 2012, under its human capital policy, the Tsumura Group has consistently placed emphasis on becoming a “People” company by developing its people.

In April 2022, under the concept of philosophy-based management aligned with the Corporate Purpose of “Lively Living for Everyone,” we launched the long-term management vision, titled “TSUMURA VISION ‘Cho-WA’ 2031.” Under the new vision, we continue to focus on “people” with a view to realizing Potential-Abilities Development (PAD).

Specifically, the vision stipulates

that the Tsumura Group will foster, through dialogue, a culture that challenges each individual to do their best, with purposes and values acting as a centripetal force. It clearly states that we will be a group of people who will pave a new way forward and earn the trust of all, as well as a Kampo-inspired harmonious organization operating in the Kampo and Chinese medicine businesses, for which there is no other model in the world.

Each organization within the Tsumura Group will first fulfill its own function and role as an organization that takes the mechanism of Kampo medicine as its model. Then, each individual will enhance his or her capabilities, work in harmony as a team to realize the vision and achieve great results.

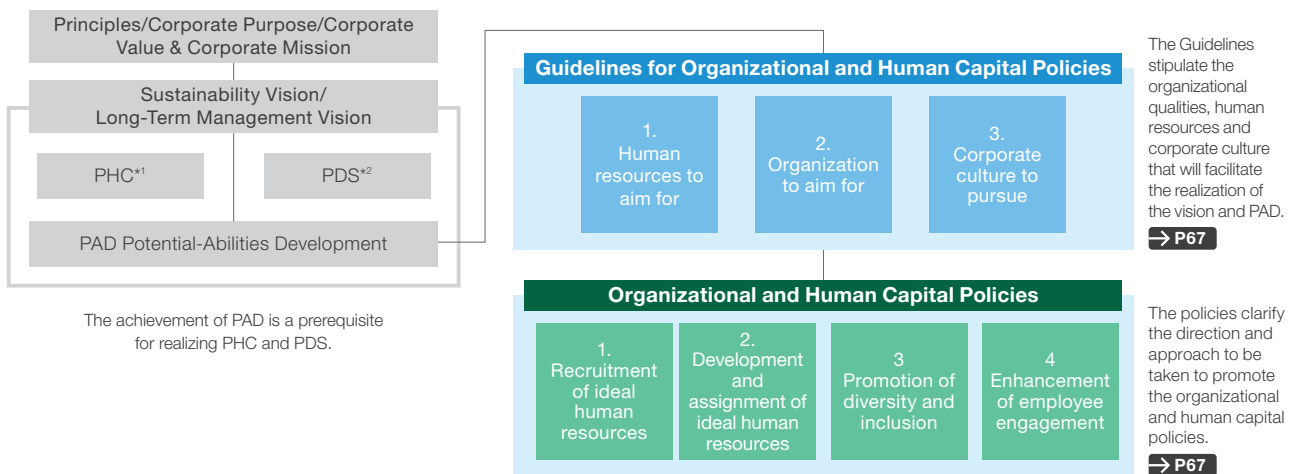
A culture of dialogue as a tool for quality communication is the engine that drives our management, based on a philosophy and vision aligned with the Corporate Purpose. We will promote diversity and inclusion throughout the Group in order to realize the success and growth of all

employees, each with their own perspectives, ideas and values.

In addition, we place emphasis on enhancing the “human skills” of each individual by promoting the penetration of the Purpose and Philosophy throughout the Group and fostering a culture of quality, centering on the Tsumura Academy, an in-house human resources development institution. All executives and employees are required to study classic literary works such as The Analects, to cultivate their minds, to think deeply about what kind of company we should be and to make tireless efforts to improve themselves as human beings.

The Tsumura Group, believing that our “organizational and human capital” is the source of our corporate and business value, has formulated its “Organizational and Human Capital Policies” as shown below, and will develop an organization and foster human resources to underpin its philosophy-based management from a long-term perspective and in line with the Corporate Purpose.

Schematic illustration of the Guidelines for Organizational and Human Capital Policies



Organization

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

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

Human resources

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

*1 Personalized Health Care

*2 Pre-symptomatic Disease and Science

Employee engagement

Guided by the spirit of obeying the heavens, the Tsumura Group aims to establish a corporate culture that encourages employees to fulfill their potential by implementing philosophy-based and vision-based management that aligns with the Corporate Purpose and by stimulating dialogue, with purposes and values acting as centripetal forces.

As a way to implement philosophy-based management, we have been promoting efforts to instill the philosophy in our workforce since fiscal 2012. In fiscal 2017, we began holding annual off-site meetings to talk about the philosophy, offering opportunities for members of our Group, including executive officers, general managers, division, department and section managers, other employees to engage in dialogue. Participants discuss such fundamental questions as “Why are we working for the Tsumura Group?”

Off-site meetings are an opportunity for each of us to question ourselves. We repeatedly share the belief that business performance follows on from results (positive change [value] offered to patients, customers and society).

In fiscal 2018, we launched a range of measures aimed at fostering a coaching culture and, in fiscal 2020, we began holding a philosophy discussion meeting and a coaching meeting at the same time to create synergetic effects. In doing so, we reaffirm that both spreading the philosophy and coaching emphasize “purposes and values” and pursue the same direction and goals (future).

In fiscal 2022, we are holding these meetings across the organization—with no separation of line workers and non-line workers—with the aim of working as a team to deepen mutual understanding and realize the visions by promoting dialogue among executives and employees beyond divisional and hierarchical boundaries.

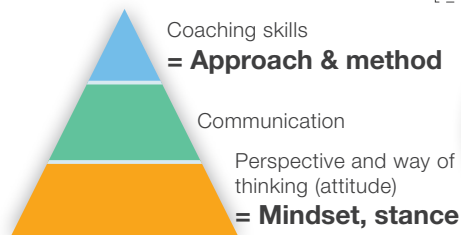
In addition, we are conducting teambuilding activities in order to enhance our team power and create an organization that is able to continue to grow.

Objectives of team building

1. Share objectives and goals
2. Fulfill roles and responsibilities
3. Engagement with a focus on achieving goals

Putting coaching stances into practice in Academy courses and at workplaces

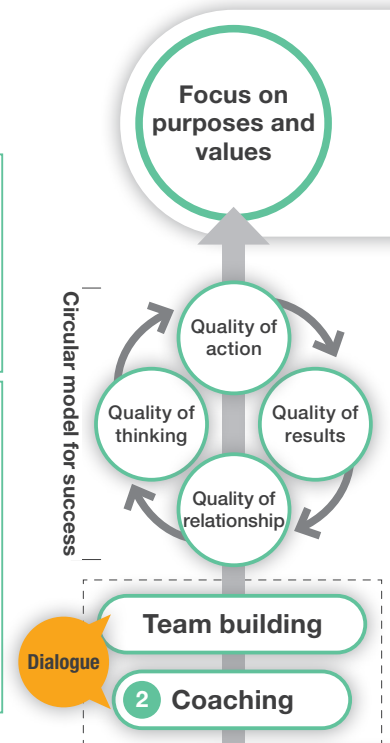
- Listen attentively
- Approve
- Ask questions
- Think
- Talk/share



Section heads



Executive officers



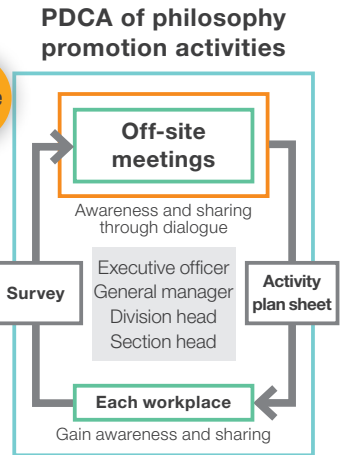
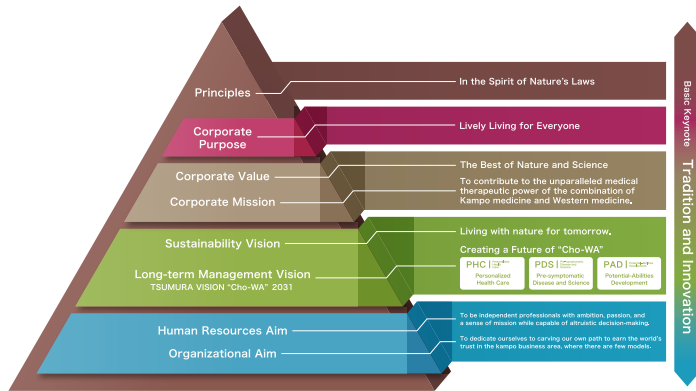
Using corporate philosophy survey results as a dialogue index

Since fiscal 2017, the corporate philosophy survey has been conducted to measure the degree to which the philosophy is understood and embraced by executives and general employees at the Tsumura Group. The purpose of the survey is to identify issues that need to be addressed through our philosophy promotion activities in order for us to become a “good company” and an “esteemed company.”

Survey respondents are asked to answer each question using a five-point scale. The company-wide average response for all survey question items was 4.02 for the fiscal 2021 survey. The graph shows changes in scores since

fiscal 2017. A representative of the external specialist that was commissioned to conduct the survey made the following comment on the results: “Although it is not possible to evaluate the degree of penetration of the philosophy simply based on scores, a score of 4 out of 5 is considered to be satisfactory. In addition, the number of specific references to respondents’ own words and actions increased in open-ended responses, indicating that they are perceiving the philosophy as something they have ownership over. The results show that each of the respondents feels a real connection between the philosophy and their actions.”

Developing potential through dialogue with purposes and values serving as centripetal forces



Mingling

Pair up and engage in a dialogue
Each person will speak for one minute.
Start your speech with "Hello."
Conclude your speech with "Thank you."
Take turns speaking for one minute.
As you repeat the same story again and again, you will be able to organize your thoughts. "Speaking is thinking."

Tsumura's dialogue theory

- Dialogue should be initiated by executive officers and be expanded to division heads, section heads and general staff.
- Purposes and values should be harnessed to serve as centripetal forces of dialogue.
- Respect rules of dialogue. Actively incorporate a "mingling" (break-out) method.
- Dialogue enables the sharing of questions, which is a unique practice at Tsumura.

Rules of dialogue

Be open and talk freely	Tell the truth
Listen through to the end	Try hard to ascertain the true intent
No negativity	We are all different, which makes us special
Be yourself and be candid	Engage in subjects outside the scope of your role or position
Confidentiality obligation	Do not disclose who did or said what



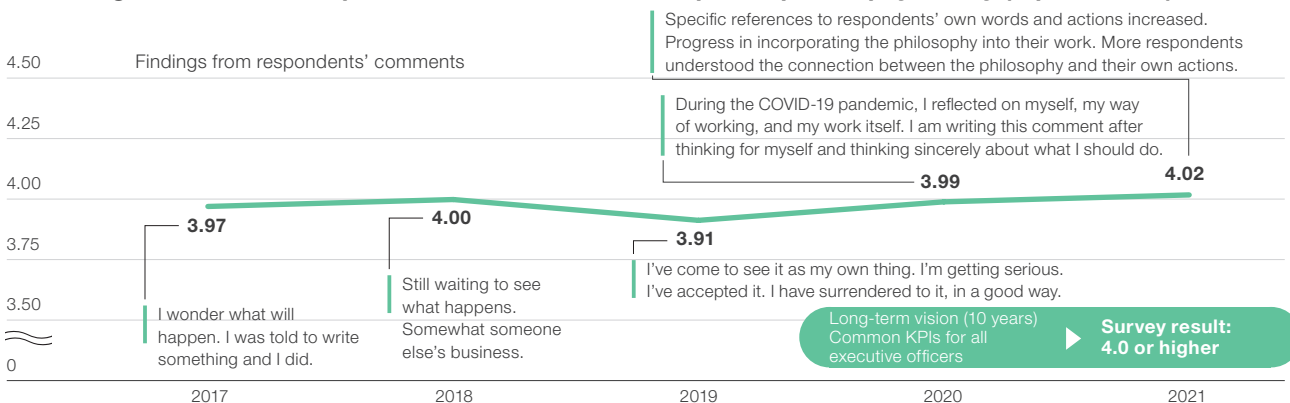
Executive officers



"Mingling" session

* Photos are of training sessions conducted before COVID-19

An average score of the 30 questions contained in the corporate philosophy survey (5-point scale)



Stakeholder engagement

We focus on deepening mutual understanding and earning trust by responding sincerely to diverse expectations and requests, by proactively creating opportunities for dialogue with all our stakeholders.

Local
communities

Community-based corporate activity event

From March 28 to 31, 2022, a corporate PR event was held at the lobby space and exhibition gallery of Yubari City Community Base Complex RESTA in Hokkaido. At the event, panels were displayed and leaflets were distributed to share information with the residents of Yubari City about Tsumura's social activities, including its support for the early childhood education and care center that had recently opened in the city and the planting of medicinal trees. The event was organized in cooperation with the Sustainability Promotion Office and Yubari Tsumura. We also donated copies of a book titled Kampo no Himitsu (Secrets of Kampo) to a library housed in the facility. The event was advertised in advance in the March 2022 issue of local newsletter "Koho Yubari" (published on the first day of each month), and an appearance by the city's mayor helped generate interest in the event and in our operations.



Left: Display of panels outlining our business and the crude drugs grown at Yubari Tsumura's own farm
Right: Copies of Kampo no Himitsu were donated to the library

Local
communities

Exchange with local residents through harvesting

In July 2022, a hands-on harvest experience involving medicinal crops (soyo) was held at Temiru Farm in Ishikari City, Hokkaido. A total of 17 people, consisting of eight groups of fourth- to sixth-grade elementary school students and their parents, from all over Hokkaido participated in the event. The children were surprised to learn that familiar perilla leaves are used as an ingredient in a traditional Japanese medicine. They were also fascinated by the possibilities of Kampo medicine, a medicine born from the land and the bounty of nature.



Harvesting the crop

Local
communities

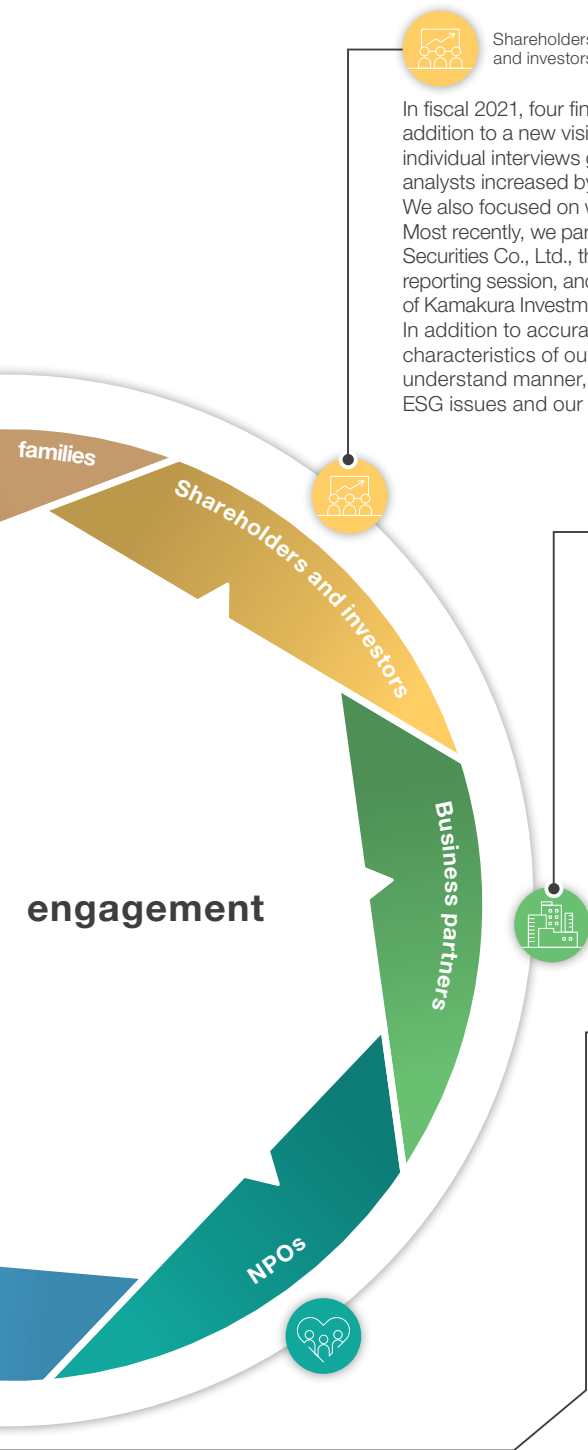
Initiatives at LAO TSUMURA

LAO TSUMURA provides scholarships and donates uniforms, bags, stationery and other school essentials to elementary schools in impoverished areas in cooperation with the local education office of Lao Ngam District, where the company is located. Its aim is to offer schooling opportunities and create an environment where students can receive a quality education to help bring an end to child labor. In fiscal 2021, the company made donations to 11 elementary schools in the district. In addition, to help stabilize the income of people living in poor areas, we are promoting a project to cultivate "saiko," a crude drug, in cooperation with the Lao Ngam District government. Through these activities, we will contribute to the SDG goals of "No Poverty" (Goal 1), "Quality Education" (Goal 4) and "Decent Work and Economic Growth" (Goal 8).



A scholarship granting ceremony at Ban Dongtongnoy Primary School





Shareholders and investors

Increasing opportunities for dialogue to communicate Tsumura's values

In fiscal 2021, four financial results briefings were held in addition to a new vision briefing in March. The number of individual interviews given to institutional investors and analysts increased by 18 from the previous year to 199. We also focused on webinars for individual investors. Most recently, we participated in events at au Kabucom Securities Co., Ltd., the Sawakami Fund investment reporting session, and the general meeting of beneficiaries of Kamakura Investment Management Co., Ltd. In addition to accurately communicating the characteristics of our business in an easy-to-understand manner, we actively provide information on ESG issues and our efforts to address the SDGs.

	Fiscal 2019	Fiscal 2020	Fiscal 2021
Number of individual interviews given to institutional investors and analysts	124	181	199



Webinars for individual investors



Business partners

A tour of the Tsumura Kampo Memorial Museum for employees of pharmaceutical agencies

Every year, Tsumura hosts a training tour of the Kampo Memorial Museum for (new) employees of pharmaceutical agencies to help them learn about Kampo medicine, our products and the history of Kampo, among others. In 2022, a live virtual tour of the museum (training event) was conducted for 76 new employees (MS and others) of Toho Holdings Co., Ltd. Through these tours, we aim to provide a variety of information on Kampo and familiarize more people with it. Going forward, we will continue to disseminate accurate information and communicate the value of Kampo.



Online training



General consumers

Activities to raise awareness of Kampo

As one of the activities to popularize Kampo and educate people about it, we sponsor forums and events related to medical care and health for the general public. Over the past year, we sponsored 13 forums and events, which attracted over 7,000 participants in total.

Event title	Number of sessions	Number of participants (including those who participated online)
Health Support Festa	6	2,623
Forum on "living with cancer"	3	604
Forum on the future of longevity	2	820
Kampo seminar for women	2	3,099

(Period: Oct. 1, 2021 to Sept. 30, 2022)



General consumers

#OneMoreChoice Project

Aiming for a healthy society where everyone can live comfortably and without having to endure ailments, Tsumura has been working on the #OneMoreChoice project since 2021. In the first year of the project, we addressed an issue* that many people face: forcing themselves to endure work or housework despite feeling physically and mentally unwell. We sent out the message that a healthy society is one that offers people alternatives to endurance. In the second year, we conducted a survey to identify the problem and elucidate the reasons why women do not tell others about the difficulties they are experiencing due to symptoms such as menstrual pain and PMS. In line with the theme "Let's start by knowing the difference. #This is the shape of my period," video clips, newspaper ads and train ads were then produced to visually express different types of pain and symptoms. The project aimed to promote understanding and spur conversations among people about the symptoms and pain experienced by their friends and partners, and to create opportunities for people to take care of their own bodies and be considerate of those around them who may be suffering from pain.

* Fact-finding survey on hidden endurance (Survey conducted by Tsumura in March 2021)



2021

Won the Nikkei Special Award at the 2nd Nikkei Women Empowerment Advertising Awards

Won the prize in the quasi drug, cosmetics and toiletries category at the 69th Asahi Advertising Award

Won the Award for Excellence in the food, pharmaceuticals and daily goods category at the 70th Nikkei Advertising Awards

2022

Won the SDGs Special Award at the 75th Dentsu Advertising Awards

Special webpage: Let's start by knowing the difference. #This is the shape of my period
<https://www.tsumura.co.jp/onemorechoice/chigai/> (Only Japanese site)

THE KAMPO VALUE CHAIN

STEP
01

Cultivation and procurement

STEP
02

Manufacture

STEP
03

Sale, education and popularization

Quality assurance Research and development

STEP
01
Cultivation and
procurement

The manufacture of Kampo formulations rigorously implements GACP*-based quality depends on the plants growing in the fields”

1

Raw-material crude drug cultivation and procurement

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 that include 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

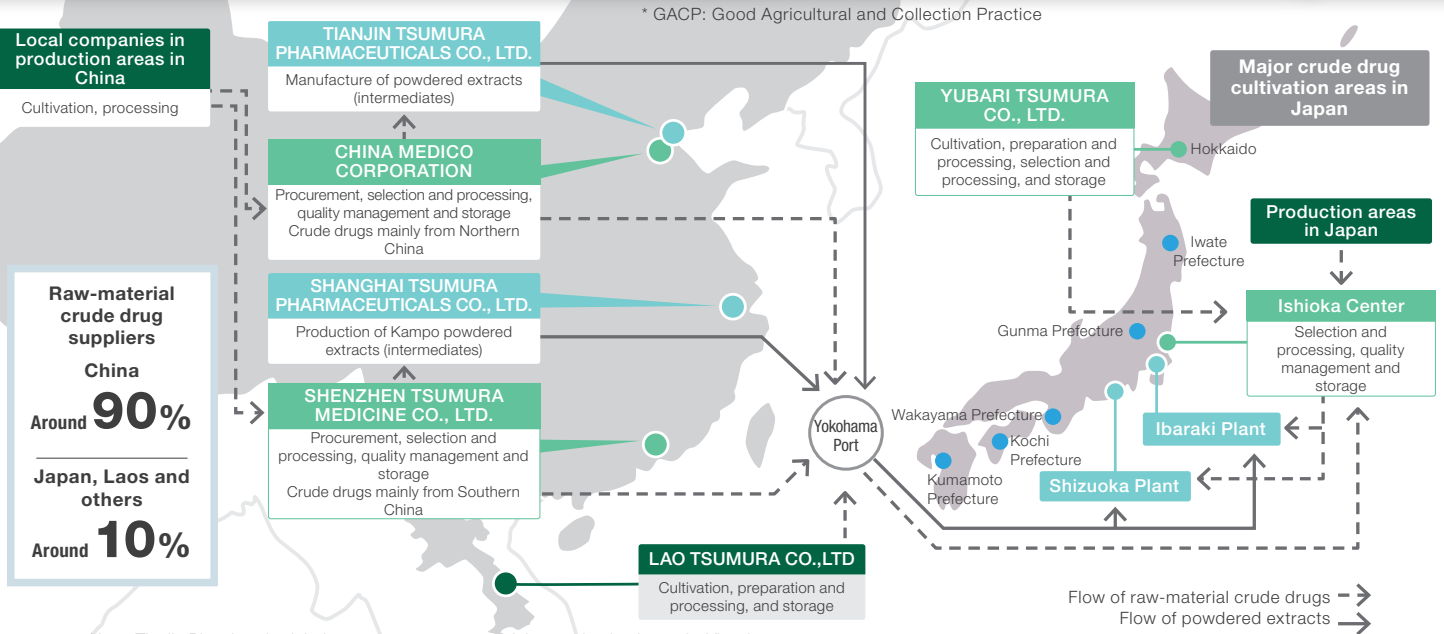
Delivered crude drugs undergo a quality test, to check for contaminants such as agrochemical residues, microbials and heavy metals, after which the selection process is carried out. The crude drugs are then stored in a refrigerated warehouse. Only raw-material crude drugs that clear quality standards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



Crude drug warehouse (SHENZHEN TSUMURA)

Site	Location	Procurement, selection and management and storage of raw-material crude drugs	Selection and processing, quality management and storage	Manufacture of powdered extracts (intermediates)	Granulation and packaging (finished products)
CHINA MEDICO CORPORATION	Tianjin, China	●			
SHENZHEN TSUMURA MEDICINE CO., LTD.	Shenzhen, China	●			
LAO TSUMURA CO., LTD.	Laos	●			
YUBARI TSUMURA CO., LTD.	Hokkaido, Japan	●			
Ishioka Center	Ibaraki, Japan		●		
SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.	Shanghai, China			●	
TIANJIN TSUMURA PHARMACEUTICALS CO., LTD.	Tianjin, China			●	
Ibaraki Plant	Ibaraki, Japan			●	●
Shizuoka Plant	Shizuoka, Japan			●	●

requires the securing of high-quality crude drugs. Tsumura management based on the belief that “the quality of Kampo products to ensure the quality and safety of crude drugs.



Improvement of crude drug cultivation technologies

Tsumura is conducting research with the aim of achieving 100% cultivation of plant-based crude drugs through the 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.

Continued expansion of cultivated land under own management^{*1}

As a measure to stabilize the prices and quantities of raw-material crude drugs and to strengthen quality assurance, we are continuously working to expand cultivated land under our own management. 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.

Strengths

- Quality control is enforced from the stage of cultivation of raw materials through to the preparation and processing stages in accordance with the Tsumura GACP Guidelines (Tsumura’s own guidelines aligned with the WHO GACP guidelines) based on our belief that the quality of Kampo products depends on the plants growing in the fields.
- The Standard of Botanical Raw Material Production, a crude drug traceability system, guidance for and auditing of crude drug farmers
- Ensure stable quality, volume and prices of crude drugs by making use of cultivated land under Tsumura’s own management
- Duplication of crude drug cultivation sites in China, Japan, Laos and other countries
- Selecting only the crude drugs that have satisfied internally established quality standards as well as the Japanese Pharmacopoeia

Risks and responses

- 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
 - ▶ Securing of sufficient inventory volume; expansion of range of suppliers of crude drugs domestically and overseas; continued expansion of cultivated land under own management
- Risk of large fluctuations in the exchange rate relevant to the import of raw-material crude drugs and Kampo powdered extract from China
 - ▶ Stabilization of costs through tools such as forward exchange contracts while taking into account exchange rate trends
- Risk of occurrence of product-quality or safety problems
 - ▶ Thorough management of raw-material crude drugs in accordance with the TSUMURA GACP for Crude Drugs

Quality Policy

Tsumura has enacted “Regulations related to the Tsumura Quality Management System” to further enhance the quality assurance system based on its Quality Policy. The Company is building a system that can properly respond to matters that include 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.

^{*1} 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.

^{*2} PIC/S: Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme.

STEP

02

Manufacture

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

4

Chopping, weighing and mixing

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



* Shanghai Tsumura and Tianjin Tsumura manufacture powdered extract, undertaking the processes from cutting to drying. Powdered extract manufactured in Shanghai is transported to both the Shizuoka and Ibaraki Plants and sent to the next process after granulation.

Each chopped crude drug is weighed so that it meets the prescribed blending ratio. The drugs are then layered like mille-feuille into a large formulation container.

5

Extracting, isolating, condensing and drying

The prepared crude drug is put into one of our proprietary extraction devices and the ingredients are extracted 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

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.

6

Extract granule manufacturing, packaging and labeling

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



Extract granules

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.

7

Shipment, storage and transport

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

Shizuoka Plant
(Fujieda City, Shizuoka Prefecture)East Japan Distribution Center
(Kuki City, Saitama Prefecture)

Strengths

- Manufacturing processes controlled by computers in accordance with formulation design for each Kampo formulation (Tsumura's proprietary manufacturing line)
- Automation of all manufacturing processes for prescription Kampo formulations through the deployment of robot technology
- Ability to produce Kampo formulations having consistent, uniform quality on a continuous basis. This has been achieved through conducting quality tests at each process for all lots and accumulating data.

Risks and responses

- 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
 - ▶ Establishment of purchasing structure involving multiple suppliers
- Risk of loss of production and distribution functions due to natural disasters, fires, power outages, etc.
 - ▶ Decentralization of manufacturing and product supply bases; introduction of seismic isolation and earthquake-resistant structures for production facilities
- Risk of occurrence of product-quality and safety problems

STEP
03

Sale, education, and
popularization

We are working to help realize a healthcare environment in which a patient can receive personalized treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department.

Weighing



Mixing



Drying



Powdered extract

Packaging
and
labeling

8 Pharmaceutical agencies

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 accurate 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:Marketing Specialist

9 Hospitals, clinics and pharmacies

Medical representatives (MRs*) 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 complement 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:Medical Representatives

10 Patients and 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.

Strengths

- Out of 148 prescription Kampo formulations on Japan's National Health Insurance drug price list, 129 are Tsumura's formulations.
- Number of products with a track record for delivery to more than 50,000 medical institutions and pharmacies
(The most of any of the top 20 pharmaceutical companies [excluding generic manufacturers] in terms of sales.)
- Our products have been proven to be beneficial in all medical departments.
- Information is provided by MRs who have studied both Kampo medicine and Western medicine.

Risks and responses

- Risks related to administrative developments such as government policies to curb healthcare spending
 - ▶ Nurturing understanding of the value of Kampo formulations; cooperation with industry bodies and recommendations to relevant ministries and agencies
- Risk of domestic/overseas regulations concerning the development and manufacture of pharmaceutical products
 - ▶ Establishment of evidence of efficacy of prescription Kampo formulations; activities to raise profile of prescription Kampo formulations
- Risk of unexpected side effects
 - ▶ Prompt and appropriate collection of safety information about the product in question; promotion of proper use of Kampo formulations by strengthening adverse side-effect information provision

▶ Compliance with the quality control standards in the country or region; and promotion of initiatives for quality of all products, including not only those manufactured in-house but also those manufactured on consignment

- Risk of business being suspended as a result of the domestic and worldwide spread of COVID-19
 - ▶ Measures to prevent infection and halt the spread of the disease
- Risk of a failure to supply products due to lockdowns in China that cause production and distribution functions to stop
 - ▶ Put together a structure for the stable supply of products based on the business continuity plan (BCP)

* Prepared by Tsumura based on "JPM, JCC (March 2021, MAT)" © 2021 IQVIA.

Three... unique points

Helping to solve social issues



UNIQUE
1

Further development of domestic operations

Potential of the Japanese market

Kampo medicines are essential for the health and medical care of the Japanese people. In order to expand the Kampo market, we have positioned “geriatric health,” “cancer (supportive care)” and “women’s health” as our three priority areas and have been focusing our activities accordingly. The sales volume of 129 prescription Kampo formulations has tripled in the past 20 years.

We will contribute to the solution of various social issues and the well-being of each individual through our Kampo products.

▶ Contributing to realizing a society of healthy longevity

Elderly people often suffer from a variety of illnesses that, combined with a decline in their physical and mental functions, pose a risk of causing deterioration in their day-to-day life as well as accelerated mental and physical frailty. Kampo formulations are expected to help improve these conditions and prevent their further progression.

A single Kampo formulation, which contains many ingredients, can be effective for multiple symptoms, potentially eliminating the need to take multiple medications and thus reducing medical costs. We will contribute to the improvement of patients’ quality of life (QOL) and the extension of their healthy life span.

▶ Improving QOL of cancer patients

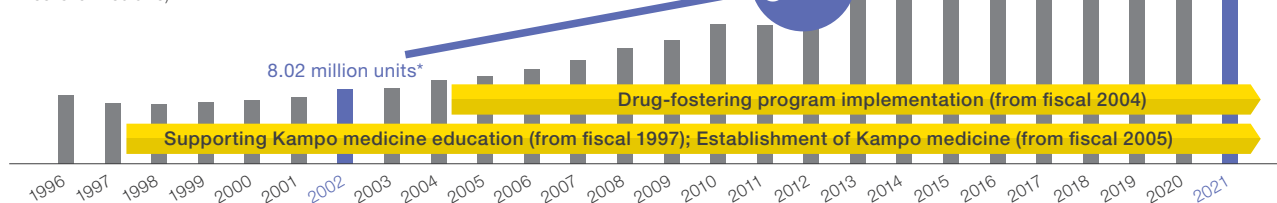
Kampo formulations are expected to reduce the side effects associated with the treatment of cancer, a leading cause of death. There are even some reports that the completion rate of chemotherapy was improved by the incorporation of Kampo medicines. We will support patients in balancing treatment and work by alleviating mental and physical discomfort (fatigue, anxiety, insomnia, etc.) that persists during and after treatment.

▶ Supporting women through all stages of life

With the advancement of women in society, increasing numbers of women are taking on important roles. As a result, more and more women are suffering from stress and female hormonal imbalances that cause heaviness of the head, fatigue, irritability, coldness, rough skin and other symptoms that are not diagnosed as abnormal on examination. Kampo medicines improve these ailments specific to women and contribute to the realization of a society in which women can feel comfortable at any stage of life.

Net sales volume for 129 prescription Kampo formulations

* 1 unit: 1 box with standard packaging (each box contains nine weeks’ of medicine)



Population and disease structure of Japanese society

Population aged 65 and over: 35.89 million / Aging rate: 28.4%

■ Leading causes of death among the elderly

- 1st: Malignant neoplasms (cancer)
- 2nd: Heart disease
- 3rd: Senility
- 4th: Cerebrovascular disease
- 5th: Pneumonia

■ Main conditions requiring long-term care

- | | |
|-------------------------|-------|
| Dementia | 18.7% |
| Cerebrovascular disease | 15.1% |
| Weakness due to old age | 13.8% |
| Fractures and falls | 12.5% |

Characteristics of medical care for the elderly

- Multiple diseases and multi-organ diseases are common
- Frailty of mind and body leads to serious illnesses
- Personalized medicine is considered important from the viewpoint of supporting patients in their fight against diseases and extending healthy life spans

Challenges associated with accelerating aging of the population

Projected population aged 75 and over

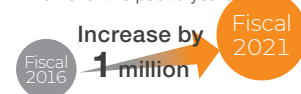
Population aged 75 and over will increase by 5.8 million by 2055



Challenges for women to stay healthy and remain in the workforce

Changes in the number of working women (working-age population)

The number of women in the workforce has increased by approximately 1 million over the past 5 years



Three priority areas

Geriatric health

- Increase in the number of patients with dementia
- Increase in the number of patients with heart failure associated with hypertension
- Increase in the number of patients with frailty of body and mind

Cancer (supportive care)

- Increase in the number of cancer patients and cancer survivors

* Excerpt from the 2022 white paper on aging society (Cabinet Office)

Women’s health

- Menstrual disorders
- Pregnancy disorders
- Prenatal and postpartum disorders
- Menopausal disorders

* Excerpt from the 2021 labor force survey (Ministry of Internal Affairs and Communications)



UNIQUE
2

Challenges in Chinese Operations

Potential of the Chinese market

The Chinese medicine market in China is valued at approximately 11 trillion yen, making it around 40 times the size of the Japanese market for Kampo products and chopped crude drugs. In our Chinese Operations, we aim to contribute to the health of the Chinese people through pharmaceutical products such as traditional Chinese medical products and crude drug pieces (chopped crude drugs) made from high-quality crude drugs as well as health food products such as “Yakushokudogen” products. Traditional Chinese medical products, which form the core of our Chinese Operations, focus on “classical prescriptions,” for many of which the ingredients are not manufactured or sold in the Chinese market. Classical prescriptions are based on ancient Chinese medical texts and are very similar to Japanese Kampo medicines. There are, however, quality issues in traditional Chinese medical products, such as in relation to homogeneity and efficacy. We aim to become a trusted traditional Chinese medicine company in China by helping to solve these issues with our technologies and evidence-building know-how cultivated through the manufacture and sale of Kampo formulations.

Scale of the traditional Chinese medicine market and business opportunities

Comparison of market sizes (Fiscal 2020)

The traditional Chinese medicine market is large and is expected to continue to grow in line with the national government’s healthcare policy and changes in public awareness.

	Japan		China
Traditional Chinese medicine total	235 billion yen	Approx. 40 times of the size of the Japanese market	11.1 trillion yen
Kampo medicines/traditional Chinese medical products	230 billion yen	Approx. 30 times of the size of the Japanese market	7.9 trillion yen
Chopped crude drugs/crude drug pieces	5 billion yen	Approx. 600 times of the size of the Japanese market	3.2 trillion yen

Healthcare policy trends

In January 2022, the Chinese government announced the 14th Five-Year Plan for the Development of the Pharmaceutical Industry.

- Innovation in traditional Chinese medicines: Promoting research and development of formulations based on classical prescriptions
- Strengthening the quality of traditional Chinese medicines: Strengthening the traceability system, etc.

* Compiled by Tsumura based on data from the National Bureau of Statistics of China, JKMA and IQVIA.

* Japanese Kampo formulations include OTC products.

* Calculated at 1 RMB = 18 JPY (as of the end of December 2021)

Changes in the industry and public awareness

- COVID-19 has raised health awareness and the recognition of traditional Chinese medicines.
- Prices of prescription medications covered by health insurance are being suppressed (with the expanded scope of the centralized drug procurement program)
- Regarding OTC medications not covered by health insurance, needs for them have grown and the number of people choosing to buy (commercial) insurance policies has increased



UNIQUE
3

Contributing to realizing a recycling-oriented society

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

We are committed to continuing to be a company that is extremely sensitive to changes in and crises facing the natural environment. We aim to contribute to realizing a recycling-oriented society in line with the spirit of obeying the heavens (our principle of conducting business in a way that does not disobey the laws of nature).

The main raw materials used 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 ensure all resources, i.e., not only crude drugs but also water and air, are returned to nature.



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

Sustainability Vision

Living with nature for tomorrow.



In April 2022, the Tsumura Group established the Corporate Purpose and the new Sustainability Vision.

The Tsumura Group's business is built around the Kampo value chain, starting with the cultivation of raw-material crude drugs, which is an activity that is highly reliant on the natural environment.

We are committed to continuing to be a company that is extremely sensitive to changes in and crises facing the natural environment, which is the basis of our business and should be protected to ensure its richness for the future. We are also committed to tackling various social challenges through our business, aiming to create a sustainable society. These commitments are encapsulated in the phrase "Living with nature for tomorrow," our message from the

Sustainability Vision. To live up to this message, we will implement initiatives for the sustainability of our current lifestyles, our society and the environment.

In October 2022, following the above, we formulated the Sustainability Charter (the "Charter"), a set of key policies the Tsumura Group will follow in order to contribute to the sustainability of society, the environment and our lifestyles. These policies shall serve as a guide to mindset and action for the Group and its officers and employees as we strive to realize the Sustainability Vision. As we do so, the Tsumura Group and its officers and employees pledge to comply with the Charter and endeavor to share the values of and build better relationships with our stakeholders.

Sustainability Charter

The Tsumura Group, upholding its Principles that promote a “spirit of obeying the heavens,” its corporate purpose in pursuit of “Lively Living for Everyone,” and its corporate value of “The Best of Nature and Science,” is committed to fulfilling its corporate mission: “to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” By demonstrating this commitment, we aim to contribute to resolving social issues and creating a sustainable society.

To this end, all officers and employees of the Tsumura Group pledge to adhere to and act in accordance with the following principles of the Sustainability Charter as well as others established separately, with the aim of realizing the Sustainability Vision of “Living with nature for tomorrow.”

1 Basic Principle

Both at home and abroad, we comply with all applicable laws, regulations, and international rules while also respecting the spirit of the law, and fulfill our social responsibility while maintaining high ethical standards.

We also engage in communication with our stakeholders in a sincere manner so that we can earn their satisfaction and trust.

2 Commitment to our customers and patients

We contribute to the well-being of each of our customers and patients through stable supply and provision of safe and reliable high-quality products and services as well as the provision of accurate information.

To this end, we engage in innovative research and development efforts.

3 Commitment to our business partners

We respect our relationships with our business partners, and seek to build mutually beneficial partnerships from a long-term point of view.

We also compete in a fair and open manner, follow fair transaction and distribution procedures in handling our products, and conduct responsible procurement activities.

4 Commitment to our employees

We create a work environment that encourages employees to respect diversity and to respect each other as individuals, is conscious of health and safety issues, and ensures the job satisfaction of each employee.

We also create an organization that supports the self-development efforts of employees to improve their personal qualities, promotes higher ethical standards, and encourages harmonious collaboration among people with diverse talents and attributes.

5 Commitment to our shareholders and investors

In order to achieve sustainable growth and increase our corporate value over the medium to long term, we develop and operate an appropriate governance system, engage in constructive dialogues with our shareholders and investors, and conduct information disclosure in a timely and appropriate manner.

6 Commitment to the environment

Squarely recognizing that the Tsumura Group’s business is founded upon nature, we continue to be a corporate group that is extremely sensitive to changes in and crises facing the natural environment, take action to prevent global warming, conserve biodiversity and water resources, and promote resource recycling, in an effort to work in harmony with the environment.

7 Commitment to society

- 1 We respect the human rights of all people involved in the business of the Tsumura Group.
- 2 When conducting international business activities, we comply with local laws and norms of conduct, respect local cultures and customs, and contribute to local development through corporate management.
- 3 We actively participate in society as a good corporate citizen, and contribute to the development of society.
- 4 We give due attention to the proper protection of personal information, customer information, and confidential information, and take every possible measure to ensure appropriate information management.
- 5 We maintain sound relationships with the legislative and administrative arms of government.
- 6 We assume a resolute attitude toward antisocial forces and groups that pose a threat to the order and safety of civil society.
- 7 We establish solid organizational crisis management systems to respond to possible cases of terrorist attacks, cyberattacks, natural disasters, pandemics, and other crisis situations.

The management team of each company under the Tsumura Group is well aware of their role in embodying the spirit of the Charter, setting an example for their employees, and sharing the Charter with their business partners. They shall also actively seek out opinions from both inside and outside the company in order to ensure a strong culture of corporate ethics. In the event of a violation of the Charter, the management team of the relevant company shall act to solve the problem, conducting investigations to determine the cause and activities to prevent similar problems. They shall then publicly disclose information in a timely and appropriate manner to fulfill accountability and take strict disciplinary action against those involved, including team members, based on the relevant authority and responsibility, while working to restore public trust and confidence.

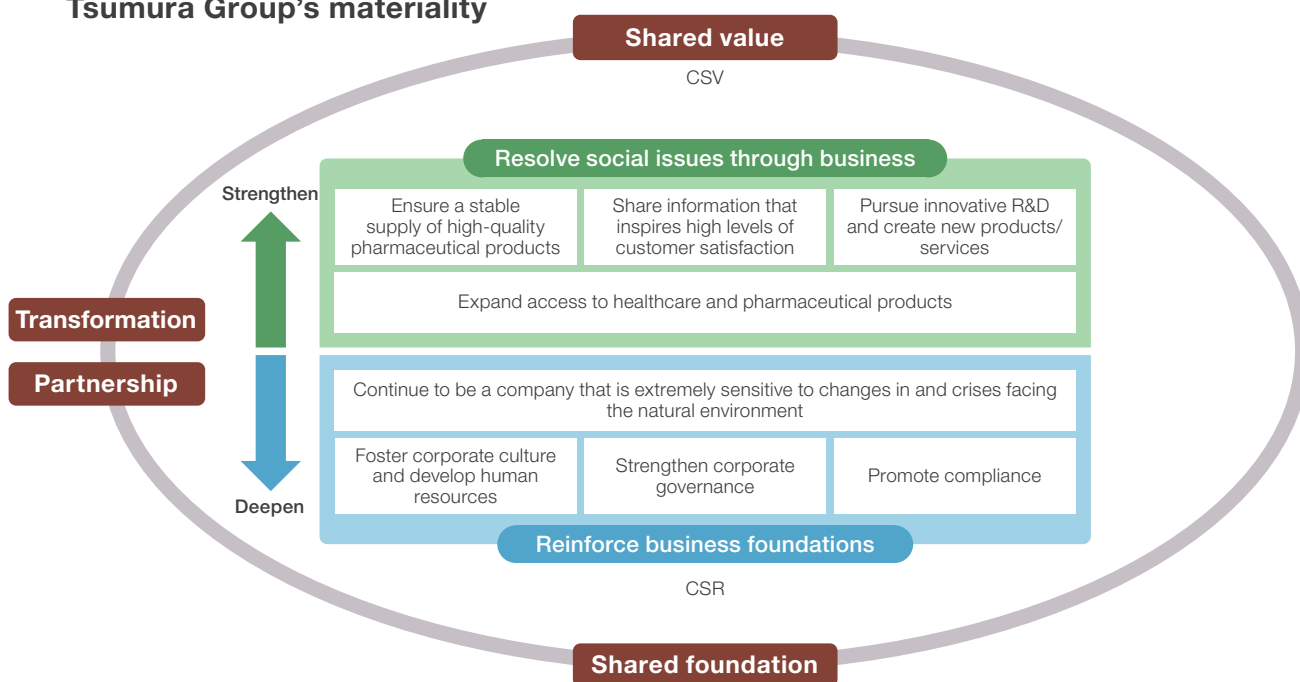
Sustainability Vision

Materiality (priority issues) for Realizing the Sustainability Vision

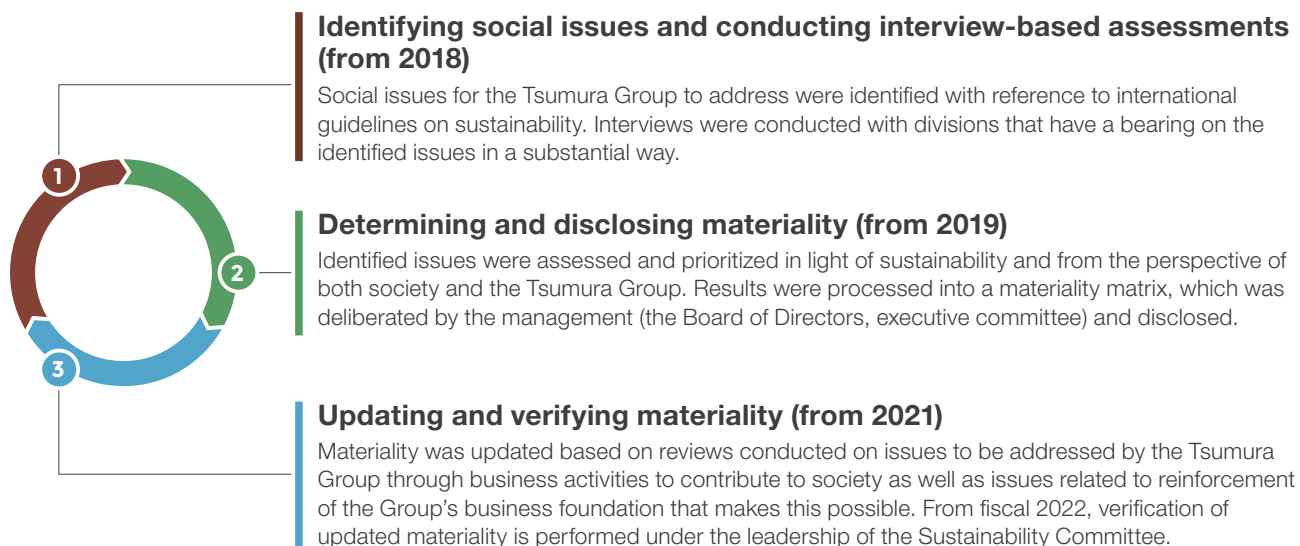
As an approach to realizing the Sustainability Vision, the Tsumura Group will promote management based on our philosophy and corporate purpose and will provide enhanced added value via the seven types of capital (see p.20), the source of our value creation, in order to contribute to the sustainable development of society. To this end, we identify priority issues (materiality).

For identifying the priority issues, we review the impact the Tsumura Group has on society through its business activities and the issues the Group needs to address for its sustainable development. Initiatives related to CSV and CSR are discussed by the Sustainability Committee.

Tsumura Group's materiality



Process for determining materiality (PDCA)



Specific details of materiality

Resolve social issues through business

Materiality	Main initiatives	Indicators
Expand access to healthcare and pharmaceutical products	Domestic <ul style="list-style-type: none"> Development of drug-fostering program formulations, "Growing" formulations, and related formulations in the three important domains 	Domestic <ul style="list-style-type: none"> Achieve sales targets for: 5 drug-fostering program formulations; 5 "Growing" formulations; and related formulations Increase the percentage of physicians who can prescribe at least 10 Kampo formulations to 50% by fiscal 2024 Conduct hybrid (online-offline) marketing activities utilizing remote and digital technologies
	Overseas <ul style="list-style-type: none"> Manufacture/sale of raw-material crude drugs and crude drug pieces; manufacture/sale of Chinese medicines (classical prescriptions) 	Overseas <ul style="list-style-type: none"> Increase the percentage of commissioned sales for the crude drug platform to at least 50% by fiscal 2024 Conclude M&A deals with suppliers of traditional Chinese medicinal products
Ensure a stable supply of high-quality pharmaceutical products	<ul style="list-style-type: none"> Stable procurement of high-quality crude drugs 	<ul style="list-style-type: none"> Continue to expand cultivated land under own management Ensure appropriate inventory control according to crude drug procurement risks
	<ul style="list-style-type: none"> Stable supply of Kampo formulations 	<ul style="list-style-type: none"> Enhance production facilities Improve productivity by implementing automation and DX technologies
	<ul style="list-style-type: none"> Consistent quality of Kampo formulations 	<ul style="list-style-type: none"> Build a "quality control platform" for the range of processes involved in turning crude drugs into Kampo formulations
	<ul style="list-style-type: none"> Nurturing of the Tsumura Quality Culture 	<ul style="list-style-type: none"> Maintain the functionality of and operate the Tsumura Quality Management System
Share information that inspires high levels of customer satisfaction	<ul style="list-style-type: none"> Human rights awareness raising throughout the supply chain 	<ul style="list-style-type: none"> Comply with the Tsumura Procurement Policy to procure crude drugs
	<ul style="list-style-type: none"> Supporting long-term Kampo medicine education in school for students, trainee physicians and experienced practitioners 	<ul style="list-style-type: none"> Ensure at least four required units in Kampo medicine are set at all medical schools in Japan; and set up outpatient Kampo departments
	<ul style="list-style-type: none"> Supporting medical personnel through information provision and with lifelong Kampo education 	<ul style="list-style-type: none"> Conduct hybrid (online-offline) information provision activities utilizing remote and digital technologies
Pursue innovative R&D and create new products/services	<ul style="list-style-type: none"> Activities to resolve social issues 	<ul style="list-style-type: none"> Promote the #OneMoreChoice project
	<ul style="list-style-type: none"> Establishing evidence for efficacy of Kampo formulations and their use during the pre-symptomatic disease stage Developing products that meet the needs of medical institutions and patients Developing TU-100 in the US 	<ul style="list-style-type: none"> Increase the number of write-ups on Kampo formulations included in medical treatment guidelines Establish scientific evidence for the quality definition, production control and quality control of Kampo medicines

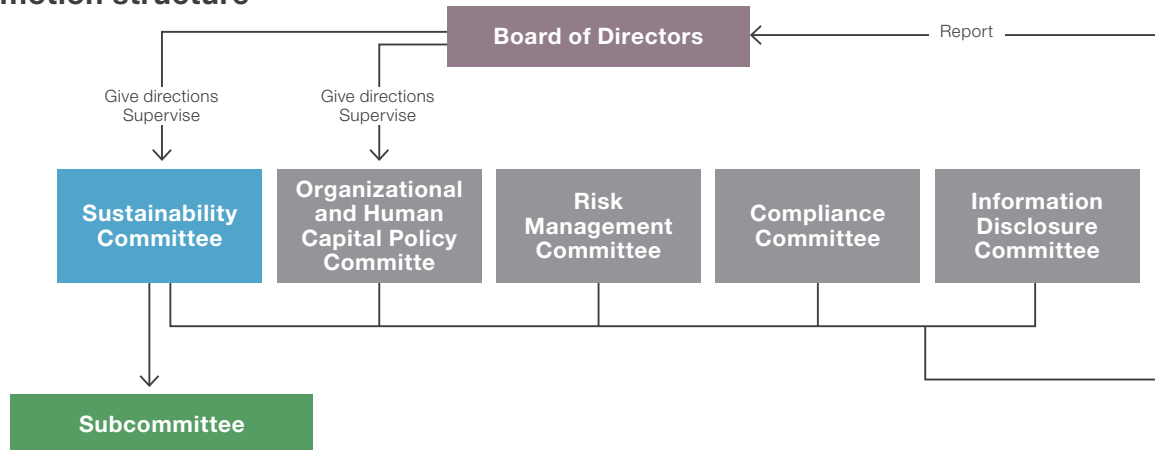
Reinforce business foundations

Materiality	Main initiatives	Indicators
Continue to be a company that is extremely sensitive to changes in and crises facing the natural environment	<ul style="list-style-type: none"> Sustainable procurement and recycling of raw materials 	<ul style="list-style-type: none"> Reduce the number of crude drugs grown in the wild used for Kampo formulations to 11 items by 2031. Reduce the usage of plastics by 10% by fiscal 2024
	<ul style="list-style-type: none"> Responding to climate change 	<ul style="list-style-type: none"> Reduce Scope 1 and 2 GHG emissions by 50% by fiscal 2030 and to net zero by fiscal 2050
	<ul style="list-style-type: none"> More efficient energy use 	<ul style="list-style-type: none"> Reduce per-unit energy consumption by 1% every year
	<ul style="list-style-type: none"> Conservation of water resources 	<ul style="list-style-type: none"> Reduce per-unit water intake by 10% by fiscal 2024
	<ul style="list-style-type: none"> Waste management 	<ul style="list-style-type: none"> Reduce per-unit industrial waste discharge by 50% by fiscal 2024
	<ul style="list-style-type: none"> Ongoing dialogue activities for familiarizing employees with our philosophy 	<ul style="list-style-type: none"> Continue to hold off-site meetings at all group companies
Foster corporate culture and develop human resources	<ul style="list-style-type: none"> Working environment that offers safety and peace of mind 	<ul style="list-style-type: none"> Obtain Outstanding Employers Promoting Health and Productivity Management certification by fiscal 2024
	<ul style="list-style-type: none"> Diversity & Inclusion (D&I) 	<ul style="list-style-type: none"> Increase the percentage of female new graduate hires to 50% Increase the percentage of mid-career hires to 50%
	<ul style="list-style-type: none"> Developing candidates for managerial and leadership positions (global and professional) 	<ul style="list-style-type: none"> Operate the talent management system Hold level-based seminars and programs to develop candidates for future management positions
	<ul style="list-style-type: none"> Improvement in employee engagement 	<ul style="list-style-type: none"> Provide various work style options (teleworking, second job/side career, employment of sexagenarian/septuagenarian workers, etc.)
Strengthen corporate governance	<ul style="list-style-type: none"> (For the Board of Directors) evaluating effectiveness, ensuring transparency, enhancing efficiency and maintaining soundness Strengthening group governance Strengthening risk management 	<ul style="list-style-type: none"> Enhance the group governance system and upgrade systems for audit and internal control evaluation of affiliates Redevelop risk management systems at all group companies
Promote compliance	<ul style="list-style-type: none"> Eliminating antisocial forces Avoiding bribery Fair transactions with business partners Timely and appropriate information disclosure Enhancing systems for compliance with pharmaceutical laws and regulations 	<ul style="list-style-type: none"> Provide compliance education at all group companies Conduct activities to familiarize employees with the Sustainability Charter

Sustainability Vision

Promotion of Sustainability

Promotion structure



Five subcommittees

The world today is facing ever-growing challenges in the form of climate change, human rights violations, ecosystem disruption, food shortages and many others. Against this backdrop, business corporations are increasingly expected to integrate sustainability into their management strategies as an approach to tackling these challenges. To respond to these social expectations, the Sustainability Committee examines the overall directions the Tsumura Group should take and specific activities to conduct in order to implement sustainability initiatives while also pursuing management based on its philosophy and corporate purpose, and monitors the implementation

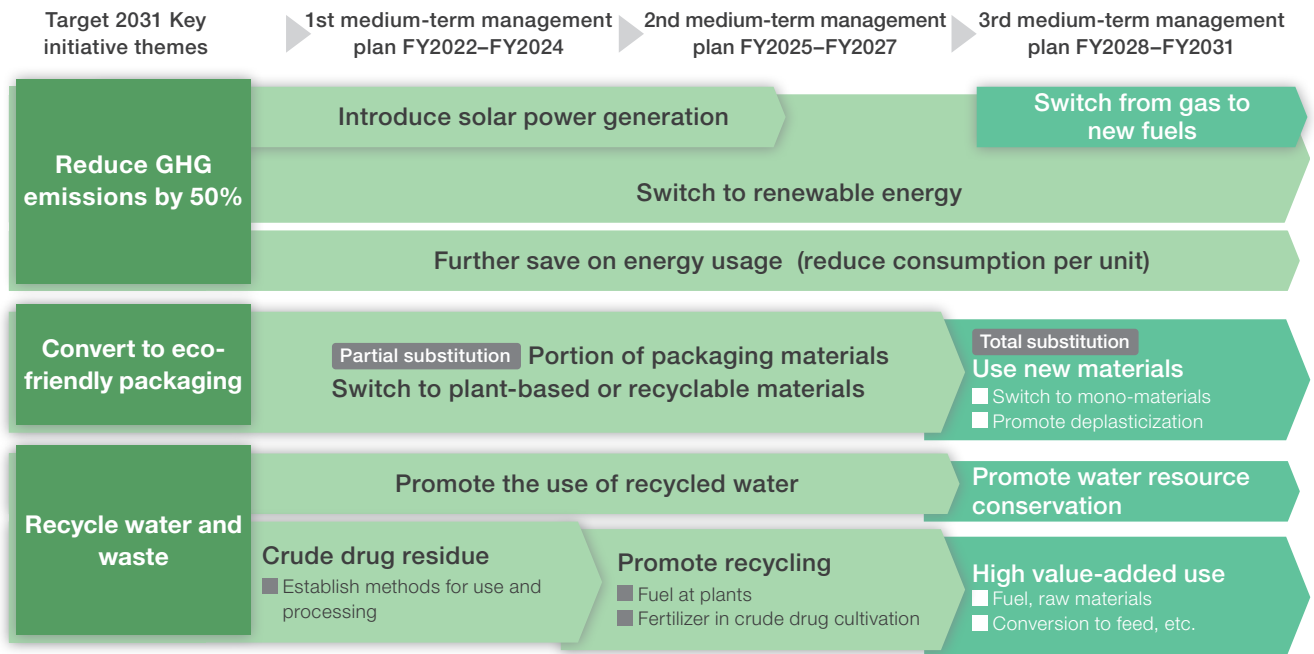
of activities to increase the effectiveness of the sustainability initiatives.

Subcommittees have been formed under the Sustainability Committee, with each one responsible for organizing cross-organizational discussions on knowledge, experience and research findings collected from various divisions in accordance with the medium-term environmental goals and other targets. As of fiscal 2022, a total of five subcommittees, including a new one set up in the same year to focus on crude drug residue, are working on their respective themes.

(October 1, 2021 to September 30, 2022)

1 Production-related Decarbonization Subcommittee	Chaired by the Executive Officer in charge of the Production Division. Two meetings have been held since its launch in December 2021. Members are selected principally from the Production Division, Crude Drug Division and Reliability Assurance Division. Considers and implements various initiatives aimed at reducing GHG emissions, mainly from production sites of the Tsumura Group, according to the medium-term plan.
2 Office-related Decarbonization Subcommittee	Chaired by the Executive Officer in charge of the General Affairs Department. Two meetings have been held since its launch in December 2021. Members are selected principally from the General Affairs Department and Sales Management Department. Considers and implements decarbonization initiatives for the head office, branch offices and sales offices according to the medium-term plan.
3 Zero Plastic Waste Subcommittee	Chaired by the Executive Officer in charge of the Production Division. One meeting has been held since its launch in December 2021. Members are selected principally from the Production Division, Reliability Assurance Division, Healthcare Division and Prescription Pharmaceutical Sales Division. Considers plans for switching to environmentally friendly containers and packaging materials according to the medium-term plan, and coordinates with each division on related research in order to implement plans.
4 Sustainable Procurement Subcommittee	Chaired by the Crude Drug Division General Manager. Two meetings have been held since its launch in December 2021. Members are selected principally from the Crude Drug Division and Production Division. Formulates the Tsumura Procurement Policy according to the medium-term plan, and considers and implements various initiatives in order to ensure the sustainability of the Tsumura Group's crude drug procurement.
5 Crude Drug Residue Subcommittee	Chaired by the Executive Officer in charge of the Production Division. One meeting has been held since its launch in April 2022. Members are selected principally from the Production Division, Kampo Research and Development Division and Crude Drug Division. Considers and implements initiatives for the recycling of crude drug residue at each plant according to the medium-term plan.

Sustainability Targets 2031



Support for the Keidanren Initiative for Biodiversity Conservation

Declaration of Biodiversity by Keidanren (revised edition) (Revised October 16, 2018)

1 Responsibility of management	Commit to corporate management aiming at corporate activities in harmony with nature towards realizing a sustainable society
2 Global perspective	Act from a global perspective on the biodiversity crisis
3 Voluntary actions	Act voluntarily and steadily to contribute to biodiversity
4 Integrated environmental corporate management	Promote integrated environmental corporate management
5 Revitalization of regions making full use of natural capital	Contribute to regional revitalization utilizing natural capital, holding nature in awe
6 Partnership	Collaborate with relevant international and national organizations
7 Environmental education / human resource development	Spearhead initiatives on environmental education and human resource development to create a society that will nurture biodiversity



We have expressed our support for the Declaration of Biodiversity by Keidanren (Japan Business Federation), which aligns with our initiatives. We have joined the list of supporters posted on the federation's website as of September 2022.

Listed as a Green Partner 2022 of the Forestry Agency

We applied for the Forests X Decarbonization Challenge 2022, a program hosted by the Forestry Agency of Japan, and our name was included on the Green Partner 2022 list. This program commends business and other organizations for contributions to decarbonization through forest management. We received the recent honor in recognition of our Tosa Tsumura's Forest activities launched in fiscal 2008 in Kochi Prefecture, one of our crude drug cultivation areas, to promote regional environmental conservation and economic revitalization.



Sustainability Vision

Responding to Climate Change Information Disclosure Based on the TCFD Framework

Crude drugs are substances that come to us directly from nature. The Tsumura Group employs crude drugs as raw materials. As such, in order to grow sustainably, we need to be extremely sensitive to changes in the natural environment as well as any potential crises it may face.

Moreover, we need to respond to risks associated with climate change, such as changes in temperature and precipitation, while working to reduce GHG emissions to achieve carbon neutrality.

Scenario Analysis

Scenario	Outline	Situations expected to occur
1.5°C scenario	The rise in mean global temperature up to the year 2100 is kept to no more than 1.5°C above pre-industrial levels	Changes due to transition to a decarbonized society affect business (transition risks) <ul style="list-style-type: none"> ● Climate-related regulations are tightened and carbon taxation and other legal regulations are introduced. ● Progress is made in technological innovation, such as for low-carbon technologies. ● The world as a whole begins shifting to a decarbonized economy, and companies' decarbonization initiatives are subject to evaluation.
4°C scenario	The mean global temperature rises 4°C above pre-industrial levels by 2100	Physical damage induced by climate change affects business (physical risks) <ul style="list-style-type: none"> ● Climate-related regulations are introduced but on only a limited scale. ● Extreme weather events become more severe, causing more frequent natural disasters. ● Rising mean temperatures and water shortages affect the production of crude drugs, and events such as water restrictions and the spread of infectious diseases are more likely.

Impact level based on 1.5°C scenario

Type	Category	Risk/Opportunity Factors	Timeline	Risk/Opportunity	Impact on the Tsumura Group	Impact Level	Adaptation Strategy
Transition Risk/Opportunity	Policy and Legal	Introduction of carbon taxes	Medium to long	Risk	Increased tax burdens Increased facility investment costs	High	Promote energy conservation and renewable energy usage, increase collaboration with suppliers, etc.
		Introduction of new regulations	Medium to long	Risk	Decreased procurement volumes or increased procurement costs for raw-material crude drugs	High	Promote multi-location crude drug cultivation, etc.
	Technology	Advance of low-carbon technologies	Medium to long	Risk	Increased research costs and facility investment costs	High	Utilize AI and DX to promote technological development and innovation
			Medium to long	Opportunity	Decreased operating costs; reduced GHG emissions	High	
	Reputation	Change in investor valuation	Short to long	Risk	Falls in sales and share prices; tightened finances	High	Conduct appropriate information disclosure to and promote communication with stakeholders
				Opportunity	Corporate value creation backed by higher valuation	High	
Resource Efficiency	Reuse of water resources	Medium to long	Opportunity	Decreased operating costs	High	Install water reuse systems and promote water recycling	
Energy Source	Expansion of renewable energy usage	Medium to long	Opportunity	Decreased electricity costs	Low to Middle	—	

Impact level based on 4°C scenario

Type	Category	Risk/Opportunity Factors	Timeline	Risk/Opportunity	Impact on the Tsumura Group	Impact Level	Adaptation Strategy
Physical Risk/Opportunity	Acute	Increased severity of extreme weather events	Long	Risk	Operations disrupted and stocks lost or damaged due to intensifying natural disasters and rising incidence of infection, resulting in decreased production and distribution volumes and reduced sales as well as increased repair costs	High	<ul style="list-style-type: none"> ● Innovate crude drug cultivation techniques ● Promote multi-location crude drug cultivation ● Ensure proper inventory ● Build and enhance BCP structures ● Change transportation and storage modes ● Maintain and enhance relationships with contract farmers, specifically by providing an additional function for disaster information provision to the crude drug cultivation control system used by contract farmers, as well as establishing disaster damage compensation programs for contract farmers
	Rising mean temperature	Long	Risk	Decreased procurement volumes of raw-material crude drugs; reduced sales; costs incurred for relocating crude drug cultivation sites	High		
		Medium to long	Risk	Increased air-conditioning costs	Low to Middle		
		Medium to long	Risk	Rising prices of lactose	Low to Middle		
	Products and Services	Rising disease incidence due to climate change	Medium to long	Risk Opportunity	Increased or decreased sales depending on changes in disease incidence structure	High	

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

Governance

The Board of Directors is responsible for making important decisions on matters related to risks and opportunities associated with climate change and other factors with a view to ensuring the sustainable growth of the Tsumura Group and the enhancement of its corporate value over the medium to long term. It makes strategy decisions and investment judgments, taking impacts due to climate change into account. The Board provides advice and oversight on the status of business execution, which is reported monthly in accordance with the Rules of the Board of Directors.

Issues related to climate change are discussed principally by two committees: the Sustainability Committee (established in October 2021; meets at least twice a year), which mainly deals with sustainability-related agendas, and the Risk Management Committee (meets twice a year), which deals with management risk-related agendas. The two bodies share information with each other. Important matters discussed by each are reported to the Board of Directors. In fiscal 2021, the Risk Management Committee and Sustainability Committee presented one and four reports, respectively, to the Board. The Sustainability Committee is subject to the control and oversight of the Board. Management of tasks for climate-related risks is assigned to the Executive Officer in charge of the Sustainability Promotion Office, who is also a Co-COO, the chair of the Sustainability Committee and responsible for sustainability-related operations, including those associated with climate change. The Co-COO oversees the assessment and control of risks and opportunities associated with climate change.

Strategy

In response to the Paris Agreement adopted in 2015 and the Special Report on Global Warming of 1.5°C published in 2018 by the Intergovernmental Panel on Climate Change (IPCC), the Tsumura Group incorporated climate change action into its management strategies.

Following the TCFD recommendations and receiving advice from external experts, the Tsumura Group has performed scenario analyses in order to identify its potential risks and opportunities brought by climate change as well as related impacts, assess the resilience of the Group's adaptation strategies developed looking ahead to 2050, and consider the need for additional initiatives.

For the above purpose, we referred to a number of existing scenarios issued by the International Energy Agency (IEA) and the IPCC, and adopted two scenarios: the below 1.5°C scenario, in which international efforts are successfully exerted to keep the rise in mean global temperature to well below 2°C above pre-industrial levels and preferably limit the increase to 1.5°C, in accordance with the Paris Agreement's target; and the 4°C scenario, in which no new policies and schemes are implemented to control the emission of GHGs, resulting in an increase in emissions over the current level.

Risk management

The Sustainability Committee and Risk Management Committee are responsible for the assessment and control of risks associated with climate change, and share information with each other. The Sustainability Committee analyzes the potential risks and impacts of climate change on the Tsumura Group's medium- to long-term management strategies and considers countermeasures, receiving advice from external experts as appropriate. Results of these activities are reported to the Board of Directors, which provides necessary directions and oversees actions carried out in response.

The Risk Management Committee prioritizes climate-related operational risks, such as factory stoppage, factoring in financial impact levels and risk probability, and considers BCP and other measures according to their priority. Results are reported to the Board of Directors.

Risks considered by the Sustainability Committee and Risk Management Committee are consolidated and managed as business risks.

Indicators and targets

Indicators The Tsumura Group uses Scope 1, 2 and 3 GHG emissions as indicators for managing climate-related risks and opportunities.

Fiscal 2021 results for Scope 1, 2 and 3 GHG emissions are as follows.

Results	Scope1	Direct emissions from sources owned or controlled by an organization (fuel combustion, industrial process)	39,385t (4.6% increase YoY)
	Scope2	Indirect emissions associated with the purchase of electricity, heat and steam	57,184t (2.8% decrease YoY)
	Scope3	Scope 1 and 2 emissions of other organizations involved in business of the relevant organization	246,865t (16.5% increase YoY)

Note: Data for Scope 1, 2 and 3 have undergone third-party verification.

Targets

In fiscal 2022, for Scope 1 and 2 GHG emissions, the Tsumura Group set targets to achieve a 50% reduction by fiscal 2030 from fiscal 2020 levels and net zero emissions by fiscal 2050. For Scope 3 GHG emissions, we are working to enhance data precision, in order to set appropriate targets.

Total optimization of the Kampo value chain is my mission

Director and Co-COO
Kei Sugii

Starting by building a foundation for realizing the vision

I am the Co-COO in Japan, the chief operating officer responsible for the overall business operations of the Tsumura Group, excluding areas assigned to the other Co-COO, who is responsible for Chinese operations. Major tasks assigned to this role for realizing the new long-term management vision, TSUMIRA VISION “Cho-WA” 2031, are to enhance the functions of the Kampo value chain to be able to take on a battery of relevant challenges.

In line with the new vision, we have decided to focus on three key areas—personalized health care, pre-symptomatic disease and science, and potential abilities development—with the aim of achieving “Cho-WA” (harmony) between the mind and body as well as the individual and society. For this purpose, using the backcasting method, a three-stage roadmap has been prepared for the target decade encompassed by the vision, which is to be formulated into new medium-term management plans.

The first stage (fiscal 2022 to 2024), defined as the “germination” period, focuses on making up-front investments in building business foundations to pursue future growth. We will give overriding priority to promoting low-cost operations to improve the balance sheet and enhancing the supply capacity to respond to soaring demand for Kampo medicines. To this end, we will invest lavishly in implementing DX strategies throughout the Kampo value chain, covering everything from crude drug cultivation, procurement and processing to Kampo medicine sales, education and promotion, in addition to the ongoing smart factory automation initiatives for the entire production process. Other major investment areas include R&D, in which priority will be given to promoting tailor-made Kampo medication and scientific research on pre-symptomatic disease, key areas specified to achieve the long-term vision. We will carry out these massive investment plans carefully while measuring the

effectiveness of each plan appropriately so as to increase the overall investment effect. This will be followed by the second stage (fiscal 2025 to 2027), the growth period when these investments will begin to produce profits (grow buds), and then the third stage (fiscal 2018 to 2031), the flowering period when substantial profits will be harvested from growing businesses.

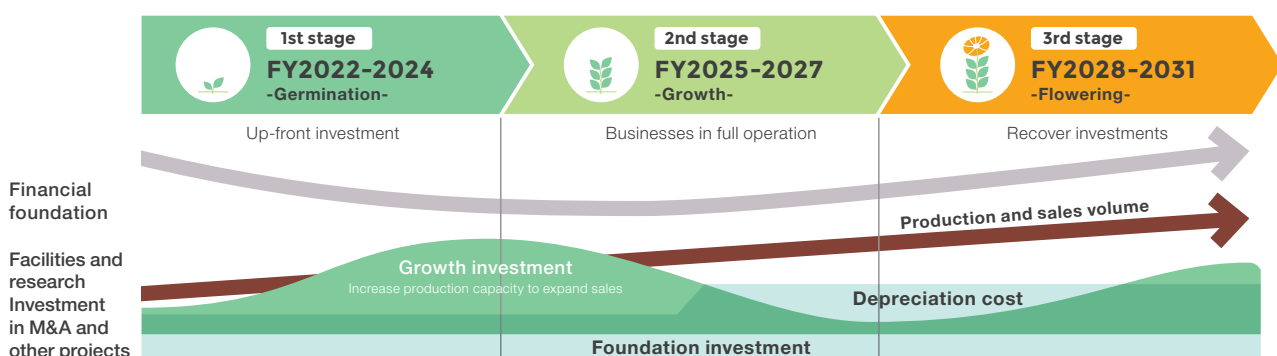
Pursuing transformation by encouraging employees to demonstrate a sense of ownership about implementing the long-term management vision and the medium-term management plan

In order to realize the Company’s vision, it is essential to ensure that each employee is truly engaged with the vision of the company and the related organization, and that they feel a sense of purpose and fulfillment in working to achieve it. In order to realize the long-term management vision and the medium-term management plan, we believe that each person in the Group must understand the details of the relevant strategies and roles assigned in implementing the strategies, and demonstrate a sense of ownership and excitement in fulfilling their roles. For this purpose, we will carry out measures to invigorate cross-organizational communication and collaboration as well as creating a KPI management system that can clearly show each individuals’ contribution to achieving goals set to realize the vision and plan.

Mobilizing Tsumura’s proprietary expertise to promote sustainability initiatives

To accelerate sustainability initiatives, we have set three major goals to achieve by fiscal 2031: reducing GHG emissions by 50%; conversion to environmentally friendly packaging; and recycling water and waste (crude drug residue). We will make every effort we possibly can on our own while using external capabilities as necessary,

Long-term investment and financial plan (TBD)





especially for attaining a 50% reduction in GHG emissions.


Specific programs are underway for recycling water used in the extraction process of raw-material crude drugs for making Kampo medicines. We have developed systems to control and monitor all ingredients contained in the water used, which will support efficient water purification and cost reduction. We are also working on the recycling of crude drug residue, a by-product left after the extraction process, which has an 80% water content. Currently, we transport the residue to an off-site processing facility for recycling, which entails environmental and economic costs. To resolve this issue, we are conducting research to improve the on-site capability to dehydrate the residue, looking to simultaneously reduce environmental and economic burdens as well as reuse the resultant dehydrated substance as fuel. This research has progressed to a point where a technical solution is in sight, and we are moving forward toward early implementation. Our plan is to establish the relevant technologies in the three years of the first stage and implement them at all plants within the target period of the long-term vision. Putting this plan into practice, we are seeking to establish a proprietary in-house water and waste (crude drug residue) recycling system.

We are encouraging each officer and employee to suggest “two (or more)-birds-with-one-stone” solutions in order to make the Sustainability Vision a reality. One

such suggestion adopted was to install rooftop solar panels on walkways (outdoor passages) at plants, looking to improve the working environment as well as promoting solar power generation. Going forward, we will develop and conduct inventive sustainability programs that can achieve lower costs and a better working environment while at the same time protecting and conserving the global environment.

Value of Tsumura lies in future growth potential

Among some other attractive factors, what made me decide to join Tsumura was its future growth potential. In the coming ten years, as science and technology makes further progress, the Company will establish a foundation to overcome its long-standing business issues, and I believe this will become a strong source of potential for sustainable growth in the near future. Seeking to fulfill this potential of Kampo medicine, which was previously marginalized as a pre-scientific area due to its complicated nature, we will apply the most advanced science and technology as well as digital functions in combination with our proprietary sustainability solutions in order to achieve the total optimization of the Kampo value chain. With this aspiration in mind, I am trying to inspire and encourage each employee of the Tsumura Group to take up various challenges and work together in order to make the vision a reality.



Supporting the true value of Tsumura – my essential role

Director and CFO

Muneki Handa

Highlighting pre-financial information to promote understanding of the true value of Tsumura

As CFO of the Tsumura Group, I have two major roles. First is to be the guardian of corporate value and be responsible for increasing the corporate value by allocating resources appropriately based on financial strategies to maximize return on investment. My second role is to ensure that our stakeholders have a proper understanding of our corporate value, which is essential for having constructive dialogues with them and closing the gap with the market value. To this end, I am stepping up efforts to communicate the true value of Tsumura, particularly by casting light on pre-financial assets in addition to financial assets.

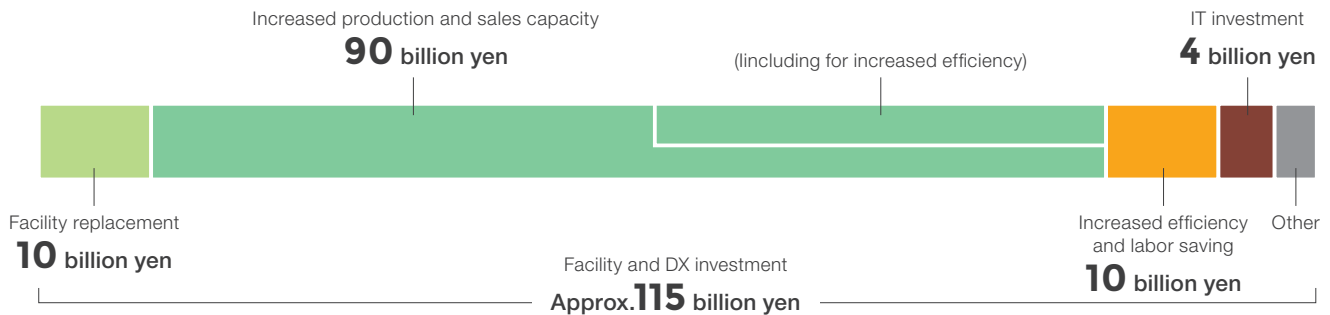
Backcast goals based on the long-term management vision and stretch targets for the medium-term management plan

One of the most important things about the new medium-term management plan (fiscal 2022 to 2024), which

comprises the first stage of the long-term management vision, is that the plan has been created using the backcasting method based on the vision, rather than by extending the previous medium-term management plan (fiscal 2019 to 2021). Under the new three-year medium-term plan, we have set stretch targets as an expression of our strong commitment to realizing TSUMURA VISION “Cho-WA” 2031 within the target period of ten years. These targets are designed to ensure we can realize the long-term management vision even under unfavorable conditions assumed chiefly in light of the outlook for domestic business (for prescription Kampo formulations), which is likely to suffer from increased energy and material prices and difficulty in passing such increases on in the form of higher selling prices. Given these factors, we have set performance targets for the first stage, including 162 billion yen in sales, 29 billion yen in operating profit, and 8% in ROE.

We develop exchange risk control strategies against the Chinese yuan, which can have a sizable impact on our crude drug procurement. At the time of formulating the new medium-term management plan, we assumed a rate of 19.5 yen against the yuan for fiscal 2022 and 19.0 yen for fiscal 2023 and 2024. This reflects the rapidly

Investment for future growth: increase production capacity and enhance productivity through automation and DX implementation



weakening of the yen in recent months, an unfavorable condition for starting the new plan that has occurred despite our taking every possible risk hedging measure, such as foreign exchange forwards. To deal with this issue, we will draw on the benefits of having cultivated land under our own management, a component of the Kampo value chain that has resulted from our yearslong efforts to build crude drug procurement networks in China. Our managed land has expanded to account for 80% of the total, and provides added-value based on contract cultivation, which is specifically related to risk and quality control capabilities enabled by procurement systems resistant to market prices. From a medium- to long-term point of view, we are looking to grow the China business, and increasing profits in the Chinese yuan is an effective risk-balancing strategy.

Key to realizing the long-term management vision

The crucial key to attaining the stretch targets is proper capital allocation. We have decided on the largest-ever investment plans in building a foundation for the stable growth of our domestic prescription and OTC Kampo formulation business in response to the unprecedentedly strong growth market. These plans aim to enhance facilities to expand the capacity to meet growing demand while incorporating a sustainability perspective. Specifically, we will allocate a 115 billion yen investment to the first stage, focusing on automation and DX for productivity improvement. Effective implementation of these plans will be key to making the vision a reality. We are therefore working hard to ensure the efficient and high-quality implementation of this first-stage up-front spending of a significant scale exceeding 100 billion yen in the domestic business, in order to achieve substantial long-term growth, specifically over the remaining years of the target period of the vision—three years (second stage) and four years (third stage).

We will also make substantial investments to build foundations for the China business. We successfully concluded an M&A deal to build the crude drug platform under the previous medium-term management plan (fiscal

2019 to 2021) ahead of schedule, which has enabled the China business to expand sales from 200 to 300 million yen to ten billion yen. However, we failed to sign the M&A agreement related to the formulation platform. Thus, success in this area is key to achieving the vision, and we are continuing to negotiate with a number of companies for this purpose, aiming to conclude an agreement within the first stage. The related costs are excluded from the above-described investment plans, because they may vary depending on the partner. As a management team member of the company in charge of overall management of Chinese operations, I will promote efforts to increase investment efficiency and ensure sound finance while facilitating proper observation of governance rules throughout the Group.

With respect to R&D investments, a total of 24 billion yen will be allocated, principally to the area related to personalized Kampo medication, pre-symptomatic diseases and new types of diseases.

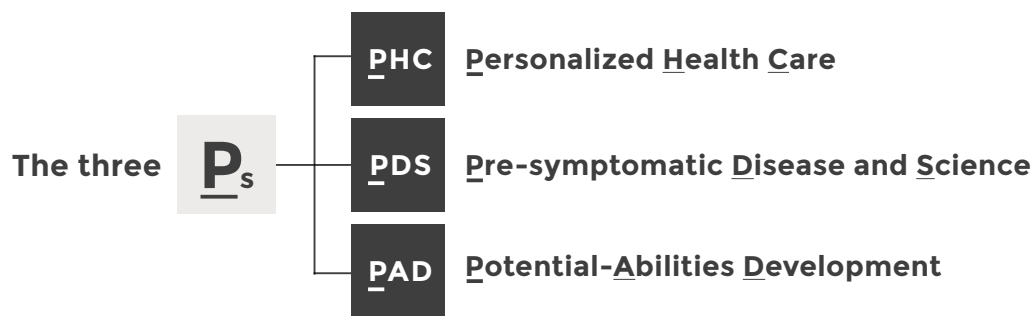
Management team spearheading sustainability initiatives, aiming to enhance corporate value

We will also commit to proactive efforts to realize the Sustainability Vision, which was announced together with the long-term management vision. As I described above, the automation and DX-related investments planned for the new medium-term management plan (first stage) have incorporated a sustainability perspective while aiming primarily to increase productivity. Through these investments, we will strive to eliminate waste and create a sustainable manufacturing environment that supports internal resource recycling and more efficient and productive operations. We have recently modified the directors' remuneration system (performance-based stock compensation) to add a sustainability-related item to the evaluation criteria. This modification is to demonstrate the management team's firm determination and strong will to realize the Sustainability Vision as a corporate group that must be extremely sensitive to changes and crises in the natural environment. By pursuing sustainability in this way, we aim to enhance our corporate value.

TSUMURA VISION “Cho-WA” 2031

To be a company that creates a future of “Cho-WA” (harmony)

The long-term management vision, TSUMURA VISION “Cho-WA” 2031, was announced in April 2022. This vision states what the Tsumura Group seeks to accomplish over the next ten years, with the goal of creating a future that achieves “Cho-WA” (harmony) between the mind and the body, and between individuals and society, through the implementation of the three Ps.



We seek to be a company that contributes to everyone’s well-being by providing evidence-based products and services, including Kampo medicine and traditional Chinese medicines, that is in accordance with the different life stages, symptoms, genetic makeup and daily life environment of each person.

The roadmap for achieving this TSUMURA VISION “Cho-WA” 2031 is shown in the diagram to the right. The phase of the first medium-term management plan leading up to fiscal 2024 is positioned as being a period for making prior investments and developing infrastructure.

With “Cho-WA” 2031, we seek to achieve the following six goals.

First, we aim to have 50% or more of physicians prescribing 10 or more Kampo prescriptions by fiscal

2024, and to have 50% or more of physicians writing basic prescriptions in all treatment areas based on Kampo medicine by fiscal 2031.

Second, we seek to accumulate evidence to gain write-ups in the treatment guidelines in order to expand the standardization of Kampo treatment. At the same time, we will conduct research of response markers with KAMPOmics and develop a Kampo medical exam support system that uses AI based on DX solutions in order to realize the personalization of Kampo treatment.

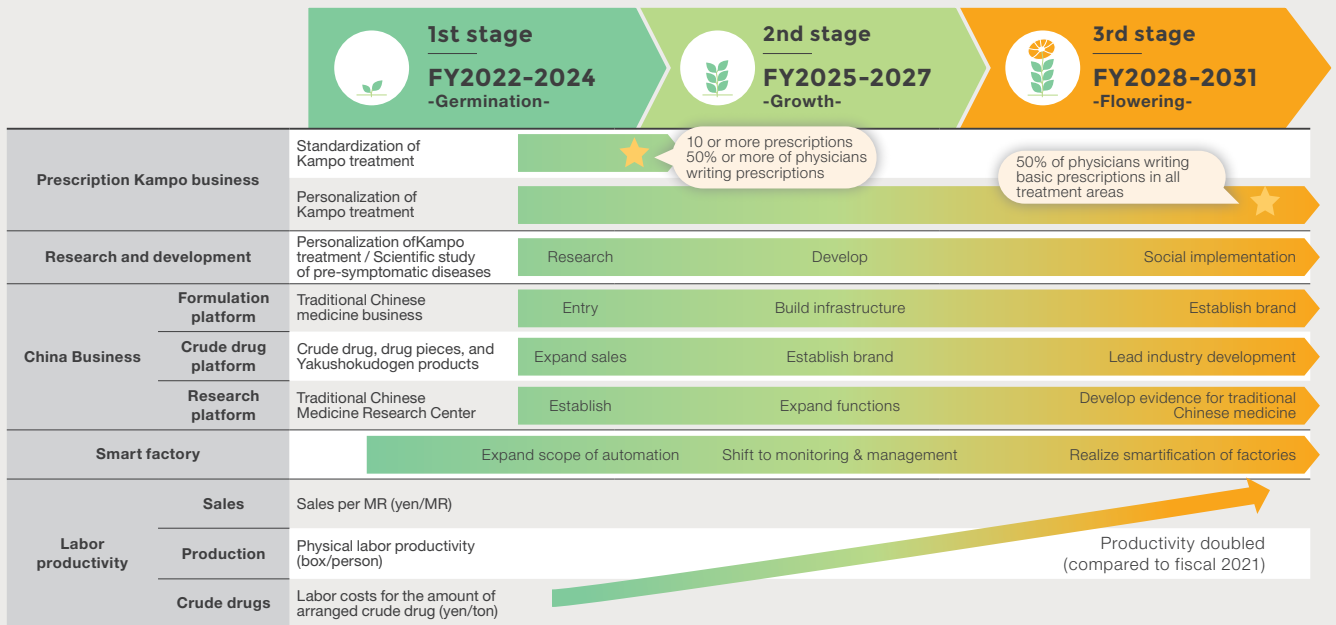
Third, we seek to provide science-based Kampo treatment for pre-symptomatic diseases. We will assist in the three preventative measures for pre-symptomatic diseases, which are preventing pre-symptomatic diseases (treat diseases before symptoms appear),

Goals to be realized under TSUMURA VISION “Cho-WA” 2031

1	2	3	4	5	6
Have basic prescriptions in all treatment areas be written by 50% of physicians	Expand the standardization of Kampo treatments and personalize Kampo treatments	Conduct scientific studies of pre-symptomatic diseases <small>Three preventative measures for pre-symptomatic diseases (treat diseases before symptoms appear, prevent changes in existing diseases, and post-healing recovery)</small>	Build foundation for our China business <small>(China business to account for 50% or more of sales)</small>	Implement DX in the Kampo value chain	Implement purpose management, philosophy management, and vision management



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



preventing a disease from becoming serious (prevent changes in existing diseases), and preventing relapses (post-healing recovery), through the use of Kampo and traditional Chinese medicine.

Fourth, we will further expand our business by entering into the field of traditional Chinese medicine in order to build a base for our business in China. Additionally, with regards to the area of healthcare (prevention), we will use the concept of Yakushokudogen to advance our business in the food category that uses crude medicine, as pharmaceuticals have risks of causing side effects.

Fifth, we seek to bring DX to the Kampo value chain in order to provide the best possible customer experience. To that end, our sales team will work to

deliver each healthcare professional with the necessary information at the necessary time and in the necessary method. And with regards to production, we will enhance the labor equipment ratio and realize the smartification of factories by utilizing big data related to production and quality, in order to achieve low-cost operations.

Sixth, based on the TSUMURA GROUP DNA Pyramid, we will continue to implement purpose management, philosophy management, and vision management. Furthermore, we will continue to actively invest in human capital and organizational capital, with efforts centered on our in-house human resources development institution called the Tsumura Academy, so that this capital will serve as the source for boosting our corporate value.

First Medium-term
Management Plan
2022-2024

Building an infrastructure to realize a future of “Cho-Wa” (harmony)

The first medium-term management plan (fiscal 2022 – 2024) is positioned as being a period for making prior investments and building a foundation to achieve the TSUMURA VISION “Cho-Wa” 2031. As such, we are striving in our efforts to achieve growth (expanding the size of our business) and improve our earning capabilities (increasing our profitability rate) in order to attain our goal of enhancing our corporate value.

Structural diagram of our vision & strategies

Business vision

Prescription Kampo business

Contributing to the realization of a medical setting where patients in Japan can receive Kampo treatments tailored to them individually, regardless of the medical institution or clinic.

China business

Achieve a situation where we are contributing to the health of the people of China.

Business strategy

Establishment of Kampo medicine

Realize a situation at medical institutions where one in two physicians (50%-plus) will write prescriptions for all the “basic prescriptions for treatment areas” based on Kampo medicine.

Be a traditional Chinese medicine company that is trusted in China

Become recognized as a traditional Chinese medicine company that is contributing toward the health of the people in China.
Our vision for the scope of business and sales is RMB 10 billion.



Strategic Challenges

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

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

- 03** Expanding sales of crude drugs and drug pieces in China and entering the traditional Chinese medicine business

- 04** Innovating the IT base and crude drug selection, and promoting the implementation of AI and automation toward reforming the Kampo value chain

- 05** Creating value through organizational and human capital and promoting reform to boost job satisfaction

Numerical targets (fiscal 2024)

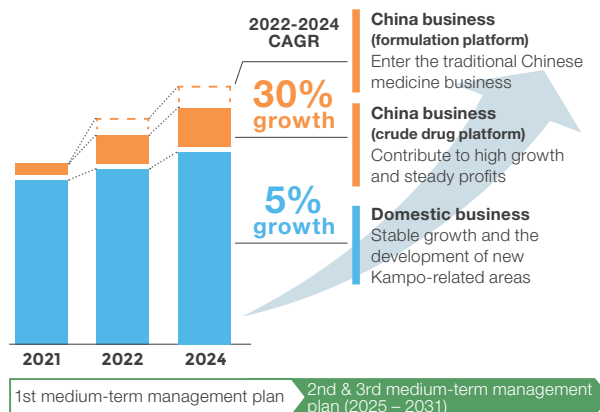


Prerequisite: (Drug price revision) FY2022, FY2023, FY2024
 (Exchange rate) FY2022: JPY 19.5/RMB, JPY 125.0/USD FY2023 – 2024: JPY 19.0/RMB, JPY 120/USD

Growth (expansion of business scope)

With regards to expanding the business scale during the three years of the first medium-term management plan, we aim to achieve stable and continuous growth in the domestic Kampo formulations business in accordance with the increasing number of physicians prescribing Kampo and the expanding market.

For the crude drug platform in our China business, we seek to realize high growth through such efforts as expanding the sales routes for drug pieces. For the formulation platform business, we seek to realize the early development of our business infrastructure through M&A of traditional Chinese medicine companies.



01

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

Japan has a rapidly aging and declining population, so that by 2025, every single person from the baby-boomer generation will have reached at least the age of 75. In this super-aged society, we can expect an increase in dementia, heart failure, cancer, and other such ailments. Since dementia and heart failure could cause a person to require nursing care, it's important to implement measures that will prevent people from getting those diseases, and avoid those diseases from becoming serious. And since the advances in cancer treatment will

increase the number of cancer survivors, we need to improve the rate of cancer treatment completions, and also provide support so that those patients can attain a balance between getting treatment and continuing work.

Furthermore, the recent decline in the working age population is also showing a rise in the number of female workers. This situation calls for us to provide treatment for female-specific diseases and disorders in order to realize a society where women are able to continue working in good health.

Contributing to resolving social issues in the three important domains

Tsumura is working actively to resolve these social issues by focusing on the domains of geriatric health, cancer (supportive care), and women's health. In the area of geriatric health, we expect to see a rapid increase in people with frailty, which is one of the ailments related to aging. Improving the symptoms associated with frailty will prevent the situation from becoming serious, and help realize a society where the elderly are able to remain self-sufficient in their daily lives.

In the domain of cancer, we are working to improve the QOL of cancer patients and help them get back into society. We are doing so by introducing Kampo medication to reduce the side effects of cancer treatments and alleviate the physical and psychological difficulties that they might be suffering.

In the domain of women's health, we are

strengthening efforts to provide information on using Kampo to alleviate symptoms of disorders caused by hormonal imbalance, such as premenstrual syndrome and menopause, which could deter women from bringing out their talents to the best of their abilities.

We have been continuing to provide information in these three domains, with a focus on drug-fostering program formulations and "growing" formulations. And in the "growing" formulations, we achieved a certain level of success with Bakumondoto and Shakuyakukanzoto, as we have been able to accumulate evidence and get them listed in the treatment guidelines; starting fiscal 2022, these two formulations were replaced with Ninjin'yoeito and Kamikihito as our new growth drivers.

Three important domains and drug-fostering program formulation and "growing" formulation

D Drug-fostering program formulation **G** "Growing" formulation **G** New "growing" formulation

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

Drug-fostering program formulations

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

"Growing" formulations

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

*Supportive care: Treatment to reduce the symptoms arising from the cancer itself or from the side effects caused by the cancer treatment, etc.

Importance of early intervention for frailty

Frailty is a state of reduced vitality of the mind and body caused by aging, where the condition of the person is between a healthy state and a state that requires nursing care. It is believed to be caused not only by physical weakness, but from multiple aspects that also include psychological and emotional vulnerability as well as social vulnerability. The prevalence rate of frailty symptoms increases with age, and particularly after age 75, it becomes a cause for requiring nursing care or a factor that prevents the extension of a healthy life span.

Early discovery of frailty and appropriate intervention will help return the person's standby capacity and residual function to maintain a state of self-reliance. This is why it is important to prevent frailty and treat it at an early opportunity.

Physical frailty	A state where the amount of activity declines due to reduced muscle mass or weakness
Psychological & emotional frailty	A state of deteriorating memory, and of being emotionally depressed
Social frailty	A state of being isolated from being able to receive the required nursing care

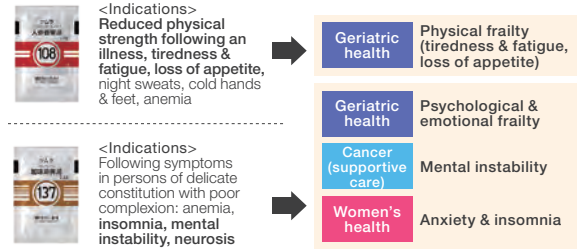
Building evidence for the new “growing” formulations

Ninjin'yoeito is a formula used to treat such symptoms as reduced physical strength and appetite. One of the causes for the decline in physical strength among the elderly is their reduced food intake, or from insufficient nutrition due to not eating a balanced meal. Thus Ninjin'yoeito is expected to show benefits in improving the physical frailty of the elderly.

Kamikihito is a formula used to treat people of delicate constitution and poor complexion who have such symptoms as mental instability and insomnia. It is expected to demonstrate benefits in alleviating anxieties and insomnia not only in the domain of geriatric health, but also in the domains of cancer and women's health. It has also been reported in a basic study that Kamikihito encourages the secretion of endogenous oxytocin, and clinical research is also being conducted for its anti-anxiety and anti-stress effects. Oxytocin is also known as

the love hormone or the trust hormone, and is a neuropeptide that is attracting attention for how it works with the higher brain function, such as in the bond and the trust that exists between a parent and their child.

We are building both basic and clinical evidence for the new “growing” formulations, with the goal of having them become standardized in Kampo treatment.



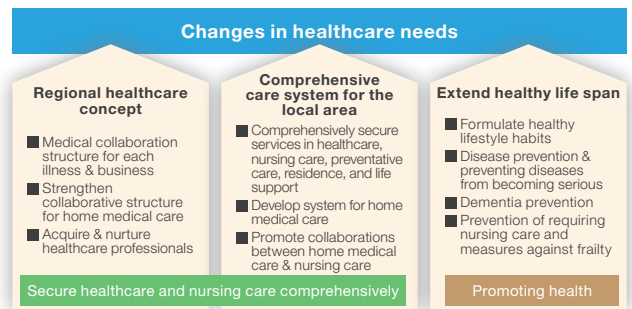
Providing information in response to local healthcare needs

Disease structure and patterns are changing due to the accelerating aging population, which is causing an increase in the prevalence rate of chronic diseases and in the number of cancer patients. Because of this, the medical field is seeing a rising need to find ways to maintain and improve the QOL of the patients in a way that coexists with the illness. Also, with regards to nursing care needs, medical institutions and nursing care providers are increasingly being required to work together, due to such factors as the rise in the severity level of patients requiring nursing care and an upsurge in the number of the elderly with dementia.

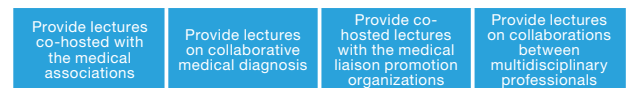
Thus, Tsumura will conduct information service activities by exchanging information with various organizations such as local authorities and medical associations, as we strengthen our partnership with local medical institutions and work to realize a medical setting that is able to provide each and every patient with the treatment that is suited for their needs.

Specifically, we will conduct lectures, seminars, and other events about performing collaborative medical diagnosis and on collaborating amongst multidisciplinary professionals, which will be co-hosted with medical associations, pharmacist associations, regional medical care support hospitals (including clinical research hospitals),

and other organizations. These events will be held as online or hybrid events and offered mainly on the topics of dementia, cancer, cardiovascular diseases, and orthopedics, to contribute toward strengthening collaborations between local core hospitals and clinics.



Tsumura's initiatives



Regional medical care support hospitals: Hospitals equipped with the ability to support the family doctors and other physicians that serve the local medical needs by providing healthcare to local patients, offering joint usage of medical equipment, etc.

TOPIC

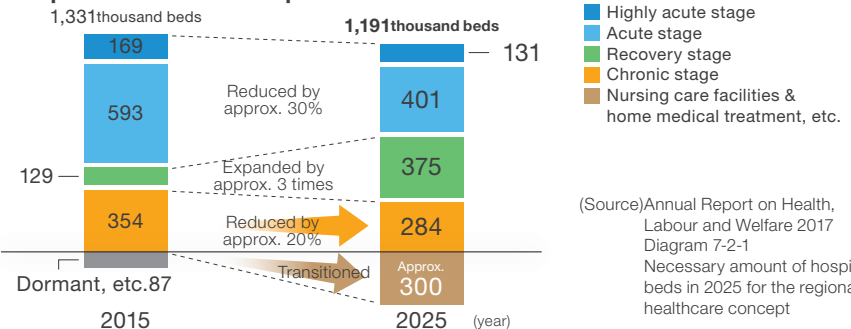
Regional healthcare concept (2025)

The regional healthcare concept is an initiative to realize an efficient structure for delivering medical care. It does so by promoting efforts within each region to collaborate and transition the function of hospital beds (mainly from acute period to recovery period), upon having developed an estimate of the number of hospital beds that will be required for each of

The three reforms in the healthcare delivery system

- Collaboration to achieve optimal allocation for the healthcare delivery system
- Reform in the ways of working among physicians and healthcare providers
- Viable measures to deal with the uneven distribution of physicians

Required number of hospital beds in 2025 (thousand beds)



01

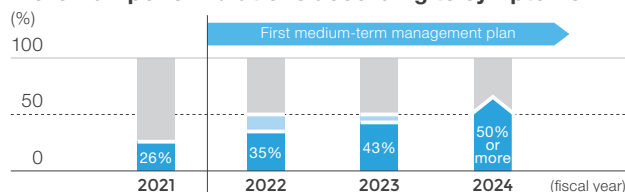
Continuously expanding the Kampo market by providing Kampo solutions that match the needs of each and every physician

Creating a medical environment where patients are able to receive Kampo treatment

The vision for our prescription Kampo business is: “contributing to the realization of a medical setting where patients in Japan can receive Kampo treatment suited for them individually, regardless of the medical institution or clinic.” This setting is defined as “having one in two physicians write prescriptions for 10 or more Kampo formulations in accordance to the illness,” which we have been working to achieve. As of the end of fiscal 2021, the number of clinical physicians in Japan amounts to approximately 330,000. And according to our study, the percentage of physicians among them who prescribe 10 or more Kampo formulations as

appropriate is 26.2%. For fiscal 2024, we aim to raise this percentage to 50% or more, and are conducting activities to provide information by further advancing our hybrid-type promotional activities that bring together both e-promotions and MR activities.

Raise the number of physicians prescribing 10 or more Kampo formulations according to symptoms



Providing an environment that makes it possible to learn about Kampo medicine at any time

Tsumura’s e-promotions mainly consist of providing information via web lectures and promotional tools operated by medical platforms, and via our Company-operated TSUMURA MEDICAL SiTE. The membership-based TSUMURA MEDICAL SiTE delivers a variety of information on Kampo through web lectures, seminars, and other means.

The dialogue-type lectures called Kampo Online Salon that we have been offering since February 2021 are receiving favorable reviews from the participants. We will study the data on the level of participation in such events and on what contents are being viewed,

and analyze what information is being desired by each and every member, so that we can provide the optimal recommendations to our members.

TSUMURA MEDICAL SiTE Access Ranking

Fiscal 2021	
1 Lectures, conferences, study groups	4 Video library
2 Product information	5 Quality and technology
3 Helpful information	6 Tsumura Kampo online MR

Introduction of the contents



Lectures, conferences, study groups

Web lectures as well as academic conferences and study groups are available for viewing.



Tsumura Kampo virtual MR

Busy physicians can receive information efficiently through a 3D virtual MR who gives an automated presentation.



Kampo Online Salon

This is a dialogue-type lecture on the concept of Kampo medicine, formatted to begin with a short lecture given by the lecturer, and proceeding by receiving and answering questions from the viewers.



Video library

A rich variety of contents can be studied in video format, with information such as on diseases and illnesses, Kampo prescription explanations, how to use the different Kampo formulations, and lessons on Kampo.



Product information

This section lists the product lineup, related documents, traceability information, etc.



Helpful information

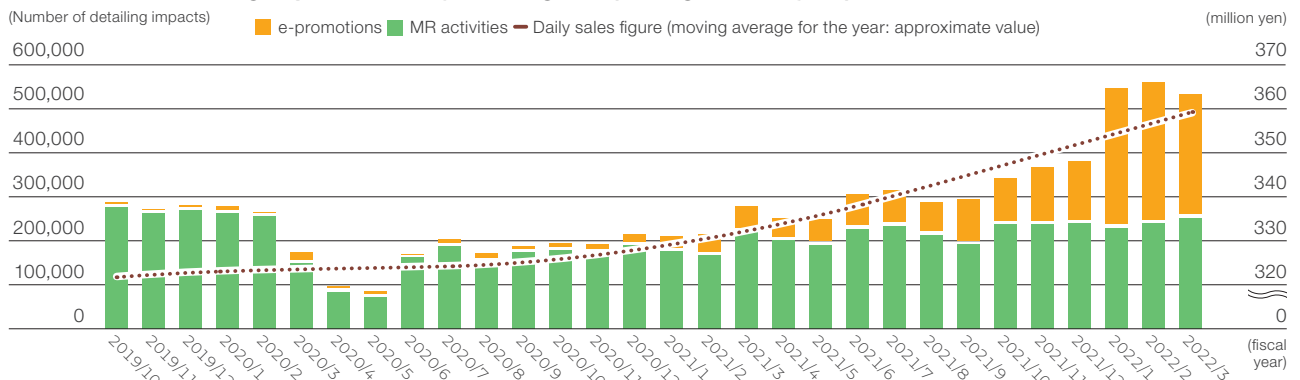
This section lists such information as documents that support medical exams, libraries related to crude drugs, and column articles.

Results from hybrid-type promotions

Our efforts in e-promotions have enabled us to raise the “detailing impact,” which is the number of times physicians have recognized information, for the latter half of fiscal 2021 to above what it had been before the COVID-19 pandemic. In particular, our efforts to expand the streaming video contents during the fourth quarter of fiscal 2021 has helped us reach a ratio of approximately 50% for the information awareness level through our MR activities. The increase in awareness due to our e-promotion activities has also increased our sales figures accordingly.

Conducting e-promotions utilizing digital technologies has enabled us to deliver information to physicians whom we were unable to reach before, and has also allowed us to learn about the needs of the physicians. Meanwhile, there is a limit to what can be achieved with e-promotions alone in providing information geared to the individual patient. Thus, we will increase our productivity through improved efficiency in our sales activities by establishing a new approach in how we provide information, with the MR serving to supplement information that is tailored to each patient and each physician.

Trends in the detailing impact and daily sales figures (average for the year)



Number of detailing impacts: Number of times physicians have been made aware of information through various channels including MR activities and the internet.
 MR activities: Detailing, online interviews, in-hospital briefings, etc. provided via MRs
 e-promotions: Activities to provide information via online means, without the involvement of MRs.
 Intage Healthcare survey “Impact Track”

Increasing needs to learn how to use different Kampo

The spread of COVID-19 caused medical institutions to heighten their restrictions on visiting their facilities, which greatly accelerated the use of digital means in providing information. At Tsumura, we advanced our efforts in e-promotion, which enabled us to deliver information on Kampo to many physicians and has led to an increasing number of new physicians prescribing Kampo.

Meanwhile, we are beginning to hear of issues that physicians are experiencing, such as having difficulty in knowing how to use the different Kampo appropriately. Our MRs will accurately identify the needs of healthcare professionals and make proposals on how to treat each individual patient in order to help achieve the patient’s well-being through the use of Kampo.

MR column

I’d like to introduce you to an episode I had with a physician in the orthopedic department of the hospital that I work with, who started to use numerous Kampo for patients with joint pain.

This physician had prior experience seeing a complete response to joint pain from having prescribed Boiogito. This led the physician to develop a fixed idea of using Boiogito whenever he prescribed Kampo for joint pain. However, there were also many patients who did not show the desired results to this same Kampo. And so, the physician signed up for our web lecture because he wanted to try using other Kampo. I requested an interview to thank the physician for participating in the event and to receive some feedback. And when making the appointment, the physician asked me, “I don’t know which Kampo to use because there are a number of Kampo that have therapeutic use for joint pain, but even though their therapeutic use is the same, the compositions of the crude drugs in each Kampo are completely different.”

Later, when I met with this physician, we talked about the specific symptoms of the patients, and I explained which Kampo would be most appropriate by going into details about the medicinal benefits of even the component crude drugs. We continued our discussions until the physician felt satisfied.

And now, this physician uses eight different types of Kampo just for

joint pain, and tells me happily, “the real appeal of Kampo is knowing how to use the different formulas as appropriate.” And many of the patients who benefited from Kampo inform the physician with surprise, “I didn’t know Kampo works so quickly.” The physician says that hearing these words gives a renewed appreciation for the amazing effects of Kampo.

Our advances with e-promotion have increased the efficiency in how we provide information, leading to an increase in the number of physicians who are newly using Kampo. However, providing information efficiently is not enough when it comes to enabling physicians to use Kampo as if practicing traditional Kampo medicine. Thus, I believe that MRs, who are the ones that are able to serve the needs of the physicians in accordance with their specific requirements, are the key presence in promoting the widespread use of not only Kampo but also of traditional Kampo medicine.

MRs working for Tsumura are required to be a good partner to the medical sites by making use of their rich knowledge of Kampo. I feel secure in my belief that by fulfilling our role as an MR, we will be able to use Kampo to contribute toward the health of each patient who is suffering from a disease.

Hospital Sales Section 1, Tokyo Branch
 Tatsuki Sakamoto



Kazuyuki IzumiyaM3, Inc.
Director**Yukinori Sorada**Executive Officer
Head of Sales &
Marketing Division

Importance and possibilities of e-promotion

With MR activities being restricted due to the spread of COVID, increasing importance is being placed on e-promotion in working to realize our long-term management vision. We invited Kazuyuki Izumiya who is the Director at M3, Inc., which is a company that operates the world-renowned medical information portal site called m3.com, to talk with our Head of Sales & Marketing Division, Yukinori Sorada, on the importance and possibilities of e-promotion.

Sorada Our goal is to “contribute toward the realization of a medical setting where patients in Japan can receive Kampo treatment suited for them individually, regardless of the medical institution or clinic,” and raised a vision for our future 10 years ahead of having “50% or more of physicians write basic prescriptions in all treatment areas.” If we succeed in this vision, the market share of prescription Kampo formulations within the entire pharmaceutical drug market will have increased from the current share of about 1.4% to about

2.5%. Mr. Izumiya, you work with many different pharmaceutical manufacturers, so could I ask for your thoughts about our vision?

Izumiya I thought that being able to target “all physicians” is what’s unique about Kampo, and so, your vision is something that can only be raised by your company, Tsumura. It may be an extremely high-reaching goal, but I think it represents Tsumura’s strong sense of determination. Meanwhile, I think there are three challenges that need to be overcome to attain this goal.

First is the need to develop a deep relationship with many physicians, and simultaneously, to organize Tsumura’s production sites into readiness.

Secondly, as the situation of each patient is different, you need to have an understanding in a timely manner of the interests and concerns held by each of the physicians that attend to such patients.

And finally, you need to provide information that addresses those interests and concerns with details and through channels that are optimized

for each of those physicians.

The medical information portal site called m3.com that we operate is used daily by more than 310,000 physicians, who account for more than 90% of the physicians in Japan. It is a place where you can develop strong relationships with the physicians in diverse medical departments, and provide information that each of the physicians need in an accurate and timely manner. I hope that we will be able to work together in overcoming the three challenges in order to bring Tsumura's vision into reality. You have been using our services since 2019, but what kinds of effects have you had?

Our thinking has changed in considering distance (place) and time in our activities for providing information

Sorada We have been hosting the Mega Web Lecture since the first half of 2019, and each event has been attended by about 20,000 physicians. Given that the number of physicians that our entire team of MRs can meet with on a face-to-face basis is about 100,000 per year, it was extremely meaningful that we were able to have contact with so many physicians despite the restrictions on MR visits placed by the spread of COVID. And above all, our thinking on distance (place) and time, in considering activities to provide information, has changed dramatically.

Izumiya According to a survey conducted by a trade journal called Monthly MIX, when physicians were asked what they considered to be a useful source of information on pharmaceuticals, MRs ranked at the top from 2017 to 2020. Web lectures were not even included among the top five. However, when the survey was conducted in 2021, membership-based medical information websites ranked first, followed by MRs coming in second place, with web lectures

making it to third place. I think this shows that there is an overwhelmingly popular response from physicians in their preference for online lectures, due to the convenience of not being restricted by distance (place) or time. The Mega Web Lecture hosted by Tsumura in February 2022 had more than 30,000 viewers, significantly exceeding the average of 26,000 live viewers that m3.com had at the time. I think this shows not only the increased interest in Kampo among the physicians, but also reflects the unique characteristic of Kampo in that it targets all medical departments. Tsumura has been hosting a total of 11 Mega Web Lectures, and each event has attracted attendance by new physicians.

Hoping to continue working together to provide the information that individual physicians are seeking to find

Sorada With regards to our e-Promotions, in addition to utilizing information platforms including the one run by M3, we are also providing information through our own TSUMURA MEDICAL SITE. The Corporate Purpose of the Tsumura Group is to enable "Lively Living for Everyone," as we seek to provide the information that is needed by individual physicians, with the goal of realizing a society where physicians will be prescribing the right Kampo formulation for each of their patients. And as the first step toward this goal, we have started to develop a framework in the TSUMURA MEDICAL SITE that will deliver customized information in accordance to the individual interests of the physician. In the future, we will work to further

strengthen this informational site provided by our company.

Meanwhile, in order to realize our vision, we need to bring together both MRs and e-promotion and heighten the synergy effect from the combination of these two. And to do so, it's important for us to raise the capabilities of each and every MR. Thus, over the next 10 years, we will work to improve the knowledge that our MRs possess and strive in their educational efforts so that within five years from their joining our company, they will have gained a level of knowledge that is on par with a specialist in Eastern medicine, thereby upgrading our MR system to a higher stage. We will also enhance the quality of our information services by actively incorporating proposals made by our younger MRs, and combine DX with our MRs who possess a high level of knowledge, in order to realize our long-term management vision.

Izumiya Tsumura has set a major goal for the next 10 years. I think what is essential in achieving that vision is to continue what you are currently successful at in a manner that has more impact, and also take a good solid look at the new initiatives that you are attempting to implement as you move to execute those initiatives. We will be supporting you as your business partner in striving to realize your vision.

Sorada M3 has been creating innovations in the field of medical platforms, and will surely continue to evolve. I hope to continue strengthening our win-win relationship through new information and proposals, and work together in delivering information that is being sought by each and every physician.

Kazuyuki Izumiya

Director (responsible for business providing medical marketing support), M3, Inc. Received an MBA from the University of Virginia in the United States in 2004. Joined M3, Inc. in 2010 and worked on developing solutions to increase the productivity of information service activities conducted by companies in the medical field including pharmaceutical companies, and also promoted forming alliances with partner companies. Took his current position in 2018, and is providing solutions to medical companies in order to bring fundamental reform in the ways that the medical industry provides information.

02

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

Since fiscal 2004, Tsumura's research activities have been focusing our resources toward research activities to build evidence for Kampo formulations. This policy was adopted in awareness of the necessity to have Kampo formulations be recognized within the field of Western medicine, in order to have Kampo be established as one of the treatment choices in modern-

day Japan. Awareness about Kampo formulations, as well as about the practice of Kampo medicine, is undergoing dramatic changes among healthcare professionals as more evidence on Kampo is being released in academic papers both in and outside of Japan, with Kampo being selected in some cases as the primary treatment drug in the treatment guidelines.



Until now, we have been concentrating our efforts on a drug-fostering program to address the issue in the lack of scientific basis for Kampo treatments. As a result of those activities, we have accumulated numerous evidence from the perspective of efficacy and safety. This has resulted in building a foundation for the use of Kampo by dramatically enhancing the amount and quality of write-ups in the treatment guidelines, and by having Kampo written into the educational model core curriculum at medical, dentistry, pharmaceutical, and

nursing schools, among others. And now, physicians are giving a certain level of recognition to Kampo formulations as being a standardized treatment.

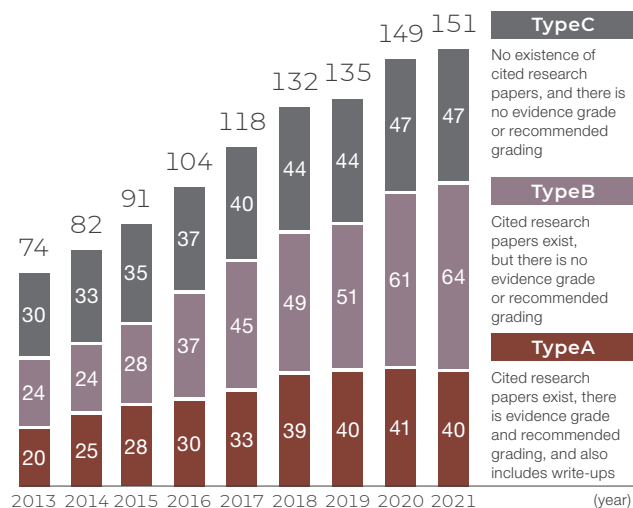
In the future, in addition to the efforts we have been making thus far toward building an infrastructure for the standardization of Kampo treatment, we will work to further develop initiatives that propose Kampo as a new treatment method (initiative toward personalized medicine) and will concentrate our efforts into taking on the challenges of dealing with pre-symptomatic diseases.

Treatment guidelines and Kampo

According to a survey conducted by the Japan Society for Oriental Medicine and Japan Kampo Medicines Manufacturers Association, the number of Kampo write-ups in the treatment guidelines more than doubled from 74 write-ups in 2013 to 151 write-ups in 2021. In 2021, there were write-ups for 112 prescriptions. Currently, the number of prescription Kampo formulations approved in Japan amount to 148 formulations, which means that about 76% are mentioned in the treatment guidelines.

Rikkunshito, which is one of the drug-fostering program formulations, has achieved level A evidence and is recommended as an effective treatment drug in the "2021 treatment guideline for functional gastrointestinal disorder: functional dyspepsia (FD) 2nd revised version."

Trend in Kampo formulation write-ups in the treatment guidelines



Building infrastructure for the standardization of Kampo treatment

Kampo has a unique characteristic of being a naturally-derived multicomponent composite formulation, which makes it extremely difficult to develop scientific explanations. And so, we have been conducting a variety of research over many years in our effort to build evidence. In recent years, we have been working not only within the company but also conducting research by partnering with external research institutions such as university programs, as well as with advanced technologies (system biology, metabolomics, intestinal flora analysis, big data analysis, etc.), in order to not only conduct clinical studies and build evidence on the efficacy and safety of Kampo, but to also gain an understanding about the mechanism of the workings of the multicomponent, find scientific proof on the unique diagnosis performed by traditional Kampo medicine, study the medical economic benefits, and conduct other studies to accelerate the findings on the benefits of Kampo.

From fiscal 2004, we established a drug-fostering program formulations targeting diseases in areas with high medical needs where new drug treatments have been encountering difficulties, and where prescription Kampo formulations have been demonstrating distinct benefits. And in addition to this drug-fostering program formulations, in fiscal 2016, we established a new “growing” formulation category in which research is being promoted with the goal of having these “growing” formulations be recommended in the treatment guideline.

We will continue to provide information on basic and clinical evidence as well as on how to prescribe the different Kampo formulations for the drug-fostering program formulations, “growing” formulations, and the three important domains (geriatric health, cancer [supportive care], and women’s health). We will also work with external research institutions to study the efficacy of Kampo against COVID-19, and will cooperate in various basic and clinical research. Through these activities, we will enhance the presence of Kampo formulations and seek to expand the Kampo market.

In order to expand the standardization of Kampo treatment, we need to have Kampo listed in the treatment guidelines. Thus, we will work to accumulate evidence centering on its efficacy and safety, with the goal of having the Kampo formulations be newly written into the guidelines and improve their recommendation rating.

During the phase of the first medium-term management plan, we will generate research results with the aim of having 130 write-ups of Kampo formulations in Type B or above in the treatment guidelines.

In the domain of geriatric health, we will conduct joint research with national research institutions and other organizations on the themes of frailty, dementia, and

cardiovascular diseases with the aim of extending people’s healthy life span through the use of Kampo. In the field of cancer (supportive care), we will not only work on measures against the different side-effects of individual cancer treatments, but will also conduct research on inflammation, nutrition, and immunity in the patient’s body, as we seek to improve the physical condition of the patient, regardless of what cancer drugs are used. In the area of women’s health, we will anticipate the life-time health of women by focusing on (pre-)conception care, and aim to help encourage the active participation of women in society by striving to resolve hidden issues that women have been enduring until now, such as symptoms associated with menstrual disorders and issues with infertility. We will focus our efforts on these three important domains as we output the evidence gained from our research through such means as research papers, which will serve as the basis for gaining write-ups in the treatment guidelines.

Enhancing the evidence package

Evidence package	Meta-analysis results	RCT (randomized controlled trial)	Pharmacokinetics	Study on frequency of discovering side effects
Rikkunshito	○	○	○	○
Yokukansan	○	○	○	○
Daikenchuto	○	○	○	○
***	○	○	○	○

Expand formulation / domain / type of evidence

Quantitative expansion

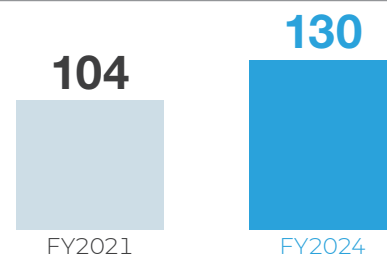
(Formula/disease with no write-ups) Attain new write-up in the treatment guidelines

Qualitative expansion

(Formula/disease with write-ups) Improve level of recommendation in the treatment guidelines

Expand the treatment guidelines

Number of write-ups in the treatment guideline with Kampo formulations of Type B or above*



*From the “Treatment guideline task force” of the EBM Committee of the Japan Society for Oriental Medicine

Type A: Cited research papers exist, there is evidence grade and recommended grading, and also includes write-ups

Type B: Cited research papers exist, but there is no evidence grade or recommended grading

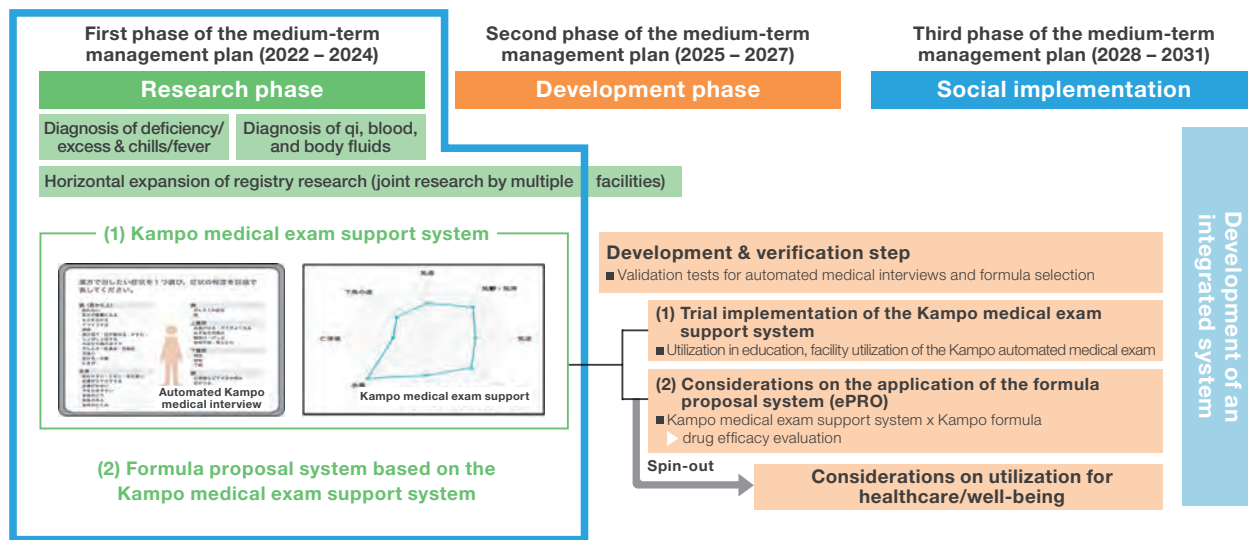
Type C: No existence of cited research papers, and there is no evidence grade or recommended grading

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

Goals for personalized medicine

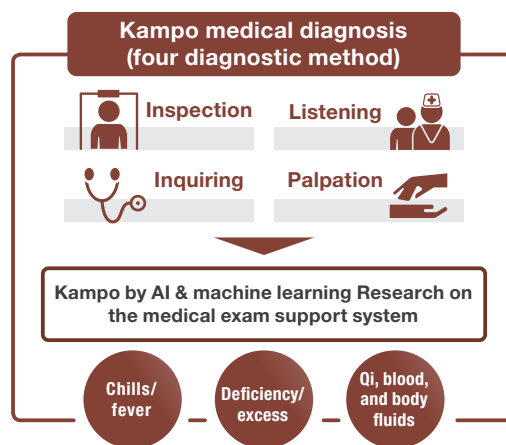
As part of our efforts to propose new treatment methods, we have an initiative for personalized medicine in which our goal is to realize a world where each individual is able to receive the most appropriate Kampo treatment. We will be working toward this specifically by conducting scientific studies on personalized medicine that utilize KAMPOmics (see below) and developing a Kampo medical exam support system that uses DX and AI technologies.

The methods of diagnosis in Kampo medicine (diagnosis of proof) are unique, giving rise to issues that need to be overcome in order to achieve progress in personalized medicine, such as in how the level of proficiency with Kampo medicine affects the diagnosis, as well as the increase in consultation time (medical costs). In order to solve these issues, we seek to determine the responders to Kampo and develop a Kampo medical exam support system.



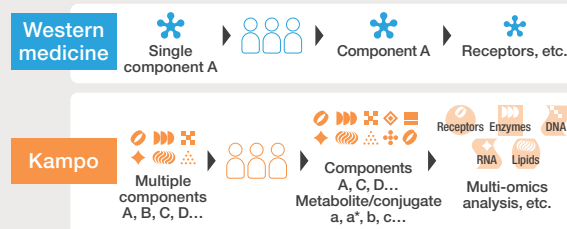
The first phase of the medium-term management plan is the research phase.

With regards to the use of KAMPOmics in the scientific study of personalized medicine, KAMPOmics will be included in clinical research, and efforts will be made to build evidence for personalized medicine by determining the responders to Kampo. With regards to the development of a Kampo medical exam support system that utilizes DX and AI technologies, we will create an objectified Kampo diagnosis method (four diagnosis method) as shown in the diagram on the right, in order to develop a system for ascertaining the “proof” for the use of Kampo. Later, the accuracy of the automated medical exam will be improved, and preparations will be made toward its test trials.



What is KAMPOmics®

KAMPOmics is Tsumura’s proprietary research package for which we have a registered trademark. It combines research on cutting-edge technologies (metabolome, genetics, intestinal flora, systems biology, etc.), a strength of Tsumura, to gain a comprehensive understanding of Japanese traditional Kampo medicine, and of Kampo with its multiple components and complexities.

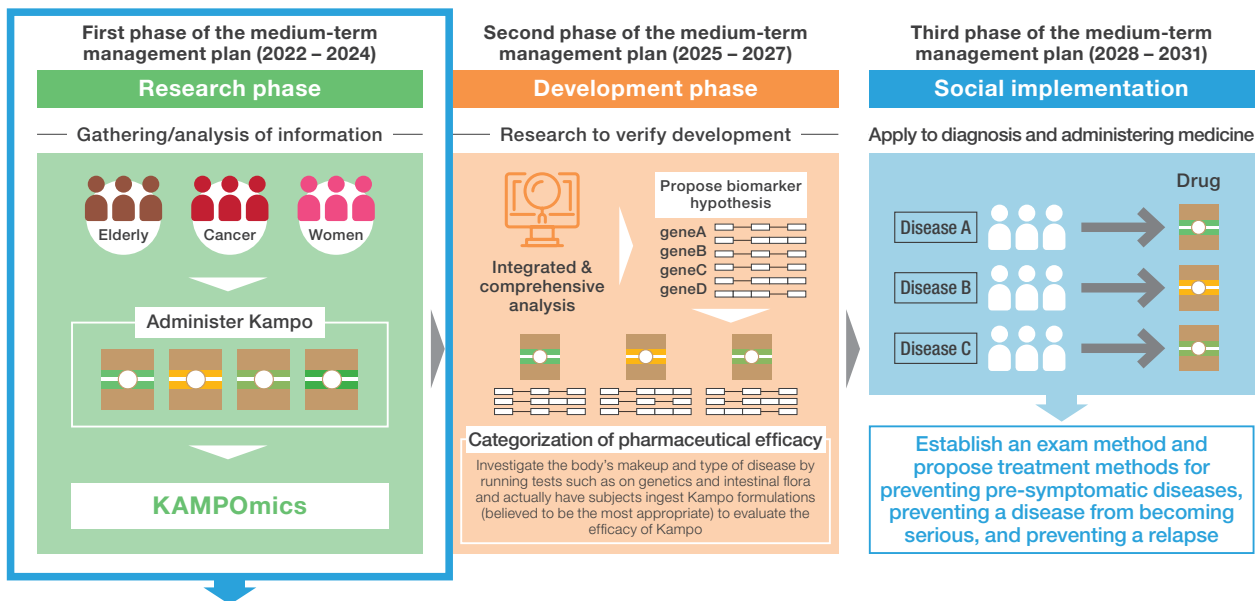


Goals in taking on the challenges in the area of pre-symptomatic diseases

With regards to taking on the challenges in the area of pre-symptomatic diseases, we will focus mainly on diseases related to aging, with efforts made in preventing pre-symptomatic diseases, diseases from becoming serious, and relapses. To do so, we will begin by focusing on the various weaknesses that arise from aging and the frailty associated with them. We believe that pre-symptomatic diseases can be prevented during the process of how frailty emerges with aging, and as such, KAMPOmics will be used in our attempt to perform

scientific studies on the prevention of pre-symptomatic diseases and to unravel the action mechanism of Kampo.

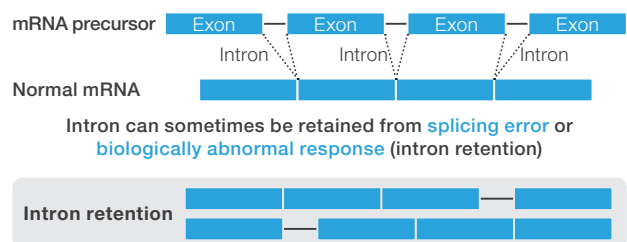
Later, we will expand our research into the areas of cancer and women's health while repeatedly performing various tests, and build scientific evidence for the prevention of pre-symptomatic diseases. Within that process, we will attempt to establish biomarkers for pre-symptomatic diseases, and seek to develop a pre-symptomatic disease improvement system that utilizes Kampo.



During the first phase of the medium-term management plan, which is the research phase, we will make full use of KAMPOmics in order to scientifically unravel and define pre-symptomatic diseases.

Specifically, analysis will be performed on the effects of Kampo on frailty and how it relates to changes in such areas as metabolome and intestinal flora, and search for action mechanisms and possible biomarkers. Recently, a discovery was made indicating a possibility that pre-symptomatic diseases associated with aging could be expressed by an abnormality whereby intron that should ordinarily be expelled is retained within the mRNA (intron retention [IR]) (see diagram on the right). Thus, IR will also be included in performing research on frailty, and studies will be conducted to examine its usefulness in serving as a biomarker.

Developmental mechanism of intron retention (IR)



Mice with accelerated senescence showed that various symptoms caused by aging accumulate IR before those symptoms appear, which indicates that IR could serve as a biomarker in the use of Kampo for pre-symptomatic diseases related to aging as well as to show improvements*1.

*1 Okada N et al., Gene. 2021 Aug20;794:145752. doi: 10.1016/j.gene.2021.145752.

Progress in development of Daikenchuto in the U.S.

We have a vision of Daikenchuto being useful in providing treatment to patients in the U.S., and as such, we are furthering developments in the U.S. by making use of the techniques and know-how nurtured by our Kampo and crude drugs businesses in Japan, and by organizing the latest basic and clinical data from the drug-fostering research conducted within Japan.

We are aiming to acquire approval for and achieve

the market launch of Daikenchuto as a drug in the U.S. by concentrating on postoperative ileus (POI) as its treatment target. The U.S., which has a widespread practice of performing laparoscopic surgeries and robotic surgeries, has a high medical need for POI treatment for which Daikenchuto is rated as showing promise to serve as a treatment drug. It is currently in the latter stage of phase II clinical trial.

03

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

The goals of our business in China are to contribute to the health of the people of China and to ensure the stable procurement and supply of raw material crude drugs.

We aim to support the development of the traditional Chinese medicine industry and to contribute to the health of the people of China by utilizing the quality, technologies, and skills that the Tsumura Group has nurtured over the years through our experience in cultivating raw material crude drugs

and manufacturing Kampo formulations, and bringing those together with the customer base and the online medical platform owned by the Ping An Insurance (Group) Company of China.

China is also the country from where we procure about 90% of our raw material crude drugs. Thus, we will be solidifying the stable procurement of raw material crude drugs for our future business in Japan by contributing to the health of China's citizens through the delivery of high-quality products.

Business environment and Tsumura Group's policies

The population in China is aging and the birthrate is declining at a rapid rate. As of 2020, the elderly population aged 65 and above has exceeded 190 million, and is predicted to rise above 400 million by 2035. The size of the pharmaceutical market is already ranked second in the world after the United States, but with the accelerating aging population, their market is expected to continue growing at a high rate.

Traditional Chinese medicine, which is formulations of raw material crude drugs, has been used in China for many years. The people of China are extremely familiar with it, and the share of traditional Chinese medicine within their pharmaceutical market amounts to approximately 26% (the market share of chopped crude drugs and Kampo within Japan's pharmaceutical market is less than 2%). Furthermore, China's National Medical

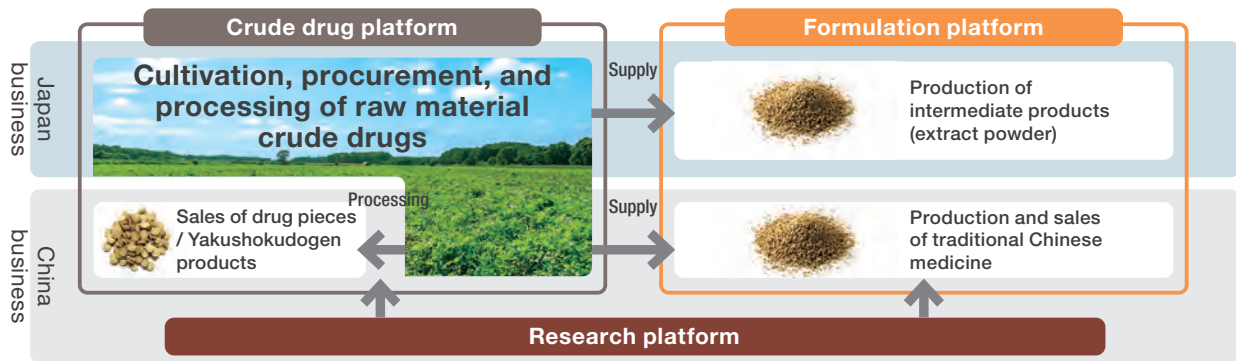
Products Administration newly announced Seihaihidokuto as a traditional Chinese medicine for use against COVID-19, and this Administration worked together with the National Health Commission of the People's Republic of China to distribute a notice throughout China to recommend its usage. Thus, the spread of COVID-19 served as an opportunity to further enhance health awareness and increase recognition of traditional Chinese medicine.

Tsumura Group will enter the Chinese market by making maximum use of the crude drug cultivation technology, manufacturing technology, know-how on quality maintenance, and other experiences that we have gained through our business in Japan, in order to make our contribution to the people of China by providing them with high-quality traditional Chinese medicine.

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

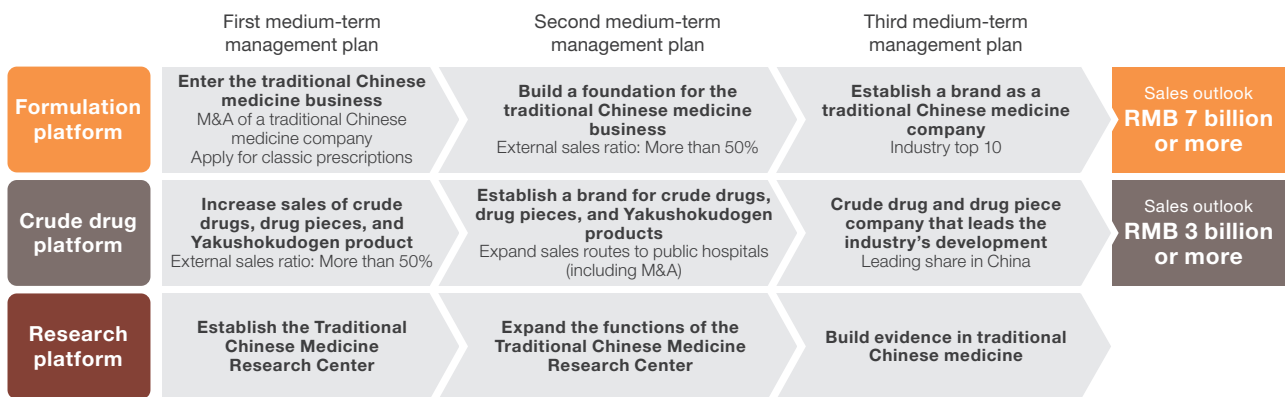
Month	Policy	Details
December 2016	Outline of the Strategic Plan on the Development of Traditional Chinese Medicine (2016 – 2030)	A policy that places importance on both modern medicine and Chinese medicine. It promotes the development of rules regarding traditional Chinese medicine production and also encourages expanding the scale of production, while also implementing measures on theoretical research and drug development.
July 2017	Law on Traditional Chinese Medicine	Clarifies what ancient prescriptions are by defining them in law (national law).
May 2018	Administrative Regulations on Simplified Registration Evaluation and Approval of Classic Chinese Medicine Formulation	Submission of documents on clinical tests were deemed unnecessary in making drug registration applications for ancient prescriptions.
July 2019	Strengthening the operation of traditional Chinese medicine by building an integrated medical system	An integrated medical system will be constructed to enhance the service capabilities in traditional Chinese medicine, and to promote the provision of services in traditional Chinese medicine at basic medical institutions.
October 2020	List of important information on famous formulations from ancient texts (7 prescriptions)	The requirements for research and development of the ancient prescriptions (7 prescriptions) were standardized in order to promote their research and development by business entities.
December 2020	Comments related to the implementation of the continuation and new development of traditional Chinese medicine	More than 20 specific measures were established to promote the creation of new traditional Chinese medicine, establish a system for reviewing traditional Chinese medicine, and monitor the quality and safety of traditional Chinese medicine, etc.
January 2022	14th Five-Year Plan for China's Pharmaceutical Industry	<ul style="list-style-type: none"> ■ Promote the integration of traditional Chinese medicine with Western medicine ■ Promote the prosperity and development of the traditional Chinese medicine culture ■ Promote an increase in traditional Chinese medicine hospitals and physicians ■ Promote the research and development of ancient prescriptions based on effective ingredients ■ Improve the quality of crude drugs and strengthen traceability ■ Improve the competitive environment of the traditional Chinese medicine market, and encourage the formulation of a market price that is aligned with its quality

Three platforms in the China business



Milestones in each of the China business platforms

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



Initiatives for the phase of the first medium-term management plan

Our long-term management vision for 2031 aims to reach an overseas sales ratio exceeding 50%. With that in mind, we will focus on implementing the following activities during the period of the first medium-term management plan to achieve a CAGR of 30% for our sales figure and to have a profitable operating income.

Crude drug platform

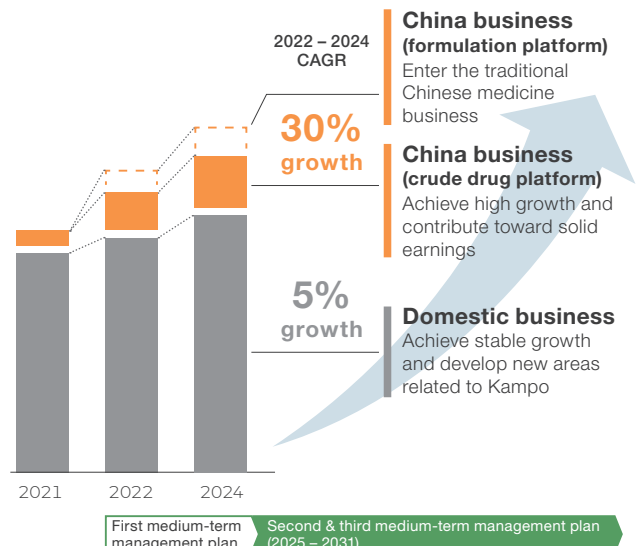
- Increase the number of items in raw material crude drugs for which we have superiority in quality, transaction volume, price, etc.
- For drug pieces, continue to expand sales routes to public hospitals and also increase online sales, with a focus on priority items.
- For Yakushokudogen products, use superior crude drugs to develop high value-added products that match the healthcare needs.
- Aim for an external sales ratio that exceeds 50%.

Formulation platform

- Complete M&As with traditional Chinese medicine companies that possess classical prescriptions in order to prepare for entering the traditional Chinese medicine business.

Research platform

- Complete the establishment of an operating company and the construction of that company's own building, and begin analysis tests as well as research and development from crude drugs up to formulation.



Initiatives in the crude drug platform

The crude drug platform serves the functions of cultivation, procurement, sorting, processing, storage, and sales of raw material crude drugs. With regards to raw material crude drugs, Tsumura owns self-managed cultivation fields throughout China, and with the cooperation of local companies, we are cultivating and procuring high-quality crude drugs by managing their cultivation, as well as processing and producing those crude drugs, in keeping with the Tsumura GACP. The raw material crude drugs are exported as raw material for the Kampo formulations in our domestic business. We are also working to develop new external sales channels, such as to traditional Chinese medicine manufacturers, by demonstrating our ability to keep the formulation platforms supplied as well as emphasizing our superior quality.

We are also working to expand external sales of drug pieces (chopped crude drug) where raw material crude drugs have been processed and given added value, as well as our Yakushokudogen products (health foods).

In the long term, we aim to lead this industry and grow



Yakushokudogen products being sold



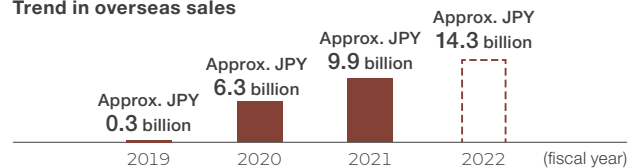
Drug pieces being sold

into one of the top companies in the world through the sales and branding of high-quality crude drugs, drug pieces, and Yakushokudogen products. Our sales target is to reach RMB 3 billion or more.

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

- Grow into a leading company in the traditional Chinese medicine industry via the stable supply and branding of high-quality crude drugs, drug pieces, and Yakushokudogen products.
- For raw material crude drugs, increase the number of items in which we have superiority in such areas as quality, handling volume, and price.
- For drug pieces, continue to expand sales routes to public hospitals as well as online sales, with a focus on priority items.
- For Yakushokudogen products, use superior crude drugs to develop high value-added products that match the healthcare needs.

Trend in overseas sales



Initiatives in the formulation platform

In the formulation platform, we are targeting the classic prescriptions from among the wide range of traditional Chinese medicine, and are aiming to contribute to the health and healthcare of the people of China by producing and selling formulations that are safe, consistent, and effective. In the long-term, we seek to be one of the top ten companies in the industry selling traditional Chinese medicine, with a focus on classic prescriptions, and will strive to be the first brand of choice by Chinese people when purchasing classic prescriptions. The sales goal is to reach RMB 7 billion or more.

Classic prescriptions are a type of traditional Chinese medicine, and the formulas are based on ancient medical texts in China. Up until now, manufacturers of traditional Chinese medicine have not been focusing their attention on expanding sales of classic prescriptions. Thus, there are many classic prescriptions that are not being manufactured or sold, even if they have already been approved for production. In recent years, the Chinese government has given prominence to classic prescriptions in order to encourage the development of the traditional Chinese medicine industry, and has been issuing preferential policies for various classic prescriptions. In this environment, Tsumura will raise classic prescriptions up into a new and higher stage in order to promote their widespread use. We will achieve this by implementing quality management in all steps from crude drug cultivation to production, enhancing quality by utilizing our know-how

in production technologies and other areas, and proving the efficacy of the prescriptions by building evidence.

During the period of the first medium-term management plan, we aim to realize an M&A as early as possible in order for us to acquire manufacturing and sales rights and thereby be able to enter the Chinese market. For the M&A, the core requirements are that Tsumura owns a majority share and that the acquired company possesses classic prescriptions. Additional selection criteria include the company's business size, its direction of approach regarding quality, and other issues. Based on these requirements, we have narrowed down the prospective companies and are sounding out the situation and conducting negotiations. As the first step of the M&A, in August 2022, we signed a letter of intent regarding the establishment of a joint venture company with Jianmin Pharmaceutical Group Co., Ltd. We are currently proceeding with negotiations to finalize the joint venture agreement, such as discussing specific details on the partnership and developing a business plan.

We are also looking into other ways of entering into the traditional Chinese medicine business other than through M&As. With regards to the classic prescriptions (currently 7 prescriptions) that no longer require clinical tests to apply for market release, which is a change that has been brought on by the easing of restrictions by the Chinese government, we are in the process of selecting prescriptions by studying their marketability and will advance our research and development efforts in order to launch them into the market.

Initiatives in the research platform

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

drugs and for traditional Chinese medicine.

In the future, we aim to become a leading company in the traditional Chinese medicine industry by delivering a standardized level of quality in our crude drugs and formulations, as well as with our abilities in problem solving. We seek to improve branding and raise recognition to help expand sales of the crude drug platform and the formulation platform.

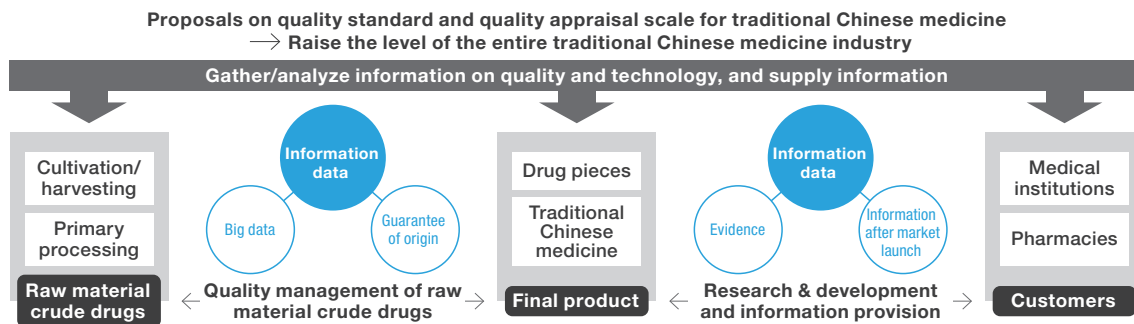
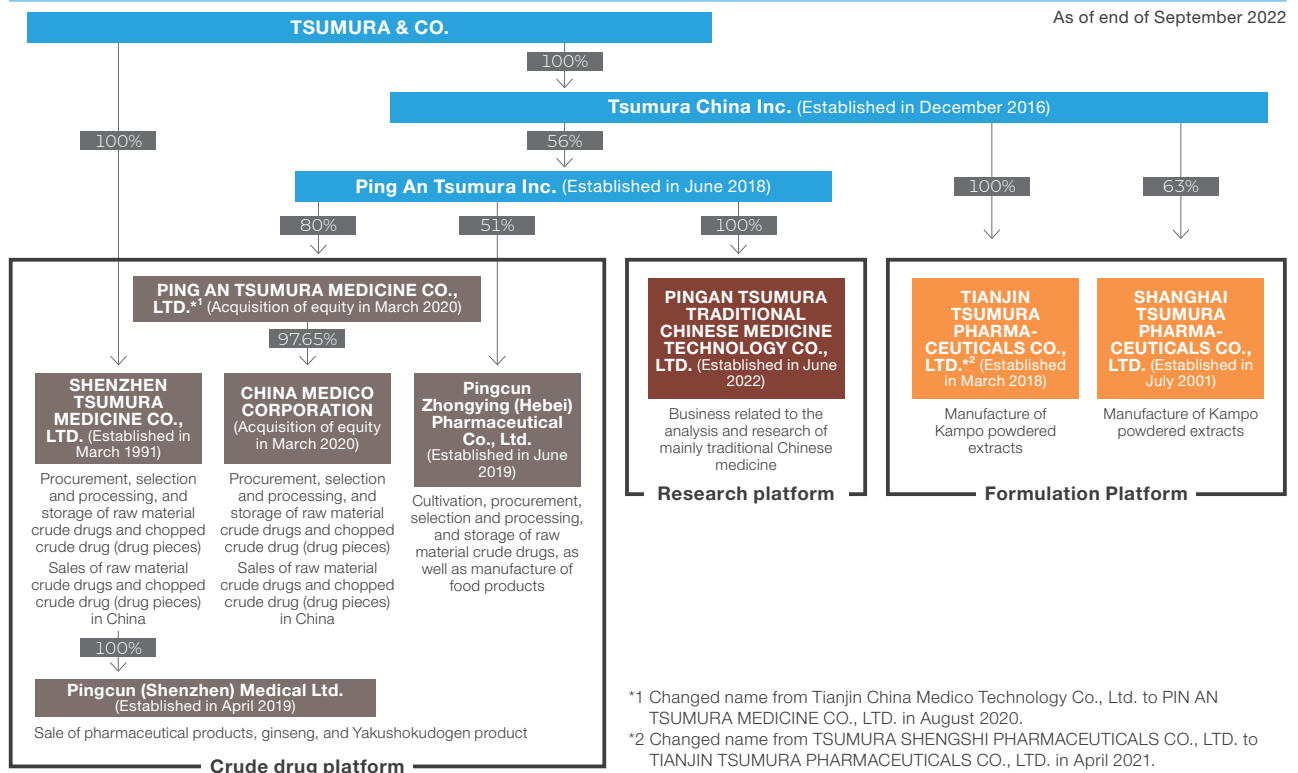


Diagram on the capital relationship of affiliated companies in the China business



Ping An's support in the development of the China business

We consider our partnership with Tsumura as a long-term strategic investment, and understand that it takes time for our efforts to be reflected in business deployment and corporate value. Meanwhile, I believe that this business has great value. For Ping An, we will be continuing to provide full-scale support to the business of Ping An Tsumura by not only providing funding, but also assisting with M&A, utilizing sales channels, providing AI and other technologies, and negotiating with government-related authorities.

The income level of each person in China will continue to rise, so I believe there will be continued growth in how much people invest in their health. We will continue to work with Tsumura, who possess outstanding technologies in Kampo, toward expanding the business in China.

Ping An Insurance (Group) Company of China, Ltd.
 Assistant General Manager and Head of Private Equity

Kaipin Kui



04

Innovating the IT base and promoting the implementation of AI and automation in crude drug selection and production process toward reforming the Kampo value chain

We are striving to realize the smart factory that we raised in our long-term management vision 2031. For the period of our first medium-term management plan, we will advance efforts to automate the equipment by using advanced technologies at the factories, collect data, make those data visible, save

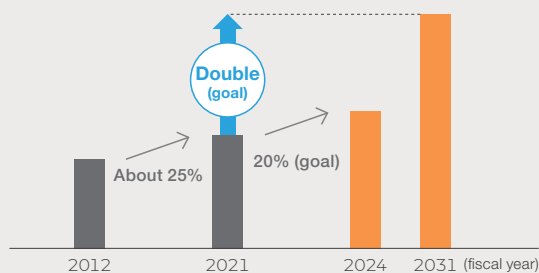
energy, and reduce the work load, with the aim of improving labor productivity by 20% (compared to fiscal 2021). We will also advance efforts to install into each of the sites our AI automated sorting equipment that we have been developing to perform the sorting process of crude drugs.

Converting to a next-generational plant

The Tsumura Group places topmost priority on efforts to provide a stable supply of our products, in order to be able to consistently deliver pharmaceuticals to patients under any situation, such as the spread of COVID-19. Under the first medium-term management plan, we are planning to grow our domestic business by 5%. With this in mind, we are working to increase our plants and strengthen our production lines as a base to uphold our future growth.

Meanwhile, we are promoting initiatives for the smartification of our factories in order to deal with the changes in drug prices and the

Trend in physical labor productivity



rise in the prices of commodities and energy. Our goal is to double our labor productivity in fiscal 2031 compared to fiscal 2021, and in the interim, increase it by 20% by fiscal 2024, which is the final fiscal year of the first medium-term management plan. Specific initiatives include the implementation of a series of our automated technologies that we have been developing thus far into each of our plants, in addition to the development of advanced technologies for manufacturing processes that are difficult to automate because of the complexities of the work involved, as well as the installation of these technologies into our production line. We will also advance efforts to gather data and make the information visible to prepare for the future development of new production systems, such as the use of digital twins.

In order to implement these initiatives to improve our production capacity and productivity, we are planning to invest approximately JPY 100 billion into our domestic plants (Ibaraki and Shizuoka) and overseas plants (Tianjin and Shanghai in China) during the period of the first medium-term management plan. This phase of the first medium-term management plan is positioned as a stage for making up-front investments in order to secure the production capacity needed to achieve our future growth. We will also respond to a future increase in the sales volume by striving to improve our productivity.

Executive Officer, Chief Director of Production

Shoichi Kumagai



Manual operations



Taking out and inputting by hand

Automation



Taking out and inputting by a multi-axis robot

Launch of a new production site



- First phase of construction**
- Building of first SD (powdered extract production), storage facility, etc.
 - Building completed in May 2022, scheduled to begin full-scale operations within fiscal 2022
 - Investment amount: Approximately JPY 15 billion

- Second phase of construction**
- Building of second SD (powdered extract production)
 - Building to be completed in fiscal 2023, scheduled to begin full-scale operations in fiscal 2025
 - Investment amount: Approximately JPY 10 billion

Tianjin Plant (TIANJIN TSUMURA PHARMACEUTICALS CO., LTD.)

Established as a site to produce powdered extract (intermediate product) for the domestic business

Effects gained by this establishment

Production capacity of powdered extracts for the domestic business ▶ Increased by **20%**

Increased physical labor productivity by automation*1 ▶ Increased by **13%**

Reduction of CO₂ emission by implementing energy-saving technologies*2 ▶ Reduced by **5,700** tons per year

Percentage decrease of water intake quantity by recycling the cooling water, etc. ▶ Reduced by **70%**

*1 Compared to the existing plant of Shanghai Tsumura

*2 Compared to when energy-saving technologies had not been implemented (total for first and second phases)

*3 Planned value for the second phase of the Tianjin plant

Practical application of AI automated sorting of crude drugs

All of the raw material crude drugs that are delivered from the crude drug production entities to each of our sites (Ishioka Center, Yubari Tsumura, Shenzhen Tsumura Medicine, China Medico) are sorted by visual examination, where defective or foreign objects are removed. Many of the crude drugs are plant roots that have been dried, so they have complex shapes compared to other materials such as vegetables. This makes it difficult to automate sorting with previously available technologies, and so, the sorting work is currently conducted by the human eye. However, in order to increase efficiency and reduce costs, Tsumura has been working to develop an automated

sorting machine that is powered by AI. We started development by first selecting one crude drug from among the 119 different types that has a shape which is comparatively highly difficult to sort. This will enable us to reduce the number of workers needed for visual sorting from the currently required four persons to two.

In the future, we will gradually expand the targeted crude drugs and the sites of installation, and will also advance our development efforts to further improve accuracy through AI learning with the goal of significantly reducing the number of workers needed, in order to achieve low-cost operations.

Before implementation



Crude drug sorting process conducted by four persons per line

After implementation



Crude drug sorting process conducted by a crude drug AI automated sorting machine and two persons

05

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

We believe that organizational and human capital is the true source of corporate and business value. As such, we have defined the following: the ideal personnel that we seek, the ideal organization that we aim to be, and the corporate culture that we aim to have. We seek

to be an organization that is similar to Kampo in how it is composed, operated based on the philosophy management that has been stated in our purpose, and will continue to nurture human resources that will lead to the development of such an organization.

Organizational and human capital policies

Diagram on the key principles of the organizational and human capital policies



1. The ideal personnel that we seek



Aspirations, passion
Engaging in one's own work with strong aspirations and passion

Responsibility
Recognizing one's assigned role with a spirit of commitment to completing the mission at hand

Professionalism
Mastering advanced technology with expert knowledge and performing the job

Independence
Thinking and acting independently

Altruism
Serving others with a caring spirit

2. The ideal organization that we aim to be

We seek to forge a new path for ourselves in the Kampo and traditional Chinese medicine business, which is an area that has no previous models to base ourselves on, with the goal of becoming a group of people that is trusted by everyone and an organization that is similar to Kampo in how it is composed.

Each of the crude drugs involve many ingredients, and are recognized as having medicinal benefits and pharmacological effects. In other words, each has efficacy and its own individuality. We strongly believe that the harmony that is created from being a Kampo-analogous organization—in which the departments or personnel are regarded as being comparable to crude drugs, and the company or the departments are

3. The corporate culture that we aim to have

We seek to have a corporate culture that draws out the potential of each individual through dialogues held around purpose and values. A culture of dialogue based on high-quality communication is what will truly serve as an engine to continue circulating the value-creation cycle comprised of Tsumura's uniquely defined seven capitals.

1. Hiring the ideal personnel that we seek

We are hiring both new graduates and mid-career personnel in a well-balanced manner, in order to address issues in realizing our business strategies and in our human resources portfolio, and to achieve our ideal way of being for the future.

With regards to new graduate hires, we are conducting activities to strategically hire human resources who have the potential to be the source for creating corporate and business value, which is essential to the future of our business development. For mid-career hires, we are actively hiring not only human resources who will support our existing business, but also those who have rich experience, skills, and career history in the fields of global human resource management, IT, product development, and other areas that will help us with our future global business deployment, develop new businesses that address diverse market needs, and create added value.

2. Nurturing and allocating the ideal personnel that we seek

Our policy for human resource development is to foster a corporate culture that empowers people to develop on their own. Based on this policy, we established educational opportunities for each position level, offered from the perspectives of people, organization, and management. We indicate the capability requirements for each level of position, and actively offer seminars on an application basis in which the participants learn on their own initiative, thereby supporting their career development. In the future, we will compile data on the employees' basic information, their capabilities, and the skills that they possess.

We will do so by establishing a succession plan and building a talent management system, in order to help us strategically develop our personnel based on analyzing and acquiring an understanding about their characteristics, tendencies, and capabilities, and reflecting that information into allocating the right person to the right position, for the purpose of maximizing our human resources and furthering our organizational development.

3. Promoting diversity & inclusion

We will create innovations and enhance our corporate value by welcoming diverse people into our company, regardless of gender, age, nationality, or disability, and by having each and every employee respect each other's individuality as they bring out their capabilities to their maximum potential. It is essential that we have organizational diversity in order for us to be able to continue developing new businesses and creating added value. Our slogan is to develop an environment where diverse human resources are able to participate actively with a sense of purpose in work and in life. Under this slogan, we are striving to develop a pleasant work environment that allows our employees to perform their duties free of power or sexual harassment at their workplace, and that also allows those who are trying to balance work with their personal responsibilities, such as from being an expectant mother, raising children, or providing nursing care, to contribute to the workplace with a sense of purpose. Furthermore, we set February as an annual Diversity Month, during which time we offer in-house seminars to promote and enhance awareness on the importance of diversity and on our diversity system.

Please see [page 25](#) for "4. Improving employee engagement"

About diversity

It is essential that the organization and its human resources possess diverse skills, different values, a variety of experience, and a broad range of knowledge in order for us to be able to continuously resolve social issues and create new value, while also realizing sustainable development, in a way that anticipates business developments and that responds appropriately to the diverse needs and changing values of the market.

To be able to do so, the Tsumura Group is promoting measures to advance diversity and inclusion in order to realize the active participation and growth of all of our employees with all of their diverse perspectives, ideas, and values. We have raised the following initiatives to achieve this: the continuation of fair and just hiring and promotion practices with importance placed on diversity;

provision of career development support for female employees and employees hired on the career-track; and the development of an environment that will further promote the active participation of diverse human resources.

Specifically, we welcome diverse human talents regardless of gender, age, nationality, or disability. We will respect each other's individuality and will draw out the potential of individual employees through dialogue held by members of the organization (team) centered around purpose and values, in order to create innovations and improve our corporate value.

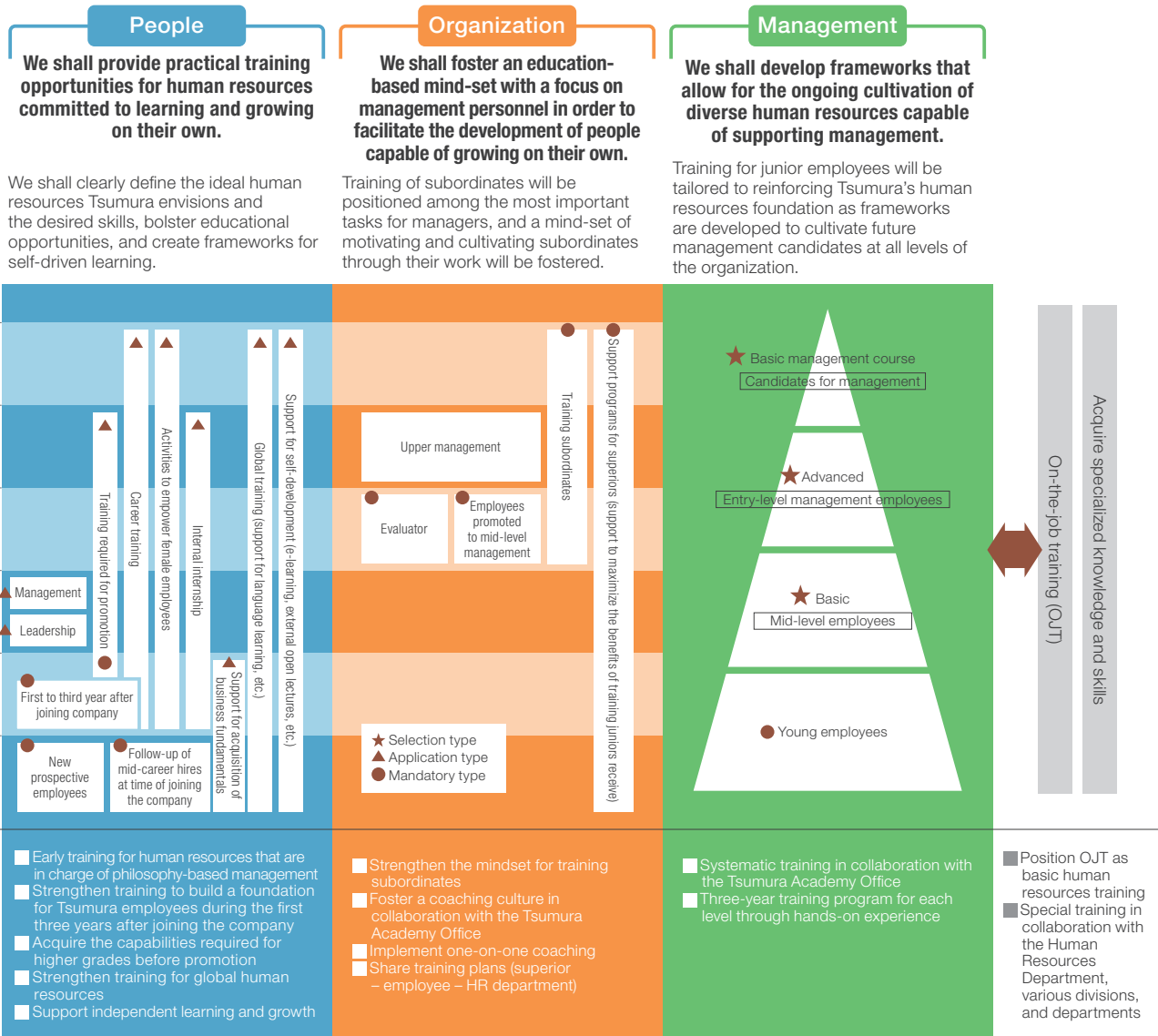
General Manager of Human Resources

Takao Sugahara



Tsumura's human resources development policy

The human resources development policy for the Tsumura Group is to foster a corporate culture that empowers people to develop on their own. Based on this policy, we established educational opportunities for each position level, offered from the perspectives of people, organization, and management, to provide support to employees to develop their careers on their own initiative.



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

Training of candidates for management

We are striving in our efforts to develop candidates for the management of the Group and to foster our corporate culture. These efforts are mainly being conducted through our human resources educational organization called the Tsumura Academy.

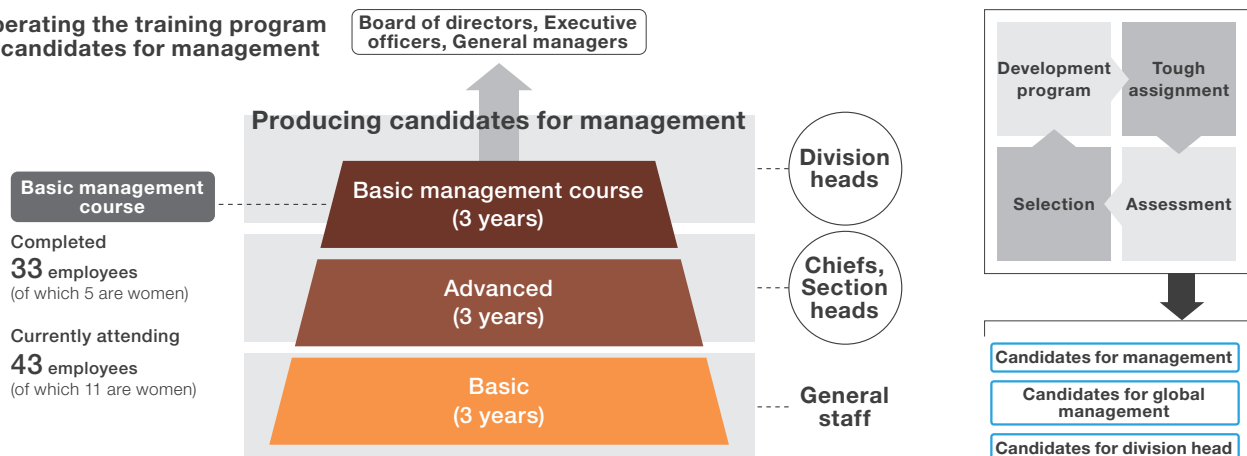
In order to continuously produce management-level candidates who will be able to lead the Tsumura Group while implementing our philosophy management and vision management that are raised as our corporate purpose, we offer a basic program for mid-level employees, an advanced program for entry-level management employees, and a basic management course that nurtures next-generation management

personnel, each of which is conducted for a period of three years.

As of the end of fiscal 2021, 33 employees completed the three-year basic management course, with 43 employees currently taking the course. A few have already been selected as future management candidates.

In order to put what has been learned from these programs into practical use, we have implemented a cycle in which participants are given tough assignments that involve issues and jobs with a high level of difficulty, for which their performance is assessed and by which they would be selected as candidates.

Operating the training program of candidates for management



Time for talks between the Dean, President, Representative Director CEO Kato, and the employees

Dean Kato not only teaches a number of lectures throughout the year himself, but he also attends each of the training programs as much as possible, and makes time for having dialogue with the employees.

The time for these dialogues during fiscal 2021 was increased by about three times compared to what it was three years ago.

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021
Dialogue time (hours)	33	78	80	105

Introduction of a new personnel system

Trend in the number of management personnel below the age of 40

We introduced a new personnel system in fiscal 2021 with the objectives of clarifying the roles of each and every employee in order to create value and results, and to increase productivity through diverse work styles.

As of April 1, 2022, there are 38 management personnel under the age of 40.

	2012.4.1	2017.4.1	2021.4.1	2022.4.1
Employees (person)	5	12	25	38

We have defined three human resources development policies to ensure diversity

Policy 1 Development of an environment and corporate culture that will further promote the active participation of diverse human resources

- Promote dialogue across all sections of the organization, centered around purpose and values
- Develop a workplace environment that accepts and respects diverse values
- Enhance supportive systems for achieving balance between work and private lives, such as for employees providing childcare and nursing care
- Continue implementing activities to improve job satisfaction and develop an environment that allows flexible ways of working

Policy 2 Continuation of fair and just hiring and promotion practices with importance placed on diversity

- Continue hiring activities that achieves a balance between recruiting new graduates and those mid-career
- Maintain and continue achieving a female hiring ratio of 50%
- Appoint personnel into job positions that involve important issues related to management in accordance to the capabilities of the individual, and that lead to accumulating knowledge and wisdom, etc.

Policy 3 Provision of career development support for female employees and employees hired on the career-track

- Have women actively participate in the basic management course and the next-generation training programs, etc., and enable early career development
- Host seminars for the development of female managers
- Enhance training seminars at the time of joining the Company for employees who were hired mid-career

Promoting the active participation of women: Third phase of the action plan

Theme	Forge the future by nurturing the “Tsumura Diversity & Inclusion Culture”						
Period of the plan	April 1, 2022 – March 31, 2026						
Numerical targets		April 2022 (present day)	April 2023	April 2024	April 2025	April 2026	
	Ratio of female managers	7.4%	7.7%	9.0%	10.5%	12.5%	
	(fiscal year)	2021 (present day)	2022	2023	2024	2025	
	Ratio of taking childcare leave	Male	37%	50%	65%	80%	100%
		Female	100%	100%	100%	100%	100%
	Average period of taking childcare leave	Male	25 days	30 days	40 days	50 days	60 days
Female		119 days	120 days	120 days	120 days	120 days	
Initiatives	Promoting the development of female managers with the Female Manager Development Program Encouraging men to take childcare leave with the Ikumen Promotion Project Employee engagement with the Off-site Meeting to Consider Job Satisfaction Developing potential capabilities of the individual with Development of a Coaching Culture		Promoting organizational development with the Team Building Support Team Promoting the health of female employees with #OneMoreChoice Promotion Team Promoting interactions amongst employees and self-development with the Hitotsumu Knowledge Cafe				

Health is the most important asset. Supporting employees in improving their health

We have been working on health management by formulating the Tsumura Health Declaration and Health Policy. 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. Our efforts to support health have been positioned as being the foundation for the active participation of women in the workplace, and since fiscal 2022, we have been covering the expenses for gynecological exams for all of our female employees. We are also working to improve the health literacy of each and every employee, such as by disseminating information on infection prevention, diet, exercise, and smoking cessation through the intranet, bulletin boards, and seminars.



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



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



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

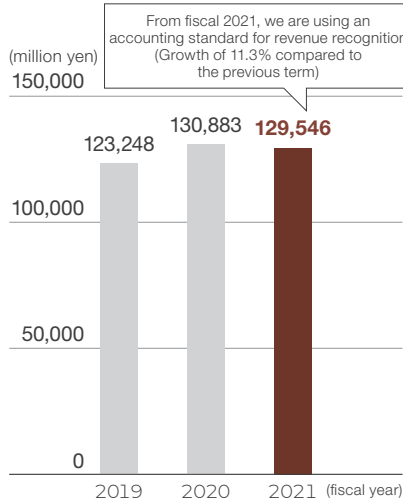


Government-issued badge certifying the Company as proactive in promoting work-nursing care balance (known as the “Tomonin” mark)

First Medium-term
Management Plan

Financial and non-financial KPIs

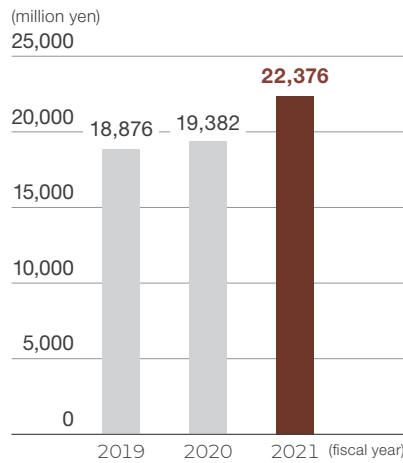
Net sales



Goals

JPY 138,500 million by fiscal 2022
JPY 162,000 million by fiscal 2024

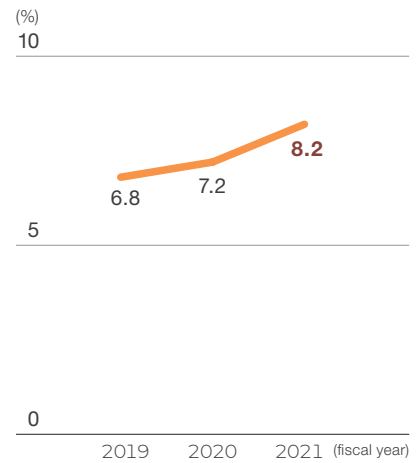
Operating profit



Goals

JPY 20,800 million by fiscal 2022
JPY 29,000 million by fiscal 2024

ROE

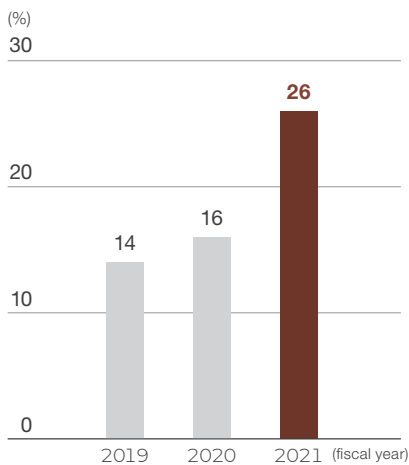


Goals

6.0% by fiscal 2022
8.0% by fiscal 2024

Note: An accounting standard for revenue recognition has been used since fiscal 2021 (Growth of 11.3% compared to the previous term)

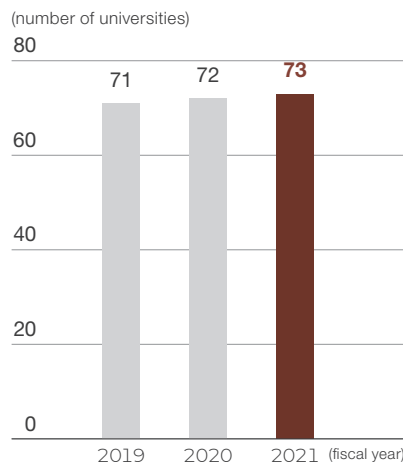
Ratio of physicians writing 10 prescriptions or more



Goals

50% by fiscal 2024

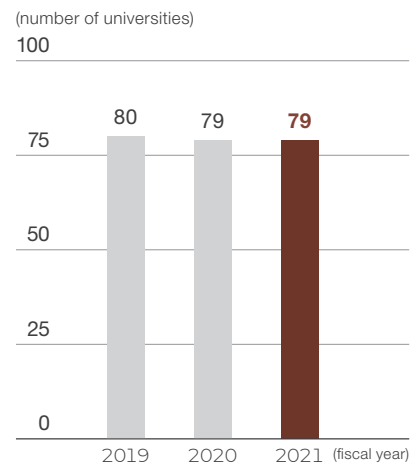
Number of universities teaching Kampo medicine (4 classes or more)



Goals

Classes taught at all universities and medical schools (82 universities)

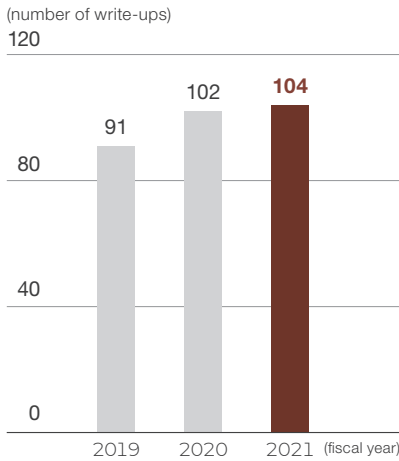
Number of universities providing Kampo outpatient treatments



Goals

Provided at all universities and medical schools (82 universities)

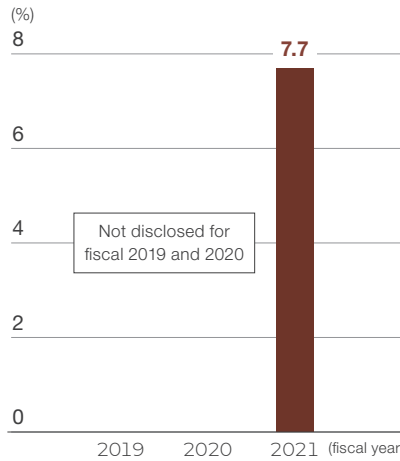
Number of write-ups in the treatment guidelines (type B or higher)



Goals

130 write-ups by fiscal 2024

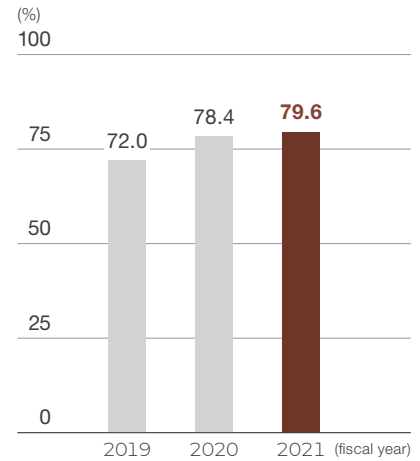
Ratio of external sales in the China business



Goals

50% or more by fiscal 2031

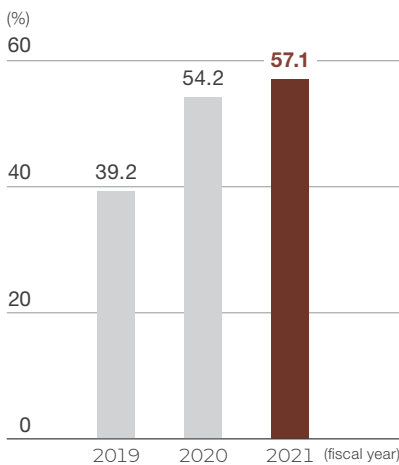
Ratio of proprietary managed fields



Goals

Continued expansion

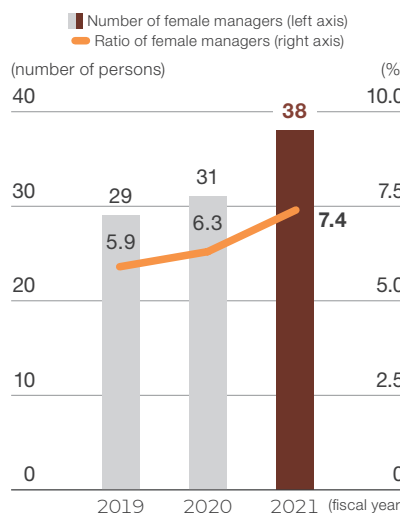
Ratio of female recruitment (new graduates)



Goals

50% or more

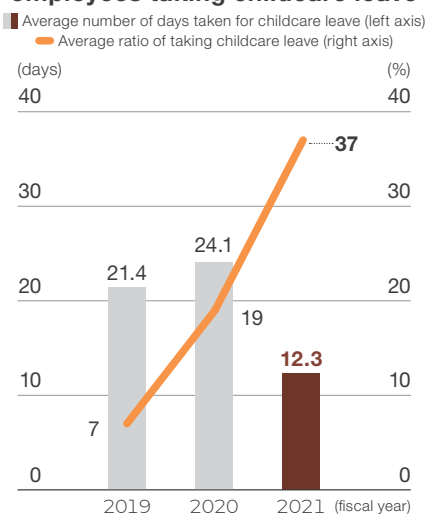
Number and ratio of female managers



Goals

7.7% by fiscal 2022
 9.0% by fiscal 2024

Average number of days taken for childcare leave by male employees and average ratio of male employees taking childcare leave



Goals

30 days by fiscal 2022,
 50 days by fiscal 2024
 50% by fiscal 2022,
 80% by fiscal 2024

Directors and Skill Matrix (as of October 1, 2022)



1 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 the post of Director 2011

Number of shares in the Company held
31,700 shares (as of March 31, 2022)

2 Kei Sugii December 16, 1969
Director Co-COO

1994 Joined Mitsubishi Petrochemical Engineering Corporation (currently Mitsubishi Chemical Engineering Corporation)

2006 Joined Accenture Japan Ltd.

2009 Joined the Company

2013 Head of Logistics Planning Department

2016 Head of SCM Planning Department

2017 General Manager of the Company, CEO of SHENZHEN TSUMURA MEDICINE CO., LTD.

2018 General Manager of the Company, Chairman and CEO of SHENZHEN TSUMURA MEDICINE CO., LTD.

2020 Executive Officer, Production Division General Manager of the Company

2022 Director Co-COO (incumbent)

Year of assumption of the post of Director 2022

Number of shares in the Company held
2,000 shares (as of March 31, 2022)

3 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 the post of Director 2019

Number of shares in the Company held
4,300 shares (as of March 31, 2022)

4 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.

2015 Outside Director of TSUMURA & CO. (incumbent)

2022 Outside Director (Audit Committee Member) of San ju San Financial Group, Inc. (incumbent)

Year of assumption of the post of Director 2015

Number of shares in the Company held
4,800 shares (as of March 31, 2022)

5 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 and Vice President, Tokushu Tokai Paper Co., Ltd.

2018 Outside Director of TSUMURA & CO. (incumbent)

Year of assumption of the post of Director 2018

Number of shares in the Company held
2,000 shares (as of March 31, 2022)

6 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.

2017 Representative Director and Chairman of QUALICA Inc.

2020 Outside Director of TSUMURA & CO. (incumbent)

Year of assumption of the post of Director 2020

Number of shares in the Company held
200 shares (as of March 31, 2022)

7 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 the post of Director 2017

Number of shares in the Company held
6,400 shares (as of March 31, 2022)

8 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 the post of Director 2017

Number of shares in the Company held
1,800 shares (as of March 31, 2022)

9 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)

2022 Statutory Auditor (part-time), SBI Holdings, Inc.











































Year of assumption of the post of Director 2019

Number of shares in the Company held
1,200 shares (as of March 31, 2022)

Executive Officers

	Terukazu Kato	CEO in charge of External Affairs Research Office and Internal Auditing Department		Hiroshi Hoshi	Executive Officer, General Manager, Legal / Compliance Control Department, in charge of General Affairs Department
	Kei Sugii	Co-COO in charge of Corporate Communications Department and Sustainability Promotion Office		Koji Endo	Executive Officer, General Manager, Kampo Scientific Strategies Division
	Koin Toda	Co-COO (General Representative for China) in charge of China Business Management Office and Crude Drug Division		Akihito Konda	Executive Officer, General Manager of Kampo Research and Development Division in charge of International Pharmaceutical Research & Development Division
	Muneki Handa	CFO in charge of Corporate Planning Department, Accounting Department and Information Technology Department		Mitsutoshi Yuzurihara	Executive Officer, General Manager, Quality & Safety Management Division
	Susumu Adachi	CHRO in charge of Human Resources Department		Shoichi Kumagai	Executive Officer, General Manager, Production Division
	Ryoichi Murata	Executive Officer, Manager of Tsumura Academy in charge of Secretarial Office		Tadahiro Abe	Executive Officer, General Manager, Healthcare Division
	Yukinori Sorata	Executive Officer, General Manager of Prescription Pharmaceutical Sales Division		Zhang Liqing	Executive Officer, supervising production in operations in China

Directors' Skill Matrix

	Gender	Age	Outside/ Independent	Corporate management	Global	Sales/ marketing	SDGs/ESG	IT	Financial accounting	Legal/risk management	Human resources management
Directors	Terukazu Kato	 59									
	Kei Sugii	 52									
	Muneki Handa	 60									
	Kenichi Matsui	 73									
	Hiroshi Miyake	 73									
	Tadashi Okada	 66									
Directors serving as Audit and Supervisory Committee members	Kimikazu Okochi	 63									
	Mitsutoshi Matsushita , lawyer	 51									
	Akemi Mochizuki , certified public accountant	 68									

Requirements of Each Skill Item

Corporate management	Those with experience as an executive at a listed company, or with the knowledge and experience necessary to formulate management strategies, and can provide advice	IT	Those with knowledge of IT, etc., and those who can recognize issues and present solutions for DX
Global	Those with management experience overseas and with knowledge and experience in global management	Financial accounting	Those with knowledge and experience in finance and accounting, or with experience working in a financial institution, or those who are certified public accountants or licensed tax accountants
Sales/marketing	Those with knowledge and experience in sales and marketing, who are familiar with the pharmaceutical industry and can provide appropriate advice on marketing	Legal/risk management	Those with experience in risk management and with knowledge and experience in legal and risk matters, or licensed lawyers
SDGs/ESG	Those with knowledge and experience in addressing environmental issues such as climate change, and with knowledge and expertise in diversity, CSR, CSV, corporate governance, etc.	Human resources management	Those with experience in human resources strategy development and with knowledge and experience in the field of human resources development

Message from Outside Directors

In order to realize our long-term management vision, the roles of outside directors will be introduced in each of the following themes: “Executive remuneration and succession planning,” “Vision for 2031 and medium-term management plan,” “Operations in China,” “Group governance,” and “Diversity.”

Take on a challenge to achieve our vision! Long-term incentives



Kenichi Matsui
Outside Director

A new vision has been launched. Our social mission is advocated as the Tsumura Group Purpose, and the Vision for 2031 sets challenging goals for a new Tsumura that aims to make a leap forward.

The goals have been set, but we need an appropriate and effective mechanism. To ensure that we achieve the goals over 10 years rather than in the 10th year, we reviewed our performance evaluation and remuneration system and decided to introduce new long-term incentives (LTI-II) in addition to short- and medium-term incentives (LTI-I).

We had previously formulated a grade table that clarified the respective expectations and roles for each grade to be used for evaluation, but there were some difficult issues.

We also took the time to consider the selection of target items to be achieved after 10 years. The incentives setting needs to be reasonable and convincing, based on the milestones along the way set as the remuneration thresholds. However, I believe that we could design appropriate and reasonable long-term incentives so as not to make the system complicated. If it is complicated, it would be inefficient

and difficult to understand. In addition, organization-wide collaboration is of utmost importance in achieving the long-term vision. We consider collaborative results as the results by a team, and have made LTI-II common incentives for all directors and executive officers. All directors and executive officers will aim to embody the common purpose and realize the vision as a team.

We have believed that this remuneration system is a value-creating mechanism based on shareholders' understanding of Tsumura and shared long-term interest. We will further aim for governance-oriented management.

Succession planning, a key issue of governance, is also continuously discussed at the Nomination / Remuneration Advisory Committee. We are making preparations by sharing basic strategies and issues selected. We have already begun organizational efforts to train successors and to develop the next generation of managers. The Nomination / Remuneration Advisory Committee has six members, of whom five are outside directors, and all of us will continue to respond to your support.

Pursuit of ideal group governance



Akemi Mochizuki
Outside Director

Recently, companies are required to establish appropriate group governance and operate it effectively to realize business strategies and maximize corporate value in a corporate group. The Tsumura Group has two main business bases, one in Japan and the other in China, and has positioned China as the supply base of crude drugs, which are important raw materials, and as a major market for future business development. I believe that an important aspect of group governance when developing business in China is the sharing of corporate philosophy, values, and business direction between Japan and China. Currently, the Head Office of Tsumura is promoting various initiatives to fulfill its corporate functions. Among them, the Company is focusing on enhancing communication with the management in charge of the operations in China and providing sufficient information to the outside directors who are responsible for monitoring the management. In addition to timely reporting through the Board of Directors so that it can fulfill its monitoring function, the management in China has recently been

showing a positive attitude toward the establishment of a governance system by voluntarily and proactively providing information so that we, the outside directors, can grasp the development and the status of operations in China in a timely and appropriate manner. For this reason, I realize that the sharing of the direction of business based on correct understanding is increasing both in Japan and China.

We have just taken the first steps, including further strengthening the sharing of our corporate philosophy and values, and we believe that these first steps will serve as the foundation for the global governance of the Tsumura Group.

Based on the governance system that has been strengthened so far, we will monitor the establishment of governance in China and the links with the system in Japan to make it a disciplined system at the Board of Directors. Furthermore, we are committed to playing a role in the pursuit of the ideal of Group governance, based on shared and correct understanding of the corporate philosophy, values, and the direction of business on a global level.

The most important theme is to keep up with the changes of the times and to connect the characteristics and features of the Tsumura Group to the future. We have formulated the long-term management vision under our newly adopted Principle and Corporate Purpose. The Board of Directors has been monitoring, in these uncertain times brought about by the COVID-19 pandemic, whether the vision leads to further development, both in terms of strengthening existing businesses and new measures, and whether the first medium-term management plan has been designed to realize the vision. I believe that the plan clearly outlines the direction of the Tsumura Group, and that it is a plan to implement its strategies

In China, we entered the market on a full scale in 2017 with the capital and business alliance with Ping An Group, a major insurance company in China. Our operations in China are the key and most important for the growth of the Tsumura Group. In 2016, we established Tsumura China Inc. ("Tsumura China"), a controlling company, with the aims of contributing to the health of Chinese people and achieving stable procurement of raw-material crude drugs. In 2020, we established Ping An Tsumura Inc., a joint venture company between Tsumura and Ping An Group, to promote business and to improve the business structure. Moving forward, we need to accelerate business expansion through capital investment in production and research facilities as well as the realization of M&As of mid-sized traditional Chinese medicine manufacturers.

The Board of Directors has identified three important issues: 1) Strengthening governance of the business structure in China, 2) Making decisions on major capital investments and monitoring investment execution, and 3) Decision making on M&As. In terms of governance, Tsumura China is enhancing its structure, and we are monitoring to ensure effective and appropriate initiatives by expanding local functions and authority and strengthening

"Diversity and inclusion" is advocated as one of the Tsumura Group's materiality (priority issues) to "foster corporate culture and develop human resources."

The Ministry of Economy, Trade and Industry defines diversity management as "management that generates innovation and makes use of it to create value by making the most of diverse human resources and providing opportunities to maximize their abilities."

Thinking about diversity at the Tsumura Group, increasing the contributions of women is essential to the promotion of formulations and product development related to women's health issues. Furthermore, human resources with a variety of knowledge and know-how will be needed for the growing traditional Chinese medical products business and "Yakushokudogen" products business in

with greater speed than before.

However, the recent geopolitical risks, as well as the situation in Ukraine, are unprecedented, and their effects are being felt by our company in many areas, including soaring resource prices, rapid depreciation of the yen, and inflation. In particular, the first medium-term management plan includes large-scale capital investments and M&As to realize our long-term management vision, but these require a large amount of capital, and in light of the rapid changes in the current situation, we believe that we need to discuss these issues more carefully. We intend to strengthen our monitoring carefully and steadily, considering management risks and future growth, and how to maximize investments and returns.

cooperation with the Head Office. In addition, as a quick response is required for M&As, we will continue to make flexible decisions. Furthermore, from the viewpoint of raw-material procurement, country risk must also be taken into consideration.

We will enter the Chinese market focusing on classical prescriptions that have not yet been commercialized in China. This business is in the area of our Kampo formulation and will allow us to offer our strength, "Tsumura Quality," to Chinese people. In order to develop and spread the Tsumura quality that we have cultivated in Japan to the operations in China, it is important to develop human resources who understand both sides of the business. Currently, under the leadership of Co-COO Toda (General Representative for China), many young human resources are working actively. This year, Mr. Zhang Lixuan, CEO of Tianjin Tsumura Pharmaceuticals Co., Ltd., was appointed as executive officer. The Board of Directors will continue to monitor the human resource strategy in line with the business strategy. The traditional Chinese medical products business is challenging, but as a top priority for the Board of Directors, we will continue to provide support in terms of both risk taking and risk hedging.

China. We must realize flexible work styles so that these human resources can fully demonstrate their abilities in the future.

The biggest challenge will be to secure capable human resources. While expanding career recruitment, it will be essential to increase diversity and revitalize the Company by actively promoting internal human resources with expertise and by publicly inviting them to take on the challenges of new businesses.

The Tsumura Group has recently appointed a Chief Human Resources Officer (CHRO) and is strengthening its efforts to address not only diversity but also various human resource issues more than ever.

As outside director, we will monitor these efforts to ensure that they will lead to job satisfaction for each employee and be accomplished with a sense of reality and speed.

Monitoring strategy execution and investment returns



Hiroshi Miyake
Outside Director

Decision making using the accelerator and brake



Tadashi Okada
Outside Director

Maximizing human capital is the key to business




Mitsutoshi Matsushita
Outside Director

Corporate Governance Basic Policy

The Tsumura Group upholds its Principle, “Spirit of Obeying the Heavens,” which are our principles in doing business, and its Corporate Purpose, “Lively Living for Everyone,” which shapes our aspirations which we aim to ultimately accomplish. Guided by these, Tsumura is practicing management based on the basic principles of its corporate philosophy of “the Best of Nature and Science” and its corporate mission of “to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” Tsumura’s basic policy is to strengthen its corporate governance in order to realize ongoing growth and medium- to long-term increases in corporate value; ensure sound, transparent, and fair management; and to make prompt and decisive decisions.

In June 2017 Tsumura shifted from a Company with Company Auditor(s) to a Company with an 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 outside directors to comprise the majority of 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.

 Corporate Governance Structure
<https://www.tsumura.co.jp/english/ir/corporate-governance/index.html>

Evolution of corporate governance system

2003	Executive officer system introduced
2004	Outside director appointed and term of directors made one year
2012	Long-term management vision “Aiming to be a value creation company that contributes to people’s health through its Kampo business” (Vision 2021) announced
2015	Female director appointed and executive officer system introduced
2016	Stock-based remuneration plan introduced
2017	Outside directors made the majority, shift to Company with an Audit and Supervisory Committee conducted, and Nomination / Remuneration Advisory Committee established
2019	CxO system introduced
2022	Sustainability Vision: “Living with nature for tomorrow.” Long-term management vision “TSUMURA VISION ‘Cho-WA’ 2031: Creating a Future of Harmony” established Performance-linked stock-based remuneration plan revised

Nomination / Remuneration Advisory Committee



Number of meetings held in Fiscal 2021: **9**

Kenichi Matsui

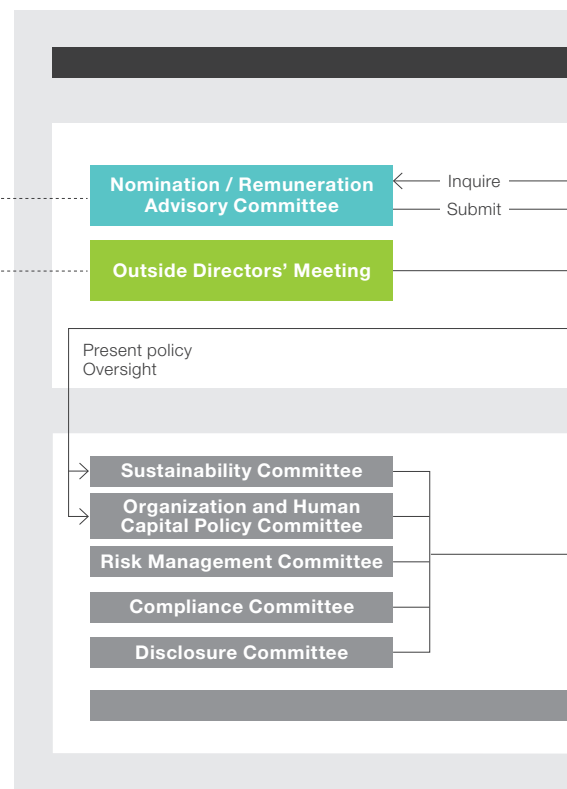
The Nomination / Remuneration Advisory Committee is a voluntarily established advisory body to the Board of Directors. The committee is composed of a majority of outside directors who have also been designated as independent directors as stipulated by the Tokyo Stock Exchange (including outside directors 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
Six (Of whom, five are outside directors)

Key matters for the 86th term

- 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

Corporate Governance Structure



Outside Directors' Meeting



Number of meetings held in Fiscal 2021: **13**

Kenichi Matsui

The Outside Directors' Meeting collects and shares the information necessary for the management to make decisions. 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: Five

Key matters for the 86th term

- 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 operations in China

Board of Directors

Chairman



Terukazu Kato

Number of meetings held in Fiscal 2021: **17**

The Board of Directors makes important decisions to ensure sustainable growth and enhance the corporate value of the Tsumura Group 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 will strengthen the supervisory function of general management by appointing outside directors to comprise the majority of the Board of Directors and appropriately reflect their objective views from an independent perspective as experts with extensive experience.

Number of Board of Directors members

Nine (Of whom, five are outside directors)

Key matters for the 86th term

- Progress with the third medium-term management plan
- Progress monitoring and follow-up with respect to operations in China
- 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
- Response policy for climate change
- Discussions on strengthening the governance of Group companies
- Enhancement of information disclosure

Audit and Supervisory Committee

Chairman



Kimikazu Okochi

Number of meetings held in Fiscal 2021: **18**

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 Group companies, and monitor/verify the development and operation of internal control systems, including internal control over financial reporting.

Number of Audit and Supervisory Committee members

Three (Of whom, two are outside directors)

Key matters for the 86th term

- 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

General Meeting of Shareholders

Elect / Dismiss

Propose / Report

Elect / Dismiss

Report (Express opinions)

Election and dismissal

Report

Board of Directors

6 directors not serving as Audit and Supervisory Committee members (including 3 outside directors)

3 directors serving as Audit and Supervisory Committee members (including 2 outside directors)

Audit and Supervisory Committee

Accounting audit

Internal control audit

Cooperate

Independent Auditor

Cooperate

Accounting audit

Internal control audit

Delegate authority regarding officer election and dismissal, oversight, and important operational execution matters

Submit for resolution / Report

Cooperate

Report

Report

Executive Committee

Director Co-COO

President, Representative Director and CEO

Instruct

Report

Internal Auditing Department

Internal audit

Internal control audit

Report / Discuss

Instruct

Instruct Present policy

Executive Officers (Officers' Meeting)

Execute business

Business Units and Group Companies

*President, Representative Director and CEO and Director Co-COO are assigned directors.

Executive Officers' Meeting

Chairman



Muneki Handa

Number of meetings held in Fiscal 2021: **18**

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

Executive Committee

Chairman



Kei Sugii

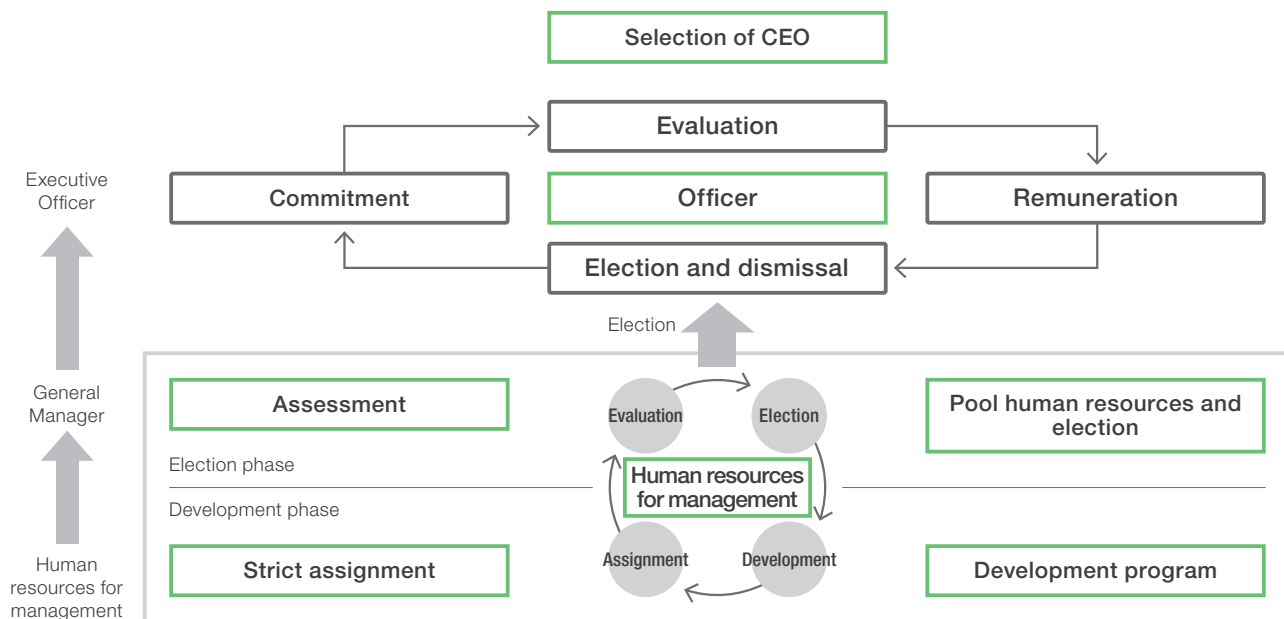
Number of meetings held in Fiscal 2021: **24**

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 chief human resources officers [CHRO]. 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.

Succession Plan

We recognize that the selection of the upper management (CEO) is one of our most important decisions, and the Nomination / Remuneration Advisory Committee receives advice on the draft of the Succession Plan (plan to develop next generation of leaders) and reports to the Board of Directors. For the

development of the next upper management (CEO), the following cycle is implemented, and the Board of Directors supervises and provides opinions as appropriate in order to enhance, strengthen, and improve the effectiveness of the corporate governance system.



Effectiveness evaluation

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 make further improvements thereto. Regarding the effectiveness of the Board of Directors in Fiscal 2021, 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 2022. This fiscal year, we believe that we were able to conduct a more

objective evaluation and analysis, while designing the questionnaire internally, by utilizing an external organization to collect responses and analyze the evaluation results, thus, ensuring anonymity.

1. Evaluation items (Six categories, 25 items)

The evaluation for Fiscal 2021 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 the 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 notable percentage of the respondents answered "accomplishing sufficiently" or "accomplishing overall" to many of the questions.

Improvement was observed in all the items identified as priority issues in the previous year.

Review of the effectiveness of the Board of Directors in Fiscal 2021

1. 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 of opinions.

2. 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 and formulated it.

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

Status of efforts to address the issues identified in the previous fiscal year

1. With regard to the governance of Group companies, as the scale of business and organizations expand through M&As in our operations in China, we will work to strengthen the governance system for Chinese Group companies by establishing a governance system led by Tsumura China Inc. that controls our operations in China, and also enhancing supervision and monitoring by the Board of Directors.

2. Regarding climate change, we believe that the

Tsumura Group should be most sensitive to changes and crises in the natural environment in order to achieve sustainable growth as a company that uses crude drugs, which are bestowed by nature, as raw materials. The Board of Directors is responsible for making important decisions regarding risks and opportunities, including climate change, and for ensuring the Tsumura Group's sustainable growth and enhancing corporate value over the medium to long term. In Fiscal 2021, the Board of Directors established the Sustainability Committee to directly present and oversee policies, and newly established the Sustainability Promotion Office. The Sustainability Committee regularly reports its deliberations to the Board of Directors, and after repeated discussions, the Board of Directors formulated a Sustainability Vision, which includes an action plan.

3. With respect to the enhancement of information disclosure, we have increased opportunities for dialogue through quarterly financial results briefings, one-on-one meetings with analysts and investors, and IR for foreign institutional investors. We are also making efforts to foster an environment for information dissemination with a wide range of stakeholders in mind, including general consumers. Furthermore, we are working to enhance and expand information disclosure by holding a briefing session on our new vision at the end of March 2022.

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:

1. With regard to the operations in China, we will receive regular reports on the M&A process in order to implement M&As to build the foundation of the traditional Chinese medicines business, and strengthen supervision of the process, as well as to ensure prompt decision making by the Board of Directors.

2. As for the building of governance systems for Group companies, we will secure and develop human resources at Chinese Group companies, and strengthen the governance system in the Group by establishing a governance system in which Tsumura China Inc. controls all our operations in China and mainly oversees the execution of business of each Group company. We will also strengthen supervision and monitoring by the Board of Directors, including establishment and operation based on the "three lines of defense" approach

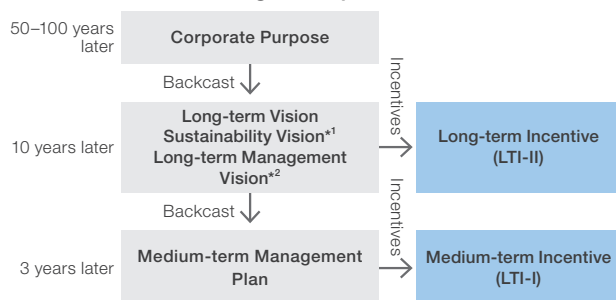
For this fiscal year, we will be focusing on tackling five items as key management issues. The Company will continue to implement its PDCA cycle with the aim of realizing further improvements in the effectiveness of its Board of Directors.

Director Remuneration

Revision to the remuneration system

Based on our philosophy-based and vision-based management style that upholds the Corporate Purpose, we have newly established the “Sustainability Vision” and “Long-term management vision: TSUMURA VISION ‘Cho-WA’ 2031” by backcasting from our Corporate Purpose of “Lively Living for Everyone.” We have established a medium-term management plan as a milestone to realize this long-term vision, aiming to create new markets and improve people’s happiness looking to the long-term future. Based on the basic philosophy of “pay-for-purpose,” we have revised the remuneration system into two categories. This revision is for promoting our attempts to realize the long-term vision and further enhance the awareness of contributions to sustainable growth and the improvement of corporate value by clarifying the links between the remuneration for directors and the Company’s corporate value. In this revision, in addition to the “LTI (Long Term Incentive)-I” for the realization of the medium-term management plan, the “LTI (Long Term Incentive)-II” for the realization of the long-term vision has been newly introduced.

Relationship between the Corporate Purpose, Vision, medium-term management plan and remuneration



*1. Strategies for natural environment conservation, human rights and procurement policies, diversity and inclusion, and health and productivity management
*2. Business strategy

Basic concept

The Company’s directors’ remuneration will be determined based on the following policy with “pay-for-purpose” as the basic philosophy.

- ① To reward the realization of the vision based on the management based on our philosophy upholding the Corporate Purpose, which is the foundation of Tsumura’s Group management
- ② To reward contributions to Tsumura’s sustainable growth by earning the trust of stakeholders through sustainability and governance initiatives and by solving social issues
- ③ To motivate directors to take on challenges to achieve high goals
 - To reward each and every officer for taking on challenges to achieve high goals
 - To reward the results by the management team, which is essential to achieving high goals

Remuneration system

Remuneration for directors of the Company consists of basic remuneration (a fixed component and a short-term performance-linked component) and performance-linked

stock remuneration (LTI-I and LTI-II), with the short-term performance-linked component of basic remuneration and performance-linked stock remuneration being positioned as incentives (variable remuneration).

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 provided by third-party specialists, and sets remuneration levels that are consistent with their roles and duties considering the salary levels of the Company’s employees.

Remuneration components

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

Short-term incentives: Short-term performance-linked component (basic remuneration)

The amount of the short-term performance-linked component of basic remuneration is determined based on the achievement ratio of consolidated net sales and consolidated operating profit targets for each fiscal year, which are used as numerical target indicators in the medium-term management plan, as well as the achievement ratio of operational targets set by each individual responsible for business execution.

Allocation ratios and variation range for each evaluation indicator are as follows:

Allocation ratios and variation range for each evaluation indicator

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	25-35%	0-150%
Consolidated operating profit	25-35%	0-150%
Achievement ratio of operational target set by individual	30-50%	50-150%
Total	100%	15-150%

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

The number of shares to be issued under LTI-I is determined based on the achievement ratio of the numerical targets in the medium-term management plan for consolidated net sales, consolidated operating profit, and consolidated ROE (average for the period under review), as well as the achievement ratio of the operational target set by each individual responsible for business execution.

Allocation ratios and variation range for each evaluation indicator

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	30%	0-150%
Consolidated operating profit	20%	0-150%
Consolidated ROE (average for the period under review)	20%	0-150%
Achievement ratio of operational target set by individual	30%	50-150%
Total	100%	15-150%

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

The number of shares to be issued under LTI-II is determined based on the achievement ratio of evaluation indicators related to corporate value, sustainability, corporate governance, and business value during the period corresponding to the period of the medium-term management plan.

Purpose and selection approach for each evaluation indicator

Evaluation indicator		Approach to select indicators
Corporate value	Relative TSR* (TOPIX growth rate comparison)	<ul style="list-style-type: none"> Indicators to measure the achievement level of the long-term vision Motivate employees to contribute to the realization of the long-term vision and the enhancement of corporate value, and to share value with shareholders
Sustainability	-GHG reduction -Cultivation of wild crude drugs, etc.	<ul style="list-style-type: none"> Indicators to measure the achievement level of the Sustainability Vision Promote and raise awareness of initiatives to realize sustainable business activities, such as conservation of the natural environment and cultivation of wild crude drugs
Corporate governance	Diversity of management team, etc.	<ul style="list-style-type: none"> Indicators that can measure the degree of achievement of the Sustainability Vision and promote the achievement of the long-term management vision Encourage the formation of a management team across the Tsumura Group, including overseas bases, that is capable of making timely and appropriate management decisions which can drive medium- to long-term corporate value, including business restructuring
Business value	Sales ratio of overseas business	<ul style="list-style-type: none"> Indicators that can measure the achievement level of the long-term management vision Build a foundation for overseas operations and increase the Company's willingness to contribute to the enhancement of corporate value through growth in overseas markets

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

Process of determining remuneration

In order to enhance the objectivity and transparency of the deliberation process, the standard amount of remuneration for directors, the method of performance evaluation, and the rules for calculating the amount in accordance with the results of performance evaluation are determined by the resolution of the Board of Directors within the total amount resolved at the General Meeting of Shareholders based on the results of deliberations by the Nomination / Remuneration Advisory Committee (consisting of one internal director and five independent outside directors, chaired by an independent outside director). Of these, the method of performance evaluation and the rules for calculating the amount in accordance with the results of performance evaluation shall be stipulated in the internal rules, and any revision of these rules shall be resolved by the Board of Directors based on the deliberation and report by the Nomination / Remuneration Advisory Committee. The short-term performance-linked component of basic remuneration and the determination of the achievement level of business targets set by each individual under LTI-I shall be delegated to the Nomination / Remuneration Advisory Committee.

Policies and procedures for determining the remuneration of non-executive directors who are not members of the Audit and Supervisory Committee and directors who are members of the Audit and Supervisory Committee

Remuneration, etc., for non-executive directors who are not members of the Audit and Supervisory Committee and directors who are members of the Audit and Supervisory Committee shall be basic remuneration (fixed component and monetary only) in consideration of their role to supervise the management of the Company from an objective and independent standpoint.

Targets for indicators related to performance-linked remuneration

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

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

Total remuneration for each category, total remuneration by type, and total number of directors applicable (Fiscal 2021)

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)		Total number of directors applicable (people)
		Basic remuneration	Stock remuneration	
Directors (excluding directors who are members of the Audit and Supervisory Committee) (excluding outside directors)	209	181	28	3
Directors (Audit and Supervisory Committee Members) (excluding outside directors)	25	25	—	1
Outside directors	51	51	—	5

Notes

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

Compliance

Compliance Promotion Frameworks and Systems

Based on the Sustainability Charter, which is our basic policy of business activities, we have formulated the Compliance Program Regulations and established the Compliance Promotion System.

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 promotion policies or activities.

Sustainability Charter

The Tsumura Group fulfills its Principle of “Spirit of Obeying the Heavens,” its Corporate Purpose of “Lively Living for Everyone,” its corporate philosophy of “the Best of Nature and Science,” and its corporate mission of “to contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine,” and contributes to solving social issues and creating a sustainable society. To this end, the Tsumura Group and its officers and employees will act in compliance with this Charter and individual policies, etc., with the aim of realizing the Tsumura Group Sustainability Vision: “Living with nature for tomorrow.”

1. Basic stance
2. Commitment to patients and customers
3. Commitment to business partners
4. Commitment to employees
5. Commitment to shareholders and investors
6. Commitment to the environment
7. Commitment to society

The upper management of each Tsumura Group company will recognize that it is their role to realize the spirit of this Charter, and take the initiative to ensure that the spirit of this Charter is thoroughly understood by their own companies, as well as by their business partners. In addition, they will take in opinions from inside and outside the Company to ensure the thorough implementation of corporate ethics.

In the event of a violation of this Charter, the upper management of each Tsumura Group company will work to solve the problem themselves, investigate the cause, and prevent recurrence. In addition, they will disclose information promptly and accurately to the public, fulfill accountability, clarify their authority and responsibility, and take strict disciplinary action, including on themselves, to restore confidence in our company.

Tsumura Compliance Program

Sustainability Charter

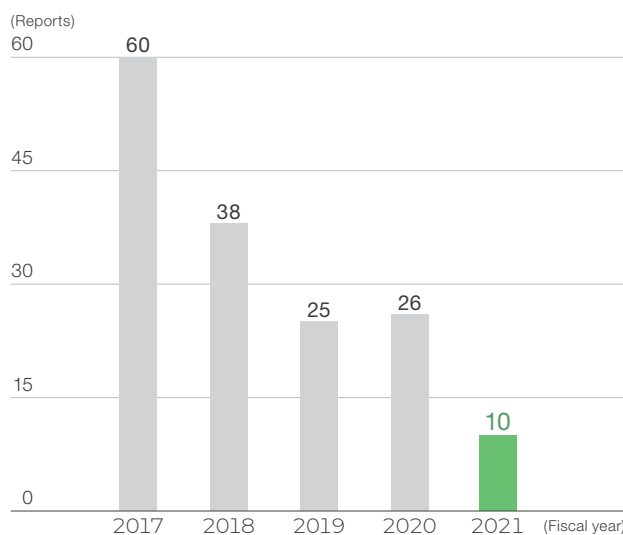
Tsumura Compliance Program Regulations

Compliance Committee

Compliance Promotion System

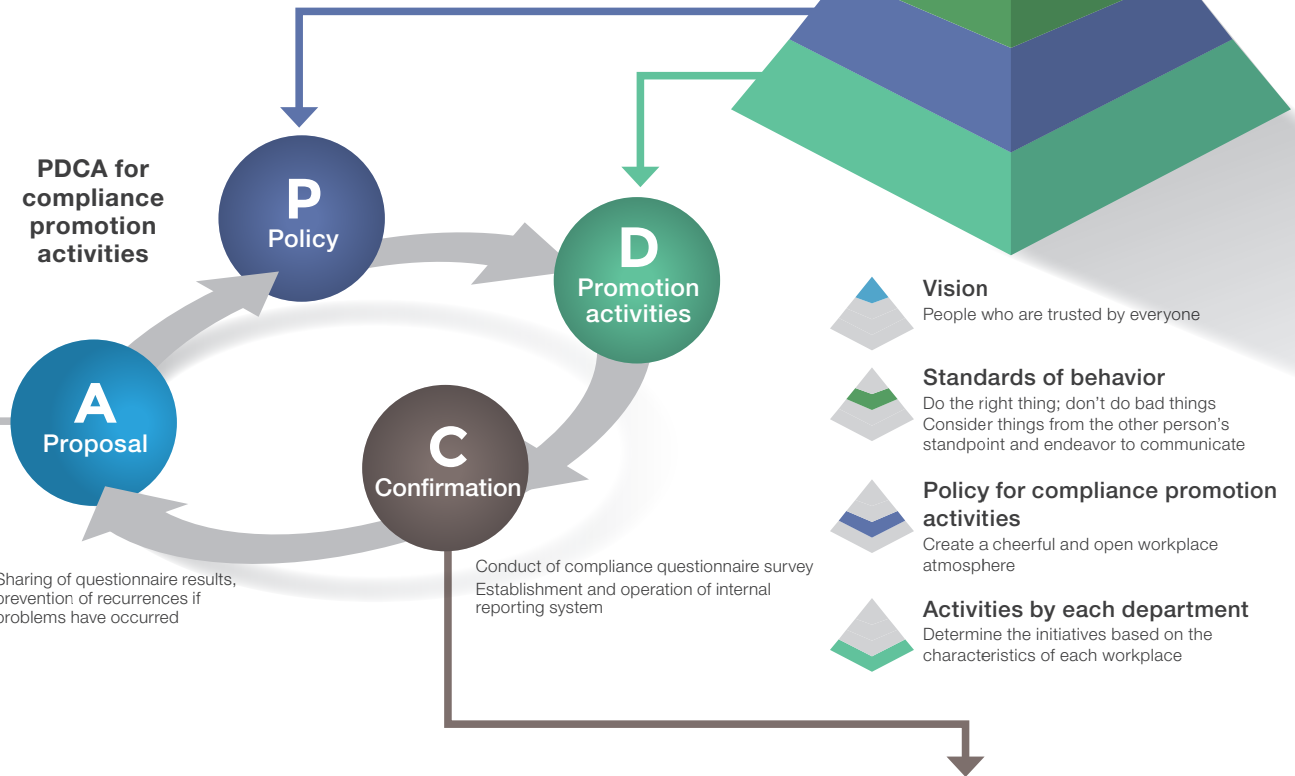
Tsumura Group Hotline

Trend in number of reports received via Hotline

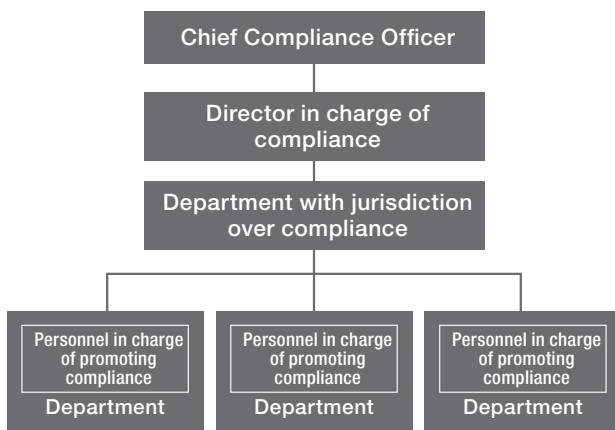


The Tsumura Group's compliance promotion activities

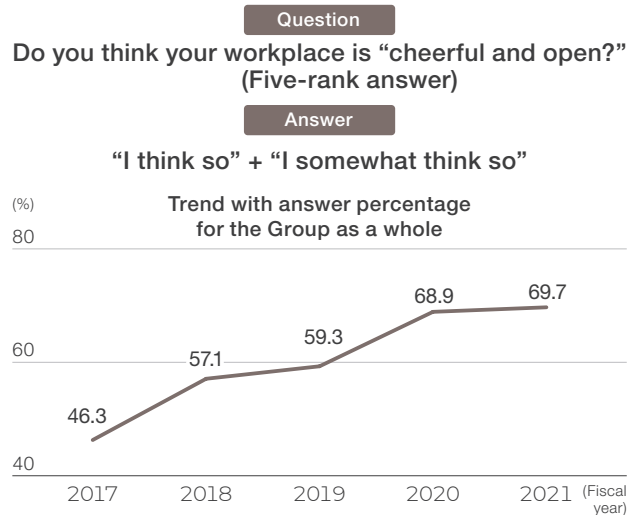
Based on the results of the annual questionnaire survey and internal and external incidents, the Compliance Committee deliberates on and formulates a policy for compliance promotion activities, which is then presented to each operational department and Group company, which are instructed to implement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



Compliance Promotion System



Questionnaire content



Code of Practice

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

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

Risk Management

Risk Management Systems

Provisions Related to Information Management

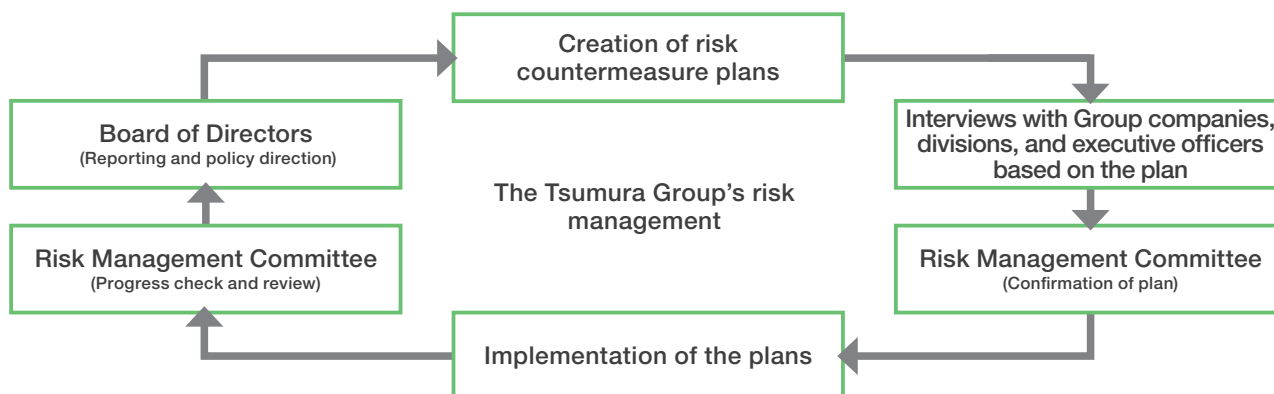
The Tsumura Group communicates the Basic Information Management Regulations and other internal rules regarding information management throughout its organization in order to ensure the appropriate and effective management of information assets. Specific

Matters Related to Risk Management

In its risk management practices, the Tsumura 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 the 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

provisions for enhancing information management include information management and information security training for officers and employees as well as the compulsory printing of unique identification numbers on all printed materials.

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 drills at various Group bases.



Risk items	Details of significant risks	Risk mitigation measures
1 Risks related to the medical system	<ul style="list-style-type: none"> Risks related to administrative developments such as government policies to curb healthcare spending Risk of domestic/overseas regulations concerning the development and manufacture of pharmaceutical products 	<ul style="list-style-type: none"> Building understanding of the value of Kampo formulations Cooperation with industry bodies and recommendations to relevant ministries and agencies Establishment of evidence of efficacy of prescription Kampo formulations Activities to raise the profile of prescription Kampo formulations
2 Risks related to the supply of products	<ul style="list-style-type: none"> 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 sufficient inventory volume Expansion of range of suppliers of crude drugs domestically and overseas Continued expansion of cultivated land under our management Establishment of purchasing structure involving multiple suppliers Diversification of manufacturing sites and product supply sites Introduction of earthquake mitigation/resistance measures at production facilities
3 Risks related to product safety and adverse reactions	<ul style="list-style-type: none"> Risk of occurrence of problems with product quality or safety Risk of unexpected side effects 	<ul style="list-style-type: none"> Compliance with quality control standards in the country or region Promotion of initiatives that emphasize quality with respect to 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 Promoting proper use of products by promptly and appropriately collecting safety information on products and strengthening the dissemination of information on adverse drug reactions

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

About Kampo

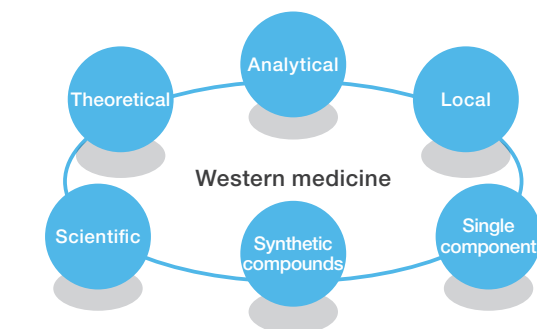


Differences with Western medicine

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

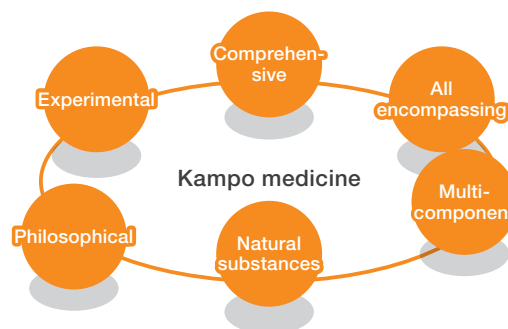
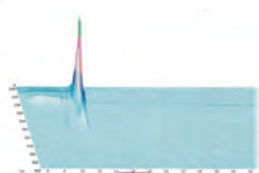
medicine is sometimes referred to as “personalized medicine.”

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.



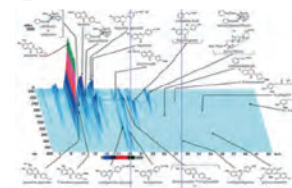
Western medicine
Acetylsalicylic acid
(aspirin)

Western medicines made from chemically synthesized active ingredients are **single component**



Kampo medicines
Kakkonto

Kampo medicines made by combining several crude drugs are **complex and multi-component**



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 considered a distinctive Japanese approach to medical treatment.



Expected roles for Kampo medicines

Under the “Expected roles of Kampo medicines” in a survey on the actual status of Kampo prescriptions,

- ① Auxiliary and complementary role to Western medicines, and
- ② To treat diseases that cannot be cured by Western medicine accounted for a majority of the responses.

Expected roles for Kampo medicines

Ranking (previous time)	Expected role	Response rate (%)
1(1)	Auxiliary and complementary role to Western medicines	67.1
2(2)	To treat diseases that cannot be cured by Western medicine	51.7
3(4)	To cure general malaise	47.0
4	Improvement of systemic symptoms and constitution	29.5
5(5)	To treat chronic diseases	27.6

Survey on prescription of Kampo medicines by Anterio Inc. in 2008 and 2011



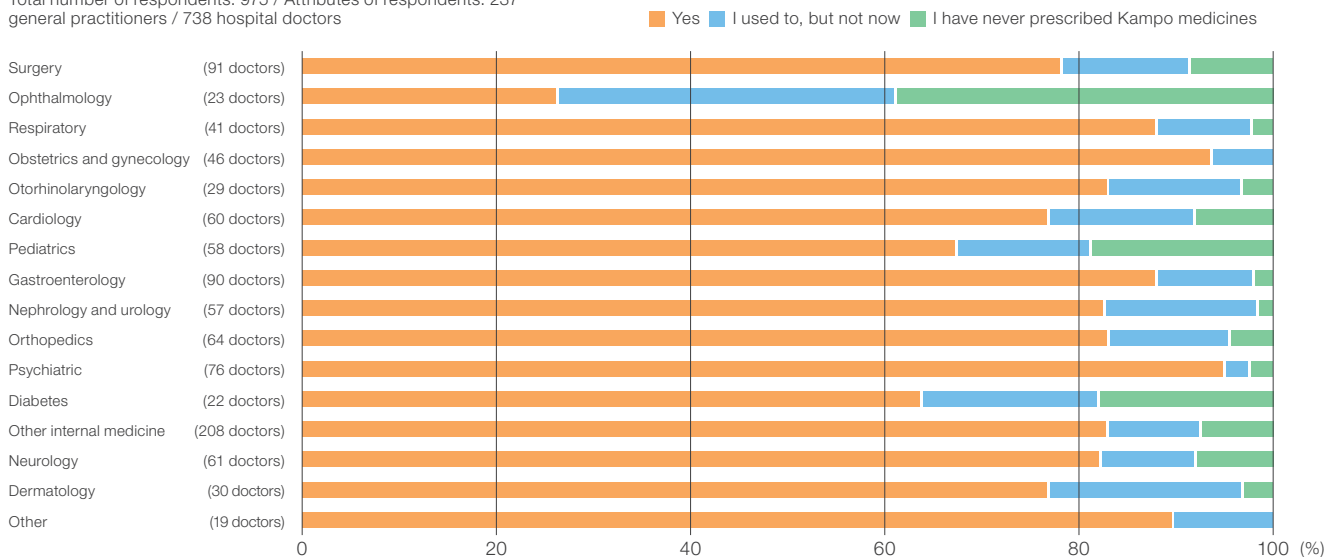
Actual status of Kampo medicines use

Kampo medicines can be used in all medical departments. In obstetrics, gynecology, and psychiatry, they are prescribed in over 90% of cases. Kampo

medicines are used more by the elderly and women. Especially for women, they are used in a wide range of age groups, including young adults.

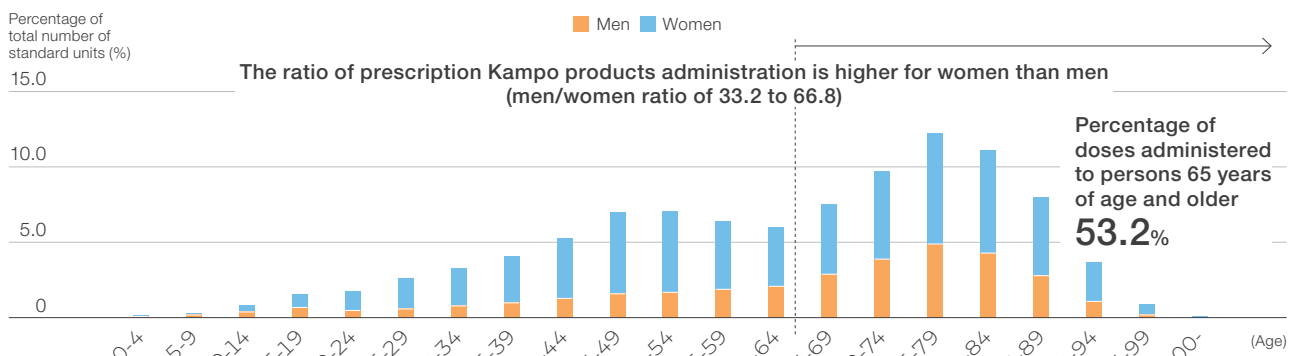
Do you currently prescribe Kampo medicines? (single choice)

Total number of respondents: 975 / Attributes of respondents: 237 general practitioners / 738 hospital doctors



The results of this survey are shown with the permission of M3, Inc.
 Source: m3.com awareness survey (distributed April 7, 2017)
 Overview of the survey Survey period: March 7-13, 2017 Target: m3.com Medical Association
 Note: Not a poll based on statistics

Breakdown of Kampo administration by age and gender



Compiled by Tsumura from the sixth NDB open data (Ministry of Health, Labour and Welfare)

Column

Difference between Kampo medicines and traditional Chinese medicines

- In Japan, one doctor can prescribe both Kampo medicines and Western medicines, but in China, separate licenses are required for traditional Chinese medicine doctors and Western medicine doctors.
- The market share of Kampo formulations and crude-drug formulations in the Japanese pharmaceutical market is about 2%. On the other hand, the market share of traditional Chinese medicine in the Chinese pharmaceutical market is about 26%. The penetration of traditional Chinese medicine is high among the Chinese people.

Tsumura's History



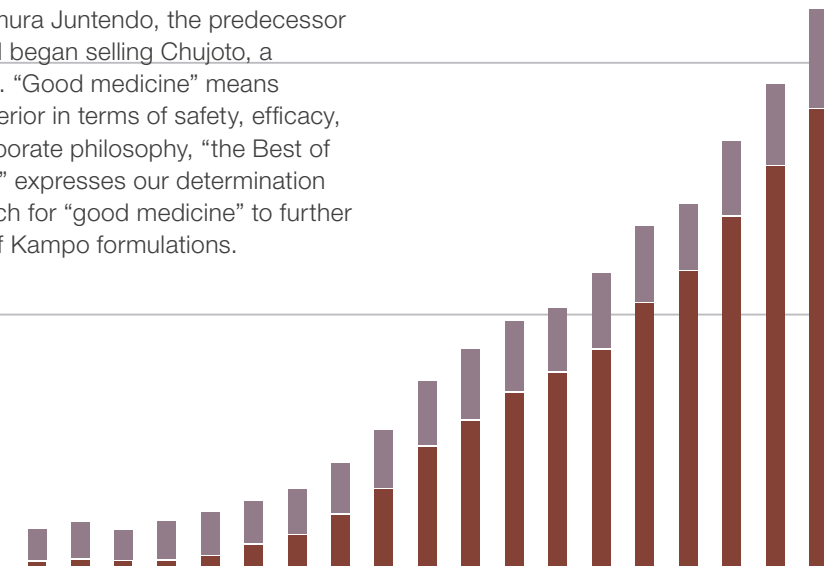
Founder
**Jusha
Tsumura**
(First president)

In 1893, 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.

Net sales trends (100 million yen)

■ Pharmaceutical products
■ Household products

1893 1919 1924 1930 1936 1957 1972 1975 1980 1985 1990



Main events at Tsumura

History on research
History of manufacturing sites and affiliated companies
History of relations with China

- 1893 Tsumura Juntendo is founded. Manufacture and sale of Chujoto medicine for women begins.


- 1905 First president Jusha visits Shanghai and other cities in China to research the market of drugs for sale.
- 1907 Expands into China. Branches open in Hankou (currently Wuhan), Tianjin, and Beijing.
- 1924 Tsumura Research Institute for Pharmaceutical Science is opened. Tsumura Medicinal Plant Garden is opened.


- 1930 Bathclin aromatic bath salt is launched.


- 1936 Tsumura Juntendo, Inc. established.
- 1957 Chujoto Building Clinic opened.


- 1964 Shizuoka Plant newly established.


- 1972 Diplomatic relations between Japan and China normalized.
- 1973 Purchase of crude drugs from a "friendly trading company" in China starts.
- 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.


- 1978 Second president Jusha visits China for the first time to negotiate for a stable supply of raw-material crude drugs.


- 1979 Second president Jusha visits Beijing for the second time to meet with the Chinese government's Minister of Health.
- 1980 Second president Jusha visits Beijing for the third time.
- 1981 Direct purchase of crude drugs from Chinese state-owned enterprises starts. A long-term crude-drug supply contract is concluded with China Souvenirs and Livestock Company, which allows for direct guidance at the place of origin of crude drugs.
- 1982 Tsumura's stock is listed on the First Section of the Tokyo Stock Exchange.
- 1982 Ibaraki Plant newly established and the research laboratory relocated to the site.

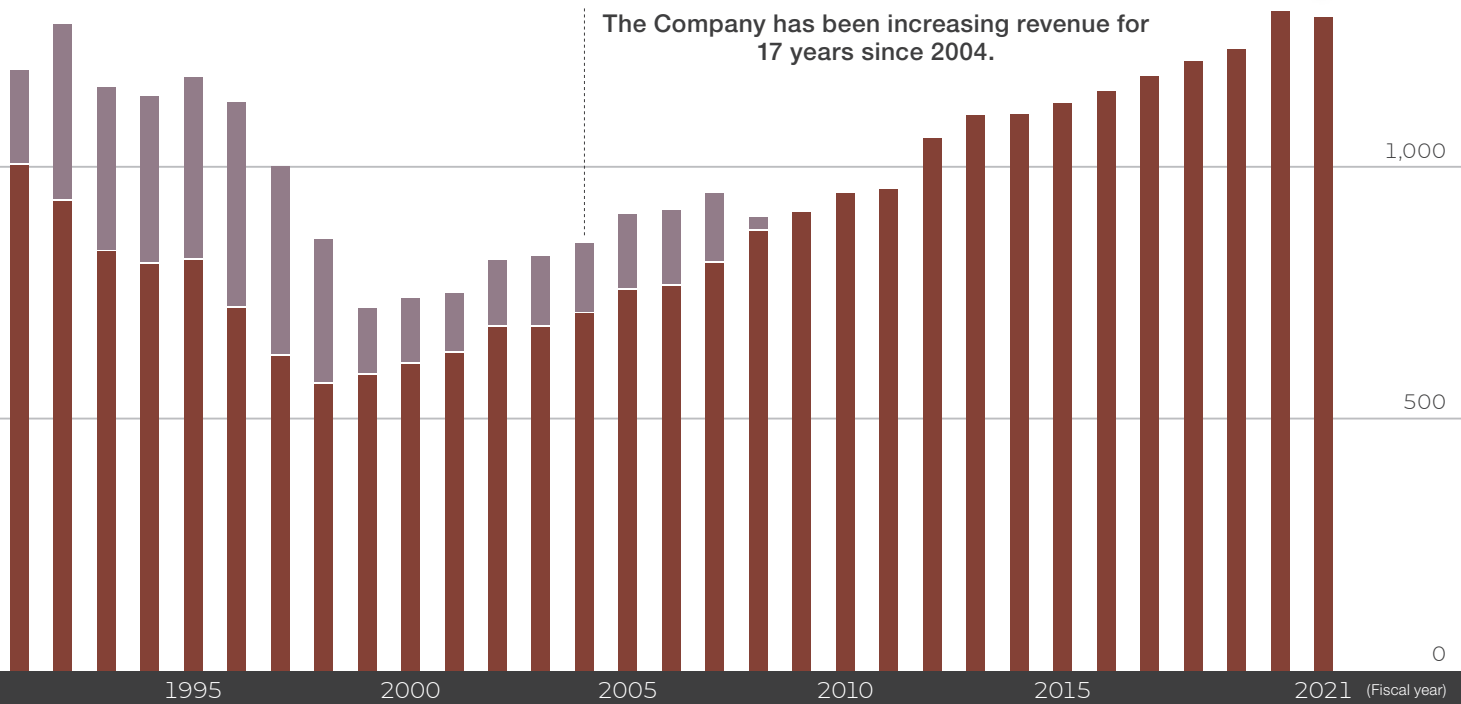

- 1987 The number of prescription Kampo formulations in NHI drug price list increases to 129.
- 1988 Company name is changed to TSUMURA & CO.
- 1988 A system for the direct purchase of crude drugs from a joint venture company and a base for the procurement of crude drugs for our use is established. Since then, there was a shift to a procurement system based on a joint venture in each province.
- 1991 SHENZHEN TSUMURA MEDICINE CO., LTD. established as a supply base of crude drugs in China.






(100 million yen)
1,500

The "Accounting Standard for Revenue Recognition" and other standards have been applied from Fiscal 2021. (Growth rate of 11.3% over the previous year)

The Company has been increasing revenue for 17 years since 2004.



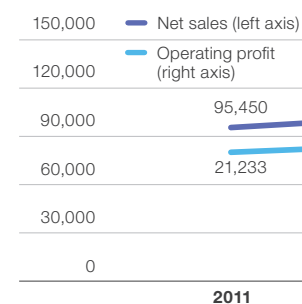
- 1995** Side effect of interstitial pneumonia is caused by Shosaihoto.
- 2001** SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. established as a manufacturing base for extract powder (intermediate product) in China. 
- 2004** R&D policy is changed to promote drug development specializing in Kampo and crude drugs.
- 2007** Operation of crude-drug traceability system starts.
- 2008** Shares in Tsumura Lifescience Co., Ltd. (household products business) are sold.
- 2009** YUBARI TSUMURA & CO. established as a base for cultivation, procurement, sorting, processing and storage of crude drugs as raw material in Hokkaido. 
- 2010** LAO TSUMURA CO., LTD. established as a base for the cultivation, procurement, sorting, processing and storage of crude drugs as raw material in Laos. 
- 2011** LAO TSUMURA CO., LTD. obtains approval for a public-private partnership project under the "Public-Private Partnership for Accelerating Growth" promoted by the Japanese government.
- 2011** A Memorandum of Understanding is concluded with the Baishan City Government in China for joint research on crude drugs as raw material.
- 2012** Expansion of cultivated land under our management to stabilize procurement prices of crude drugs as raw material.
- 2013** A sponsorship agreement is concluded for the University of Oxford Innovative Systems Biology Project.

- 2014** A joint research agreement is concluded with the China Academy of Chinese Medical Sciences on sojutsu (Atractylodes lancea rhizome).
- 2014** YUBARI TSUMURA starts full-scale operation of its own farm through incorporation as an agricultural production corporation.
- 2015** A Letter of Intent is concluded for joint research with Hong Kong Baptist University.
- 2016** A business alliance is formed with Tianjin China Medico Technology Co., Ltd.
- 2016** "Growing" formulations set and evidence building starts for prescription Kampo formulations.
- 2016** 100th anniversary of "The Journal of Japanese Botany."
- 2016** Tsumura China Inc. established as a regional control base.
- 2017** Transition to a company with an Audit and Supervisory Committee.
- 2017** A business and capital alliance is formed with Ping An Insurance (Group) Company of China, Ltd.
- 2017** TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. (currently Tianjin Tsumura Pharmaceuticals Co., Ltd.) established. 
- 2018** Ping An Tsumura Inc. established.
- 2019** A capital alliance agreement is concluded with Tianjin China Medico Technology Co., Ltd. (currently Ping An Tsumura Medicine Co., Ltd.)
- 2021** A plant of Tianjin Tsumura Pharmaceuticals Co., Ltd. completed.

Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries

Net sales / Operating profit (millions of yen)



	2011	2012	2013
Operating results (fiscal year)			
Net sales	95,450	105,638	110,057
of which, domestic operations	-	-	-
of which, operations in China	-	-	-
As a percentage of net sales from operations in China (%)	-	-	-
Cost of sales	29,944	35,927	38,787
As a percentage to net sales (%)	31.4	34.0	35.2
Selling, general and administrative expenses	44,271	46,586	48,808
As a percentage to net sales (%)	46.4	44.1	44.3
Operating profit	21,233	23,124	22,461
As a percentage to net sales (%)	22.2	21.9	20.4
Ordinary profit	21,783	24,310	23,966
As a percentage to net sales (%)	22.8	23.0	21.8
Profit attributable to owners of parent	13,431	15,373	18,050
As a percentage to net sales (%)	14.1	14.6	16.4
Sales volume of prescription Kampo formulations (ten thousand units)*1	1,514	1,726	1,795
NHI price revision rate (%)	-	(3.8)	-
R&D expenses	4,565	4,904	5,949
Capital investment for property, plant and equipment	6,425	9,328	8,991
Depreciation	3,850	4,049	4,871
Cash flows			
Cash flows from operating activities	7,314	12,011	5,908
Cash flows from investing activities	(5,342)	(8,022)	(1,694)
Cash flows from financing activities	(5,272)	(4,275)	(4,575)
Free cash flow	1,972	3,989	4,214
Financial position (at the end of the fiscal year)			
Total assets	151,874	170,466	187,623
Inventories*2	30,570	35,565	43,424
Property, plant and equipment, net	44,869	50,657	57,148
Non-current liabilities	8,093	9,448	9,126
Net assets	102,240	118,537	133,318
ROE	14.1	14.1	14.5
Inventory turnover period (month)*3	10.5	11.0	12.2
Trade receivables turnover period (month)*4	4.3	4.1	4.2
Accounts payable turnover period (month)*5	1.0	1.0	1.3
Property, plant and equipment turnover period (month)*6	5.5	5.4	5.9
Intangible assets turnover period (month)*7	0.0	0.0	0.0
Equity ratio (%)	66.4	68.6	69.9
Dividend payout ratio (%)	31.5	28.4	25.0
Net income per share (yen)	190.45	217.98	255.94
Dividend per share (yen)	60.00	62.00	64.00
Total shareholder yield (%)	-	-	-
Number of shares issued*8	70,711,662	70,711,662	70,711,662

*1. One unit: One box with standard packaging (each box contains nine weeks' worth of medicine)

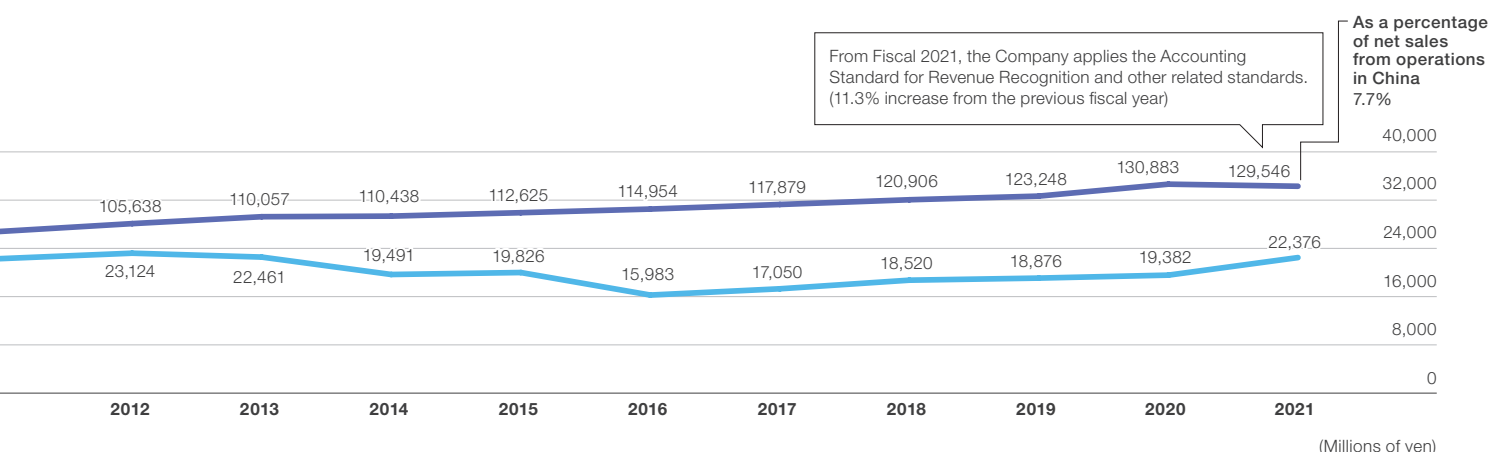
*2. Total of finished goods, work in process, raw materials and supplies

*3. $\{(Inventories \text{ at beginning of period} + Inventories \text{ at end of period}) / 2\} / (\text{Cost of sales for the period} / 12)$

*4. $\{(Trade \text{ receivables at beginning of period} + Trade \text{ receivables at end of period}) / 2\} / (\text{Net sales before application of revenue recognition standards for the period} / 12)$ Trade receivables = Trade notes + Accounts receivable

*5. $\{(Accounts \text{ payable at beginning of period} + Accounts \text{ payable at end of period}) / 2\} / (\text{Cost of sales for the period} / 12)$ Accounts payable = Notes payable + Accounts payable + Electronically recorded liabilities

Selected Financial Data



	2014	2015	2016	2017	2018	2019	2020	2021
	110,438	112,625	114,954	117,879	120,906	123,248	130,883	129,546
	-	-	-	-	-	-	-	119,567
	-	-	-	-	-	-	-	9,978
	-	-	-	-	-	-	-	7.7
	41,859	45,055	49,454	49,603	49,451	50,747	55,951	63,081
	37.9	40.0	43.0	42.1	40.9	41.2	42.7	48.7
	49,087	47,743	49,516	51,224	52,935	53,623	55,548	44,088
	44.4	42.4	43.1	43.5	43.8	43.5	42.4	34.0
	19,491	19,826	15,983	17,050	18,520	18,876	19,382	22,376
	17.6	17.6	13.9	14.5	15.3	15.3	14.8	17.3
	21,583	19,494	16,399	17,914	19,702	19,649	20,866	25,904
	19.5	17.3	14.3	15.2	16.3	15.9	15.9	20.0
	14,075	12,557	12,488	14,504	14,593	13,765	15,332	18,836
	12.7	11.1	10.9	12.3	12.1	11.2	11.7	14.5
	1,876	1,929	2,026	2,081	2,165	2,222	2,278	2,440
	(3.0)* ⁹	-	(3.0)	-	(3.1)	(1.8)* ⁹	(0.4)	0.0
	6,252	5,968	6,087	6,048	5,926	6,270	6,631	7,313
	8,428	9,638	6,455	11,912	9,052	6,304	11,161	11,456
	5,387	5,059	5,629	6,157	6,362	6,406	8,210	8,743
	4,992	17,570	21,065	21,066	5,450	18,191	16,102	21,314
	(10,683)	(7,461)	(6,451)	(23,354)	(7,697)	(23,488)	(7,352)	(9,111)
	10,408	(4,608)	(9,572)	50,305	(18,528)	7,111	(10,425)	(8,181)
	(5,691)	10,109	14,614	(2,288)	(2,247)	(5,297)	8,750	12,203
	215,654	222,468	222,008	293,701	287,322	311,990	319,063	350,981
	50,716	52,348	52,138	49,994	51,808	75,806	80,755	92,751
	60,624	62,822	64,686	71,329	73,703	77,207	84,176	90,040
	23,339	23,063	32,727	48,402	47,861	49,516	37,513	46,996
	150,947	155,702	157,397	196,533	206,141	213,997	233,169	258,109
	10.1	8.3	8.1	8.3	7.4	6.8	7.2	8.2
	13.5	13.7	12.7	12.4	12.4	15.1	16.8	16.5
	4.4	4.5	4.3	4.2	4.3	4.5	4.4	4.3
	1.6	1.5	1.5	1.5	1.4	1.9	2.0	2.1
	6.4	6.6	6.7	6.9	7.2	7.3	7.4	8.1
	0.0	0.0	0.0	0.0	0.1	0.6	1.1	1.1
	68.8	68.8	69.7	66.2	70.2	65.8	68.3	68.3
	32.1	35.9	35.7	31.9	33.5	35.6	31.9	26.0
	199.58	178.06	179.46	200.55	190.87	179.96	200.40	246.21
	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00
	-	-	-	106.6	100.1	84.4	120.7	100.9
	70,711,662	70,711,662	70,711,662	76,758,362	76,758,362	76,758,362	76,758,362	76,758,362

*6. $\{(Property, plant and equipment at beginning of period + Property, plant and equipment at end of period) / 2\} / (Net sales after application of revenue recognition standards for the period/12)$

*7. $\{(Intangible assets at beginning of period + Intangible assets at end of period) / 2\} / (Net sales after application of revenue recognition standards for the period/12)$

*8. Number of shares issued includes treasury stock

*9. Revised rate not including consumption tax

Beginning Fiscal year 2018, the Company adopted the "Partial Amendments to the Accounting Standards for Tax Effect Accounting." Figures for Fiscal 2019 have been reclassified to PPA-adjusted amounts. The Accounting Standard for Revenue Recognition has been applied from Fiscal 2021.

Pre-Financial Data

	2017	2018	2019	2020	2021
Percentage of physicians who prescribe at least 10 Kampo formulations (%) Note: According to survey by Tsumura	-	-	14	16	26
Number of universities offering Kampo medicine education (four or more courses)	-	69	71	72	73
Number of universities with outpatient Kampo clinics	78	79	80	79	79
Number of medical guideline listings (Type B and above)	78	88	91	102	104
Percentage of cultivated land under our management (%)	50.0	71.0	72.0	78.4	79.6
Number of directors (persons)	9	9	9	9	9
Remuneration for directors (millions of yen)	242	246	274	273	285
Ratio of outside directors (%)	55.6	55.6	55.6	55.6	55.6
Ratio of female directors (%)	22.2	11.1	11.1	11.1	11.1
Ratio of female executive officers (%)	0.0	0.0	0.0	0.0	0.0
Number of employees (consolidated) (persons) (Of which, non-consolidated)	3,453 (2,434)	3,547 (2,493)	3,840 (2,534)	3,830 (2,556)	3,921 (2,564)
Ratio of female employees (%)	19.7	20.1	20.6	21.7	23.0
Ratio of female managers (%)	4.7	5.2	5.9	6.3	7.4
Average age (years)	43.7	43.7	43.7	43.6	43.6
Average years of service (years)	19.8	19.8	19.4	19.1	18.9
Three-year retention rate of new graduates (%)	92.6	96.3	97.8	92.0	100.0
Turnover rate (%)	0.90	0.95	0.98	1.80	1.44
Employee engagement/satisfaction (points)	3.97	4.00	3.91	3.99	4.02
Percentage of employees taking childcare leave (%)					
Male	0.0	0.6	7.0	19.0	37.0
Female	100.0	100.0	100.0	100.0	100.0
Average number of days of childcare leave taken (days)					
Male	16.5	28.5	21.4	24.1	12.3
Female	168.2	148.4	172.2	125.4	121.4
Percentage of employees returning to work after taking childcare leave (%)	100.0	100.0	100.0	97.5	100.0
Education cost per employee (thousands of yen)	91	103	102	93	124
Annual education time (hours)	729	721	1,496	1,372	1,702
Employment rate of persons with disabilities (%)	2.96	2.90	2.94	2.83	2.91
Number of newly hired employees (persons)					
Male	27	36	31	22	21
Female	23	18	20	26	18
Number of mid-career hires (persons)					
Male	14	32	44	25	40
Female	8	9	8	14	24
Total actual hours worked (hours/person)	1,890	1,874	1,825	1,852	1,810
Average monthly overtime (hours/person)	14.7	14.5	13.8	12.7	10.9
Average number of days of paid leave taken (days/person)	12.1	12.2	11.6	10.8	13.5
Number of occupational accidents (cases)	16	11	16	11	12

Note: Figures are non-consolidated, except for items marked as consolidated.

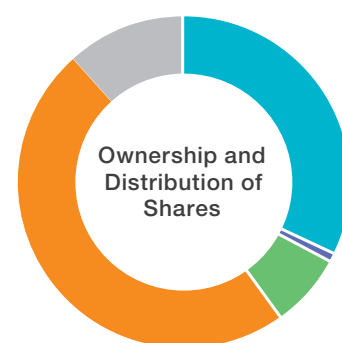
Corporate Data

Corporate Name	TSUMURA & CO.	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
Head Office	2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan	Independent Auditor	PricewaterhouseCoopers Aarata LLC
Founded	April 10, 1893	Authorized Common Stock	250,000,000
Incorporated	April 25, 1936	Issued Common Stock	76,758,362 (including 251,343 shares of treasury stock)
Capital Stock	30,142 million yen	Number of Shareholders	12,908 (increase of 433 compared with previous period)
Number of Employees	3,921 people (consolidated)		
Closing Date of Accounts	March 31		
Stock Exchange Listing	Tokyo Stock Exchange (Stock Code: 4540)		

Major Shareholders (as of March 31, 2022)

Shareholder name	Number of shares (1,000 shares)	Percentage of equity (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,580	17.75
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)	3,424	4.48
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,780	3.63
MUFG Bank, Ltd.	2,197	2.87
STATE STREET BANK AND TRUST COMPANY 505001	1,990	2.60
Employees' Stockholding	1,777	2.32
BRIGHT RIDE LIMITED	1,692	2.21
THE BANK OF NEW YORK MELLON 140051	1,690	2.21
JP MORGAN CHASE BANK 380634	1,410	1.84

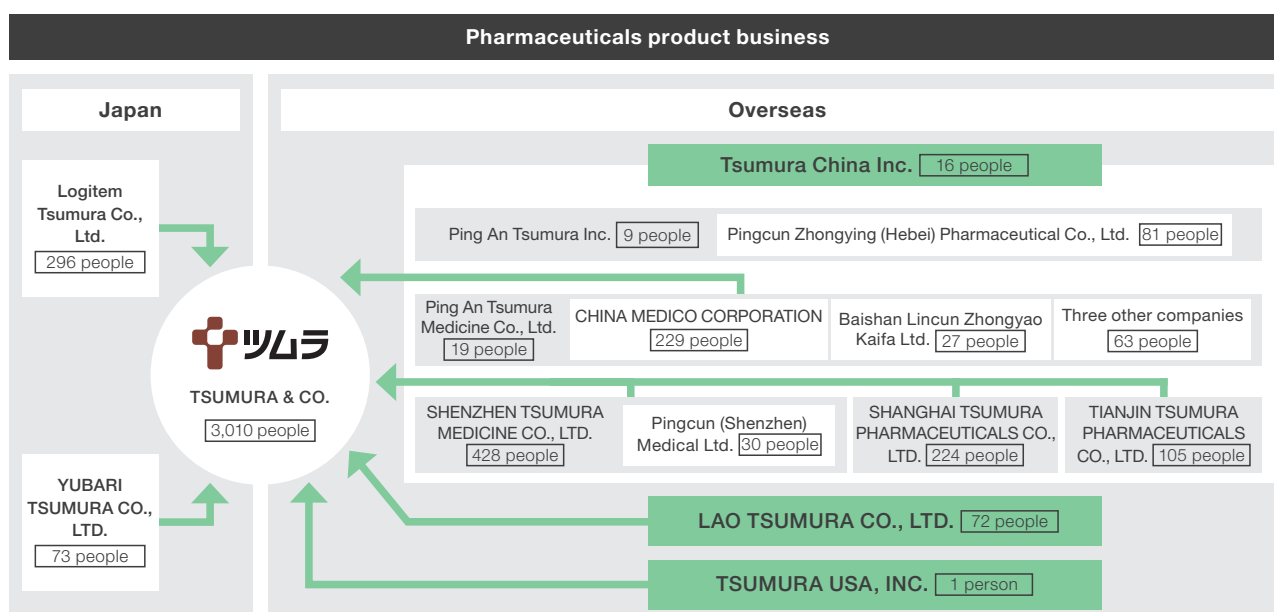
Note: The percentage of equity is calculated deducting 251,343 shares of treasury stock.



Japanese financial institutions	32.08%
Japanese securities firms	0.96%
Japanese corporations	7.02%
Overseas institutions	48.40%
Japanese individuals and others*	11.54%

*"Japanese individuals and others" includes 251,343 shares of treasury stock.

Group companies (as of March 31, 2022) Number of employees (permanent + contract employees)





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