





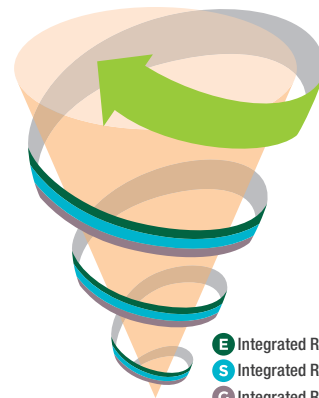
The Best of Nature and Science

Kampo is a pharmaceutical product produced using crude drugs, a natural product, as its raw material. In the natural world, there are still many things that have yet to be explained. One of those is the efficacy of Kampo and crude drugs. Scientifically explaining why and how Kampo is effective will increase the number of opportunities for use in our health and for helping to treat illnesses.

At present, Western medicine continues to make strides in the development of innovative new pharmaceuticals and therapeutic methods. Despite this, there are many patients having difficulties treating their illnesses.

We will contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.

The ESG story conveyed in the Integrated Report.

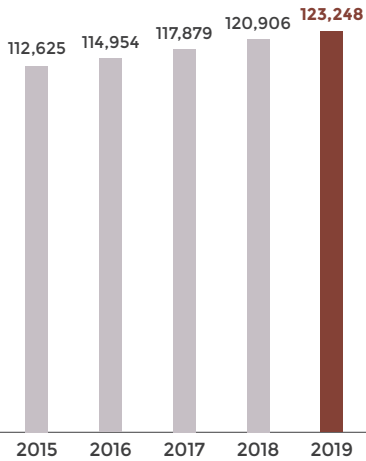


- E** Integrated Report 2021
- S** Integrated Report 2020
- G** Integrated Report 2019

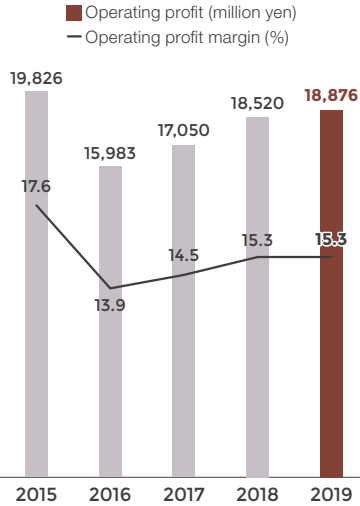
For three years starting from the Integrated Report 2019, we have been designing and editing our integrated report so that each edition contains a feature that focuses on ESG and highlights its own story line.

Our Performance

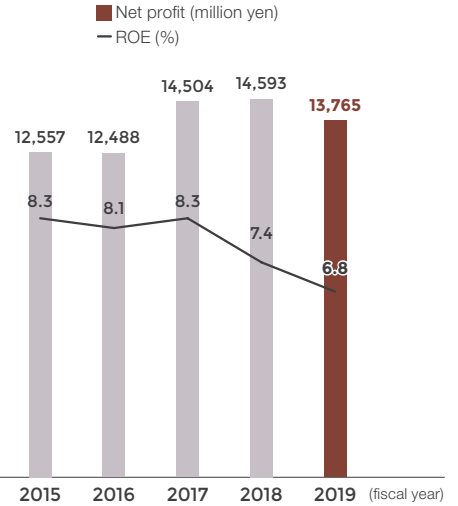
Net sales (million yen)



Operating profit / Operating profit margin



Net profit/ROE

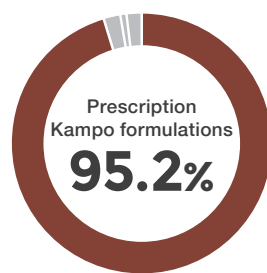


Basic Information

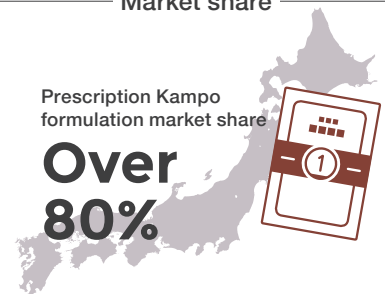
Founded



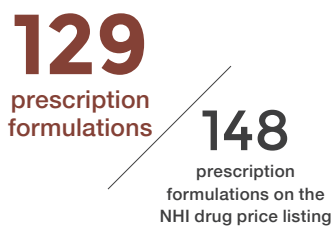
Business development



Market share



Number of prescription formulations



Number of employees consolidated



Turnover ratio



What is Kampo?

A traditional form of Japanese medicine that originated in China



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

Differences with Western medicine

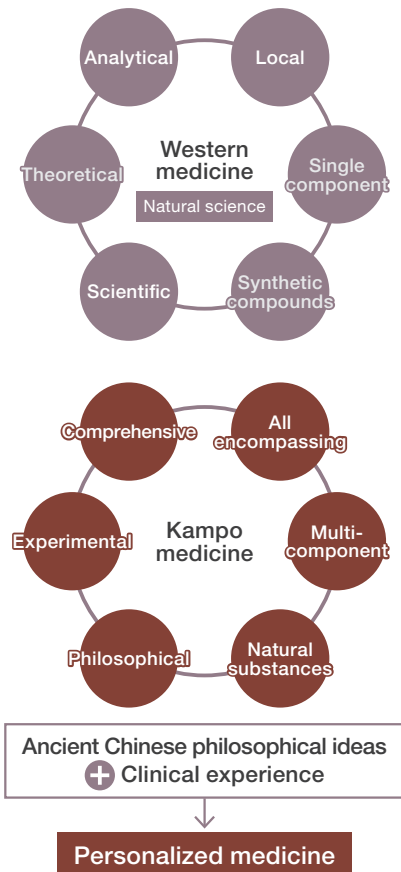
While Western medicine is scientific and theoretical in nature, Kampo medicine is philosophical and experimental at its heart. In Western medicine, the site of the illness is ultimately localized using analytical methods and observations. In contrast, in Kampo medicine, the pathology, which differs for 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.” The pharmaceuticals used in Western medicine are basically synthetic compounds made from a single ingredient. Meanwhile, Kampo medicines contain a combination of crude drugs, which are natural products, therefore there is a diverse range of ingredients. The mechanism of action for Kampo medicines is difficult to clarify due to the use of multi-components. However, headway is gradually being made to reach a scientific understanding.

Quality of crude drugs is extremely crucial

Kampo, in most cases, is produced by combining several crude drugs in accordance with set rules. Crude drugs are natural products that have been used for many years and are mainly derived from plants but are taken from animal, mineral and other matter with medicinal efficacy. The crude drugs are dried and processed in various shapes and sizes. In the past, these crude drugs were taken after making a decoction by slowly boiling the crude drugs in a clay pot or other utensil. However, this method likely resulted in differences in the final product owing in part to varying heat temperatures and boiling times. At present, Kampo is mainly processed by industrially boiling crude drugs and drying the distilled extract to produce an extract preparation. In contrast with decoction, the quality of the extract preparations is stable. However, crude drugs are a natural substance. Consequently, even if seeds or seedlings of the same botanical origin are cultivated, growing conditions change depending on various conditions, including soil and weather conditions. A hit vintage year for wine varies as the quality of the grapes varies year by year. The same thing can be said for crude drugs. Kampo, which is a pharmaceutical product, requires that crude drugs constantly be of the same quality. The quality of crude drugs, which are the raw material, is directly linked to the quality of Kampo products. This is the reason what the quality of crude drugs is vital.



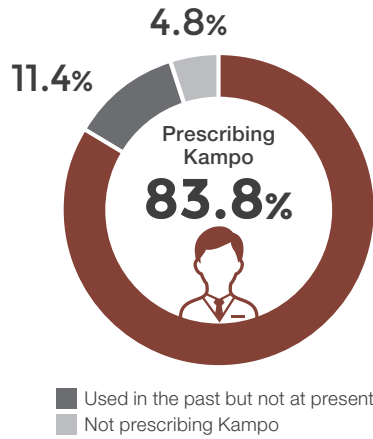
Cinnamon



Fusion of Kampo medicine and Western medicine

For instance, Western medicine is used to treat fields in which Western medicine has more experience, including lowering blood pressure, antibacterials, and complete physicals, but Kampo medicine is used in areas that Western medicine has difficulty treating, such as physical complaints that cannot be diagnosed or disorders that do not show up during tests. This type of treatment which incorporates Kampo medicine when necessary is spreading. Almost 80% of physicians in Japan are already using Kampo medicine.

Kampo medicine use by physicians (%)*

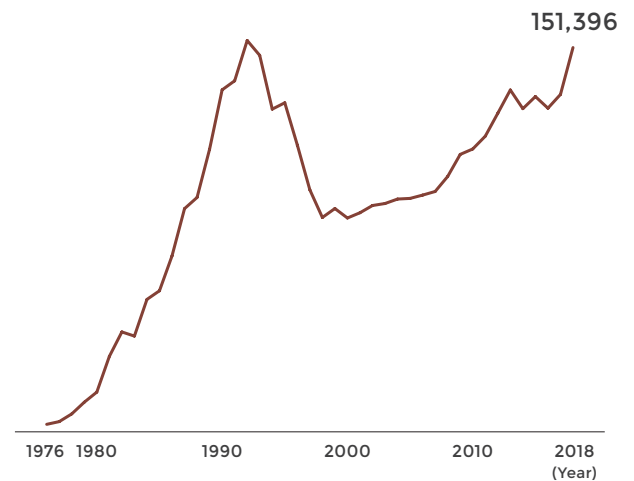


*Source: 2012 Survey on the Usage and Attitudes of Physicians Concerning Kampo; Survey target: Physicians registered on Nikkei Medical Online / Nikkei Medical Publishing, Inc.

Market scale

The Kampo medicine market in Japan continues to expand. The graph below is taken from the Statistics Yearbook of Production by Pharmaceutical Industry 2018 (Ministry of Health, Labour and Welfare) and indicates the production value of prescription Kampo formulations, etc. In 2018, the amount of production for prescription Kampo formulations, etc totaled ¥153.196 billion, a rise of 13.9% year on year. Looking at Kampo formulations overall, including OTC Kampo medicines, etc., the production value rose 12.4% year on year. This is a record high since these statistics were first taken.

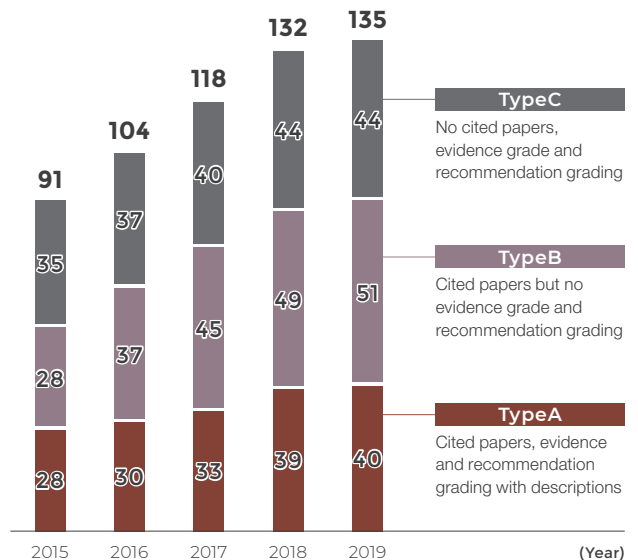
Prescription Kampo formulation, etc production value trends (million yen)



Medical treatment guidelines and Kampo medicine

The medical treatment guidelines are used as materials for making decisions on treatments and other matters in clinical settings. Even in the case of prescription Kampo formulations, in recent years, there has been a rapid increase in the number of write-ups in medical treatment guidelines in tandem with the further elucidation of the efficacy and mechanism of action of prescription Kampo formulations. According to research by The Japan Society for Oriental Medicine and Japan Kampo Medicines Manufacturers Association (JKMA), the number of write-ups on prescription Kampo formulations in medical treatment guidelines has risen by nearly 1.5-fold, from 91 write-ups in 2015 to 135 in 2019. In addition, 108 formulations were mentioned in the medical treatment guidelines in 2019. At present, there are 148 prescription Kampo formulations that have been approved in Japan. Accordingly, around 73% of these are covered in the medical treatment guidelines. A gradual expansion in the opportunity for use in the medical frontlines going forward is anticipated as progress is made in the scientific investigation of Kampo medicines.

Write-ups on Kampo medicines in medical treatment guidelines



“Quality Medicine Is Guaranteed to Sell”

Founder’s Belief

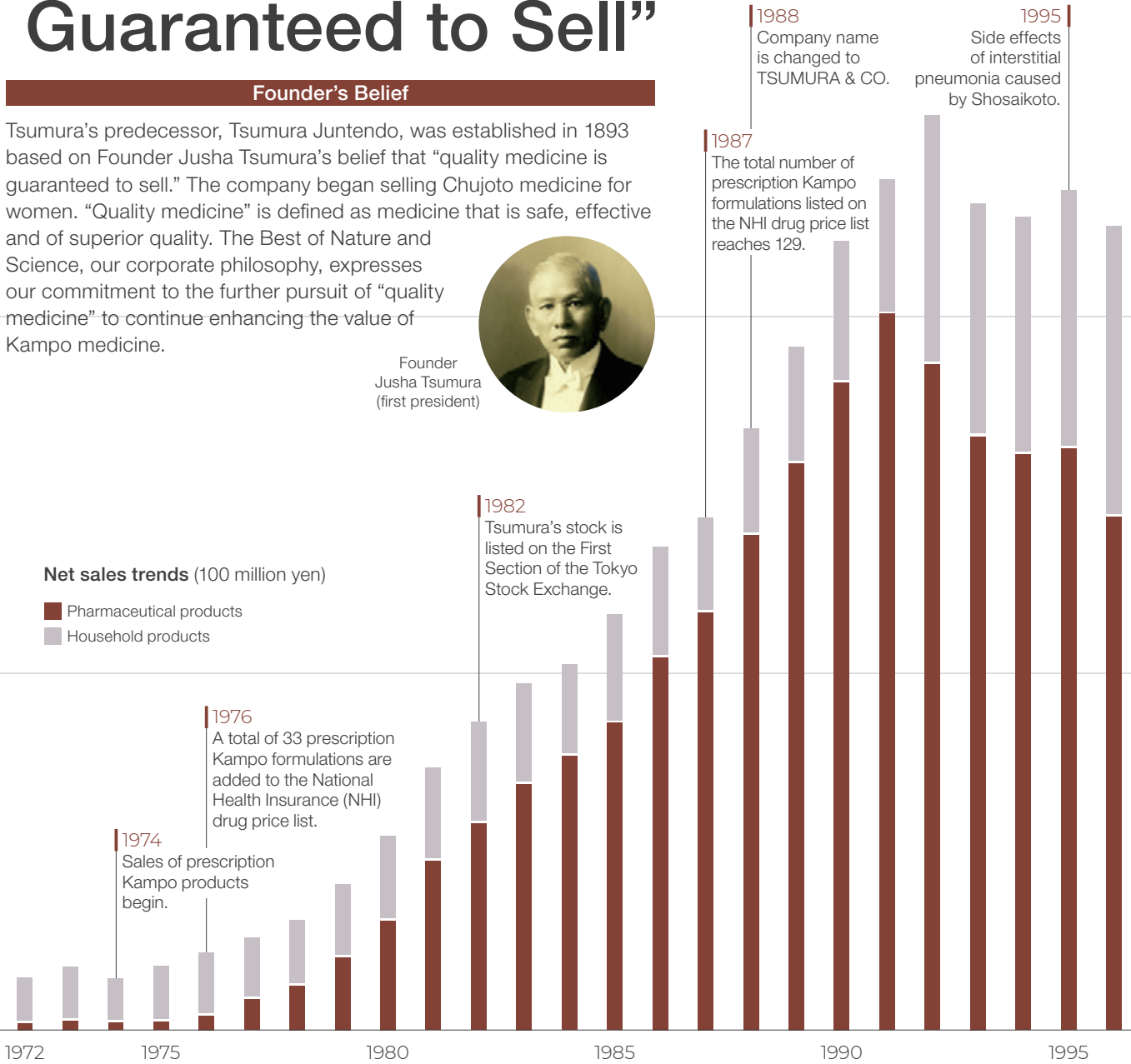
Tsumura’s predecessor, Tsumura Juntendo, was established in 1893 based on Founder Jusha Tsumura’s belief that “quality medicine is guaranteed to sell.” The company began selling Chujoto medicine for women. “Quality medicine” is defined as medicine that is safe, effective and of superior quality. The Best of Nature and Science, our corporate philosophy, expresses our commitment to the further pursuit of “quality medicine” to continue enhancing the value of Kampo medicine.



Founder Jusha Tsumura (first president)

Net sales trends (100 million yen)

- Pharmaceutical products
- Household products



Main events at Tsumura

1893
Tsumura Juntendo is founded. Starting the manufacture and sale of Chujoto medicine for women.



1924
Tsumura Research Institute for Pharmaceutical Science and Tsumura Medicinal Plant Garden are opened. Tsumura Research Institute for Pharmaceutical Science is established within the site of Meguro Plant to promote research into medicinal plants.



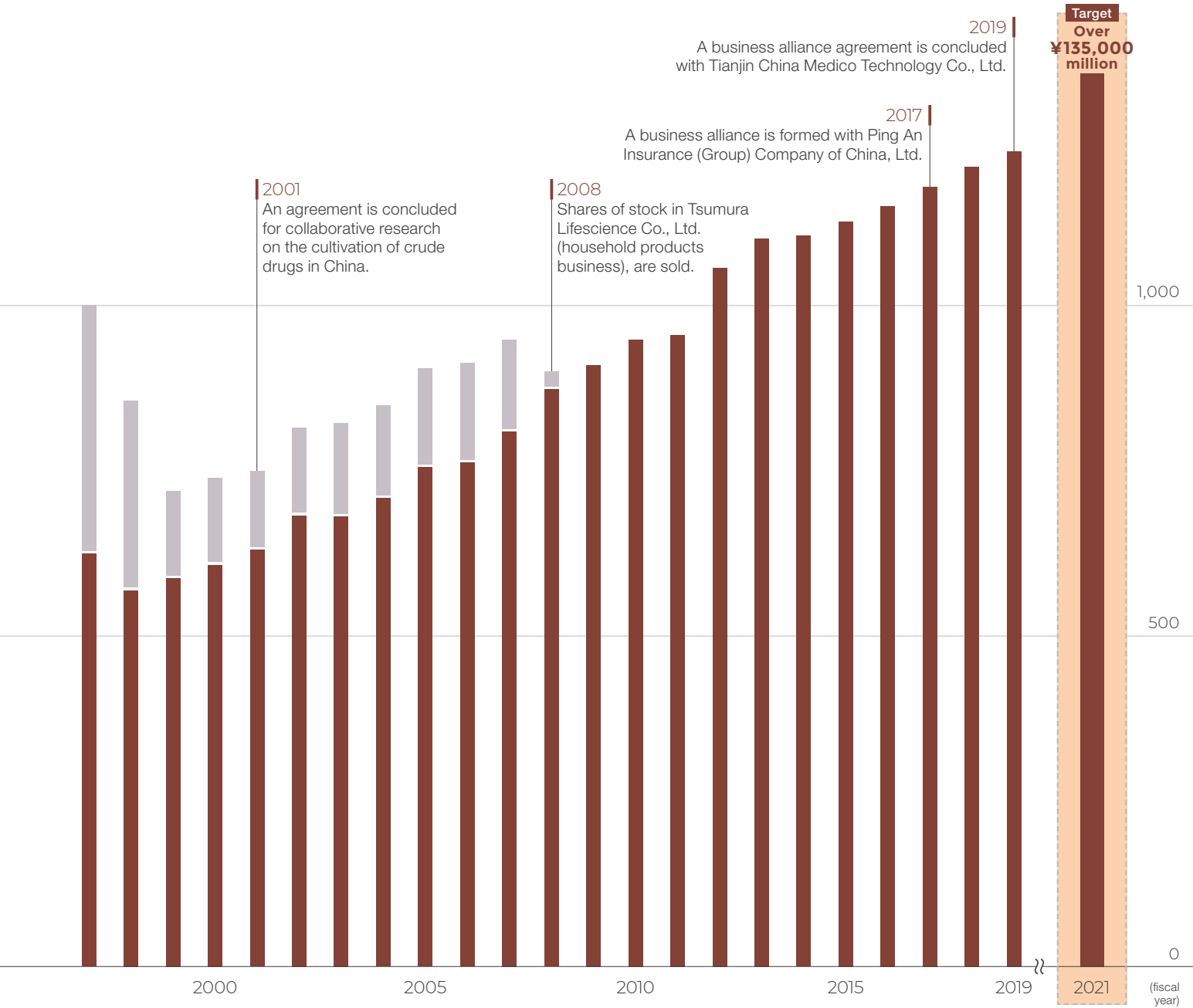
1930
Bathclin aromatic bath salt is launched.



1978
Jusha Tsumura II visits China for first time to negotiate the stable procurement of crude drugs.



(100 million yen)
1,500



1991
SHENZHEN TSUMURA MEDICINE CO., LTD. is established. Procurement, selection and processing, quality management, and storage of raw material crude drugs in China



2001
SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. is established. Production of Kampo powdered extracts in China using same



2016
Journal of Japanese Botany celebrates its 100th anniversary. Journal of Japanese Botany website <http://www.jjbotany.com/>



2018
TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. Production of Kampo powdered extracts, traditional Chinese medical products, and traditional Chinese medicine powdered extracts in China



Three unique points of Tsumura



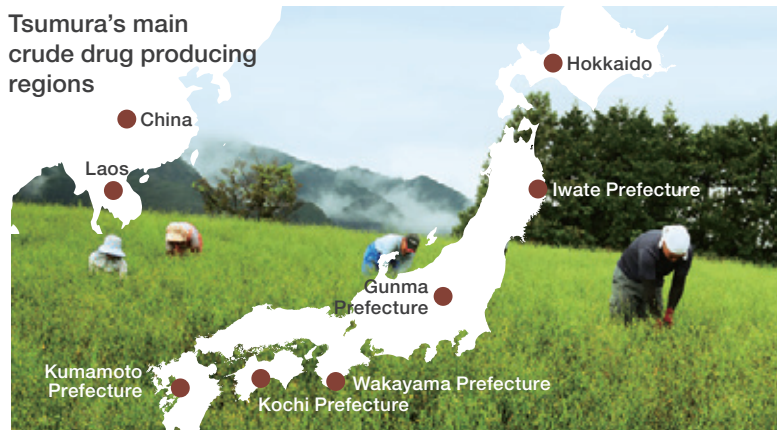
1 Manufacturer of pharmaceuticals naturally derived from crude drugs

Raw material crude drugs are derived from natural materials. Therefore, there are disparities in quality. At Tsumura, we set strict standards and only use crude drugs that conform with these standards to control inconsistencies. In addition, in accordance with our concept that “Kampo starts from the growing fields,” we are also undertaking proprietary cultivation through full-fledged management. We are realizing highly consistent Kampo formulations by leveraging high-quality crude drugs and our proprietary manufacturing knowhow. This is our strength and we believe this is one high barrier to market entry. Moreover, inventory control for crude drugs is vital to the stable supply of Kampo medicine as a pharmaceutical. The medicinal plants from which crude drugs are derived naturally require suitable cultivation areas and weather, but other factors, including the speed of growth and the time up to harvest, also differ. It is extremely difficult to properly control crude drug inventories while grasping all of these conditions. We have accrued crucial knowhow by making repeated improvements over many years.

POINT

- › Kampo is a pharmaceutical product produced using natural substances as its raw material
- › Build a proprietary value chain from upstream (cultivation of crude drugs) to downstream (Kampo product sales)
- › Achieve stable procurement of high-quality crude drugs
- › Control disparities in components as they are derived from natural substances
- › Stable supply of Kampo formulations owing to proper inventory control of crude drugs

Tsumura's main crude drug producing regions



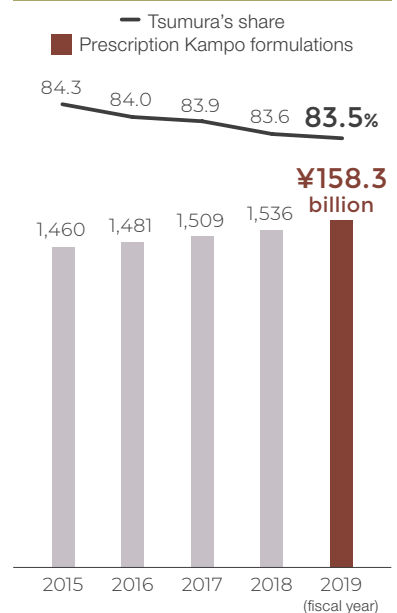
2 Unique position in Japan and high obstacles to entry

POINT

- › Prescription Kampo formulation market share in Japan exceeds 80%
- › Share of Kampo medicines in the domestic pharmaceutical market is around 1.5%
- › There are 148 Kampo formulations covered by the National Health Insurance (NHI) plan, of which Tsumura sells 129 of these Kampo formulations
- › High barriers to entry into the prescription Kampo formulation market

In fiscal 2020, the overall pharmaceuticals market in Japan totaled around ¥10.6 trillion, of which prescription Kampo formulations account for ¥158.3 billion, or a share of 1.5%. However, a recent trend shows that the growth rate for prescription Kampo formulations is growing faster than that for the overall pharmaceuticals market. At present, 148 prescription Kampo formulations have been approved. Tsumura sells 129 of these formulations. This is a share of over 80% of the market. Kampo medicines contain a number of components as they combine several crude drugs. In light of this, it is extremely difficult to prove bioequivalence required to newly enter the prescription Kampo formulation market. Even if bioequivalence is proved, going forward, there are still major hurdles, including stable procurement and quality control of naturally-derived crude drugs. Reflecting this, it can be said there are high barriers to entering the prescription Kampo formulations market.

Market trends for prescription Kampo formulations



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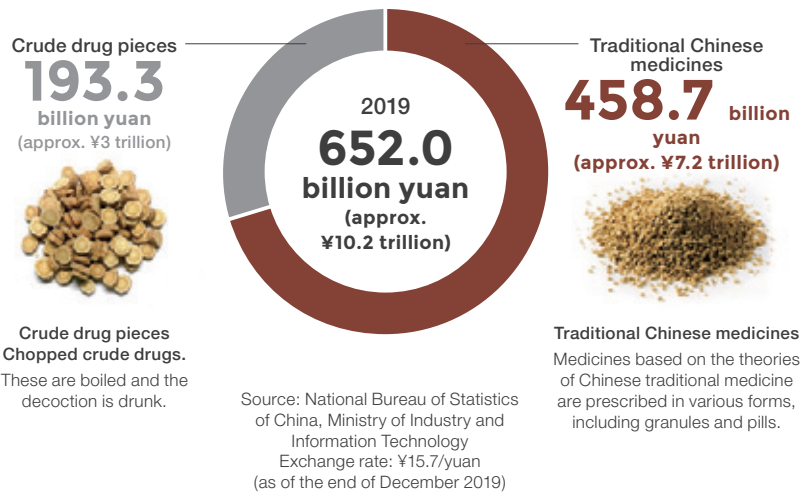
Substantial potential of operations in China

Operations in China are vital for realizing the long-term business vision. The market for traditional Chinese medicines* has grown in size to around ¥10 trillion. Although there are about 3,000 traditional Chinese medicine companies, there are no companies that possess a share of over 3%. There are challenges with traditional Chinese medicines, including quality standards. We therefore entered the traditional Chinese medicine market by establishing a joint venture with the Ping An Insurance Group, which had a customer base of around 200 million people in 2018, and Ping An Tsumura Inc. The Ping An Insurance Group is one of China's four major life insurance companies and is a leading corporate group in China with its own bank. Our goal is to become a trusted traditional Chinese medicine company in China to contribute to the health of the citizens of China. This is based on a coupling of Ping An's customer base, our digital expertise, and knowhow to provide a stable supply of high-quality medicines which was developed in our Kampo business, in accordance with our vision, in which we target net sales of 10,000 million yuan in 2027.

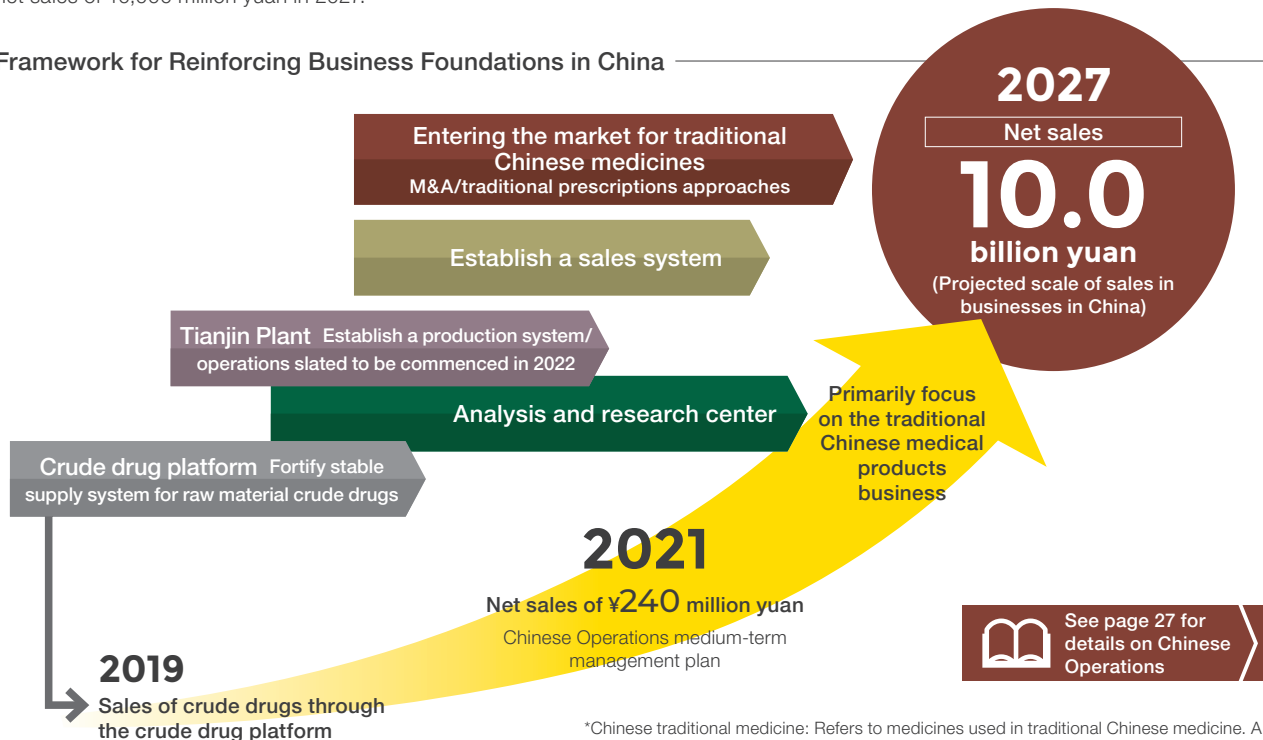
POINT

- ▶ The market scale for traditional Chinese medicines stands at 652.0 billion yuan (2019)
- ▶ Net sales forecast for 2027 of ¥10.0 billion (image of sales in Chinese Operations)
- ▶ The Ping An Insurance Group is a business partner (200 million customers, comprehensive strengths in finance and IT)
- ▶ Citizens in China are very familiar with traditional Chinese medicines. And these traditional Chinese medicines are widely used
- ▶ Proprietary technologies can contribute to improving the quality (consistency) of traditional Chinese medicines
- ▶ Bonds of trust with China that were forged over many years
- ▶ The platform to be built in the Chinese Operations will further enhance productivity in domestic operations

Scale of the traditional Chinese medicine market in China

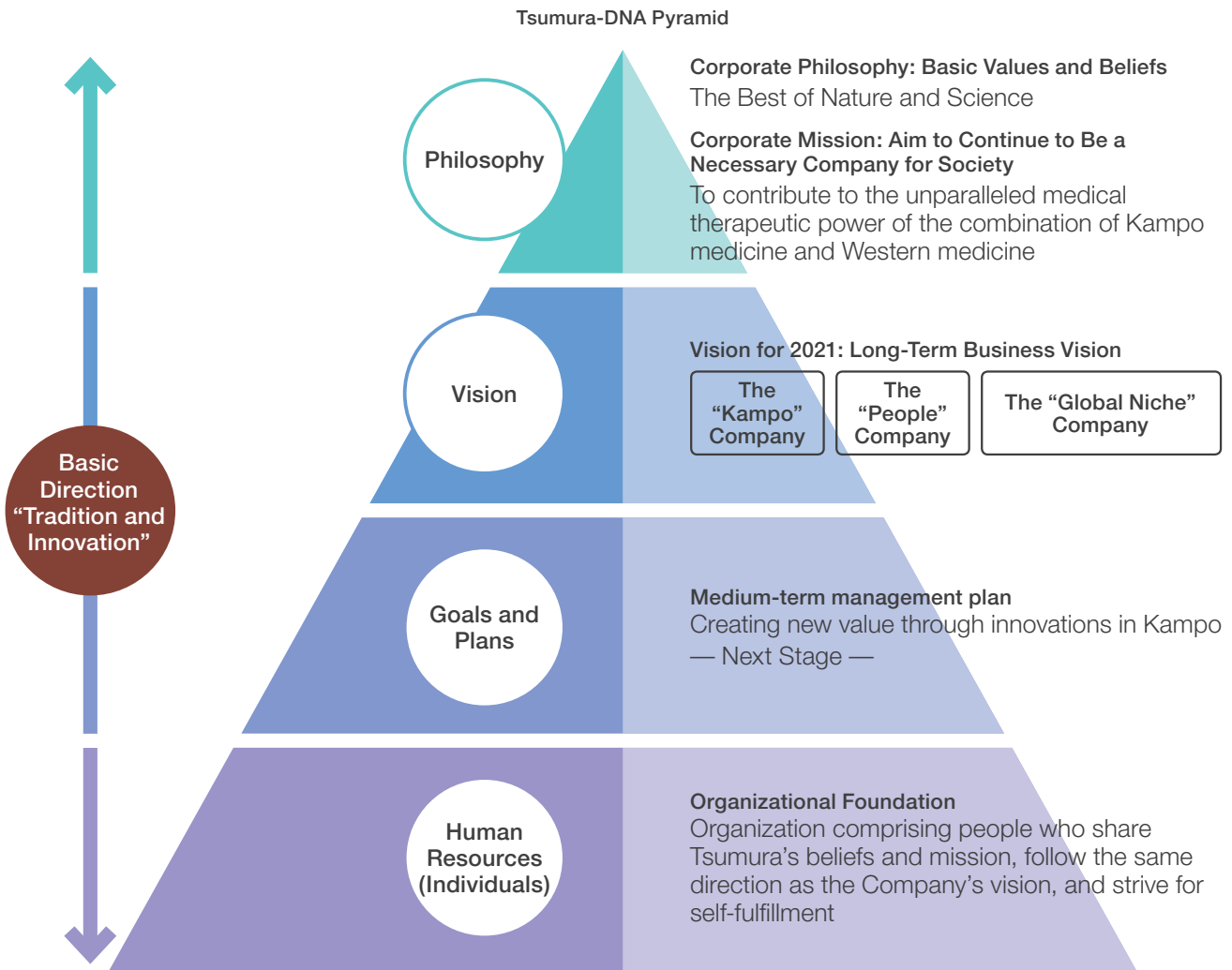


Framework for Reinforcing Business Foundations in China



*Chinese traditional medicine: Refers to medicines used in traditional Chinese medicine. A generic term which includes traditional Chinese medical products and crude drug pieces

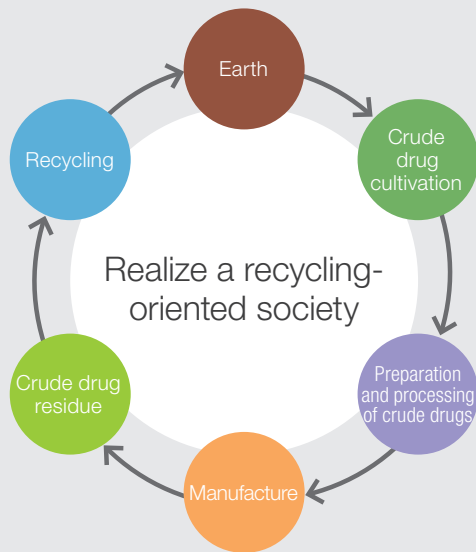
The Tsumura-DNA pyramid comprises the most fundamental and most important principles of the “management that is rooted in basic principles” preached by Tsumura.



At the top of the pyramid, “philosophy” refers to Tsumura’s corporate philosophy, which represents its underlying values, and its corporate mission, which is the purpose Tsumura must fulfill in order to continue being deemed necessary by society. This philosophy is shared throughout the Tsumura Group as an embodiment of its unchanging basic management principles.

“Vision” is that which we target and aspire toward for the future of the Company in accordance with the basic management policies. “Goals and plans” (medium-term management plans) are set as milestones for accomplishing our vision, and we diligently work toward these milestones.

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



The main raw materials for Kampo formulations are naturally-derived crude drugs. Tsumura conducts management that sees the natural environment for 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. While we push forward with the recycling of crude drug residue* among other matters, the Tsumura Group overall is undertaking recycling measures that are based on the Earth. Based on our corporate philosophy and corporate mission, which is our fundamental philosophy, we formulated the Basic CSR Policy and Sustainability Vision and are linking these to continuing improvements.

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

CONTENTS

Introduction	01 Who we are	Compliance/Risk Management	65 Compliance/Risk Management
	03 What is Kampo?		
	05 Growth trajectory		
	07 Unique points		
	09 Tsumura-DNA Pyramid		
CEO Message	11 Message from the Group CEO	Data	69 Key Selected Financial Data 71 Key Selected ESG Data
	17 Message from the Group CFO		
Strategy	19 Roadmap for value creation	Editorial Policy	Tsumura has been publishing integrated reports since fiscal 2019. 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.
	21 Long-term business vision		
	23 Medium-term management plan		
	25 Progress with Domestic Operations		
	27 Progress with Businesses in China		
	31 Message from the Group COO		
	33 The Kampo Value Chain		
	35 Cultivation and Procurement		
	39 Manufacture		
	43 Sale, Education, and Popularization		
	47 Research and Development		
	49 Quality assurance		
	51 Human Resources		
Corporate Governance	55 Board of Directors	Scope of Data Collection and Applicable Period	Performance data is from fiscal 2020. TSUMURA & CO./LOGITEM TSUMURA CO., LTD./YUBARI TSUMURA CO., LTD. (April 1, 2019 - March 31 2020) Tsumura China Inc./SHENZHEN TSUMURA MEDICINE CO., LTD./SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD./Ping An Tsumura Inc./TSUMURA USA, INC. (January 1, 2019 - December 31, 2019) Notice will be provided in cases when the scope of data collection differs from the above.
	57 Discussion among Outside Directors		
	61 Corporate Governance		
		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.



Our role in society is to further deepen our pursuit of the value of Kampo medicine and convey its allure

The Tsumura Group is undertaking five strategic challenges to achieve its third medium-term management plan, which is based on “Creating New Value through Innovations in Kampo—Next Stage—,” a theme introduced from fiscal 2020. The ultimate goal is to realize the Group’s long-term business vision (Visions 2021), which is based on a basic philosophy. In Japan, we are continuing to maintain the expansion of the Kampo market, mainly to contribute to cancer (supportive care) and women’s health. In China, we plan to make business investments to establish a system to stably procure crude drugs. In addition, we are also actively

considering and implementing investments to build a business infrastructure to achieve our vision of contributing to the health of the citizens of China in the traditional Chinese medicine business. In and after the fourth quarter of fiscal 2020, impact arose from the spread of COVID-19. In Japan, patients refrained from going to hospitals for medical exams. MRs also refrained from visiting hospitals. This situation is likely to continue, at the very least, up to autumn 2021. Looking at the medium/long term, I believe that expectations in Kampo in Japan are actually likely to increase. As we witnessed the spread of this infection, many people, not only patients but medical practitioners, including physicians, likely saw the need to enhance their own immune systems, and balance and maintain their mental and

physical health. Western medicine is at the core of medical care in Japan. The majority of pharmaceuticals that are prescribed are chemically synthesized compounds. There are also pharmaceuticals that include active ingredients that are naturally derived, such as from plants. However, ultimately, pharmaceuticals with a chemically synthesized active ingredient are prescribed to patients. In addition, Western medicine is said to have developed from advances in surgery. This medical care pursues the treatment of individual organs. Consequently, while this makes sophisticated localized control possible, its overall connection for the body as a whole is said to be weak. Meanwhile, in Kampo medicine, there exists a concept that the mind and body are one. The entire body,

Aim to be a company that is extremely sensitive to the natural environment... We plan to continue to contribute to the health of people and to healthcare by using the best of nature to the maximum.

President, Representative Director, and CEO
Terukazu Kato

Our goal is to get all physicians to prescribe Kampo.

The sales volume of prescription Kampo formulations is rising by nearly 3-fold, when comparing unit sales in 2001 versus 2019. Regular use in medical treatments is still very limited. I am confident that we can encourage more patients to take Kampo medicine by getting medical practitioners to gain a deeper understanding of treatments using Kampo medicine. To this end, I believe it is essential that we further implement activities. At present, 82 university medical departments and medical colleges are incorporating education on Kampo medicine. The number of physicians that receive Kampo education at university increases by 8,000 each year. We anticipate that in light of this there will be more opportunities in which physicians prescribe Kampo. Although Japan is already blessed with one of the finest healthcare systems in the world, there is potential for further improvement as patients will have the option to receive treatments that leverage Kampo in addition to Western medicine. In our long-term business vision, we aim to have one in every two physicians writing over 10 Kampo prescriptions. It is my goal to have all physicians acquire the theoretic basis of Kampo medicine. We aim to contribute to the realization of a medical environment where patients can receive treatment using Kampo when necessary at all medical institutions and clinics throughout Japan. Meanwhile, drug pricing is a major

issue that surrounds prescription Kampo formulations. More than 40 years have passed since Tsumura's prescription Kampo formulations were put on the NHI drug price list. During this time, drug prices for prescription Kampo formulations are continuing to decline. Going forward, we need to do something about this environment in which these drug prices continue to decrease. Kampo formulations are a rare pharmaceutical that is composed of crude drugs which are derived naturally, mainly from plants. The drug price is too low in comparison with the value. Food is a crucial condition for the existence of life. From ancient times, it was believed that illnesses could be cured with food. This led to the concept of Yakushokudogen. Kampo originated as a traditional medicine. The medicinal efficacy of each crude drug was ascertained using the wisdom of mankind. Furthermore, by combining these crude drugs, it was found they treat various symptoms. I believe that the value of these pharmaceuticals which are still around after many years should be assessed on another level in comparison with modern pharmaceuticals. The market will expand if we convey the value of Kampo, increase the number of physicians prescribing Kampo, which in turn will boost the number of patients taking Kampo, and thereby bolster distribution volume. In addition, as chair of the Japan Kampo Medicines Manufacturers Association, it is my duty to rouse the industry and fully tackle this drug pricing issue.

both mentally and physically, is perceived and the body's balance, which has collapsed, is returned to its original, healthy state. Kampo medicine uses the natural healing powers that the body is originally equipped with to maintain a person's health. Kampo medicine is a pharmaceutical product that is naturally derived, mainly from plants. As this shows, the approach of Western medicine and Kampo medicine are different in the first place. However, east and west does not matter when it comes to treating a person's illness. I believe it is very important to offer a wide range of options to physicians and patients by incorporating good products to enhance the benefits of treatment. Expanding options for Kampo medicine is our mission as the leading company in prescription Kampo formulations.

The goal of the Chinese operations is to realize contribution to the health of the citizens of China and to secure the stable supply of crude drugs

To achieve our long-term business vision, in the second medium-term management plan we undertook challenges of launching new operations in China. Now, in the third medium-term management plan we are working to reinforce business foundations in China. As a vision for Chinese operations, we are taking on the goal of reaching net sales of 10 billion yuan in China in 2027. The goal of the Chinese operations is to realize contribution to the health of the citizens of China and to secure the stable supply of crude drugs. We import around 80% of our raw material crude drugs from China. This has enabled us to use Kampo to treat patients for over 40 years. We hope to continue this going forward. The cultivation of crude drug is expanding in Japan but there are some crude drugs that can only be grown in China. In China, just as in Japan, medical costs are rising due to the aging of the population. Another social issue is the rapid spread of metabolic syndrome among younger generation which is switching to a more Western diet. Furthermore, given the growing economic disparity between cities and rural areas, we aim to contribute to the health of citizens in China by supporting the development of crude drug cultivation and the traditional Chinese drug industry. Moreover, from the perspective of environmental preservation and the protection of crude drug resources,

we have been jointly carrying out research on the cultivation of wild crude drugs for many years with state organizations and companies in China. In the mountainous regions in China, we were successful in cultivating Chinese rhubarb (da-huang). We are contributing to local economies through the use of long-term cultivation contracts and by creating stable employment. Agricultural income was stabilized by creating job opportunities through the cultivation of crude drugs. Housing was built and water that is safe to use and toilets were secured. Our goals match the political policy of Xi Jinping to eradicate poverty. We therefore aim to expand and accelerate this or similar types of cases.

Carrying out business operations in China is not as simple as bringing in the business model that proved successful in Japan. In Japan, Kampo medicine standardized in the form of an extract is the mainstream. In China, you will often see patients carrying home a plastic bag filled with crude drugs. These are crude drug pieces. Patients in China boil the crude drug pieces in a clay pot at home and drink this as a traditional Chinese medicine. The market for drug pieces alone is reportedly worth ¥3 trillion. Based on our strength in high-quality crude drugs, we also partake in the sales of crude drug pieces.

We aim to standardize, manufacture and sell crude drug pieces and prescription traditional Chinese medicines.

We established Ping An Tsumura Inc. jointly with the Ping An Insurance (Group) Company of



China, which is said to be China's most innovative comprehensive financial group and one of the world's largest insurance companies. Ping An Tsumura is in charge of the core of our Chinese operations. Both we and the Ping An Insurance Group are serious about contributing to the health of China's citizens. Given that our philosophy matches, we are able to carry out business together. A serious issue in China, which has a population of around 1.4 billion, is the aging of its citizens. The aging of the population will likely give rise to an increase in medical costs. Naturally the development of new drugs will likely also be carried out but seniors commonly use traditional Chinese medicine. However, there are quality issues with current traditional Chinese medicines, including consistency and convenience. We aim to solve these issues by using the technology, skills and knowhow that made us

Fiscal 2020 financial performance (¥ million)

	Fiscal 2020 plan	Fiscal 2020 results	Vs. target		YoY	
			Amount	Achievement ratio	Amount	%
Net sales	125,000	123,248	(1,752)	98.6%	2,341	1.9%
Operating profit	17,000	18,876	1,876	111.0%	356	1.9%
Ordinary profit	18,000	19,649	1,649	109.2%	(52)	(0.3%)
Profit attributable to owners of parent	12,300	13,765	1,465	111.9%	(828)	(5.7%)



successful in standardizing Kampo medicines.

In China, there are traditional Chinese medicines other than crude drug pieces for decoction. These traditional Chinese medical products come in extract form, the same as Kampo medicines in Japan. Traditional Chinese medicine prescriptions, the source of Kampo, are also likely to be standardized going forward. Safety has been confirmed as these drugs have been used for several thousand years. That the drugs are still in use in one way proves their efficacies. This area is where we can contribute most by mobilizing our cultivation, processing and formulation technologies and knowhow. I believe we need to implement our business jointly with local companies. In Japan, sales of Daikenchuto, the most frequently prescribed Kampo and which eases abdominal pain and bloating, are around ¥10 billion annually. The size of the population in China is in a different league in comparison with Japan. The Ping An Insurance Group already has 200 million policyholders (customers). Another characteristic is that there are many wealthy customers. Ping An Good Doctor^{*1}, a group company possessed by Ping An Insurance, is connected online with all these policyholders and has data for the

health conditions of all customers. Ping An Good Doctor refers customers to hospitals, clinics and recommends treatment methods. In the Chinese operations, mainly by standardizing crude drug pieces, traditional Chinese medicine and prescribed classic Chinese medicines, we aim to contribute to the health of Chinese citizens in part by providing Yakushokudogen healthcare products and pharmaceutical products that use high-quality crude drugs as raw materials.

The digital technologies of Ping An will enhance the Kampo value chain we build.

The Ping An Insurance Group possesses advanced digital technologies, including blockchain, AI and facial recognition technology. I believe these technologies will help to advance the Kampo value chain we built. For example, during the selection process where skilled staff do a visual check of crude drugs, there is a possibility that facial recognition technology will revolutionize this process. AI could be used to analyze fields and create a harvest forecast thereby realizing an adequate inventory management, which is highly difficult. These technologies can be used to build a system that will provide a stable supply of crude drugs. Ultimately, we aim to fully automate

*1 Ping An Good Doctor: Possess 1,000 online proprietary physicians, over 60,000 affiliated physicians, and 5,000 affiliated hospitals. The number of registered users exceeds 350 million and as many as 250,000 medical examinations are conducted every day.

*2 See page 28

processes, from sowing to harvesting and inventory management. Our business model, which relies on naturally derived crude drugs, has the potential to realize an even more eco-friendly model by enhancing the Kampo value chain. We aim to realize the use of recycled washing water used in the Kampo formulation manufacturing process and to further reuse/recycle waste products, including crude drug residue after the extraction process.

Tianjin China Medico Technology^{*2}, which joined our group, will establish a crude drug platform that we aimed for

The system for cultivating and managing crude drugs is a field in which we are a pioneer. The quality of our products, including Kampo formulations, is dependent on crude drugs. The quality of these crude drugs determines the quality of our products. The quality of these crude drugs is determined based on the cultivation of fields and selection and processing technologies. Extremely important elements to the safety and quality of crude drugs are the management and control methods for cultivation and the standards employed for selection and processing. Foreign pollutants, including agrochemical residue, heavy metals, and toxic mold, must be controlled during cultivation and processing. We believe that safety cannot be sufficiently guaranteed by tests and analysis alone. This reflects our policy not to purchase any crude drugs from the crude drug market. This is one reason we maintain control from the fields, including contracted cultivation. We are proud of our unrivalled technologies and knowhow. In the current fiscal year, Tianjin China Medico Technology joined the Tsumura Group. We have walked hand-in-hand with Tianjin China Medico Technology as a supplier of crude drugs. In the manufacturing of traditional Chinese

medicines, we must first start by securing a stable supply of good-quality crude drugs. Moving forward, assuming a rise in demand owing to development of the traditional Chinese medicine industry, there is a possibility prices will soar in the market for good quality crude drugs. The entry of Tianjin China Medico Technology into the Tsumura Group is a major step forward to achieving a stable supply of raw material crude drugs and our vision for the Chinese operations. The crude drug platform function we aimed for is now in place. As such, in addition to a stable supply of crude drugs, we have also secured an external sales route for crude drugs. First, we plan to expand sales of crude drugs and crude drug pieces. In fiscal 2028, we aim to attain external sales of over 50% in China.

Tradition is a series of continuous innovations. A company cannot grow without the growth of individuals.

“Tradition and Innovation” This is the basic direction, which we at Tsumura have valued for many years. The idea is to cultivate this into a corporate culture. Tradition is generated from a series of innovations. Tradition will collapse the instant the Company stops making innovations. In light of this, maintaining current conditions indicates the Company is decaying. I believe it is necessary for us to once again return to this idea for conducting our business operations. More than 40 years have passed since Tsumura’s prescription Kampo formulations were put on the NHI

drug price list. During this time, we have been continuing with various reforms. We need to equip ourselves with the power to produce new value, customers and markets. Going forward, by expanding the Chinese operations, we must also resolve another issue, which is to strengthen group governance. For this reason, Tsumura must be able to exercise conscious control to govern the entire Group in conjunction with changes in its frameworks. To this end, we need to train our human resources. In particular, I think a vital theme is the training of candidates for management. In 2019, Tsumura established the Tsumura Academy to achieve this goal. The objective of the academy is to nurture executives internally. As dean, I am actively involved and, in accordance with a systematic program, I aim to continuously produce management personnel that will implement philosophy-based management. In line with this, I plan to cultivate a corporate culture that advocates a consistent and correct understanding by each employee of Tsumura’s basic philosophy, vision and business strategy and independent thinking and actions.

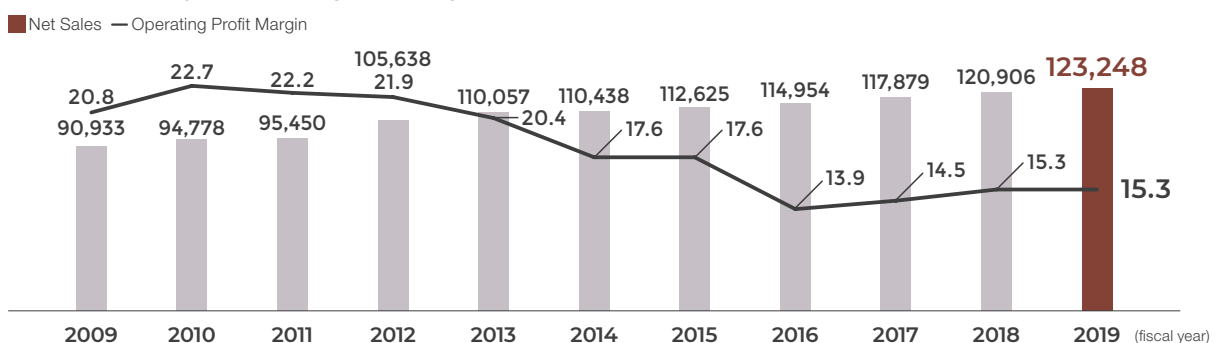
**Kampo is not unscientific, it is yet to be scientifically verified
We are continuing to scientifically study nature and health**

There is no mistake that the development of Western medicine has enabled Japan to realize its current longevity society. Meanwhile, even with the current degree of advancement in Western medicine, it is a fact that there

are illnesses that are still difficult to treat. Going forward regardless of the advances made in gene analysis, we will not likely be rid of illnesses. While we may try to scientifically clarify all things in nature, mankind will not be able to control all things in nature. Nature is extremely magnificent. Mankind is realizing a world of convenience through economic activities. Meanwhile, due to the impact from the continued destruction of nature and from the huge burden being put on the global environment, we need to turn our attentions to the occurrence of unprecedented major natural disasters. COVID-19 may be one such impact.

We need to undertake the building of a proprietary business model where Tsumura co-exists with the natural environment. We aim to achieve a recycling-oriented and sustainable society. It is the goal of the Tsumura Group to put back, not only the crude drugs we use, but everything from the water and air into the natural environment in the future. Shanghanlun or the Treatise on Cold Damage Diseases, a classic in Kampo, was written during the late Han dynasty in China. The book is a record of devised treatment methods from 2,000, 3,000 years ago on how to treat the plague and acute illnesses. This book shows how to skillfully use and combine natural ingredients to make formulations, including Kakkonto. These types of medicines have been passed down to present day and are still in use. The second president of Tsumura said that Kampo is not yet scientifically verified. Kampo

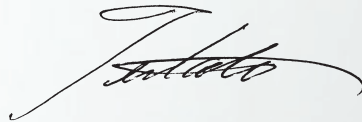
Net Sales (million yen) / Operating Profit Margin (%)



is a multi-component drug derived from natural substances, mainly plants. As Kampo contains components that have not been identified by mankind, Kampo is said to be unscientific. However, given that the progress in medicine, and advances in scientific and analytical technologies will catch up later, it can be said that Kampo has not yet been scientifically verified. In modern medicine, in addition to clinical evidence that focuses on the efficacy and safety of Kampo, we are moving forward with research and analysis, including clarifying the mechanism of action and verifying the health economic benefit. Elucidating the scientific mechanism of action and verifying treatment benefits (evidence) are valuable for using Kampo to treat illnesses. Our philosophy, "The Best of Nature and Science," incorporates the sentiment of wanting effective treatment by scientifically clarifying the pharmacokinetics and mechanism of action, chiefly of major components. We plan to continue to base our business operations on this corporate philosophy. The Company's original name, Tsumura Juntendo, which was founded in 1893, incorporates the "spirit of obeying the heavens." As the Tsumura-DNA, our values tell us not to disobey the laws of nature in carrying out our business operations. We need to firmly pass on this DNA. In addition to continuing to be a company that is the most sensitive to changes in the environment and risks, we aim to continue to grow by maximizing the use of nature to contribute to the health and medical care of people.

September 2020

President, Representative Director, and CEO






Converting non-financial capital into financial capital during the process of implementing business operations

Director, Managing Executive Officer, and CFO

Muneki Handa

We are making smooth progress with the 3C system, which we launched in 2019. The goal of introducing this system is to boost the speed of management amid a harsh external environment by having the CEO, COO and CFO fulfill their responsibilities to produce results. The chairman of the Board of Directors is the CEO, the chairman of the Executive Committee is the COO and the chairman of the Officer's Meeting is the CFO, which is my role. The Officer's Meeting aims to share important management information with all executive officers. This meeting is a place for deciding on direction. The CEO and COO temporarily set aside their position as chairman to spark discussions.

In the third medium-term management plan, we plan to build a solid foundation for our Chinese operations by pushing forward with the continuous expansion of the Kampo business in Japan for a three-year period. In this plan, we are targeting net sales of ¥135.0 billion-plus, operating profit of ¥19.0 billion-plus and an ROE of 6%-plus. This "plus" is significant. This indicates that we will not simply be satisfied with an ROE of 6%. This three-year period is the preparation period for the next medium-term management plan, including investments to

build a foundation for the Chinese operations, which range from ¥50 billion to ¥100 billion. In specific, we plan to improve corporate value by tackling the five strategic challenges. We believe this will directly link to an expansion of our ROE.

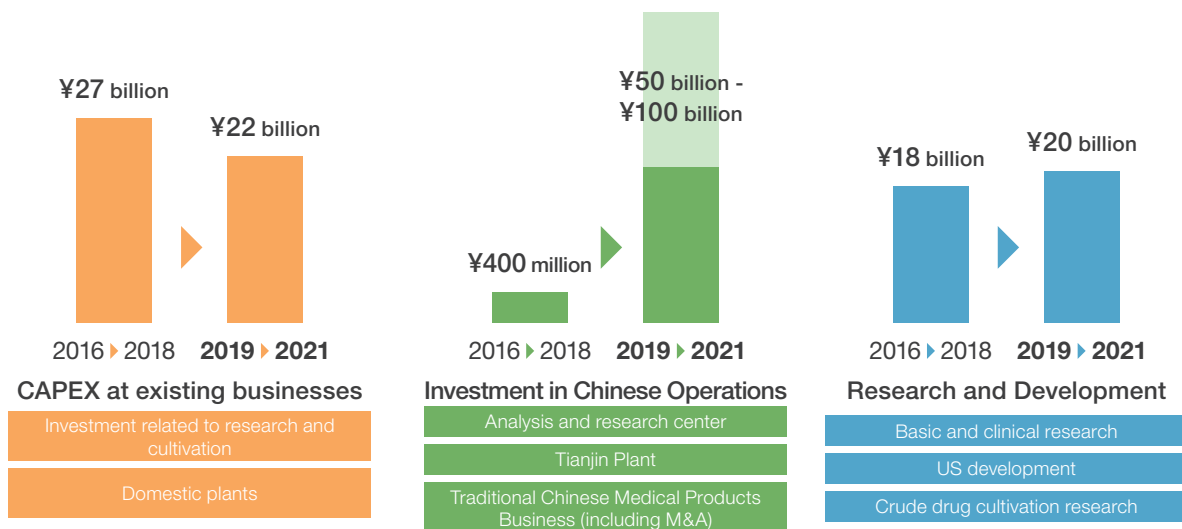
Aside from our Chinese operations, we plan to invest ¥22 billion into facilities overall, and ¥20 billion into R&D. We also look to invest in human resources. CEO Kato serves as dean of the Tsumura Academy Office, which was established in January 2019. The office is engaged in "cultivating a corporate culture" that will instill our corporate philosophy throughout the Tsumura Group and in "cultivating management personnel" who will serve as leaders for the next generation. I believe that the realization of philosophy-based management is the basis for continuous growth and the permanent existence of the company.

Tsumura has major value in areas other than financial capital. For instance, in the natural capital front, we are moving toward a recycling-oriented society from a stage of procuring crude drugs. This includes preserving the environment by shifting from forest cultivation to upland cultivation for crude drugs. As for social capital, cultivating wild crude drugs in

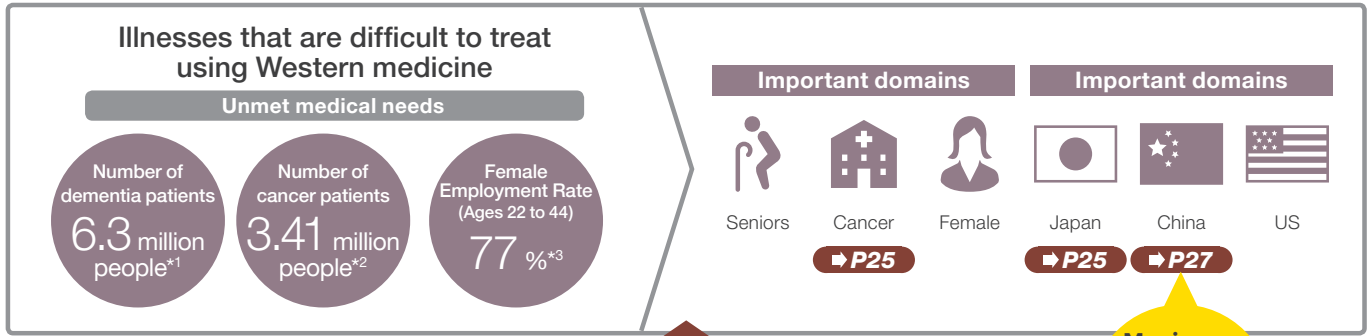
impoverished areas will lead to the creation of employment opportunities. Also in Hokkaido, we outsource the cultivation of Perilla Herba and the cultivation of poria fungus beds to Temiru Farm to support the employment and independence of people with developmental disabilities. Intellectual capital focuses on establishing evidence. In fiscal 2004, the “drug fostering” program formulations were established (page 25) and in fiscal 2016, the “Growing” formulations were established (page 25). In regards to manufacturing capital, we are building up proprietary knowhow pertaining to the manufacturing of Kampo formulations which use naturally-derived crude drugs as raw materials. We can finish nearly consistent, high-quality Kampo formulations made from crude drugs that contain varying components. We already covered human capital earlier. I am confident this type of non-financial capital will be transferred over to financial capital in the process of conducting business moving forward. Tsumura is aiming achieve both a sustainable society and sustainable business operations. Our emphasis is not solely on management that enhances capital efficiency in the short term. Tsumura is always carrying out management in accordance with medium-to-long-term strategies. The current phase is prime for investment to achieve substantial growth. The capital we raise from a capital boost will be actively invested, and we expect to secure returns that outperform the increase in shares. This will contribute to the fortification of our shareholder value. Similarly, we see it as the time to further strengthen cash flow management. Owing in part to the impact from COVID-19, workstyle has changed. The method for providing information to the sales frontline is also changing. A feature of our business is a rather long supply chain. We therefore are aiming for overall optimization. This includes reviewing the manufacturing process at plant sites by introducing robotics, AI and other new technologies. While taking cost benefits fully into account, we plan to make new investments that will

shore up our strength for creating cash flow. As CFO, I am always aware of our mission to provide returns that outperform our cost of capital. Tsumura has put its production system in place thus far and increased its unit sales for the 129 prescription formulations by nearly 3-fold over the past 20 years. On a monetary basis, the growth appears gradual reflecting NHI drug price revisions. However, many medical institutions are now prescribing Kampo formulations to a large number of patients. Kampo has grown to a point where it is now an indispensable medicine for national healthcare. While continuing to expand our domestic business, I recognize that it is my role to be aware of the cost of capital in the Chinese operations, and that it is my responsibility to make investment decisions, carry out post-investment management, and to oversee operations. We aim to provide stable shareholder returns (dividends) by monitoring cash flow conditions while boosting our corporate value in the medium/long-term via continuous expansion in the domestic market and by building a foundation for our business in the Chinese market. Our share price did not achieve a major climb. For this, I deeply regret not having responded to your expectations. I think there are two major factors. The first is the NHI drug price issue in Japan, and the second is progress in Chinese operations. In Japan, although the population will shrink further out, the number of seniors will increase as will women's employment opportunities. Accordingly, we expect there is potential for an expansion in the use of Kampo medicine. The market in China is massive. We share the same philosophy with Ping An Insurance of "contributing to the health of citizens in China." Other strengths are the platform of Ping An Good Doctor and our proprietary manufacturing technology. We can sufficiently compete in the market in China if we leverage these strengths. I truly want you to understand the potential of the markets in Japan and China.

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



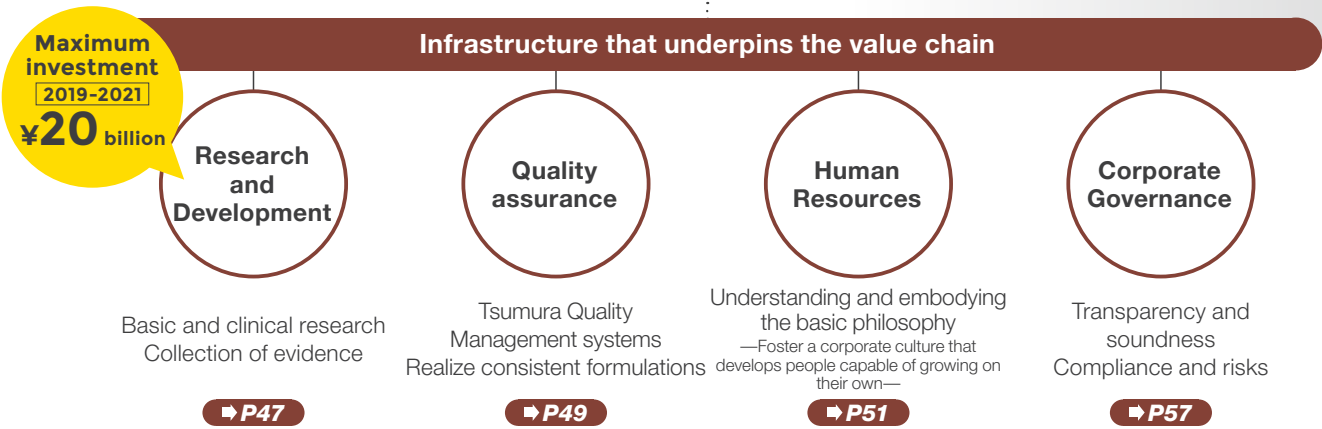
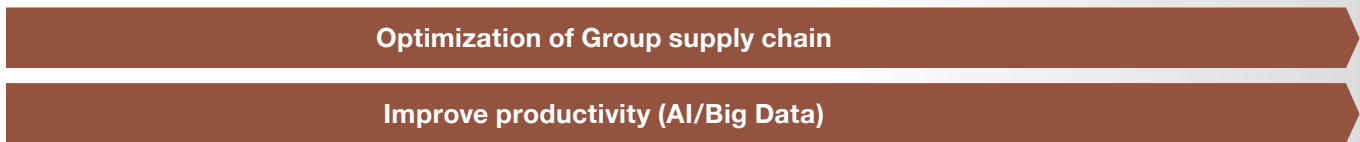
KAMPO Business Model



Maximum investment 2019-2021
¥22 billion

Maximum investment 2019-2021
¥100 billion

The Kampo Value Chain



*1: Source: Direction of Dementia Measures and Development Going Forward (Ministry of Health, Labour and Welfare) (2020 estimates)
 *2: National Cancer Center Japan, Cancer Information Service; Cancer Registration and Statistics (2020-2024 average cancer patients (estimate)), Definition of cancer prevalence: Number of people diagnosed with cancer in the past five years, and still living during the year the estimate was taken
 *3: Source: Cabinet Office (Headquarters for Japan's Economic Revitalization) Future Investment Strategy 2018, Ministry of Internal Affairs and Communications' Labour Force Survey (2020 Target figures)
 *4: Cultivated Land under Own Management refers to farms with a cultivation area above a defined amount 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 collaborative cultivation in China and contracted cultivation in Japan.

Vision

Long-term business vision

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

The "Kampo" Company

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

The "People" Company

Develop the Kampo business on our own and realize a corporate group that is trusted by people

The "Global Niche" Company, Tsumura

Establish the Kampo business in the US and China

Domestic Operations

Establishment of the concept of Kampo medicine

Chinese Operations

Become a trusted traditional Chinese medicine company in China

Overseas Sales Ratio

Over **50%**

Medium-term management plan to realize the long-term vision

2019-2021

Domestic

Sustainably expanding the Kampo market

China

Reinforcing Business Foundations in China

Net sales

Over **¥135,000 million**

Operating profit

Over **¥19.0 billion**

ROE

Over **6%**

Features of Tsumura Kampo formulations

- High-quality raw material crude drugs
- Proprietary manufacturing knowhow
- Formulations with superior consistency
- Collection of evidence
- Market share of over 80%



Benefit

Medical care and health

- ▶ Contribute to the realization of a healthcare environment where patients can receive the appropriate Kampo treatment
- ▶ Illnesses that are difficult to treat using Western medicine
- ▶ Illnesses that are difficult to treat using Western medicine
- ▶ Potential to contribute to a reduction in medical costs

Industry and regional revitalization

- ▶ Expand Cultivated Land under Own Management to revitalize primary industries and to realize the development of the sixth industry*⁵
- ▶ Revitalize local communities by expanding crude drug cultivation. (including idle farmland)

International community

- ▶ Contribution to the health of China's citizens
- ▶ In China and Laos, implement local hiring, transfer cultivation technologies and promote the establishment of an infrastructure medic

Environment

- ▶ Realize environmental preservation and a recycling-oriented society

*5 Develop of the sixth industry: Refers to a management platform where primary industries, including the agriculture and fishing industries deploy business operations in food processing and retail sales.

Long-term business vision

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

> Our STRATEGY

The Tsumura Group is undertaking the Vision for 2021, a long-term business vision. The third medium-term management plan was launched from fiscal 2020. This is the phase for actively implementing growth investments based on the theme of Creating New Value through Innovations in Kampo—Next Stage—.

The “Kampo” Company

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

The “People” Company

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

The “Global Niche” Company

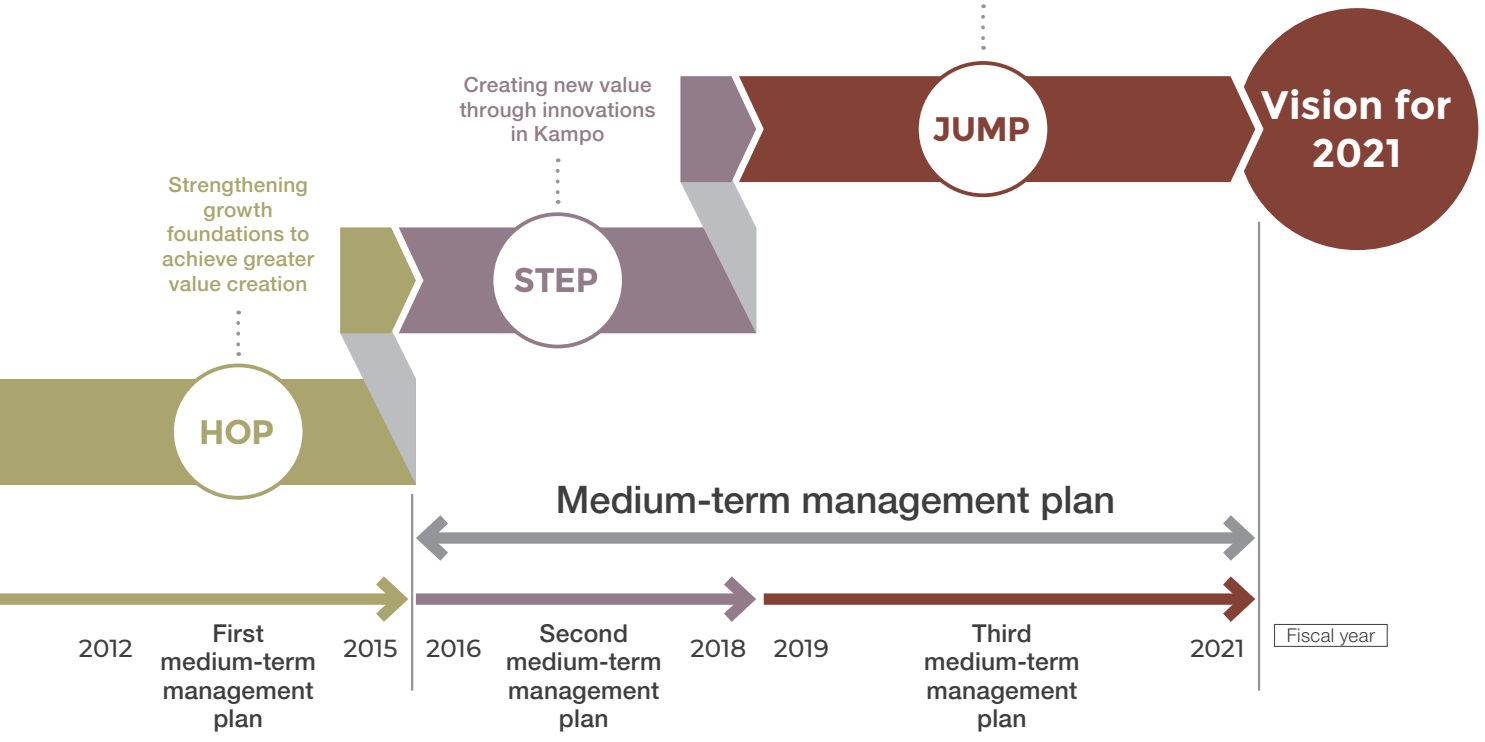
Leveraging the technology and know-how of the Tsumura Group to their fullest extent, we will take on the challenge of developing and launching TU-100 (Daikenchuto) in the U.S. pharmaceutical market as well as creating new businesses in China.



Perillae Herba fields (Hokkaido)

> Our STRATEGY

Creating new value through innovations in Kampo
 — Next Stage —



Progress with the Third Medium-Term Management Plan (Fiscal 2019–Fiscal 2021)

To accomplish its long-term vision, Tsumura will establish the concept of Kampo medicine in Japan while contributing to the health of China’s citizens through the development and sales of crude drug pieces and various other products.

Focusing on the future, we will undertake the third medium-term management plan. Our goals through this plan are to create new value and contribute to people’s health by means of Kampo innovation while simultaneously maximizing long-term profit growth.

Sustainably expanding the Kampo market

Reinforcing Business Foundations in China

Strategy outcome/
Realize long-term vision

Social Issues

The “**Kampo**”
Company

The “**People**”
Company

The “**Global Niche**”
Company

Super-aging Society

Increase in Healthcare Spending

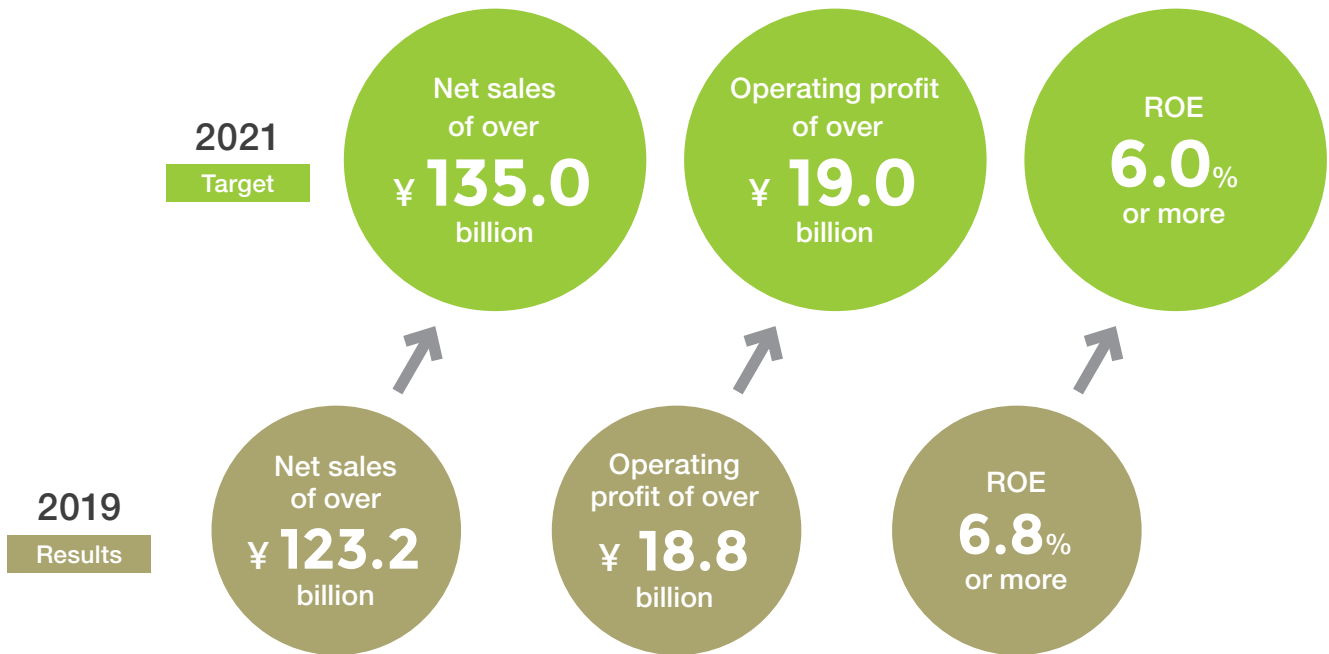
Changes in Disease Structures

Increase in cases of dementia and disorders unique to women

Declines of Primary Industries

Climate Change

Depletion of Water Resources



Strategic Challenges

To achieve the third medium-term management plan, we plan to improve our corporate value along with realizing sustainable growth by undertaking the five strategic challenges.

1 Ongoing expansion of Kampo market and establishment of presence therein

Establishment the presence of Kampo treatments in national healthcare in Japan

2 Investing in growth and building business foundations in China

Aim to realize net sales of 10.0 billion yuan in fiscal 2027 and undertake active investments and build a business infrastructure

3 Improving productivity using new technologies (AI, Automation, and RPA)*¹

Further improve labor productivity not only at manufacturing facilities but also in crude drug processing, selection and various paperwork

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

Nurture the Tsumura Group-wide corporate culture and develop diverse human resources that respect each employee's character and individuality by implementing philosophy-based management

5 Promoting the SDGs through the Kampo value chain ^{*2}

Actions to create value that is shared between society and the Kampo business

*1: RPA is an abbreviation for Robotic Process Automation

*2: SDGs is an abbreviation for Sustainable Development Goals, which were selected by the United Nations

Ongoing expansion of Kampo market and establishment of presence therein

Kampo market trends

The growth in the production value for prescription Kampo formulations is around 5-fold the growth rate of ethical pharmaceuticals overall. This shows that Kampo is indispensable in the healthcare environment in Japan. We believe that the demand for Kampo will rise going forward.

	Production value (million yen)		Change year on year		Composition	
	2018	2017	Change		2018	2017
Prescription pharmaceuticals	6,172,570	6,007,417	165,151	2.7%	100.0%	100.0%
Prescription Kampo formulations	144,813	127,271	17,542	13.8%	2.3%	2.1%

*Source: 2018 Statistics of Production by Pharmaceutical Industry, Ministry of Health, Labour and Welfare

Strategy roadmap

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

To create this medical environment, we aim to realize a situation in which one in two physicians is able to prescribe at least 10 or more Kampo formulations. As of the end of fiscal 2020, there were around 320,000 clinical physicians in Japan. Of this, our survey estimates there are around 45,000 physicians that distinguishes between the use of 10 or more Kampo formulations. Around 800 MRs are conducting activities to provide information to physicians in this manner and to expand their circles.



Sales measures

Geriatric health, cancer (supportive care^{*1}) and women's health are being positioned as the three important domains. We are deploying a sales approach by focusing activities into the "drug fostering" program formulations, "growing" formulations and the three important domains.

Geriatric Health	Cancer (Supportive Care)	Women's Health
Psychiatric and neurological disorders Yokukansan D + Associated formulations	Mitigation of side effects, etc. Rikkunshito D Hangeshashinto D Goshajinkigan D + Associated formulations	Diseases specific to women Kamishoyosan G + Associated formulations
Respiratory diseases Bakumondoto G + Associated formulations		Other diseases and symptoms Daikenchuto D Goreisan G + Associated formulations
Peripheral symptoms in patients with cardiovascular diseases Goreisan G + Associated formulations	<p>D "Drug fostering" program formulations Looking at the recent structures of diseases, the Company has selected certain diseases in fields where medical treatment needs are high that are difficult to treat with Western drugs and for which Kampo products have demonstrated special efficacy. The Company will establish a base of scientific evidence related to treating these diseases with Kampo medicine.</p> <p>G "Growing" formulations These formulations are growth drivers that the Company aims to have listed in medical treatment guidelines as strategic formulations following the five "drug fostering" program formulations through the establishment of scientific evidence (data on safety, efficacy, etc.) in fields where satisfaction toward treatment and the contribution of medicine are low.</p>	

*1: Supportive care: Treatment, mainly to alleviate symptoms accompanying cancer and symptoms of side-effects due to cancer treatment

Geriatric Health

Given the increase in the population of seniors, we believe that Kampo medicine can contribute to illnesses (multiple complaints, multiple illnesses) that are unique to seniors. For example, when a senior suffers from frailty, which is the interim phase when transitioning from a healthy state to one requiring nursing care, Kampo medicines are expected to be beneficial in helping a senior to return to a healthy state or to delay the transition to a condition where the senior will require nursing care. In addition, Kampo can be used to improve the behavioral and psychological symptoms of dementia, including arousal and aggression. This is reported not only to help alleviate the symptoms of patients but also the burden on caregivers.* Kampo medicines, including multi-component medicines, are expected to provide several benefits from one formulation. Demand is likely to gradually expand.



Cancer (Supportive Care)

Kampo, which is whole person healthcare based on the concept of the mind and body as one, is gathering expectation as supportive care for cancer. Kampo medicines are effective at reducing the side effects of cancer treatment. In actuality, incorporating Kampo into cancer therapy alleviates side-effects. There are also reports that the use of Kampo improves the success rate of treatments. Tsumura, through the use of Kampo, is contributing to various social issues, including treatment of individuals with a prevalence of cancer and support for individuals that desire to continue work.



Women's Health

Women are prone to various symptoms as a result of hormonal imbalances arising from changes in life stages. Even today, Kampo medicine is frequently prescribed to women*2. In tandem with the increase in the percentage of women joining the workforce, it is forecast that demand will rise from the younger generation, which wants to remain healthy and continue to work. To respond to these expectations, Tsumura is promoting the provision of accurate information while advancing education on Kampo medicine at women's outpatient clinics and other facilities. We thereby aim to help empower women to participate in the workforce while expanding the Kampo market.



*2 No. 4 NDB open data (Ministry of Health, Labour and Welfare)

Investing in growth and building business foundations in China

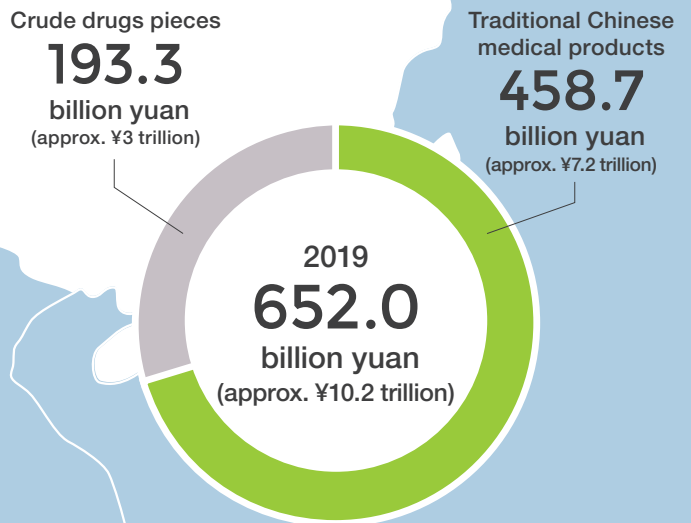
As the “Global Niche” Company, one of the strategic challenges set out in Tsumura’s medium-term management plan is to invest in the growth and reinforcement of business foundations in China, to contribute to the health of people in the country while also raising Tsumura’s corporate value. Accordingly, we have been steadily investing in growth and strengthening the business foundations in China. In 2027, we aim to grow overseas sales to a level that accounts for more than 50% of sales for the entire Tsumura Group.

Chinese Business

Become a trusted traditional Chinese medicine company in China

As of 2019, the scale of the market for traditional Chinese medicines in China is about 652 billion yuan (about ¥10.2 trillion). This includes both traditional Chinese medicines and crude drugs. The growth in this market outperforms that of Japan’s prescription Kampo product market, whose total value amounts to over ¥10 trillion. There are around 3,000 Chinese domestic manufacturers, and there is no market leader with a share of 3% or above. Given rising demand among citizens in China for high-quality Kampo formulations, we aim to become a leading, trusted pharmaceutical company in traditional Chinese medicine with strong brand power by leveraging our know-how and alliances with local partners, including Ping An Insurance (Group) Company of China, as strengths. In this manner, we look to contribute to the health of the people in China while ensuring stable procurement of crude drugs going forward.

Scale of the traditional Chinese medicine market in China



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

> Our STRATEGY

1

Contribution to the health of China’s citizens

Social issues in China
Changes in Disease Structures
Eradicate impoverished areas

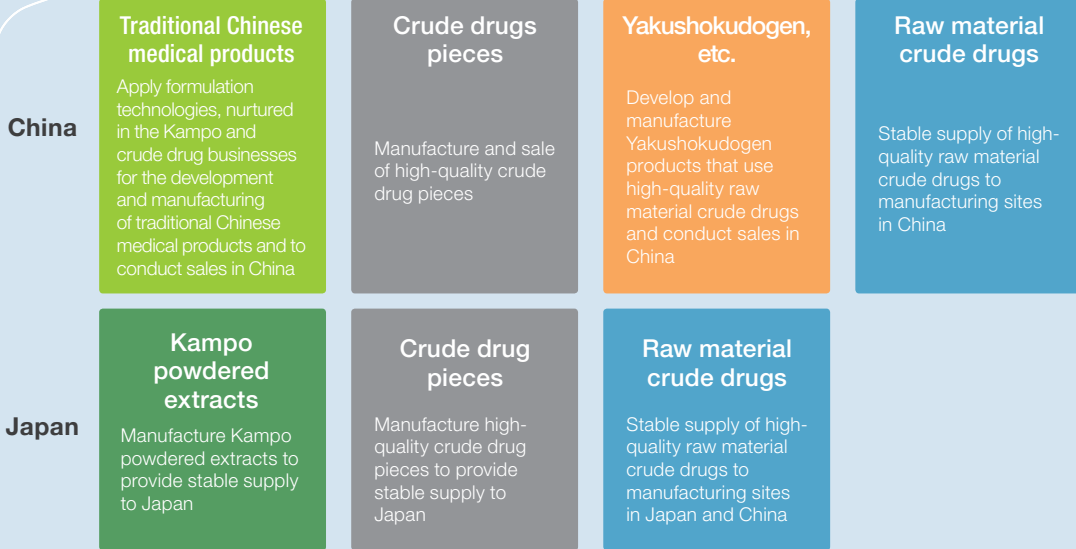
2

Stable procurement of crude drugs

Reinforce production and procurement systems

Structure of business operations in China and building systems

Progress with Businesses in China

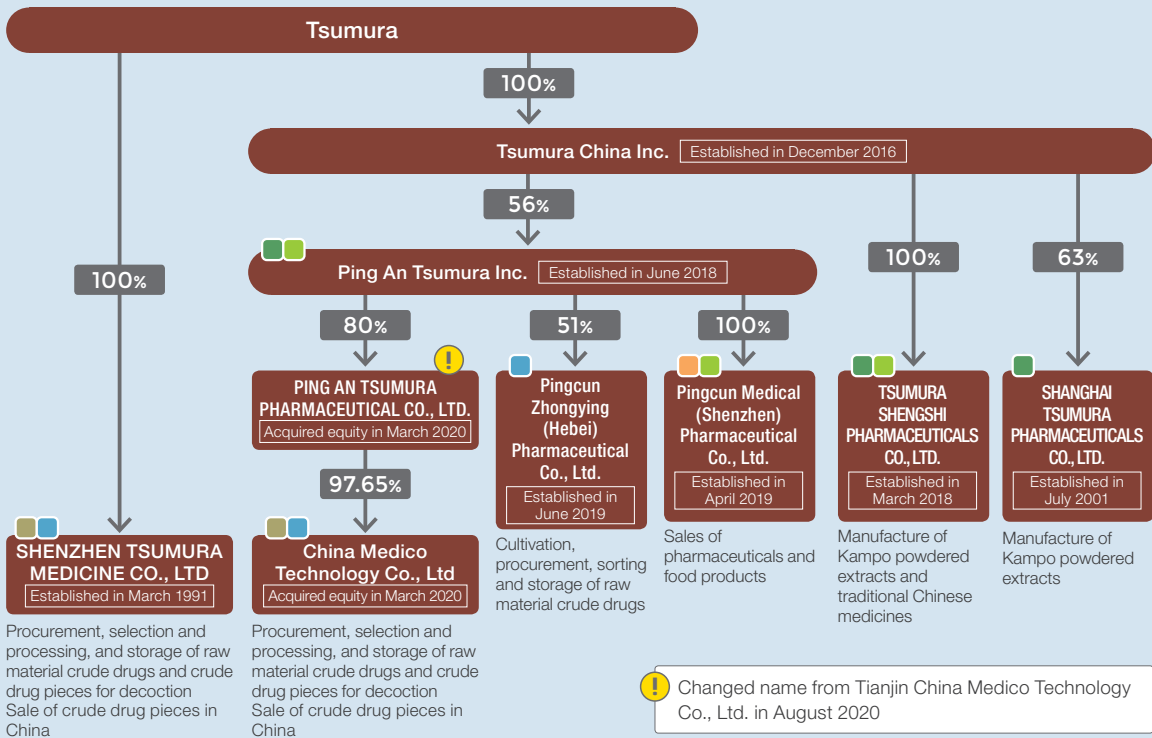


Analysis & research

Enhancing trust related to product quality and improving added value are the cornerstone for establishing a brand for each business

China business system and capital alliance: Ownership ratios

as of September 2020



Chinese Operations concept being implemented by Ping An Tsumura

The basis of Tsumura's business is stable procurement of high-quality crude drugs. First, concurrent with handling the procurement of raw material crude drugs for Japan by incorporating Tianjin China Medico Technology* to the Tsumura Group, we launched a crude drug platform function that facilitates the procurement and supply of crude drugs throughout China.

In carrying out Chinese operations, we will continue to manufacture and sell final products that are safe, secure and high quality as we do in Japan. We also need to create a market in China. Tsumura is considering new M&A deals for entering the traditional Chinese medical products business.

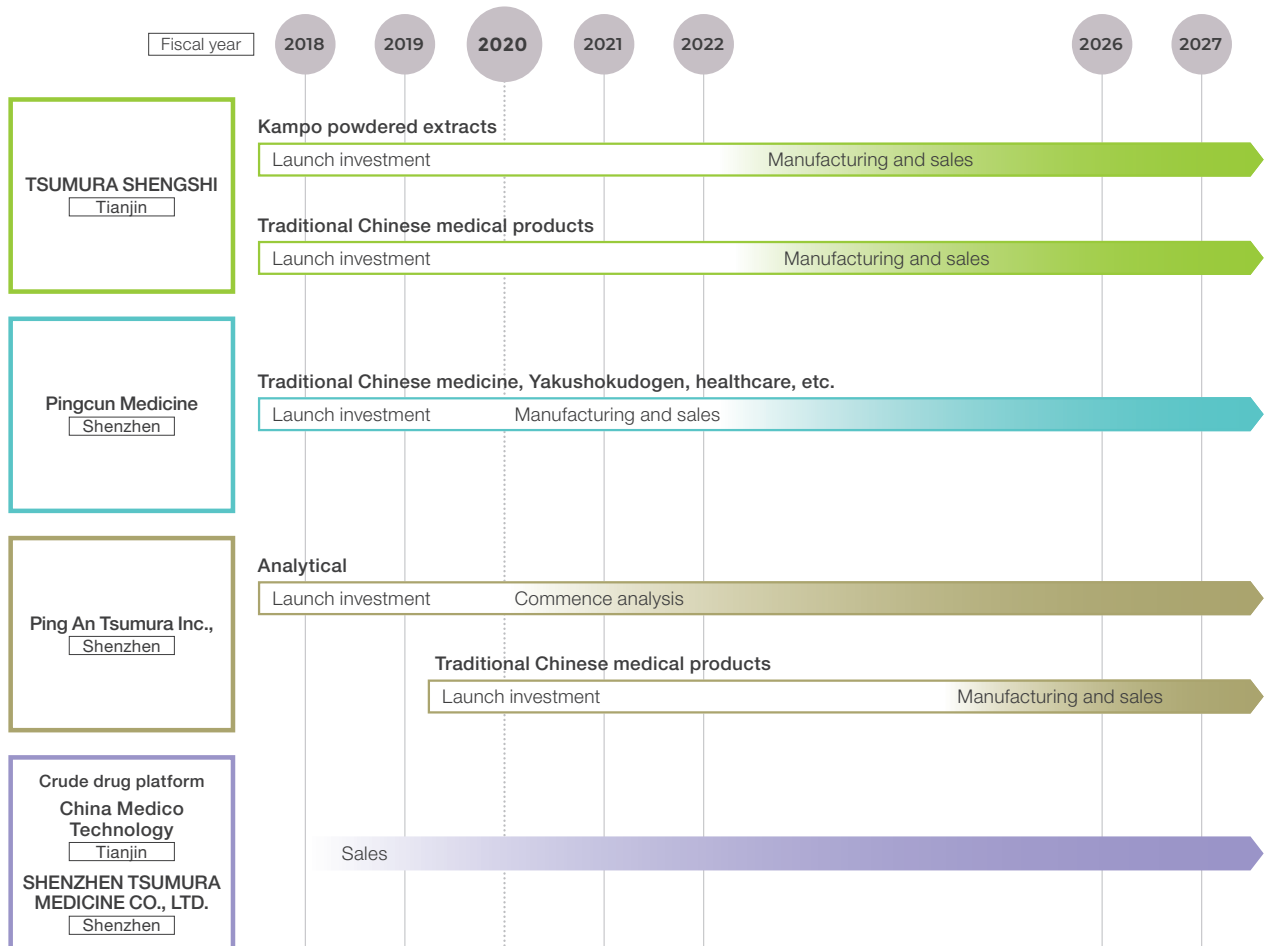
We will combine the high-quality raw material crude drugs supplied from the crude drug platform with our manufacturing knowhow to produce high-quality traditional Chinese medical products and sell them

throughout China. In carrying out these sales, we plan to use Ping An Doctor's remote medical platform, which is the largest in world. Ping An Doctor is owned by Ping An Insurance (Group) Company of China. We also plan to leverage Ping An Doctor's customer base of 200 million people. Furthermore, the company's world leading digital technology will contribute to Tsumura's competitive advantage. Underpinning this is the analysis and research center. This is the cornerstone for establishing a brand in each business by bolstering customer trust in product quality and increasing added value.

The crude drug platform function has been launched and steady progress is being made in manufacturing and sales. We are pushing forward with the creation of a market in which we aim become the most trusted traditional Chinese medicine company in China.

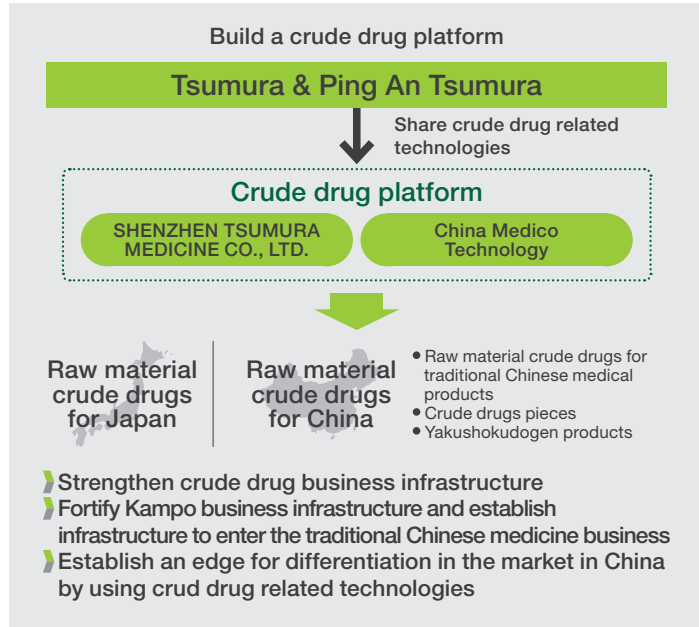
*See page 28

Business schedule for each company in Chinese Operations



Close Up! 1 Incorporating China Medico Technology into the Group and building a crude drug platform

In March 2020, Tianjin China Medico Technology became a part of the Tsumura Group. The company is China's largest exporter of crude drugs to Japan and was also a business partner of Tsumura. As a result, we were able to bring under consolidation those companies in production areas for northern crude drugs, such as Jilin Lincun and Baishan Lincun which were under the auspices of China Medico Technology. Through this capital alliance, Tsumura will be able to fortify the stable supply system for crude drugs to be exported to Japan, strengthening the stable supply system for crude drugs to be used in Chinese operations (traditional Chinese medical product), and acquire human resources with abundant experience in the traditional Chinese medicine industry.



Close Up! 2 All directors visit the Ping An Insurance (Group) Company of China

In September 2019, all the directors of Tsumura visited the headquarters of the Ping An Insurance (Group) Company of China in Shenzhen. We discussed future strategies with Chairman and CEO Ma Mingzhe, Co-CEO Jessica Tan, and other key members of the management team.

We also visited Ping An Good Doctor in Shanghai. We held a meeting with executive members.

Tsumura, with its strength in manufacturing, and Ping An Insurance, with its solid customer base and expertise in cutting-edge digital technology, will partner up to successfully carry out the Chinese operations.



With Ping An Insurance (Group) Company of China, Chairman and CEO Ma Mingzhe, Co-CEO Jessica Tan (8th and 9th from the left) and other executives



With Executive management of Ping An Good Doctor

Amid COVID-19 pandemic, the medium-term management plan is progressing smoothly, and the business infrastructure in China is being established

Director, Managing Executive Officer, and COO
Susumu Adachi



Since the start of 2020, various types of businesses and companies have been impacted in some manner by COVID-19. Business activities thought commonplace thus far have undergone significant changes. Impact is arising in the pharmaceutical industry. This reflects a reduction in the number of patients receiving medical exams and difficulty for hospitals to conduct routine medical treatment. Also, at many hospitals, there has been a decline in the number of new drugs being administered. Moreover, in addition to refraining from conducting visits, stricter regulations for visiting large hospitals in particular, are cutting back traditional MR visitation activities.

At Tsumura, a mix of traditional MR visitation activities and online seminar and e-promotion activities is getting on track. At this stage, owing in part to these combined information provision activities, the impact was not as serious as we initially believed. The third medium-term management plan, which is currently underway, is not in a situation where it warrants review. However, given the end of this pandemic cannot be forecast, we are not being optimistic. We are enlisting the entire Company and building an optimal operations system at a rapid pace under the new normal. This includes enhancing the environment for telework. Also, we are taking the utmost care in managing our cost and cash flows to be prepared in case of sudden changes in the environment or unexpected expenditures.

Sales in fiscal 2020, the first year of the third medium-term management plan, totaled ¥123.2 billion, a growth of 2% year on year. In the Chinese operations, growth investments and building of a business infrastructure in China, a strategic challenge, and our plan to reach sales of 240 million yuan in fiscal 2022 are progressing in line with plans.

The Kampo medicine market in Japan still has substantial leeway for growth. In the long-term business vision, we aim to have one in every two physicians writing over 10 Kampo prescriptions. At present, this is equivalent to about five times the current level but it is not an unreasonable goal. Factoring in communications with many medical professionals and our many years of research experience, we are confident that many patients will be helped by the further popularization of incorporating Kampo into treatments. Owing to the “ongoing expansion of Kampo market and establishment of presence therein,” a strategic challenge in the medium-term management plan, this fact is being deeply recognized by all medical professionals, including physicians, as well as the general public. We believe this recognition will certainly bring us closer to

realizing our vision.

In March 2020, Tianjin China Medico Technology* was consolidated into the Tsumura Group. In addition to this, the crude drug platform was launched. The key to reinforcing business foundations in China, a strategic challenge in the medium-term management plan, is the stable procurement of crude drugs in the future. Tsumura, over the past 40 years, has been stably procuring crude drugs from China. However, given the government’s policy to develop the traditional Chinese medicine industry, there is growing demand for crude drugs in China. Consequently, we must strengthen our procurement capabilities from China more than ever. Tianjin China Medico Technology is one of the most influential crude drug-related companies in China today based on various aspects, including its overwhelming crude drug supply capabilities, quality control, crude drug cultivation research and human resources/organization. Having Tianjin China Medico Technology join the Tsumura Group has had an immeasurable benefit to alleviating the risk to crude drug procurement, not only for operations in Japan but in the development of Chinese operations as well.

The most significant factor of alliance with Tianjin China Medico Technology is that Mr. Li Gang will participate in the Group’s business management in China. Li Gang, the founder of Tianjin China Medico Technology, originally worked at a giant state-owned enterprise in China. In his thirties, he has climbed to the upper echelons of the management of one of the famous pharmaceutical companies in China. However, he possessed his own independent business mind and pursued his own vision. I have had close ties with Mr. Li since I was assigned to Shanghai Tsumura Pharmaceutical. Since that time, his earnest pursuit of the quality sought by Tsumura was completely different than any other.

Mr. Li Gang is familiar not only with quality but with marketing for the crude drug business overall. He is a highly skilled executive that possesses a high cost awareness. With Mr. Li as the person in charge of the crude drug platform, there will be stable supply of raw material crude drugs to Japan going forward. In addition, by further strengthening the external sales routes in China possessed by China Medico Technology, our crude drug and crude drug pieces business in China will likely expand going forward. And, we aim to achieve the medium-term management plan and establish a solid position in China.

*See page 28

Interview

Contribute to the health of China's citizens

PING AN TSUMURA
PHARMACEUTICAL CO.,LTD
CEO, Li Gang



Q What has been most important in the development of China Medico Technology thus far?

The most important factors were not to forget our original intentions, our mission to provide high-quality traditional Chinese medicines to the people of China, and the employees who poured in their heart and soul and devoted all their energies to this mission. Based on this mission, we have pursued product quality and endeavored to give back to society through the sound and sustainable development of the industry. China Medico Technology is confident that it is becoming a company that is trusted by people.

Q What are the strengths of China Medico Technology?

The five core strengths of China Medico Technology are listed below.

- ① Maintains superiority in upstream management and control of crude drugs through cultivation bases, which are at the core of strategic resources
- ② Possesses high-quality products guaranteed by a quality control system
- ③ The China Medico Technology brand has a high profile in the field of traditional Chinese medicine material and crude drug pieces
- ④ Focuses on R&D capabilities and is leading the industry in the fields of standardization and other areas
- ⑤ The employees of China Medico Technology have a high sense of responsibility and always aspire to improve

Q What is your impression of Tsumura?

As a leading manufacturer of Kampo, Tsumura consistently pursues the highest level of quality, including employing a traceability system, establishing/executing a GACP management system, implementing a quality control system at each stage of cultivation, processing, inspection and production. This ensures the safety, effectiveness and consistency of its Kampo products. This corporate attitude is worthy of respect and should be learned from.

Q What are your thoughts now that your company has joined the Tsumura Group and are undertaking the traditional Chinese medicine business based on stronger cooperative ties?

Through this capital alliance, in addition to maintaining a stable supply of crude drugs to the Tsumura Group, I also feel a strong sense of mission and responsibility for improving the overall quality standards of traditional Chinese medicines in China by establishing a crude drug platform for Tsumura in China, and carrying out quality control for crude drugs and the comprehensive management of production areas.

Q What made you decide on joining the Tsumura Group?

Contribution to the health of China's citizens is a philosophy shared with Tsumura. Given we have had a business alliance with Tsumura for many years, I fully understood Tsumura's strict commitment to quality. It also has an advantage for building evidence in research for Kampo, and has future prospects for the development of business in China. Through this alliance, we will introduce an integrated quality control system for traditional Chinese medicine, spanning from crude drug cultivation to final products, promote the development of the traditional Chinese medicine business in China, and provide safe and high-quality Chinese medicine and health products for consumers in China. Accordingly, a determining point is the conviction that we can become the most trusted traditional Chinese medicine company in China.

Q How do you plan to change PING AN TSUMURA PHARMACEUTICAL owing to this alliance?

We need innovation to realize our mission of providing high-quality traditional Chinese medicine to consumers in China. Tsumura has 127 years of history. Regardless, Tsumura continues to pursue and refine its institutional system while pursuing perfection in every detail. I look forward to having China Medico Technology's employees learn and absorb this diligent attitude, spare no effort to respond promptly to issues, and further leverage the spirit of reform to bring about innovations. China Medico Technology maintains strategies and goals that focus on "better guaranteeing the stable supply of crude drugs to the Tsumura Group as well as developing the market in China in the fields of traditional Chinese medicine material, crude drug pieces, healthcare and other products, and securing a position as industry leader within the next five years. Backed by this, we aim to build an adaptable system that meets market needs, be full of vitality, and can act and react quickly. We plan to create a brand that is strongly trusted by people, and quickly move forward with business development and group value creation.

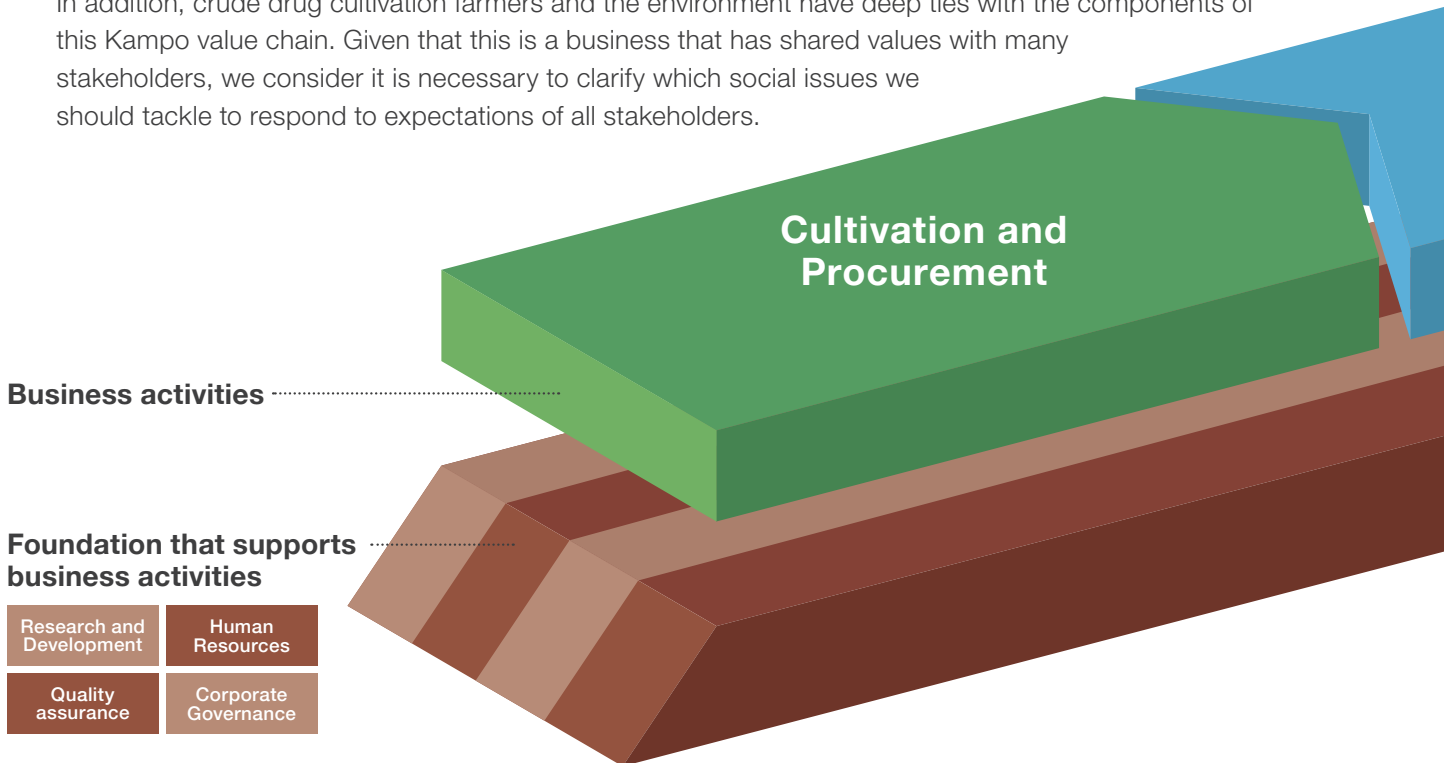
The Kampo Value Chain

Create diverse value through Kampo and crude drug businesses

Tsumura delivers Kampo formulations to medical institutions and patients after going through the process (Kampo value chain) of cultivating and procuring crude drugs, which are the raw materials used in Kampo formulations, manufacturing and selling extract formulations, educating and popularizing Kampo, conducting research and development, and quality assurance.

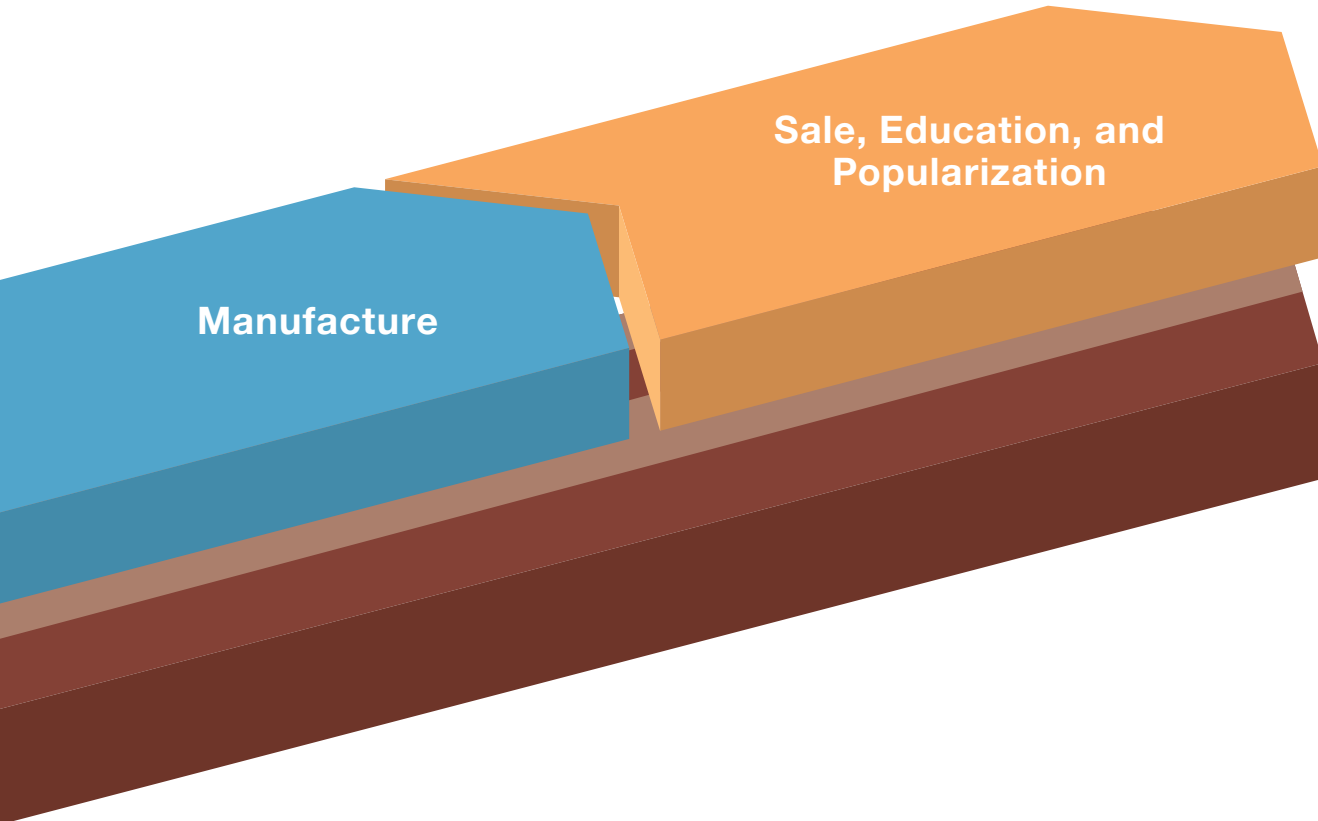
The consistent management of these types of business activities from upstream to downstream is the source of our competitive edge in the stable supply of high-quality Kampo formulations.

In addition, crude drug cultivation farmers and the environment have deep ties with the components of this Kampo value chain. Given that this is a business that has shared values with many stakeholders, we consider it is necessary to clarify which social issues we should tackle to respond to expectations of all stakeholders.



Competitive edge

Cultivation and Procurement	Manufacture	Sale, Education, and Popularization
Management of crude drug production in line with Tsumura GACP	Productivity improvements that utilize new technologies, including automation and AI	Increase the number of physicians that prescribe Kampo by implementing Kampo medicine education
Operate a crude drug traceability system		Consistent support for Kampo medicine education at university medical departments and medical colleges including those beginning before graduation and immediately after graduation and post-graduation
Cultivation and expansion by using Cultivated Land under Own Management	Optimization of inventory quantity and allocation by promoting supply chain management reforms	Focal activities, including medical needs for patients with low treatment satisfaction
Develop a double track framework comprising suitable land for cultivation and production areas in China, Japan and Laos	Incorporate a recycling system and promote effective use and preservation of water and other resources	Build evidence to enhance treatment benefits (safety and efficacy)
Improve harvest yield and achieve stabilization by introducing a cultivation management system		The popularization of Kampo and Kampo educational activities for the general public
Joint research with China Academy of China Medical Sciences and others (Research on the development of cultivation of wild crude drugs in China)		



Promoting Value Creation through the Kampo Value Chain

The Tsumura Group looks to contribute to the realization of a sustainable society by creating value that is shared between society and the Kampo business through the Group's value creation cycle centered on the Kampo value chain. In addition, distinctive initiatives will be advanced across the Kampo value chain to aid in the accomplishment of the United Nations Sustainable Development Goals (SDGs), thereby enabling Tsumura to become a value-creating company that continues to grow together with society.

Distinctive Initiatives across the Kampo Value Chain

- Further investigate the efficacy of Kampo, address various disease structures, and contribute to the health and welfare of even more people
- Implement a recycling system, including turning crude drug residuals into valuables and improve the reuse rate of water
- Sustainable use of natural resources through the cultivation and research of crude drugs
- Create employment opportunities in production areas and link between agriculture and welfare

Cultivation and Procurement

Cultivation and Procurement

The ability to stably secure supplies of high-quality raw material crude drugs is imperative to the manufacture of Kampo products. Tsumura sources roughly 80% of the raw material crude drugs used in its Kampo products from China, approximately 15% from Japan, and around 5% from Laos, among other countries. The company is drafting and executing medium/long-term procurement plans based on long-term demand forecasts for Kampo formulations to ensure that crude drugs of a consistent quality are stably secured. In addition, Tsumura is working to expand the range of regions from which it procures crude drugs, both in Japan and overseas, and also to bolster its processing and quality management capabilities. In addition, as a new technology to improve productivity, we are undertaking the introduction of a cultivation management system. We are aiming to further improve our harvest yield and stabilize our supply of crude drugs. In recent years, the rise in crude drug prices is also having a heavy impact on the Company's earnings. We are tackling measures that center around the expansion of Cultivated Land under Own Management to stabilize procurement prices.

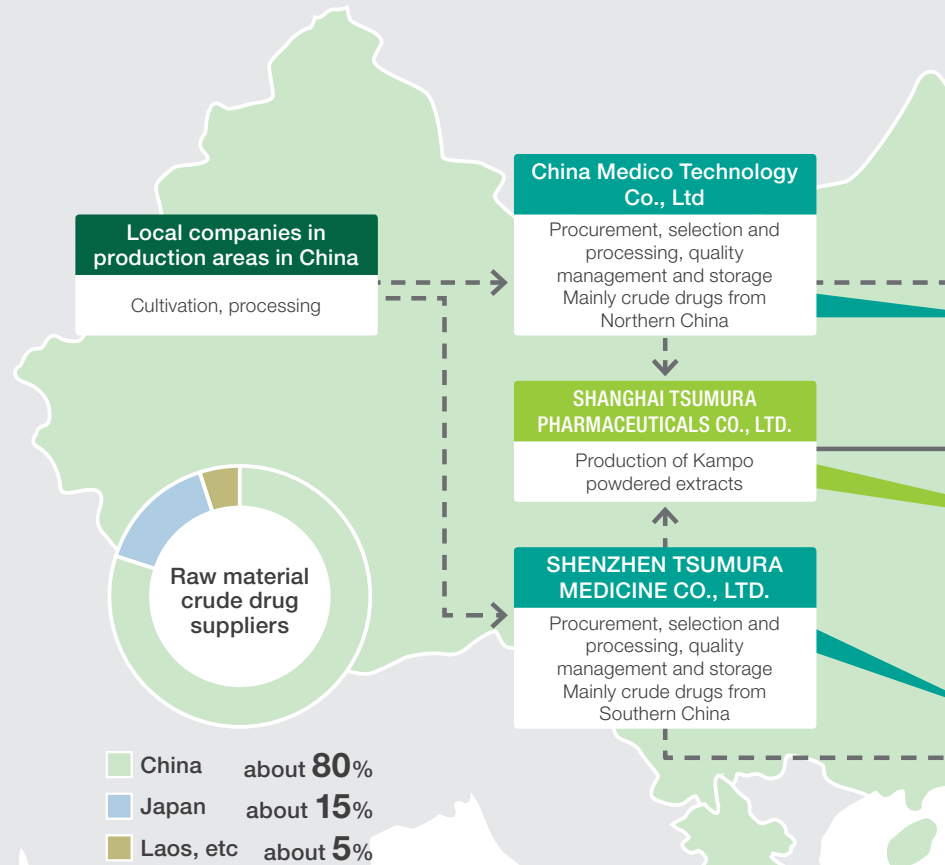
> Our STRATEGY



Onidii Rhizoma fields (Hokkaido)

1 Raw material crude drug cultivation and procurement

To ensure quality as raw material crude drugs for pharmaceutical products, we manage the cultivation methods, processing methods and the use of agrochemicals in accordance with the TSUMURA Good Agricultural and Collection Practice (GACP). Even for crude drugs grown in the wild, we manage the areas where they are collected, collectors and processing methods.



Reliable Crude Drug Procurement Based on Cultivation Contracts

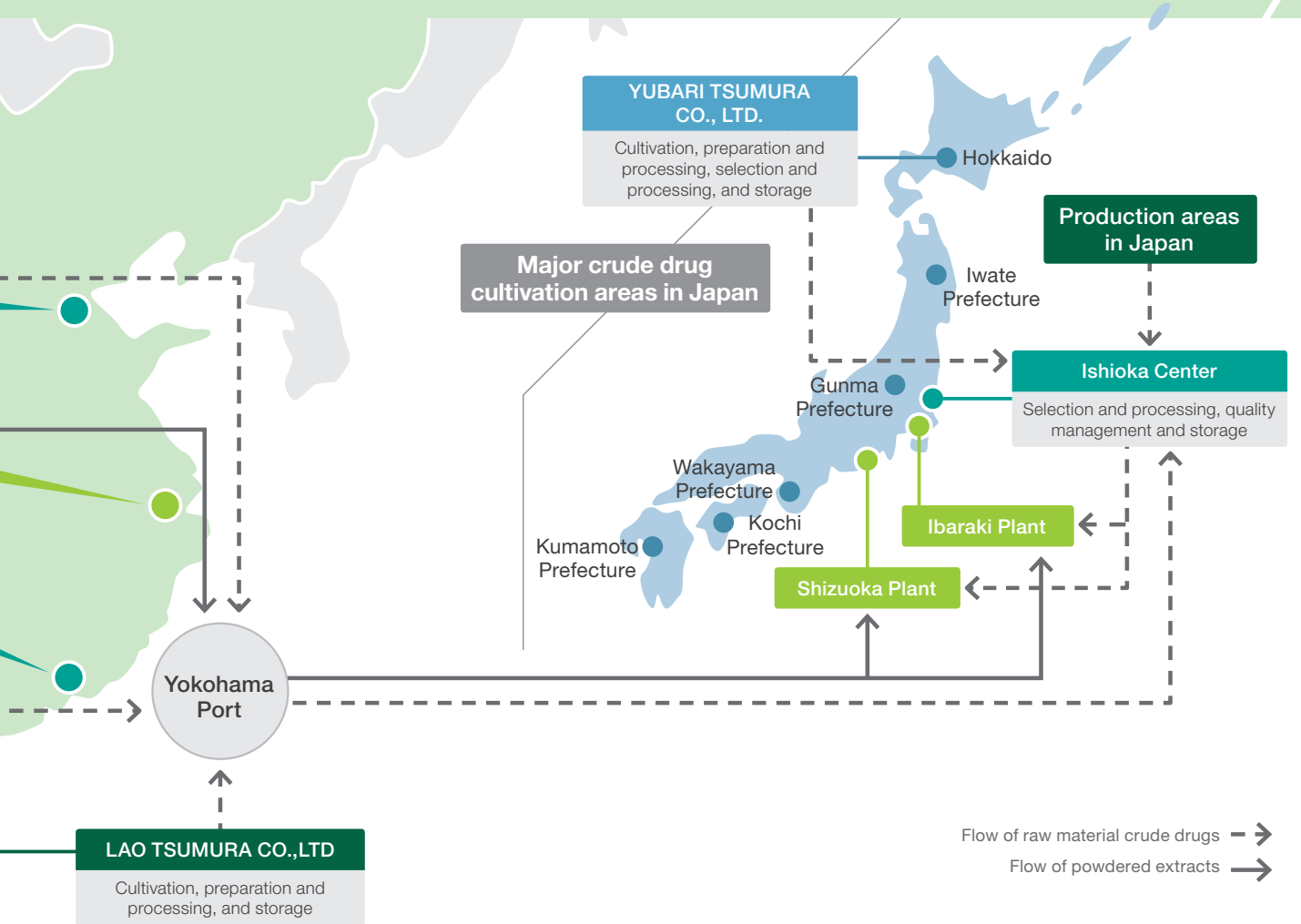
Tsumura only procures raw material crude drugs for Kampo formulations from suppliers who comply and operate in line with the Standard of Botanical Raw Material Production to ensure quality. These standards stipulate factors, including the cultivation and processing methods and use of agrochemicals, as designated under the TSUMURA GACP.

Tsumura stably procures crude drugs by making arrangements with suppliers in advance, including for the procurement amount and pricing, based on long-term demand forecasts for Kampo formulations. In addition, one issue is that young people do not find agriculture appealing due to aspects such as unstable income and hard labor. Consequently, young people do not enter the field of agriculture. A system is necessary to stabilize income to protect and nurture agriculture.

In principle, Tsumura enters into contracts to purchase the entire amount of crude drug for which quality is secured. This has enabled stable and continuous cultivation for agriculturalists. In this way, we are working to stabilize the cost of crude drugs as well as ensure stable procurement of raw material crude drugs.



Tsumura has installed frameworks for procuring crude drugs directly from producing regions in Japan, China, and other locations. Crude drugs are not procured from markets. This decision was prefaced on the importance of clearly identifying producing regions and production processes, to ensure the quality and safety of crude drugs through procurement based on our belief that the quality of Kampo products begins from the growing fields.



Our STRATEGY



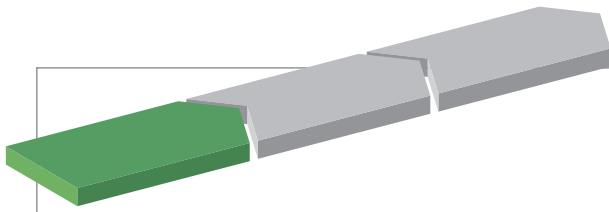
Environment | Social

Creation of Social Value through Crude Drug Cultivation

The Tsumura Group's ability to procure crude drugs is supported by the efforts of more than 10,000 producers. The source of the competitive edge in Tsumura's Kampo business is its ties with production groups that were formed over many years. Focusing on future expansion in product demand, the company is working to continue and optimize these ties. Tsumura is undertaking solutions to social issues, mainly by contributing to the stability of the lives of agricultural workers and to regional revitalization, as well as the preservation of the abundant environment which nurtures medicinal plants, which are the raw material for crude drugs.

Example of contribution to the Tsumura Group's regional revitalization

- Support the implementation of a business model that is a forerunner of the sixth industry
- Contribute to an expansion in employment opportunities for differently abled individuals
- Tosa Tsumura's Forest—preservation of the environment for crude drug cultivation land and education for the next generation
- In areas surrounding cultivation land in Laos, carrying out bomb disposal, support the construction of schools and establish infrastructure



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 matter or defective products mixed in, and are delivered to the Tsumura Group.



Processing of Shakuyaku (Producing company in China)



Dryer (YUBARI TSUMURA)

Improvement of Crude Drug Cultivation Technologies

Tsumura is conducting research with the aim of achieving 100% cultivation of plant-based crude drugs through development of cultivation technologies. In addition to research into the cultivation of crude drugs grown in the wild, we are also researching the improvement of harvest yields and quality stabilization on our own and in partnership with affiliate organizations.

As a result of this research, Tsumura has been able to switch completely to artificial cultivation for wild-grown ephedra herb, a crude drug used in Kakkonto and other Kampo formulations. In addition, we are improving the precision of cultivation technologies for licorice, a crude drug which is used in about 70% of the total 129 formulations we manufacture and sell. We are also carrying out research for sustainable cultivation methods for ginseng, used in formulations such as Rikkunshito, that do not require deforestation.

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)



Selecting operation (Ishioka Center)

Actions to Expand Crude Drug Production in Japan

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

Continued Expansion of Cultivated Land under Own Management

The ongoing expansion of Cultivated Land under Own Management is part of Tsumura's efforts to stabilize crude drug prices and bolster its quality assurance capabilities. Cultivated Land under Own Management refers to farms with a cultivation area above a defined amount 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.



Along with Manufacturers

- Contribute to improving quality of life through the cultivation of crude drugs -

The Chinese government is pouring energies into policies to improve living standards in impoverished areas. Many people residing in mountainous areas where crude drugs are cultivated live in poverty. The Tsumura Group is tackling issues common to the Kampo and crude drug businesses.

Here are examples of contributions to improving the quality of living standards of producers in China.

Domestication of wild Chinese rhubarb (da-huang)

Aba, Zoige, Sichuan Province, the location of Tuan Jie Cun, a village which serves as a Chinese rhubarb (da-huang) cultivation base, is a production area that has been abundant with wild Chinese rhubarb since olden times.

In partnership with local companies, a project was carried out to undertake the cultivation of wild Chinese rhubarb in this area. Accordingly, Tsumura built a series of industrial chains for cultivation, harvesting and processing. The number of producers has also increased with the expansion of the area under cultivation. As a result, annual salaries per given area also substantially rose for farmers. At present, we are working to stabilize our harvest yield

by further expanding the acreage being cultivated. Moreover, in line with this, there has been a decline in excessive harvesting of wild Chinese rhubarb. This is a successful example of contribution to protection of the environment.

This achievement was highly evaluated by the Chinese government. Aba provided support in the form of subsidies to the Chinese rhubarb cultivation as an industry that helps the eradication of poverty. In addition, special support funds were distributed to expand the scale of the Tuan Jie Cun crude drug processing plant.



Before : Prior to the cultivation of Chinese rhubarb (da-huang)



After : After the cultivation of Chinese rhubarb (da-huang)

Comparison of annual income per 1 hectare (10,000m²) at farmers

Previous	At time of cultivation of hull-less barley and rapeseed plants: 7,500-9,000 yuan/hectare
At present	At time of cultivation of Chinese rhubarb (da-huang): 21,000-30,000 yuan/hectare



Creating a new industry

- Construction of a large-scale ginseng processing plant -

Since 2012, we have been constructing ginseng cultivation base jointly with China Medico, a subsidiary of China Medico Technology.

China Medico established Baishan Lincun Traditional Chinese Medicines Development Co., Ltd. (hereinafter referred to as Hakusan Hayashimura), which boasts the largest scale for ginseng processing and storage scale in China, in Jingyu County, Baishan City, Jilin Province as a leader of ginseng. Jingyu, Baishan, Jilin Province, where ginseng is cultivated, is an area with a high rate of poverty in China. The plant created many jobs and contributed to improving the quality of life for people by bringing economic benefits to the local community.

We will implement our strict quality control and traceability system in ginseng production. This will also contribute to the brand strength of Changbaishan ginseng, including the acquisition of a group standard owing to certification by the association for traditional Chinese medicine in China for producing pollution-free ginseng medicinal materials and crude drug pieces compared with the maximum residue limits for agrochemicals, heavy metals and hazardous elements. These initiatives have been highly evaluated and supported by Baishan and Jingyu, and have become an ideal model for a sustainable regional industry.

*See page 28

Realize sustainable farming

- Upland cultivation of ginseng -

Baishan Lincun Traditional Chinese Medicines Development Co., Ltd. (Baishan Lincun), which became a part of the Tsumura Group in 2020, is undertaking the artificial cultivation of ginseng in Jilin and Liaoning since 2016.

Traditionally, ginseng has been cultivated in forest areas in tandem with deforestation activities. However, due to the Chinese government's measures to protect natural forests, the area permitted for deforestation is gradually decreasing. Consequently, Baishan Lincun is shifting to cultivation in the fields.

The implementation of upland cultivation will reduce over-cutting of forests and lead to the preservation of forests and related biodiversity.

In addition, for producers, upland cultivation facilitates systematic management and also stabilizes cost in comparison with cultivation in forest areas. Furthermore, cultivation is conducted in a place with easier access than forest areas, therefore this is an advantage for employment. It is expected to have a positive impact on the development of local communities and the economy.

The initiatives being carried out by Baishan Lincun are presenting a new trajectory by transforming traditional farming into sustainable agriculture through innovation.

Interview

Industry, government and academia in Japan and China moving forward as one

Baishan Lincun commenced research on upland cultivation in 2014, prior to the actual implementation of upland cultivation in 2016. With the support of the Chinese government, Jilin Province and others, we tackled the issues with upland cultivation through a collaboration mainly between the Institute of Chinese Material Medica, China Academy of Chinese Medical Sciences, Tsumura and China Medico Technology. Consequently, we established a successful model through an industry-government-academia partnership. This included registration of the world's first ginseng genome, the establishment of pollution-free ginseng cultivation standards, and the registration of ginseng varieties suited for upland cultivation. At present, researchers continue to repeatedly strive on a daily basis to provide a solid scientific basis for upland cultivation. Moreover, by deepening ties with well-experienced producers, including dispatching researchers to other upland

Baishan Lincun Traditional Chinese Medicine Development Co., Ltd. CEO

Jin Shuyan



cultivation bases, we are constantly improving cultivation processes and production management techniques while building a win-win relationship that complements one another.

Our goal is to produce all our ginseng through artificial cultivation to achieve a stable supply of ginseng with consistent quality from the standpoint of both quantity and price. China is the world's largest producer of ginseng. In China, we aim to establish an exemplary,

large-scale ginseng upland cultivation model to set an industry standard that we will then spread worldwide.

As a member of the Tsumura Group, we will continue to develop the value of ginseng and contribute to the health of people around the world by continuously and stably supplying ginseng based on a high level of technology that matches the Chinese and international markets.



Forest cultivation



Upland cultivation

Manufacture

4 Chopped

Manufacture

We manufacture everything from high-quality crude drugs to Kampo formulations, and have a unique business model. In particular, we have accrued knowledge internally concerning manufacturing technology and have built a highly original manufacturing equipment. The Company is currently in the process of implementing ongoing production system reforms and manufacturing site personnel education programs, in order to strengthen its systems for maintaining stable product supplies in response to the steady growth of Kampo formulations projected based on medium-to-long-term demand forecasts. Under the third medium-term management plan, we have been bolstering production capacities while conducting planned, phased capital investments in productivity improvements through Groupwide supply chain optimization and new technology utilization. Examples of new technologies to be used include image recognition powered by artificial intelligence (AI) for crude drug sorting and robots for laborsaving.

The crude drugs used as raw materials are stored nearby in their original form. After being transported to the plant, they are cut up into a size that suits their respective attributes.



Shizuoka Plant (Fujieda, Shizuoka Prefecture)



Chopped crude drugs



Ibaraki Plant (Ami-machi, Inashiki-gun, Ibaraki Prefecture)



Chopped



SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. (Shanghai, China)

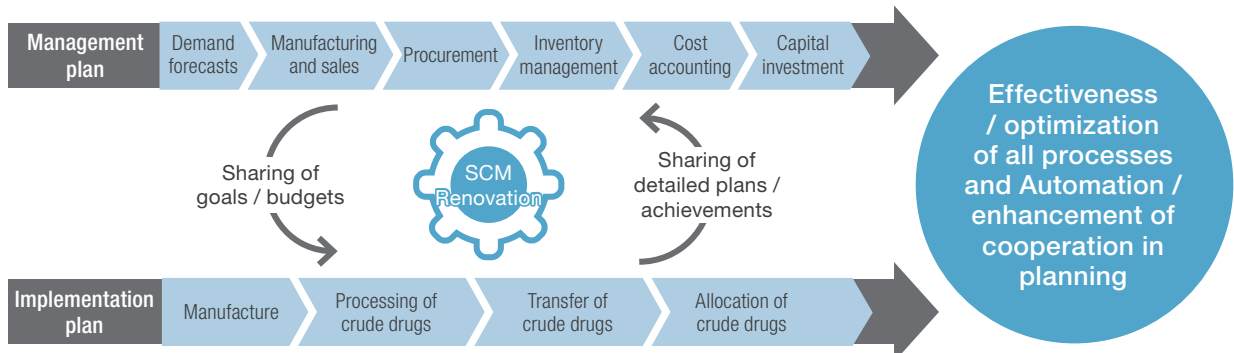
*Shanghai Tsumura manufactures powdered extract from 4. cutting to 7. drying. Powdered extract manufactured in Shanghai is transferred to both the Shizuoka and Ibaraki Plants and is sent to process from 8. Granulation.

> Our STRATEGY

Optimization of the Group's Supply Chain

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

For further improvement, we are executing management that incorporates the concept of supply chain management (SCM), a reform method for realizing further efficiency and optimization, in a phased manner from the first medium-term management plan. During the period of this medium-term management plan, we aim to improve production efficiency through optimal inventory allocation by raising the achievable level of overall optimization from demand forecasting to crude drug arrangement plans.





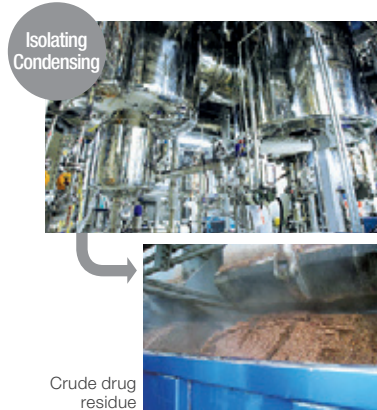
5 Weighing and mixing

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



6 Extracting, isolating and condensing

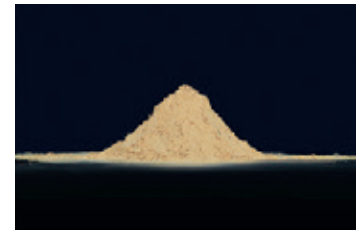
The prepared crude drug is put into an extraction device to extricate the ingredients. The extracted liquid is condensed at low heat over a short period of time.



Crude drug residue

7 Drying

The extracted liquid is finely sprayed in mist form from the top of a large spray-drying device and instantly dried to form the powdered extract.



Powdered extract

> Our STRATEGY

ESG

Environment

Completed construction of the No. 3 SD*¹ building at the Ibaraki Plant —Realize full automation of all Kampo formulation manufacturing processes—

Construction was completed on the No. 3 SD building at the Ibaraki Plant in December 2019. The crude drug chopping process to the extracted liquid drying process is carried out at this building. This state-of-the-art powdered extract manufacturing building meets world-standard pharmaceutical GMP*². We have promoted the active introduction of robots into the manufacturing process for many years. Following the completion of the granulation and packaging building at the Shizuoka Plant in 2016, and with the completion of the No. 3 SD Building at the Ibaraki Plant, we realized the introduction of a series of robotics technologies for the entire manufacturing process for Kampo formulations. As a culmination of the technologies developed thus far, we succeeded in improving both labor productivity and the work environment by introducing robotic technologies into the crude drug chopping and weighing process and in the process for injecting crude drugs into the extraction device, for which automation was said to be difficult. Through this we achieved automation and saved on labor.

*1: SD stands for Spray Dryer A device that ejects the extract from the top of the dryer in the form of mist and cools it at the same time as instant drying so that it is not affected by heat to make an extract powder.

*2: GMP stands for Good Manufacturing Practice (a standard for manufacturing and quality control for pharmaceuticals and quasi-drugs)

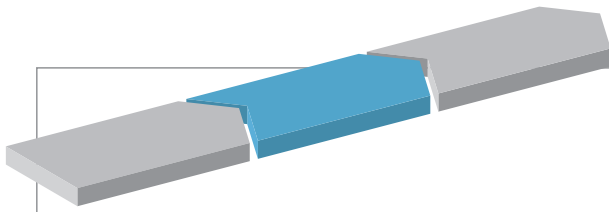


Upper : Mixing container is automatically transported while reading the QR code on the floor surface

Left : No. 3 SD building exterior (construction completed in December 2019)

Lower : Robot arm to invert mixing containers





8 Extract granule manufacturing

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

9 Packaging and labeling

The extract granules are sheet packaged into one-day dosages, bundled into seven sheets (one week's dosage), boxed and shipped.



Extract granules



Prescription Kampo formulations



Improve productivity via capital expenditures

Under the medium-term management plan, Tsumura is working to establish a production system capable of responding to projected growth in demand.

As started in the third medium-term management plan, the office QC building of the Shizuoka Plant was completed in July 2020. In addition, the Tianjin Plant of TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD is under construction for operation in 2022.

Labor productivity improvements are proceeding as planned through investments in automation and laborsaving, including the introduction of robots.

Going forward, we will systematically invest to increase the number of production lines and in automation and laborsaving.

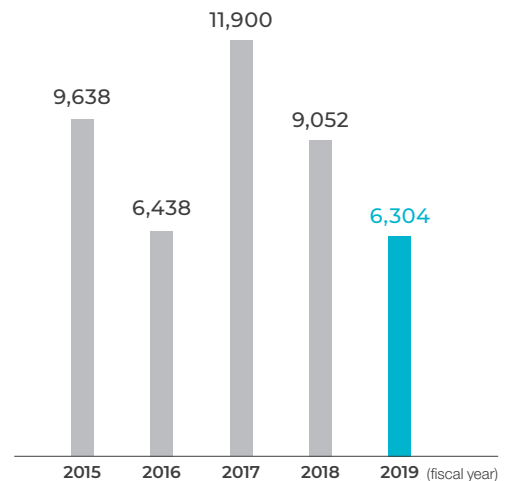


Shizuoka Plant Office and QC Building



TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD. Tianjin Plant

Capital expenditures (million yen)



10 Shipment, storage and transports

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



Topics

Production area tracing system

By disclosing information on what plant are manufacturing our products and where raw material crude drugs for those products are produced, we believe it will give people a deeper understanding of our products.

We are preparing to release a page (production area traceability system) on our website so people can check the manufacturing plant and raw material production area for manufacturing unit of each products.

A manufacturing number is printed on the outside of the product box, including for both general and prescription Kampo formulations. This manufacturing number is allocated for each manufacturing unit. Information about the manufacturing plant and crude drug production area can be confirmed by inputting this number into a form on our website.

Given the growing interest in information disclosure, including for raw materials, we will undertake the active disclose of information.



Website (Image)

Our STRATEGY

ESG

Environment

Energy Conservation and Global Warming Countermeasures

Tsumura is implementing global warming countermeasures focused on energy conservation. These countermeasures include introducing highly efficient equipment, improving work processes, and revising operating procedures. Production divisions endeavor to reduce energy consumption by revising operation control procedures through the use of energy management systems and introducing and upgrading to highly efficient equipment, such as co-generation systems. In Kampo extract manufacturing processes, we work to reduce the use of electricity and steam by introducing high-efficiency hybrid concentrating devices. Also in this area, we recover water used for cooling condensed steam so it can be recycled for cleaning purposes, thereby realizing water savings. Meanwhile, offices and distribution divisions are making efforts to save energy used for air-conditioning and lighting in addition to replacing all fleet vehicles with hybrid vehicles and utilizing fuel-efficient tires on trucks used for long-distance driving.

ESG

Social

Improvement of productivity with new technologies

—AI, Automation, RPA—

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

Efficiency-Boosting Measures for Improving Productivity

Cultivation	Processing of crude drugs
Utilization of cultivation management systems (data collection / analysis) to improve yields and ensure stable supplies of crude drugs	Automated sorting of crude drugs through AI image recognition
Production	Sales Activities / Routine Work
Laborsaving measures at factories through the use of robots in production processes Equipment failure prevention with AI-based abnormality detection and failure prevention system	Analysis of sales activities with AI Automation of routine work through RPA

Sale, Education, and Popularization

In keeping with its corporate mission, “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine,” we are conducting activities to realize a society in which people can enjoy longer and healthier lives. Accomplishing this goal will require that we provide support for creating a healthcare environment in which all patients can receive treatment that includes Kampo medicine when appropriate in any healthcare institution or medical department in Japan. For this reason, we work to cultivate understanding with regard to the concept of Kampo medicine itself by providing medical practitioners with the latest scientific evidence and other information on the appropriate use of Kampo formulations and by holding Kampo medicine seminars for physicians. In addition, Tsumura offers support for education on Kampo medicine at medical schools and universities to spread Kampo medicine education, which will be crucial to the expansion of the Kampo market.

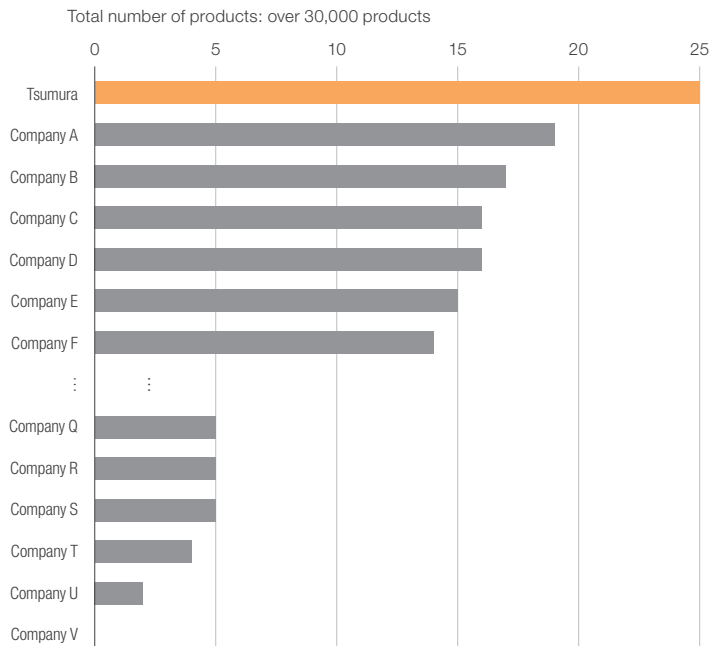
> Our STRATEGY

11 Pharmaceutical agencies

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 agency sales representatives (MSs) and ensure they have correct knowledge and information on Kampo formulations.

Number of products with a track record for delivery to more than 30,000 medical institutions and pharmacies

The graph shows the results of an external survey on the number of products that have a track record for delivery to more than 30,000 medical institutions and pharmacies, from among the 23 pharmaceutical companies (excluding generic manufacturers) with top ranking sales in January-December 2018. Even compared to major pharmaceutical companies, the results indicated Tsumura’s 25 Kampo formulations were the most popular. Demand for Kampo formulations exists in various clinical departments. This can be said to indicate that Kampo is useful at many medical institutions and pharmacies.



January-December 2018 23 pharmaceutical companies (excluding generic manufacturers) with the top ranking sales

■ HP+GP+PH=Total: Number of products is over 30,000

Source : Number of hospitals= IQVIA JCC...Limited to IQVIA JPM 23 sales promotion companies with top sales (excluding generic manufacturers).
Extracted data on the number of IQVIA hospitals by sales promotion company and by product. Total for HP, GP and PH

Tsumura MRs visit various clinical departments, including dermatology, obstetrics and gynecology, and psychiatry to provide information. These MRs require knowledge on a wide range of illnesses and products. They are constantly required to meet many doctors so they devote themselves to studies daily. As deliveries are made to many hospitals and clinics, the function of pharmaceutical agencies in distribution is very important. MRs not only convey a basic knowledge about Kampo, but also aim to actively communicate by sharing knowledge about the environment surrounding Kampo formulations as well as the most updated knowledge.



12 Hospitals, clinics and pharmacies

Medical representatives (MR^{*1}) will visit medical institutions and dispensing pharmacies to provide information on Kampo according to needs. In addition to providing information through interviews conducted by MRs, we will also diversify methods, including implementing various themed seminars nationwide. Recently, we conducted an online lecture.

*1 MR : Medical Representatives

Establishment of the concept of Kampo medicine

With the goal of establishing the concept of Kampo medicine in Japan, Tsumura provides systematic assistance for Kampo education at 82 medical colleges and university medical departments nationwide. This assistance includes support for education of medical students on Kampo medicine, Kampo training sessions for physicians-in-training working at designated hospitals for clinical training^{*2}, various seminars for medical practitioners, and promotional activities. We also recognize that consistent Kampo education, beginning before graduation and continuing immediately after graduation and

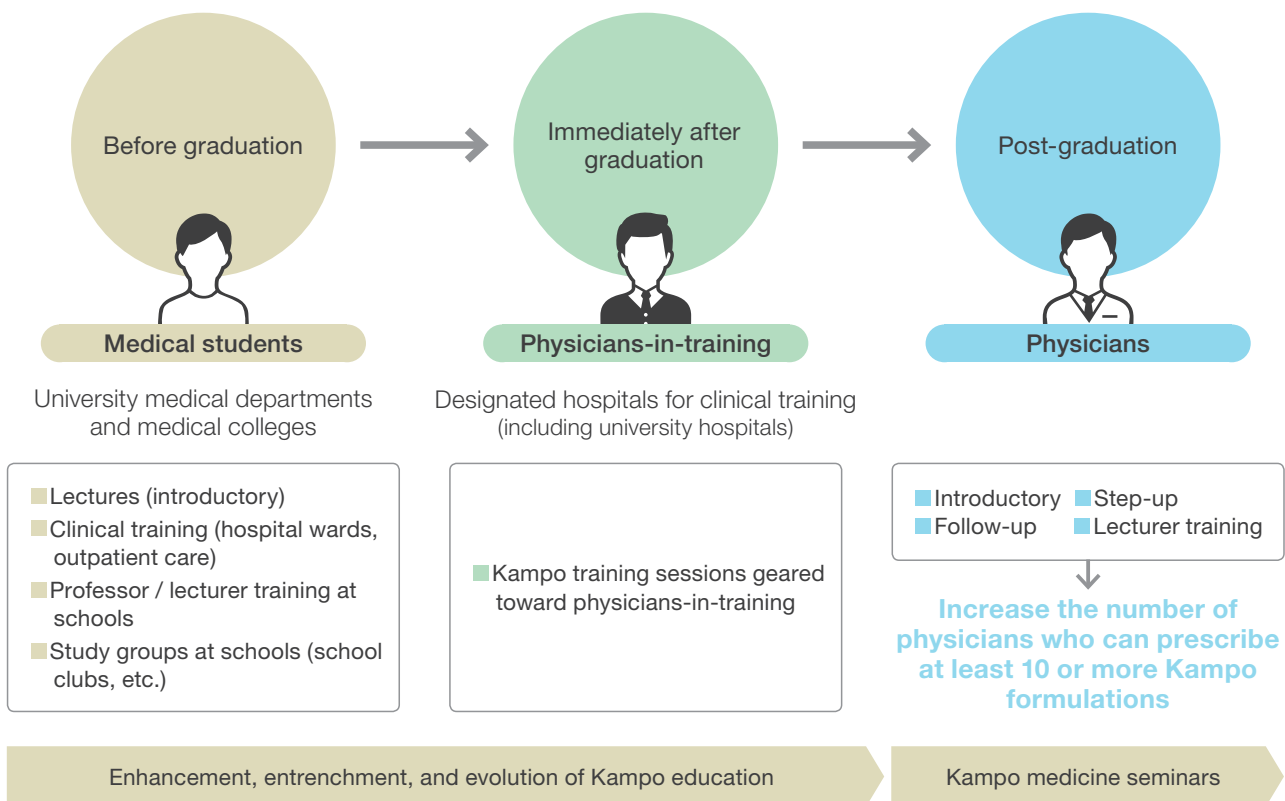
post-graduation, is important to encouraging a wider range of physicians to utilize Kampo medicines. Based on this recognition, Tsumura supports the following activities. As a result of these efforts, Kampo education was provided at 82 medical colleges and university medical departments nationwide and Kampo outpatient clinics were in place at 78 universities in fiscal 2020. Furthermore, Kampo education was included in all four of the model core curricula for medical education, demonstrating that Kampo education is steadily becoming entrenched at universities throughout Japan.

Support for training sessions in schools for fostering individuals capable of becoming future Kampo medicine lecturers

Establishment of Kampo outpatient^{*3} clinics for providing clinical training in universities

^{*2} Hospitals that provide a two-year practical training to physicians who have graduated from medical departments and acquired their medical license
^{*3}Kampo outpatient clinics specialize in Kampo medicine and in examinations and treatments based on a Kampo medicine approach

Overview of Activities (Consistent Kampo Medicine Education before Graduation, Immediately after Graduation, and Post-Graduation)



12 Hospitals, clinics and pharmacies

Addressing guidelines for sales information provision activities for medical prescription pharmaceuticals

In April 2019, the Ministry of Health, Labour and Welfare began managing the “Guidelines for Sales Information Provision Activities for Prescription Pharmaceuticals.”

These guidelines stipulate that by optimizing advertisements or acts similar to advertisements performed by drug manufacturers and distributors for the purpose of sales information provisions activities on prescription pharmaceuticals, the proper use of prescription pharmaceuticals must be ensured with the goal

of improving health and hygiene. Tsumura has adopted and complies with the provisions in these guidelines. We have established an internal system, independent of the sales department, to supervise sales information provision activities, examine materials, and respond to complaints from outside the company. In October 2019, we began monitoring the appropriateness of sales information provision, and are working to promote the proper use of prescription Kampo formulations.

Implement activities to provide information

The Kampo Mega Web Lecture, which started in 2019, has been held four times in the first half of 2020. The number of physicians watching these lectures is increasing. In area activities, we provide detailed information that takes into account the characteristics of each region and facility. We also hold plans by each sales base to address the needs of doctors who want to learn about Kampo. In addition, MRs

are actively deploying measures and have also launched new activities in line with conditions in each area and medical zone. In addition to hybrid activities that adequately employ both online activities and visitation activities, including the substantial increase of online seminars, we are further enhancing e-promotions and implementing active and effective information provision activities.

Kampo Mega Web lectures

Target

Mainly physicians that prescribe fewer than 10 Kampo formulations or physicians that do not prescribe any Kampo formulations

	Theme	Lecture date	Number of viewers (people)
Fiscal 2020	Kampo is a MUST for clinical physicians	2019.9.25	17,878
	Become proficient at handling Kampo extracts	2019.12.16	18,855
	Acute respiratory tract infections and Kampo	2020.3.23	17,354
Fiscal 2021	Easy-to-understand Kampo Mainly colds, dizziness and stress	2020.4.23	23,917
	Kampo corresponding to acute febrile disorders and applications How are colds currently examined?	2020.6.8	19,639
	Kampo products that address changes in the external environment (summer/stress)	2020.6.25	20,306
	Kampo treatment evidence that can be discerned from guidelines —Chiefly for functional gastrointestinal disorders—	2020.7.2	20,729

13 Patients

Pharmacists dispense pharmaceuticals based on a physician's prescription, and deliver Kampo medicine to the patient. We are also actively engaging in the spread and education of Kampo to the general public, including sponsoring Kampo seminars.

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

action

Activities targeting seniors

Sponsoring a forum on "Living in an ultra-aging society"

A forum on "Living in a super aging society" was sponsored by NHK Public Welfare Organization and NHK Enterprises, with themes such as urban development based on the ideas of people with dementia and living and being prepared for frailty*. The forum was held in two locations in Japan and a total of 1,067 people participated. Physicians, care managers, community welfare coordinators and others talked about how to face "aging" and "illness" and how to live while interacting with society, including the latest initiative and treatment methods. Palliative care and social support were introduced through a panel discussion.



action

Activities targeting cancer patients and their families

Sponsoring a forum on "Living with cancer"

A forum on "Living with cancer" was sponsored by NHK Public Welfare Organization, NHK Enterprises and Yomiuri Shimbun, based on the theme of being one's self in both mind and body. The forum was held in four locations in Japan and a total of 2,187 people participated. An issue is what type of support is necessary for individuals diagnosed with cancer and be one's self while continuing treatment. An expert lecture was held that offered the latest medical information on such issues. A discussion panel was held by people who have experienced cancer, medical practitioners and supporters to introduce palliative care and social support.

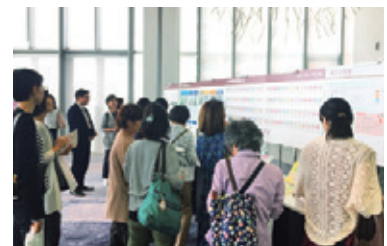


action

Activities targeting women

Sponsoring a "Kampo seminar for women"

"Kampo seminar for women" was held sponsored by Radio Kansai. There were 557 participants. The theme was on what Kampo can do to help women "live." The seminar covered frequent symptoms women often overlook, such as coldness, constipation, and sore shoulders. In the first part of the two-part seminar, a physician explained treatments for female illnesses using Kampo. In the second part, there was a talk show conducted by a talent who suffered from female illnesses and a physician gave helpful advice on women's health.



Our STRATEGY

*Frailty: Diminished physical and mental capabilities accompanying aging

Related
SDGs

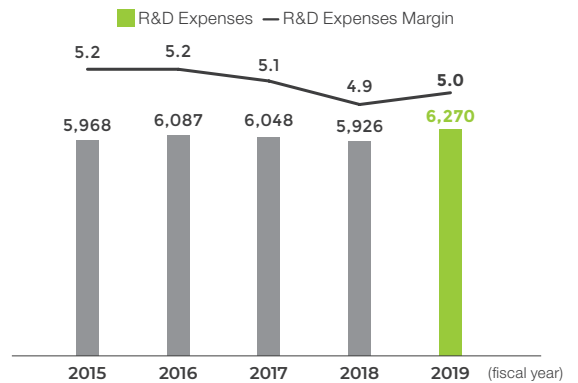


Research and Development

Establishment of Scientific Evidence

Since fiscal 2005, Tsumura has been concentrating its resources on the establishment of scientific evidence for its Kampo formulations in its research activities. This policy was deployed to recognize the fact that, if Kampo formulations are to become a trusted treatment option in Japan today, it will be necessary for these formulations to be understood through the framework of Western medicine. As a product of these efforts, theses on such scientific evidence published in domestic and overseas academic journals have been contributing to a noted change in the perception of medical practitioners with regard to Kampo formulations and Kampo medicine as a whole.

R&D Expenses / R&D Expenses Margin

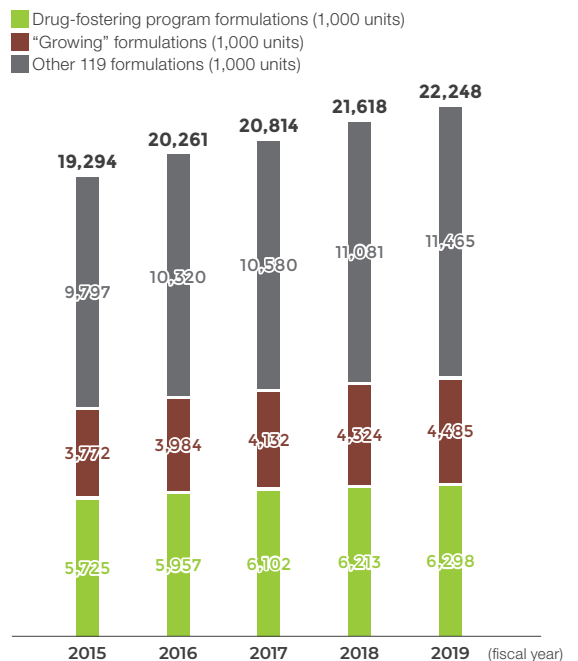


Improve presence of Kampo formulations

Since fiscal 2005, Tsumura has been working on the establishment of scientific evidence on the efficacy and safety of Kampo formulations, namely, the five “drug fostering” program formulations, which have been demonstrating special efficacy for certain diseases in fields where medical treatment needs are high and that are difficult to treat with Western drugs. In addition, we defined the five “growing” formulations in fiscal 2017. Since then, we have been advancing research with the goal of having these formulations listed in medical treatment guidelines.

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

Net sales of prescription Kampo formulations (quantity basis)



Scientific Analysis of Kampo Medicine Using New Technologies

A characteristic of Kampo medicines is that they comprise various naturally derived substances. Accordingly, scientific analysis of these medicines can be incredibly difficult. Tsumura has thus endeavored to establish scientific evidence on these medicines through various research projects carried out over the course of many years. Our clinical research and evidence development efforts pertaining to efficacy and safety will be continued going forward. In addition, we will commence research projects based on new perspectives, such as elucidating the mechanisms of component substances, verifying the health economics of Kampo medicines, and demonstrating their viability.

In recent years, we have seen advancements in new technologies owned by the Department of Health Services Research in the Graduate School of Medicine of the University of Tokyo, the Systems Biology Institute, and the National Institute of Advanced Industrial Science and Technology. These advancements have led to progress in Kampo medicine research and analyses using IT technologies and new analytical methods. Furthermore, this fiscal year, we have set up a Kampo Data Science Laboratory within the Tsumura Kampo Research Institute and have embarked on the scientific elucidation of Kampo by using a mathematical approach.

Major New Technologies		Area of Analysis
1 System Biology	System biology is a biological approach for elucidating the relationships among individual organisms and genes and their various roles through the use of artificial intelligence (AI), physiological approaches, and biotechnology to achieve an integrated understanding, as opposed to analyzing individual biological functions.	Multi-component networks* ¹
2 Metabolomics	A change in metabolites inside the body or density will occur due to environmental changes such as temperature and light, and external stimuli including diet and drug intake. This is a method of analyzing these metabolites using a mass spectrometer or other equipment, and a research domain applied to the diagnosis of illnesses.	Biomarkers* ² Responders, non-responders* ³
3 Analysis of Intestinal Flora	There are a wide variety of microorganisms living in the intestines. This is a domain in which by researching their type and drug-metabolizing functions, we can see the correlation with illness and the responsiveness to drugs.	Responders, non-responders
4 Utilization of Big Data	Utilization of big data entails using huge volumes of everyday medical data in epidemiological studies for the assessment of quality of medical care and analysis of health economics.	Health economics

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

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

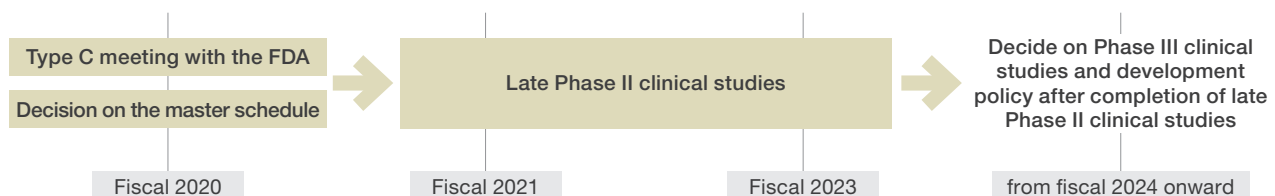
*3: Responders and non-responders are, respectively, people for whom drugs are effective and people for whom drugs are not effective.

Progress of Development of Daikenchuto in the United States

We have organized a system to link the technologies and know-how developed through our Kampo and crude drug businesses as well as our latest basic and clinical research data in Japan accrued through our “drug fostering” program with product development in the United States. We are now working toward acquiring product approval and launching Daikenchuto as a prescription pharmaceutical in the United States. Phase IIa clinical studies and medical need assessments for irritable bowel syndrome (IBS), postoperative ileus (POI), and Crohn’s disease were completed prior to the end of

fiscal 2018. In fiscal 2019, advisory teams were assembled in Japan and the United States to advance development focusing on POI. Despite the spread of laparoscopic surgery in the United States, POI is still an area with significant medical needs in this country, and Daikenchuto has been identified as a promising treatment option in this field. In fiscal 2020, we will hold meetings with the U.S. Food and Drug Administration (FDA) and arrange the master schedule for initiatives going forward. Tsumura aims to launch and quickly complete late Phase II clinical studies in fiscal 2021 and beyond.

Schedule for Development of Daikenchuto in the United States in Fiscal 2020 and Beyond



Related
SDGs



Quality assurance

Role of quality assurance in the Kampo Value Chain

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

Promotion of Tsumura Quality Management System

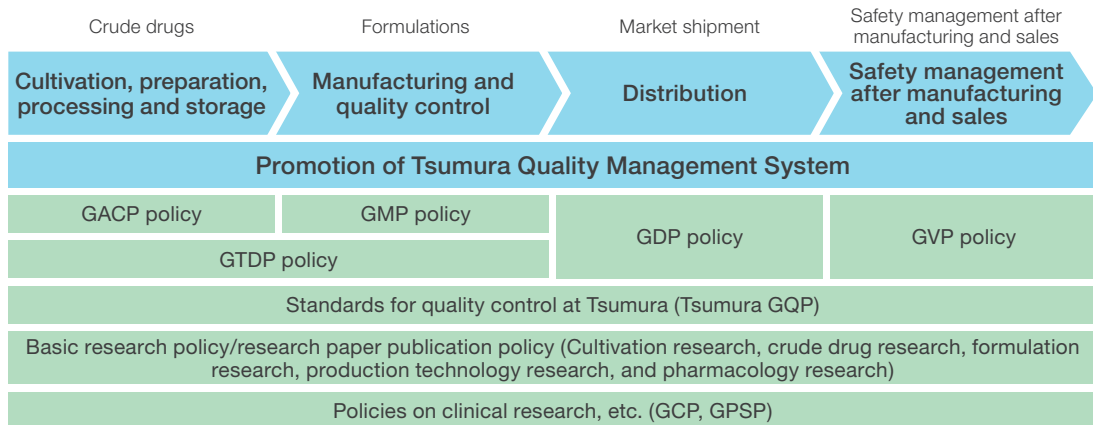
Tsumura enacted regulations related to the Tsumura Quality Management System, a system that further aims to enhance the quality assurance system that is based on Tsumura's quality policy. The Company is building a system that can properly respond to matters, including revisions to laws and ordinances and globalization (including PIC/S). 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.

Quality Policy

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

Based on regulations for the Tsumura Quality Management System, we have systematically established documentation that specifies legal compliance and standards that Tsumura should comply with for the entire supply chain from crude

drug cultivation to the delivery of final products. This is our proprietary quality system. We have built a quality-oriented system for all businesses at Tsumura and for Group companies. These are the activities that provide high-quality Kampo formulations to patients.



GACP | Good Agricultural and Collection Practice
GDP | Good Distribution Practice
GCP | Good Clinical Practice

GMP | Good Manufacturing Practice
GVP | Good Vigilance Practice
GPSP | Good Post-marketing Study Practice

GTDP | Good Trade and Distribution Practice
GQP | Good Quality Practice

Realize consistent Kampo formulations

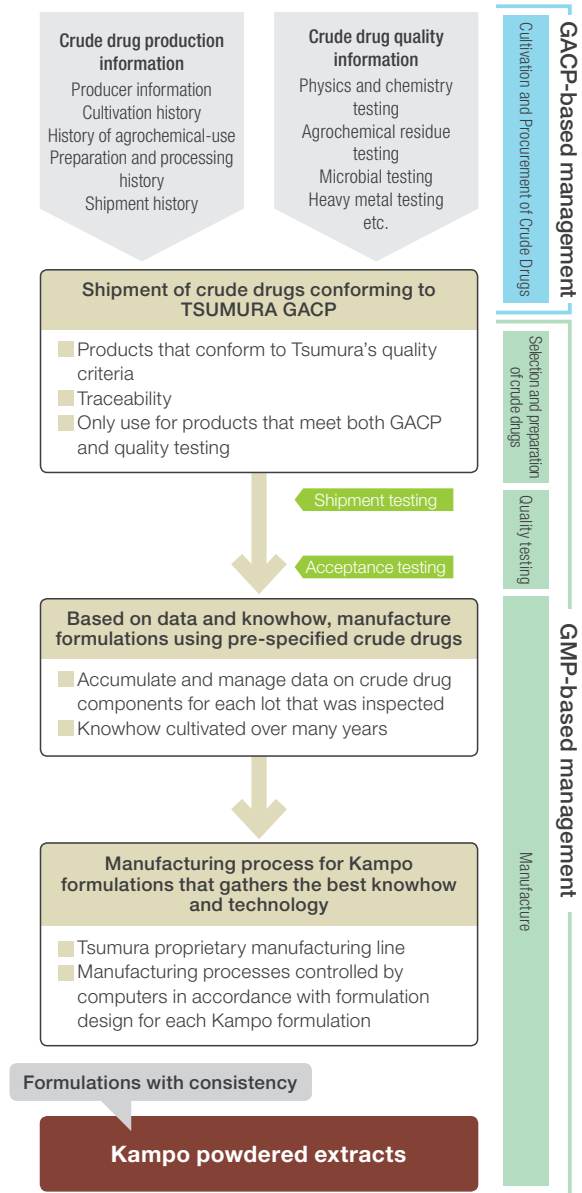
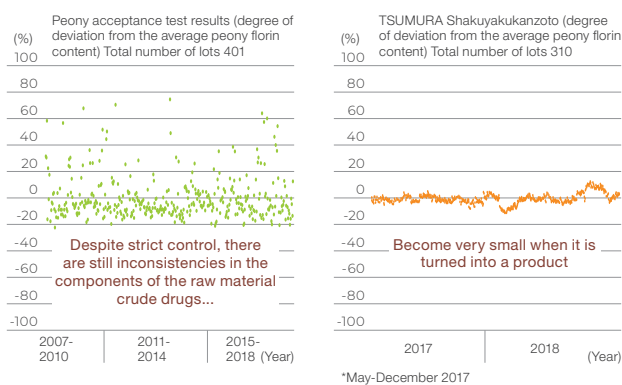
The pursuit of quality in all processes related to our Kampo formulations, including cultivation and procurement of crude drugs, quality testing, accumulation of data for each lot, and proprietarily developed manufacturing equipment, was deemed difficult for naturally-derived Kampo formulations but we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

Control inconsistencies in naturally-derived crude drugs

Given that crude drugs are naturally derived, their quality and components vary depending on the weather, production area and other factors. However, we bridged the gap between "crude drug disparity" and "consistent formulations". To always manufacture Kampo formulations that maintain a certain degree of quality, we are undertaking the cultivation of crude drugs. By specifying production areas for crude drugs and providing guidance on cultivation methods, and only using crude drugs that have passed Tsumura standards, we have been able to reduce the inconsistencies in raw material crude drugs.

Pursuit of Consistency in Manufacturing Processes

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



Our STRATEGY



Environment

Reduce environmental impact in crude drug cultivation areas

Tsumura Crude Drug GACP strictly defines the agrochemicals and fertilizers that can be used. We are contributing to the reduction of environmental impact in crude drug cultivation areas through proper soil management, which is based on the concept that the "quality of Kampo products begins with crude drug production."

Raising peony seedlings (Hokkaido)



Related
SDGs



Human Resources

The Tsumura Group provides educational opportunities for each level from the perspectives of [people], [organization] and [management] and is supporting the independent career development of employees.

Tsumura Human Resource Development Policy

Foster a corporate culture that develops people capable of growing on their own

We shall provide practical training opportunities for human resources committed to learning and growing on their own.

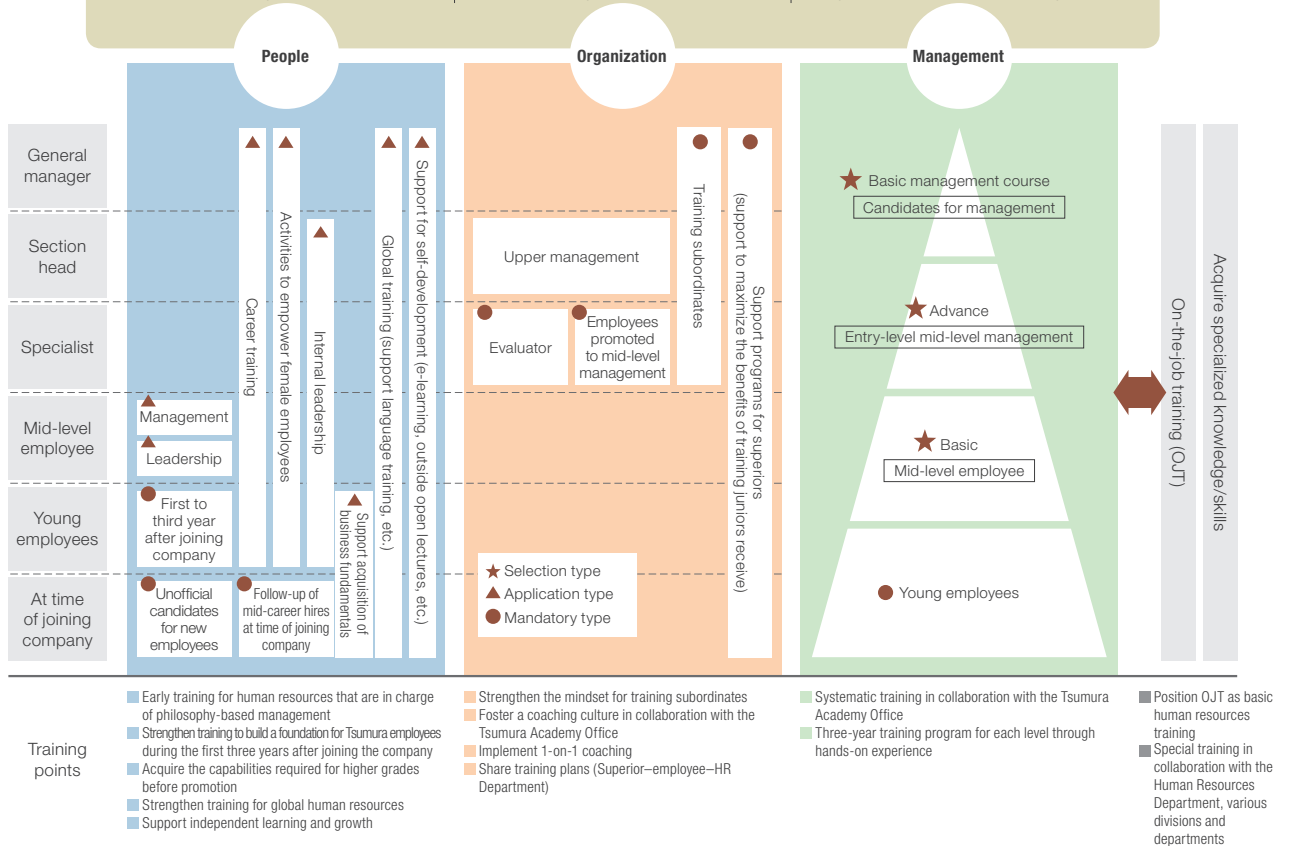
We shall clearly define the ideal human resources Tsumura envisions and the desired skills, bolster educational opportunities, and create frameworks for self-driven learning.

We shall foster an education-based mind-set with a focus on management personnel in order to facilitate the development of people capable of growing on their own.

Training of subordinates will be positioned among the most important tasks for managers, and a mind-set of motivating and cultivating subordinates through their work will be fostered.

We shall develop frameworks that allow for the ongoing cultivation of diverse human resources capable of supporting management.

Training for junior employees will be tailored to reinforcing Tsumura's human resource foundation as frameworks are developed to cultivate future management candidates at all levels of the organization.



Hito-tsumu-navi website

Hito-tsumu-navi was launched as a platform related to human resources training at Tsumura. The purpose is to provide and support learning opportunities for each employee so that they realize their career vision.





Executive Officer, Head of Human Resources
Shuji Sugawara

Message

Tsumura established a long-term business vision in which it aims to be the “People” Company. The Company is undertaking the development of human resources who are trusted by all and open their own new paths. Furthermore, in the third medium-term management plan, we have positioned “Fostering a Corporate Culture through Philosophy-Based Management and Developing Diverse Human Resources” as a strategic challenge. We are pushing forward the building of a system for the continuous training of diverse human resources that support management.

Specifically, we advocate a human resources training policy to foster a corporate culture that develops people capable of growing on their own. We will provide and support training that closely follows human resource training, organizational development, and the training program for next-generation candidates for management from the time they join the company. Also, in tandem with the progress being made in Chinese operations, we will further strengthen our language support system, not only for Chinese but also for other voluntary language studies, and aim to develop global human resources.

Given the harsh changes in the environment, we require employees that think for themselves, make decisions for themselves, and take action for themselves in order for the Company to achieve sustainable growth. There are five elements that describe the type of people, the ideal individual that Tsumura seeks. The five elements are “aspiration/passion,” “sense of mission,” “professionalism,” “independence,” and “altruism.” These should be kept in mind so that we can ultimately reform our organizational and corporate cultures, which will contribute to the realization of our vision. As for the company’s future, we are supporting each and every employee so that they act with a sense of ownership and not have the attitude that only management needs to think about the future.

Comfortable workplace environment



In the first action plan for empowering women, the theme was improving comfort in the workplace. We established a work environment that included conducting interviews with female MRs prior to and during maternity leave, and allowing nursery school pick-up/drop-off by company vehicle. The result was a substantial improvement in evaluations of a comfortable workplace in the internal survey. Taking this into account, second action plan is tackling the theme of total success of employees—improving job satisfaction and demonstrating potential. The ultimate goal is true diversity and inclusion, so that all employees are rewarded and able to fully exert their skills.

Fiscal year	2015	2016	2017	2018	2019
Number of employees that acquired maternity leave (people)	16	14	12	20	22
Number of employees that acquired childcare leave (people)	17	27	32	21	48
Males (people)	0	1	2	1	5
Females (people)	17	26	30	20	43
Ratio of employees that returned to duty after taking childcare leave (%)	100	100	100	100	100
Ratio of female managers that returned to duty after taking childcare leave (%)	100	100	100	100	100
Turnover ratio (excluding employees reaching retirement age) (%)	1.33	0.70	0.90	0.95	0.98

COVID-19 measures and workstyle reforms

Workstyles are drastically changing due to impact from the spread of COVID-19.

Tsumura initiated a “work from home” program from March 2020, placing priority on maintaining a stable supply to ensure patients received the Tsumura products that were indispensable to them. We are implementing full-fledged measures to prevent infection among all our employees. At our plants, we are continuing to carry out manufacturing while implementing strict management and

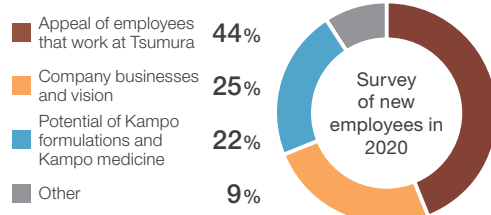
restrictions on admission to plant sites. At present, the times we are living in are being referred to as “With COVID-19.” From the perspective of continuing to prevent the spread of COVID-19, we will continue to implement a working system that is based on the premise of our employees working from home. Meanwhile, while restricting the number of employees that come to work, we are dealing with the needs of individuals that do come to work to ensure they can carry out their duties efficiently. This includes switching to the use of free email addresses at desks, installing acrylic panels between desks, and fortifying our system to make it capable for various operations, including carry out online conferences.

Topics

We are participating in the Shanghai Career Forum, the only Japanese-Chinese bilingual job-hunting event, as we aim to secure global personnel from fiscal 2020. Naturally our goal is to secure human resources but another aim is to fortify the name recognition of the Tsumura brand in China by using a student network.



Reasons why unofficial candidates choose to join Tsumura





TSUMURA ACADEMY



Tsumura Academy Dean
Terukazu Kato

Tsumura Academy

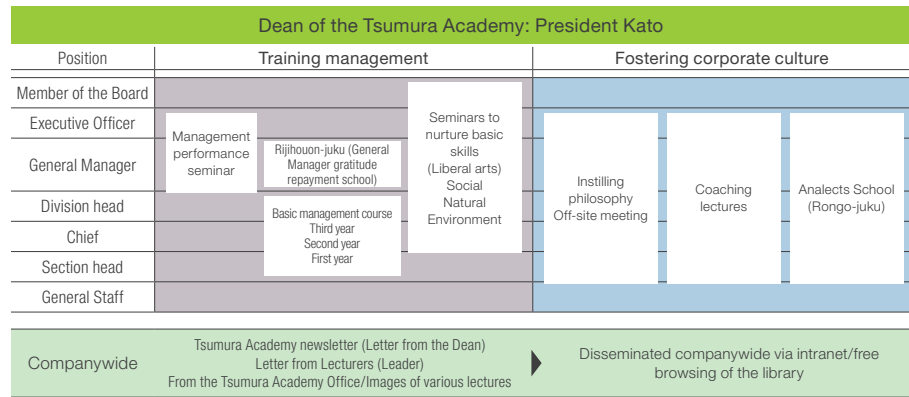
The Company has established the Tsumura Academy within its walls as a training institute for employees. The President Kato serves as dean of the Tsumura Academy.

The Tsumura Academy has two major functions.

The first function is training management. This function is accomplished through the planning and implementation of systematic training programs by internal and external lecturers for management personnel and management candidates (those with the potential to become future management personnel). We aim to continuously produce management personnel that will implement philosophy-based management by executing a succession plan (training program for candidates for an executive position).

Another purpose of the academy is to instill the philosophy throughout the Tsumura Group as well as to aim to foster a coaching culture and business etiquette. In addition, the corporate culture cultivation function includes a program to enhance the basic skills which are the premise upon which this is built. This function thereby furnishes the foundations necessary for the exercise of Tsumura's corporate philosophy.

Diagram of programs at the Tsumura Academy



Interview

Executive Officer, Manager of
Tsumura Academy

Ryoichi Murata



Q Unique initiatives of the Tsumura Academy to “train candidates for management” and “foster corporate culture”

The second medium-term management plan, a roadmap for realizing the vision of becoming a “People” company, focused on establishing a training system to develop professionals and establishment of a university inside the company. As one achievement, the Tsumura Academy was established in January 2019. We are developing a program based on the establishment of a system to develop “people” that will continue to support philosophy-based management, as set forth in the third medium-term management plan. This is a three-year program for training candidates as the next-generation of management. Each year we set goals for learning and then implementing the rules and principles of management and philosophy-based management. We have selected, trained, and assigned human resources. Over a three-year period, 56 employees have participated.

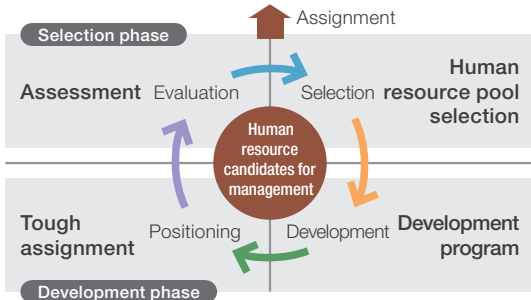
In “fostering corporate culture”, we are establishing programs such as instilling philosophy, nurturing a coaching culture, business etiquette, and the Rongo-juku. By learning, and independently thinking about and implementing the basic rules and principles, an organization can be developed, which enhances team strength and produces results. The team of instructors invite external instructors with whom our corporate philosophy and the Tsumura Academy's ideas resonate. In addition, training of in-house instructors is also underway.

Q Vision (policy) aimed for by the Tsumura Academy in the medium/long term

The Tsumura-DNA pyramid comprises the most fundamental and most important principles of the “management that is rooted in basic principles” preached by Tsumura. We plan to achieve the medium-term management plan to realize our vision based on philosophies that should be shared within the Group by individuals, which are the foundation of the organization, while maintaining the basic tone for the corporate attitude and corporate culture. The role of Tsumura Academy is to guide employee's thinking into action. The Tsumura Group aims to instill its basic philosophy (corporate philosophy/company mission) throughout the entire Tsumura Group. This is the first step of philosophy-based management. The academy works to continuously produce candidates for management that are capable of implementing philosophy-based management. In addition, it aims to foster a corporate culture where, as a member of society, employees do good work which contributes to promoting the health of patients and customers. By conducting lectures, job assignments and dialogue, we aim to develop an organization that can increase the potential of each individual and demonstrate results.

Training of candidates for management

At Tsumura Academy, we select a certain number of candidates for next-generation management and lay the foundation for continuously producing management candidates using a systematic program. In addition, by relocating employees in collaboration with the Human Resources Department, we are giving them a role that leads to the accumulation of important management issues, knowledge and experience. Furthermore, we are confirming via assessment, whether an employee has capabilities to demonstrate his/her potential.



Training program for management

We designed a systematic program to train candidates for management to implement philosophy-based management. The following is the primary composition of the program. We conduct a basic management course, which consists of a series of programs held over three years, and a management performance seminar, which is carried out using a practical dialogue format based on the theme of economic analysis and management philosophy.



Program composition

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

Comment from a lecturer at the Tsumura Academy

I believe that management is like a decathlon. At Tsumura, a wide range of training, mainly at the Tsumura Academy, is conducted to develop management resources. In specific, a program was created comprising of a management performance seminar, the Rijihouon-juku (General Manager gratitude repayment school), and a basic management course. The program is being implemented for a wide range of management, including executive officers, general managers, Division heads, chiefs and section heads. There are also courses that span over a number of years. In this course, in addition to lectures, including those on management duties, strategy, leadership, and accounting and finance, analysis of the macro-economy is also frequently carried out, and participants are asked to read the Nikkei, a daily financial newspaper, every day. Furthermore, participants are required to read many books on the themes of each lecture and are asked to make presentations from time to time. In addition, employees

Fostering corporate culture

Activities to instill corporate philosophy

A meeting is held off-site on instilling the corporate philosophy. This is an opportunity for thinking and having awareness through dialogue for each participant regarding sharing management philosophy and continually fulfilling the company's corporate mission.

First, directors should set an example. Using the executive officer meeting as a starting point, line managers, from Division heads to section heads, are participating. As of August 2020, this was implemented by executive officers four times.

In addition, as a way to instill the corporate philosophy, we repeat and share the philosophy-based management framework so participants are able to talk about the organization on their own.



Coaching lectures

We are holding lectures related to coaching with the goal of organizational development and nurturing a corporate culture that trains human resources through coaching. The lectures aim to develop independent employees that think and act on their own, which we aim to instill as part of our corporate culture. At the same time, this is an opportunity to create a team that produces results by considering and establishing an ideal image of the coach, mindset, and way of thinking through dialogue. Furthermore, this year, which is the second year since we started these lectures, a theme will be set that contributes to organizational development, and through dialogue, branch managers, sales chiefs and section heads will find their own answers and clarify practical actions in the workplace.

Nurturing basic human skills

Seminars to nurture basic human skills are regularly held. Participants learn about the universal principles of the people, society and natural environment. Applicants, from directors to employees, can participate in the Rongo-juku (school for classical analects) where they read the analects out loud. Furthermore, during the lectures, opportunities are given to participants to conduct dialogue among themselves.



participating in the basic management course prepare a 10,000 character report on the theme of a vision for Tsumura 10 years from now. The participants then conduct a presentation based on their report. The purpose of this is to specifically think about the current issues being confronted by Tsumura, future issues and solutions to solve said issues. The principal (president) is in charge of conducting 10 lectures every year. It can be said that practical management training is being carried out based on the company's philosophy and vision.

Board of Directors (as of June 26, 2020)



Back row from the left Kimikazu Okochi, Mitsutoshi Matsushita, Muneki Handa, Terukazu Kato, Susumu Adachi, Hiroshi Miyake, Tadashi Okada

Front row from the left Akemi Mochizuki, Kenichi Matsui

Terukazu Kato

President and Representative Director
CEO

**Appointed to Board of Directors in 2011
Holds 28,100 shares in TSUMURA & CO.**

Apr. 1986 Joined the Company
Aug. 2001 President and Representative Director, TSUMURA USA, INC.
Jan. 2006 Head of Public Relations Department
Apr. 2007 General Manager of the Company
Head of Corporate Communications Department
Jun. 2011 Director and Executive Officer of the Company
Head of Corporate Communications Department
Jun. 2012 President and Representative Director of the Company
Jun. 2015 President and Representative Director of the Company
President and Executive Officer
Jun. 2019 CEO and Representative Director of the Company (incumbent)

Kenichi Matsui

Director (Outside Director)

**Appointed to Board of Directors in 2015
Holds 3,400 shares in TSUMURA & CO.**

Apr. 1972 Joined Idemitsu Kosan Co., Ltd.
Jun. 2001 Head of Accounting Department at Idemitsu Kosan Co., Ltd.
Apr. 2003 Executive Officer & Head of Accounting Department, Idemitsu Kosan Co., Ltd.
Jun. 2004 Managing Executive Officer & Head of Accounting Department, Idemitsu Kosan Co., Ltd.
Jun. 2005 Managing Director, Idemitsu Kosan Co., Ltd.
Jun. 2010 Executive Vice President & Representative Director, Idemitsu Kosan Co., Ltd.
Jun. 2014 Outside Director of The Mie Bank, Ltd.
Jun. 2015 Outside Director of TSUMURA & CO. (incumbent)
Apr. 2018 Outside Director (Audit and Supervisory Committee Member), The Mie Bank, Ltd. (incumbent)

Kimikazu Okochi

Director
Audit and Supervisory Committee Member (Full-Time)

**Appointed to Board of Directors in 2017
Holds 5,300 shares in TSUMURA & CO.**

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

Susumu Adachi

Director Managing Executive Officer
COO

**Appointed to Board of Directors in 2018
Holds 12,200 shares in TSUMURA & CO.**

Apr. 1987 Joined the Company
Apr. 2013 Head of Corporate Planning Department of the Company
Apr. 2015 General Manager, Head of Corporate Planning Department of the Company
Apr. 2016 Executive Officer, Head of Corporate Planning Department of the Company
Apr. 2018 Managing Executive Officer, Head of Corporate Planning Department of the Company
Jun. 2018 Director and Managing Executive Officer, Head of Corporate Planning Department of the Company
Jun. 2019 COO, Managing Executive Officer, and Representative Director of the Company (incumbent)

Hiroshi Miyake

Director (Outside Director)

**Appointed to Board of Directors in 2018
Holds 900 shares in TSUMURA & CO.**

Apr. 1973 Joined Mitsubishi Corporation
Oct. 2000 General Manager, Paper & Packaging Raw Materials Division, Mitsubishi Corporation
Apr. 2001 Deputy Division COO, General Merchandise Division, Mitsubishi Corporation
Apr. 2003 Deputy General Manager, Kansai Branch, Mitsubishi Corporation
Apr. 2005 Senior Vice President, Mitsubishi Corporation President, Mitsubishi International GmbH, and Deputy Regional CEO for Europe
May 2009 Advisor, Tokai Pulp & Paper Co., Ltd.
Jun. 2009 Managing Executive Officer, Tokushu Tokai Holdings Co., Ltd.
Jun. 2010 Senior Managing Executive Officer, Tokushu Tokai Paper Co., Ltd.
Jun. 2014 Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.
Jun. 2015 Representative Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.
Jun. 2016 Advisor, Tokushu Tokai Paper Co., Ltd.
Oct. 2016 Advisor, Nippon Tokai Industrial Paper Supply Co., Ltd.
Jun. 2018 Outside Director of TSUMURA & CO. (incumbent)

Mitsutoshi Matsushita

Director (Outside Director)
Audit and Supervisory Committee Member

**Appointed to Board of Directors in 2017
Holds 500 shares in TSUMURA & CO.**

Apr. 1997 Registered as Lawyer
Joined Kajitani Law Offices (incumbent)
Jun. 2016 Outside Auditor of Pacific Systems Corporation (incumbent)
Jun. 2017 Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)

Muneki Handa

Director Managing Executive Officer
CFO

**Appointed to Board of Directors in 2019
Holds 1,300 shares in TSUMURA & CO.**

Apr. 1985 Joined The Mitsubishi Bank, Limited (currently MUFG Bank, Ltd.)
Jun. 2014 Executive Officer of The Mitsubishi Bank, Limited (currently MUFG Bank, Ltd.)
General Manager, Loan Department
Jun. 2015 Deputy President, Mitsubishi UFJ Capital Co., Ltd.
Jun. 2016 President, Mitsubishi UFJ Capital Co., Ltd.
May 2019 Advisor, TSUMURA & CO.
Jun. 2019 CFO, Managing Executive Officer, and Representative Director of the Company (incumbent)

Tadashi Okada

Director (Outside Director)

**Appointed to Board of Directors in 2020
Holds 0 shares in TSUMURA & CO.**

Apr. 1979 Joined Komatsu Ltd.
Apr. 2000 General Manager of Business Development Department, Komatsu Ltd.
Apr. 2003 Vice President of Komatsu (China) Ltd.
Apr. 2006 General Manager of Corporate Communications Department, Komatsu Ltd.
Apr. 2007 Executive Officer, Komatsu Ltd.
General Manager of Corporate Communications Department
Apr. 2008 Executive Officer, General Manager of Corporate Planning Division, Komatsu Ltd.
Feb. 2009 Executive Officer, Vice President of Industrial Machinery General Headquarters, Komatsu Ltd.
Apr. 2011 Senior Executive Officer, President of Industrial Machinery Division, Komatsu Ltd.
Apr. 2014 Senior Executive Officer, Supervising Corporate Communications, CSR, General Affairs, and Compliance, Komatsu Ltd.
Jun. 2017 Representative Director and Chairman of QUALICA Inc. (incumbent)
Jun. 2020 Outside Director of TSUMURA & CO. (incumbent)

Akemi Mochizuki

Director (Outside Director)
Audit and Supervisory Committee Member

**Appointed to Board of Directors in 2019
Holds 0 shares in TSUMURA & CO.**

Oct. 1984 Joined Aoyama Audit Corporation
Mar. 1988 Registered as Certified Public Accountant
Aug. 1996 Joined Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
Jun. 2001 Partner, Tohmatsu & Co. (currently Deloitte Touche Tohmatsu LLC)
Jul. 2018 Independent Director of the NSK Ltd.
Audit Committee Member (incumbent)
Partner, AKAHOSHI AUDIT CORPORATION (incumbent)
Jun. 2019 Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)

Special issue

Tsumura's Value Creation and Corporate Governance

Takayuki Sumita

Chairperson, WICI Global

Kenichi Matsui

Outside Director

Hiroshi Miyake

Outside Director

Akemi Mochizuki

Outside Director

We welcomed Takayuki Sumita* to discuss value creation and corporate governance from various perspectives with three of our outside directors.

*See profile on page 60



A Long-term Outlook is Essential to Implement a PDCA Cycle on Evaluating Effectiveness

Sumita: I looked at Tsumura's Integrated Report 2019 from the viewpoint of corporate value creation focusing mainly on intangible assets. Regarding the effectiveness of the Board of Directors, I believe it is great that the CEO takes the initiative to champion aggressive measures. In my mind, I see governance as "taking the helm" of the company. I understand that a PDCA cycle is being implemented to enhance the effectiveness of governance at Tsumura. I believe that emphasis should be on P (planning) and that plans should exert strengths the more it is ambitious and essential the matter at hand is. What do you think?

Matsui: Tsumura operates the Kampo business, which makes it a company that boasts a business model that is rare in the world. In Japan, Tsumura supplies around 85% of prescription Kampo products. It is one company whose presence is indispensable to society. This type of company must continue to be trusted by society. The PDCA cycle must also be implemented from a long-term outlook, not an immediate or short-term perspective. Starting from fiscal 2019, we are narrowing down the questionnaire-type effectiveness evaluation conducted thus far to a fixed-point observation survey. We decided to set "key themes" that will guide us to the "realization of our long-term business vision" and the "achievement of our medium-term management plan," and carry out decision-making and oversight.

We are implementing a PDCA cycle to explore effective methods while changing our methods in line with changes to the management environment and goals.

Sumita: Companies in Japan have a tendency to devise plans that are achievable. However, it is important that a plan is in clear alignment with the "long-term business vision." It is extremely important that the company can be steered in the right direction in conformance with its long-term vision, without significantly losing course.

Winning the trust of consumers in China will contribute to hedging risks.

Sumita: I think Tsumura's value creation will also serve as a core point in expanding business operations in China. I worked at the Ministry of Economy, Trade

and Industry for many years so in the past I have seen companies that struggled to protect their rights, in particular intellectual properties. What are your thoughts on this point?

Miyake: I think we will need to guard our intellectual properties further out once we get to the point where we locally produce and sell Kampo products in China. Traditional Chinese medicines in China and Kampo products in Japan are different. Kampo products are not a necessity in China. However, we aim to spread the positive aspects of Kampo. It is our goal to get consumers in China to understand this. Our goal to create a market depends on our method for stably securing crude drugs and our ability to win the trust of consumers in China.

Matsui: Tsumura procures around 80% of its crude drugs from China. China and Tsumura have an extremely long history. Our position in China is extremely crucial from the standpoint of stable supply. One of the goals for entering the market in China is to get local consumers to understand what type of company Tsumura is by actively providing services and value to consumers in China. Rather than simply hedging against risk, I believe it is vital to win the trust of consumers in China. In China, there are two companies at present that export crude drugs and Kampo powdered extracts to Japan. We have a long history with these two

companies. I have observed both of these companies. When I asked about their work enthusiasm, I believe it is even greater than the level of enthusiasm in Japan. The passion these employees, not just their top management, have in Tsumura sufficiently came across to me. Enhancing the mutual bonds of trust will contribute to a hedge against risk. This is what I came away with from the observations I made thus far.

Miyake: I also think that risk-taking is a way to hedge against risk.

I am confident that Ping An of China trusts us as all of our directors have taken time to visit them.

Sumita: I understand that all the directors have visited Ping An Insurance (China).

Mochizuki: President Kato revealed his plans for entering the market in China, at which time he mentioned that the outside directors were being very cautious, owing to various issues, including risk. At that time, I said that we would not know without meeting them first. When I was doing accounting audits, I found that it was crucial to know what management was thinking. I did not want to hear this from other people, I always felt I needed to grasp this using my own instincts so that is what I told the president. I also believed it is very difficult to do business with China. I felt that Tsumura did not just want to provide payment to China, which

was the source of supply for crude drugs. Tsumura simply felt that since China was providing them with good products, they wanted to reciprocate by properly giving something helpful back to the supplier. I believe this feeling (instinct) is important. From the eyes of Tsumura, Ping An Insurance (China) is a huge company. However, when I found out that we had earned the trust of Ping An Insurance's top executives after having met with them, I realized it was good that we made a point of visiting their company.

Miyake: It was my opinion that Tsumura would need a partner to carry out its business operations in China. I believed that Ping An Insurance (China) was a trustworthy partner. However, both Mochizuki and myself were concerned that Ping An Insurance (China) was too large. Our concern was that there was a risk of being engulfed by this company. The reason that all of the directors visited Ping An Insurance was that we wanted them to see how serious Tsumura was.

Matsui: You are both correct but I think this action came about from the simple feeling that "we would not know without meeting them first."

Sumita: Please explain why you chose Ping An Insurance (China) as your partner.

Matsui: Ping An Insurance (China) has many insurance sales people located nationwide throughout China. This sales staff not only



Hiroshi Miyake

conducts insurance sales but simultaneously provides various health services. We have considered whether we could provide Tsumura products over this network and they also wondered the same thing.

In addition, Ping An Insurance (China) possesses a network for healthcare services called Ping An Good Doctor, which provides online medical exams. We believe this network and medical information will prove useful to us in the future. Tsumura could not establish a network like this in China, even if it spends decades trying to build one.

Naturally, the most significant point was that both companies have the same goal, to contribute to the health of citizens in China.

Miyake: Another major factor was that Ma Mingzhe, president of Ping

An Insurance (China), felt there was value in Tsumura's Kampo products and that they would sell even in China.

Sumita: So President Ma believed that Tsumura was the only company that could produce Kampo products of this high quality.

Miyake: Yes, I believe that is correct. It is without a doubt that Tsumura is No. 1 globally in the field of granular Kampo products.

Sumita: What is the advantage for Ping An Insurance (China) to partner with Tsumura? If this advantage lies in the global quality Kampo products that Tsumura produces, then this will also contribute to the building of long-term trust. This I can understand. I think around three years have passed since Tsumura formed an alliance with Ping An Insurance

(Group) Company of China, Ltd. What are your thoughts on the speed of the overall Chinese business?

Miyake: From the viewpoint of President Ma, he may see our actions as being slow. President Ma also sees vast potential in the Kampo business in China. China has its own rules and regulations. Tsumura will not be able to immediately launch production and sales in China. For Tsumura, to deploy our business operations in China, we first aim to bring Tianjin China Medico Technology Co., Ltd. under our auspices to secure crude drugs and then we plan to acquire a company with a pharmaceutical manufacturing license. This will enable us to save our strength for carrying out production. While we are going step by step, in our own mind we are moving forward with speed. ↙



Akemi Mochizuki

We still have to perform a 3C system evaluation but I believe we are moving in a good direction.

Sumita: I understand you introduced the 3C system (3 officer system). What is the point of this system? Can you provide an evaluation of this system at the current stage?

Matsui: We shifted to the 3C system after launching the Chinese business. The goal is to further decentralize responsibilities, in part as the burden on the president had increased. On top of this, there are personnel education programs.

I think the 3C system was correct, even from this perspective.

Miyake: In particular, I think the 3C system will work well as long as the COO and CFO maintain the proper awareness. Although an evaluation of this system is still a way out, I think that at this stage we are moving in a good direction.

Major improvement has been made to the information collection method conducted prior to decision-making. Going forward, we plan to further enhance the quality of meetings.

Sumita: How has Tsumura changed from the time you

became an outside director of Tsumura and now?

Matsui: I believe information collection has substantially improved. We now receive reports directly from the CFO on agendas discussed at meetings of Executive Committee as well as at Board meetings at Outside Directors' meetings held prior to Board meetings. Starting in 2019, all materials are being digitized. We are sent related materials 3-5 days prior to a Board meeting. Also, from a different perspective, as outside directors we all serve on the Nomination / Remuneration Advisory Committee so it is

essential we know and understand “people.” In particular, we are asking that explanations be provided to department leaders and young employees as much as possible. I think one of the good things about Tsumura is that it creates an environment and atmosphere that is conducive for asking questions. Meanwhile, the limited amount of time we have considering the volume of information is a theme that requires improvement going forward.

Mochizuki: At the outside directors meeting, we are provided very detailed explanations from people in related departments. This is an extremely ideal situation for preparing for Board meetings. However, one personal opinion is that outside directors should discuss what we think about the information we received from those in charge in the company. In many cases I know what my own ideas are on a matter but wonder what opinions the other outside directors have. I think there should be more open and candid discussions.

Sumita: Explain your responsibilities as an outside director, particularly what it is you are aware of.

Mochizuki: I am a member of the Audit and Supervisory Committee. My goal is to utilize my experience of being able to view matters from a third-party stance to carry out the duties I am given. In particular, I aim to carefully confirm the direct impact to the financial figures that Tsumura discloses from the progress of large-scale investment deals.

Miyake: In the past two years alone, the number of investment deals in China has increased significantly. I think we need to closely keep watch on the results of these investments. Furthermore, looking at past investment deal, there are some projects that are being impaired within a year therefore another vital duty of outside directors is to carefully check if large-scale investments are proceeding as planned. In addition, as I am also a member of the Nomination / Remuneration Advisory Committee, I believe involvement and proper oversight of education and training plans for next-generation leaders is also important.

Matsui: I comprehensively view Tsumura from a long-term perspective. I need to make sure

that I am not assuming that what it currently being carried out is absolutely correct. In addition, I need to see to the best of my ability that employees constantly remember the role of Kampo when carrying out their jobs to give direction to Tsumura’s vision. Regarding personnel education programs, we have various opportunities therefore I aim to carry out solid communication with many employees.

Sumita: Lastly, what do you think Tsumura’s role is concerning COVID-19?

Matsui: From the standpoint of contribution using Kampo, specifically, we should provide medical practitioners in the field with the information they require. We are pouring energies into research activities to use Kampo to supplement COVID-19 treatments and to help those suffering from symptoms. In the frontlines, we are unable to visit hospitals with ease and it continues to be difficult to directly meet with doctors. However, we aim to create opportunities to get doctors to learn about the features and quality of Kampo through new work methods.

Following the discussion

The Long-Term Business Vision is to “Aim to be a value-creation company that contributes to people’s health through its Kampo business.” We aim to create value centering on our unique strength of provide Kampo which is gentle on both the global environment and the body. In other words, the knowledge, intellect, technology, knowhow and other intangible assets of Kampo are the source of Tsumura’s value creation. I think basic knowledge about what Kampo is needs to first be properly explained to stakeholders.

Profile

WICI (World Intellectual Capital/Assets Initiative) Chairperson/IIRC (International Integrated Reporting Council) council member/FCAJ (Future Center Alliance Japan) board member

Born in 1962, graduated from the Faculty of Law, Tokyo University and joined MITI (present-day METI) in 1985. Entered the Graduate School for Foreign Service, Georgetown University in 1991. Held positions in Japan Patent Office, Environment Agency (name at the time), and as negotiator for EPA Negotiations, Director of the Intellectual Property Policy Office, Director of the Innovation Division, Executive Director of the Japan Machinery Center for Trade and Investment Brussels Office, Director-General of the Natural Resources and Fuel Department, Deputy Director-General for Commerce, Distribution and Industrial Safety Policy and Director-General of the Cabinet Office Intellectual Property Strategy Headquarters. Retired from office in July 2019. While working in Brussels, became deeply involved in creating framework for integrated reports. In addition, while serving in the Cabinet Office, in June 2018 compiled the Intellectual Property Strategy Vision, including Business Management Design Sheet. Became an advisor for Sumitomo Corporation in December 2019.



Takayuki Sumita

Corporate Governance

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

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

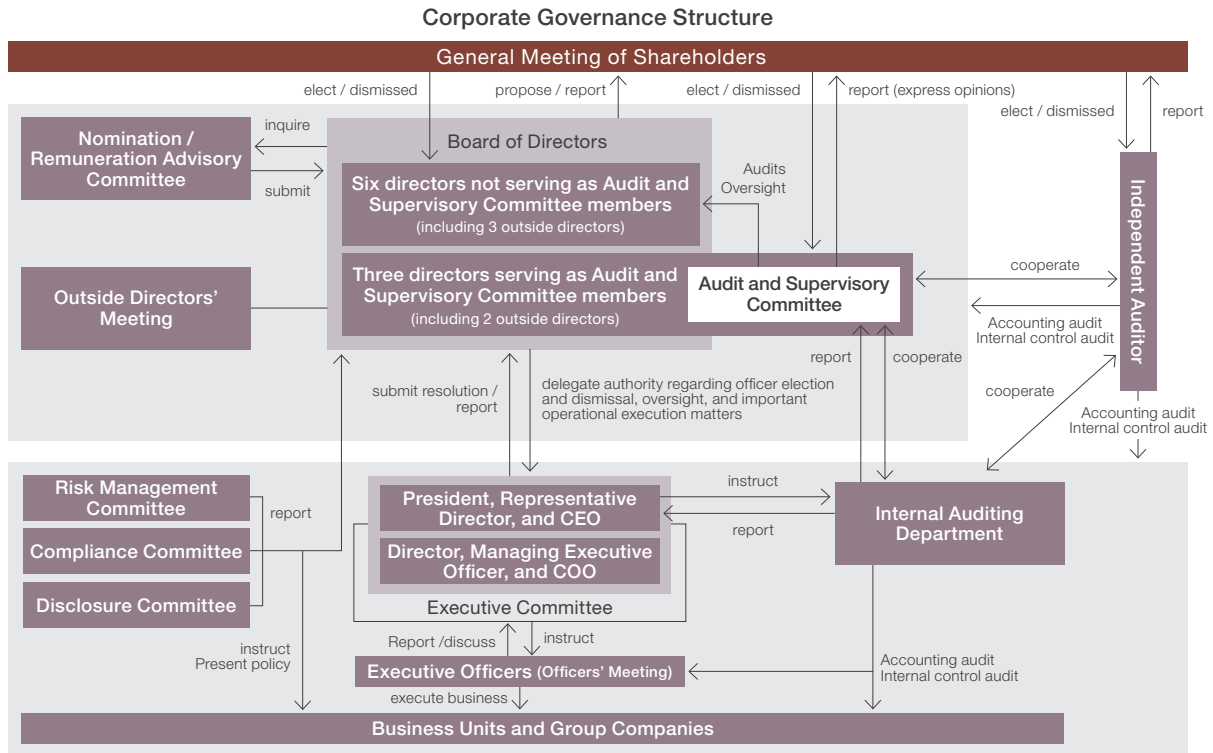
Adoption of New Corporate Governance System

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

At present, outside directors account for majority of the number of Board of Directors. We are building a highly effective government system to make decisions on important matters from various perspectives and to ensure that decisions are not passed based solely on the knowledge of Tsumura’s inside directors. We will continue to strengthen corporate governance in order to achieve sustainable growth.

Adoption of New Corporate Governance System

Fiscal year	'02	'03	'04	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20
President and Representative Director	Hachizaemon Kazama		Junichi Yoshii									Terukazu Kato							
Organizational structure	Company with Company Auditor (s)															Company with Audit and Supervisory Committee			
CEO, COO, CFO																			
Number of directors (of whom, Audit and Supervisory Committee members)	10	11	9	8			9	10	8	6	9 (3)								
Of whom, outside directors	0	1	0			1	3	5											
Number of female directors	0						1	2	1										
Number of Company auditors (of whom, outside auditors)	4 (2)								0										
Term of office of directors	2 years		1 year (director retirement age: President and Representative Director, 65; Representative Director, 63 (excluding outside directors))																
Advisory bodies to the Board of Directors																Nomination / Remuneration Advisory Committee			
Executive officer system	Executive officer system												Executive officer system (Reviewed)						



Board of Directors

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

Number of directors: 9 (including 5 outside directors)

Audit and Supervisory Committee

The Audit and Supervisory Committee comprises three directors, two of whom are outside directors and one of whom is a full-time member. This individual is well versed in circumstances within the Company, as is needed to utilize its internal control systems. Directors who are also Audit and Supervisory Committee members attend meetings of the Executive Committee and other important meetings in order to provide appropriate oversight of management. The Audit and Supervisory Committee is also tasked with investigating the state of operations and assets at the Company and its subsidiaries. The committee monitors the establishment and implementation of internal control systems, including those related to financial reporting, and verifies these systems. It is responsible for ensuring that the execution of duties by directors is both adequate and legally compliant. To this end, members of the committee conduct systematic audits in cooperation with the Internal Auditing Department and hold hearings on the status of business execution with directors, employees, and other personnel.

Number of Audit and Supervisory Committee members: 3

Nomination / Remuneration Advisory Committee

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 two outside directors who is a member of the Audit and Supervisory Committee). These 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. Suggestions are made to the Board of Directors as necessary.

Number of Nomination / Remuneration Advisory Committee members: 6 (including 5 outside directors)

Outside Directors' Meeting

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

Number of Outside Directors' Meeting members: 5

Executive Committee

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

Number of Executive Committee members: 6

Evaluation of the Board of Directors' Effectiveness

For the purpose of improving the effectiveness of the Board of Directors, all nine directors, of which five are outside directors, were asked to fill out surveys on the effectiveness of the Board of Directors in fiscal 2019.

1. Areas evaluated (6 categories, 21 items)

- (1) Composition of the Board of Directors
- (2) Roles and duties of the Board of Directors
- (3) Proceedings of the Board of Directors
- (4) Enhancement of discussions at meetings of the Board of Directors and of provision of related information
- (5) Relationship between the Board of Directors and shareholders and other stakeholders
- (6) Others (policies regarding issues identified by individual directors)

The results of those surveys were discussed at a meeting of the Board of Directors held in May 2020 along with the issues identified and the measures for addressing those issues. The results of the discussions are described below.

2. Evaluation of the effectiveness of the Board of Directors

The Company has been conducting surveys on the effectiveness of the Board of Directors, which are completed by the directors, for the last five years. Through the survey, directors strive to thoroughly implement a constant review of governance issues, undertake improvements, and fortify oversight and monitoring. For each respective fiscal year, the Board of Directors identifies issues based on the results of the surveys and discusses and determines specific measures. The Company will continue to implement a unique PDCA cycle going forward with the aim of realizing further improvements in the effectiveness of its Board of Directors. Regarding the issues identified in fiscal 2019, the Board of Directors reviewed all issues and determined that improvements had been made with regard to all said issues. The Board of Directors was found to be functioning appropriately and to be effective overall.

Issues identified in fiscal 2019

- Provision of training opportunities to endow directors with the insight and knowledge necessary for carrying out new business ventures and other enhancements to systems
- Regarding the governance of Group companies, we will continuously monitor and verify the business development of each Group company and strengthen the supervisory function.
- We will take the initiative to digitalize information to enhance the effectiveness of the Board of Directors.

In addition, we focused on tackling five items as key management issues.

The results of the fiscal 2020 survey were as follows.

Fiscal 2020 survey results

Highly Evaluated Area

- There is an appropriate number of directors, with a majority of those directors being outside directors.
- Corporate strategies and plans are being established by presenting the major direction for plans, including corporate strategies, at the Board meetings.
- At Board meetings, highly effective oversight of the management team/board members is both necessary and sufficiently being carried out.
- Board meetings are being conducted in a manner that creates an atmosphere that encourages candid and open discussion.

Issues and Response Measures

- Regarding the governance of Group companies, in addition to the fortification of management functions and personnel training at each Group company, we will continuously monitor and verify the business development of each Group company and strengthen the supervisory function.
- In our relationships with stakeholders, including shareholders, we will establish sufficient opportunities for dialogue and also consider and implement details of information for disclosure and methods for dissemination.

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

Director Remuneration

1 Basic idea behind the officer remuneration system

The Company's basic policy is to provide directors (excluding directors who are Audit and Supervisory Committee members) with a level of remuneration that will contribute to their motivation to pursue sustainable growth of the Company and enhanced corporate value over the medium- to-long term through the improvement of performance. Based on the remuneration standards of roles, duties, and positions, remuneration for the representative director and other executive directors consists of (i) basic remuneration reflecting short-term performance such as the Company's business results for a given fiscal year and the degree of achievement or performance goals set for each executive director in a given fiscal year and (ii) the performance-linked stock remuneration reflecting medium-to-long-term performance. Employee salaries paid to directors who also serve as representative directors are determined by taking into account the Company's employee remuneration levels. Outside directors and other non-executive officers who also serve as directors (excluding directors who are Audit and Supervisory Committee members) receive only a fixed amount of basic remuneration in view of their roles of supervising operational execution. Directors who are Audit and Supervisory Committee members receive only a fixed amount of basic remuneration in consideration of their roles and duties.

2 Remuneration levels

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

3 Process for determining remuneration

Directors (excluding directors who are Audit and Supervisory Committee members) are paid basic remuneration (monetary basic remuneration) of no more than ¥600 million annually (based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017). (At the time of the resolution, this applied to six representative directors, including outside directors.)

The Company introduced a performance-linked stock remuneration plan through a resolution at the 80th Ordinary

General Meeting of Shareholders held on June 29, 2016 (at the time of the resolution, this applied to three executive directors). The upper limit of the total number of common shares the Company granted in the three fiscal years from the fiscal year ended March 31, 2017, to the fiscal year ended March 31, 2019, was equivalent to 60,000 shares, with an upper limit on the total amount of monetary remuneration claims of ¥300 million. At the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, the Company was given approval for the performance-linked stock remuneration plan (Performance Share Unit) for directors (excluding directors who are Audit and Supervisory Committee members) upon transition to the Company with an Audit and Supervisory Committee system. The maximum number of total common shares of the Company granted during the plan period (the period from the fiscal year ended March 31, 2017, to the fiscal year ended March 31, 2019) was specified as 60,000 shares and total monetary remuneration claims as not more than ¥300 million (at the time of the resolution, this applied to three executive directors). In addition, at the 83rd Ordinary General Meeting of Shareholders held on June 27, 2019, it was resolved to change performance-based remuneration from the actual grant of the Company's common shares to the actual grant of the Company's common shares and the payment of cash. The maximum number of total common shares of the Company to be granted during the applicable period (the period from the fiscal year ending March 31, 2020, to the fiscal year ending March 31, 2022) was specified as 60,000 shares and total monetary remuneration claims and cash as of not more than ¥450 million (at the time of the resolution, this applied to three executive officers who also served as directors).

Director and Audit and Supervisory Committee member remuneration is decided by the Board of Directors based on advice from the Nomination / Remuneration Advisory Committee.

Based on their roles and duties, directors serving as Audit and Supervisory Committee members are only paid fixed basic remuneration. This remuneration is paid as an annual sum of no more than ¥72 million (based on a resolution at the 81st Ordinary General Meeting of Shareholders held on June 29, 2017) and is decided for each individual director serving as an Audit and Supervisory Committee member through deliberation among these directors (at the time of the resolution, this applied to three directors serving as Audit and Supervisory Committee members).

Total director remuneration in fiscal 2019

Category	Total remuneration (¥ in millions)	Total remuneration by type (¥ in millions)		Total number of directors applicable (people)
		Basic remuneration	Stock remuneration	
Directors (excluding directors serving as Audit and Supervisory Committee members) (excluding outside directors)	198	175	23	4
Directors (Audit and Supervisory Committee Members) (excluding outside directors)	25	25	-	1
Outside directors	51	51	-	6

Note: Figures for directors (excluding directors serving as Audit and Supervisory Committee members) and outside directors (excluding directors serving as Audit and Supervisory Committee members) include one person who resigned as of the conclusion of the 83rd Ordinary General Meeting of Shareholders held on June 27, 2019.

Compliance

Related
SDGs



Compliance Promotion Frameworks and Systems

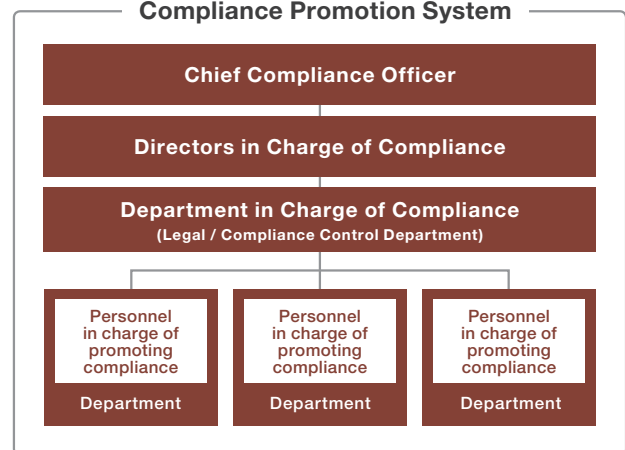
Based on the Tsumura Code of Conduct, which is our guiding principle for the way we conduct business activities, we have formulated the Tsumura Compliance Program Regulations. Policies for promoting compliance at the Tsumura Group are examined and set by the Compliance Committee based on the findings of annual surveys and compliance incidents that have occurred inside and outside of the Group. After the policies set by the committee are reported to the Board of Directors, these policies are presented with accompanying instructions to business units and Group companies so that they can be implemented at workplaces.

As part of our efforts to ensure thorough compliance throughout the Group, we hold regular forums for exchanging relevant information among representatives from domestic and overseas Group companies. In addition, we have implemented an internal whistle-blowing system with the aim of quickly identifying and correcting any compliance issues that may arise within the Group. Reports made through this system are periodically reported to the president, who is also the chief compliance officer, as well as to all directors.

Tsumura Compliance Program

Tsumura Code of Conduct
Tsumura Compliance Program Regulations
Compliance Committee
Compliance Promotion System
Tsumura Group Hotline

Compliance Promotion System



Risk Management Systems

Provisions Related to Information Management

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

Provisions Related to Risk Management

In its risk management practices, the Group takes steps to confirm the status of initiatives for addressing management risks as well as the necessary measures for responding to risks that may materialize in the future. Such confirmation is carried out through risk meetings between the division responsible for risk management (the General Affairs Department) and relevant

operating divisions and members of senior management at Group companies and through meetings of the Risk Management Committee and the Risk Management Promotion Committee. The Group has also established a business continuity plan (BCP) to further strengthen crisis management initiatives and to ensure that operations can be restored in the event of an emergency. The BCP describes its purpose and basic policies, the scope of application for management under the plan, provisions pertaining to strategies and evaluations of the impacts of emergency situations, business continuity measures, and business restoration procedures. We are preparing a business continuity management (BCM) system to promptly and accurately respond should risks occur. In addition, we have updated our disaster response and portable disaster preparedness manuals, which are being utilized in disaster preparedness drill at various Group bases.

Risk Factors

1 Medical Systems

In Japan, the fortification of measures to cut medical costs is being carried out underpinned by fiscal pressures due in part to soaring medical costs in tandem with progress in the low-birth rate/aging population and reflecting more sophisticated healthcare. The schedule for the Council on Economic and Fiscal Policy includes agenda indicating a continued increase in movements to curb medical costs, including a review of benefits and financial burden. To address the change in this environment, the Tsumura Group repeatedly made efforts, including measures to respond to the strengthening of policy to reduce pharmaceutical costs and spreading understanding of the value of Kampo formulations. In addition, we are collaborating with industry organizations while making recommendations to related government agencies to continue to supply prescription Kampo formulations which play an important role in national healthcare.

The Tsumura Group is tackling the reduction of its cost of sales and improving its distribution efficiency. However, should the government move to implement measures that further curb medical costs, including a reform to the NHI drug price system, there is a possibility of negative impact to the Group's earnings performance and financial position.

In addition, in the event of addition cost burden due to stricter regulations in Japan and abroad on pharmaceutical development and manufacturing, or the non-conformity of products with regulations, or an unexpected turnaround in policy on large-scale healthcare administration, there is a possibility of negative impact to earnings performance and financial position. Through the build-up of evidence backing prescription Kampo products and its Kampo enlightenment program for general consumers, the Tsumura Group will continue to conduct activities to widen the recognition of Kampo formulations as a pharmaceutical necessary for national healthcare.

2 Product Supply

The Group's social standing or performance could be negatively affected should the supply of products be interrupted or delayed due to any of the circumstances described below.

(1) Risk related to the procurement of crude drugs, secondary raw materials and materials

The Kampo and crude drug businesses, which use crude drugs as their primary raw material, are the businesses of Tsumura Group companies. Many crude drugs are natural products therefore to steadily secure safe crude drugs, we are building ample inventory volume, increasing crude drug suppliers in Japan and abroad, and continuing to expand Cultivated Land under Own Management^{*1} based on a long-term demand forecast for Kampo formulations. However, in the event of unexpected irregular weather or natural disasters, there is a possibility we may not be able to secure necessary quantities of crude drugs and could potentially post an impairment loss on crude drugs being cultivated.

We import about 80% of its crude drugs from China. We are undertaking an expansion of crude drug production in Japan to ensure stable supply of Kampo formulations. Moreover, to also secure manufacturing sites for Kampo powdered extracts in China, we are establishing a system that addresses import regulations for crude drugs that arise due to changes in laws and regulations, including those related to trade, and shifts in political and economic conditions. However, there is a possibility of impact to product supply should there be a change in the scope of laws and regulations, including those related to trade, and shifts in political and economic conditions that exceed forecasts. We are procuring secondary raw materials and materials used

in the product manufacturing process in Japan and abroad. We are building a purchasing system that enables us to purchase from several suppliers. In accordance with demand forecasts, we are carrying out flexible procurement. However, sharply unstable distribution, including supply and demand, that arises due to natural disasters and unstable social conditions, could negatively impact product supply resulting from a shortage of secondary raw materials and materials and there is possibility of negative impact to our earnings performance and financial position during to soaring market prices.

(2) Risk related to manufacturing and distribution

The Tsumura Group maintains a decentralized manufacturing system comprising two manufacturing sites in Japan, the Ibaraki and Shizuoka Plants, and one site in China, SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. We are aiming to build a system that facilitates a shift in manufacturing items. In addition, we have introduced a quake absorbing and quake resistant structure at our manufacturing facilities in Japan. We also possess two distribution centers, product supply sites: one in East Japan and another in West Japan. We are building a system that will ensure stable supply. Nonetheless, there is a possibility of negative impact to product supply due to a decline or loss of functions triggered by disasters, including a large-scale earthquake or fire, or the loss of power. In addition, we have fire insurance to cover damage to inventory or to repair facilities damaged in a fire. In the event of a fire that exceeds expectations, there is a possibility of negative impact to our earnings performance and financial position.

3 Product Safety and Adverse Reactions

We are nurturing the Tsumura Quality Culture^{*2}, a policy which emphasizes quality to improve our reliability by pursuing quality and safety in all of the Tsumura Group's products, as a set of values that is aligned with our management philosophy. The foundation of this policy is built on the enactment of regulations for the Tsumura Quality Management System, which aims to achieve conformity with quality control standards in Japan and other regions, and to further enhance our quality policy. We are undertaking measures that focus on quality for products that are proprietary manufactured and those for which manufacturing is outsourced. Furthermore, regulations pertaining to the TSUMURA Good Agricultural and Collection Practice (TSUMURA GACP^{*3}) for crude drugs have been implemented to further solidify the Company's crude drug safety and quality assurance system. Owing to these actions, Tsumura has developed a proprietary integrated system to control the entire process for producing Kampo products—from the procurement of raw material crude drugs and establishment of suitable manufacturing methods and equipment for producing Kampo extracts to the supervision of manufacturing, implementation of quality control, and release onto the market. By implementing a rigorous quality management system, we ensure the quality of finished Kampo products. However, we cannot guarantee that we will completely avoid defects or safety issues due to some reason including the possibility of residual agrochemicals and chemical substances on crude drugs. In addition, should consumers experience unexpected adverse reactions from a pharmaceutical product marketed by the Tsumura Group or suffer damage to their health from products other than pharmaceutical products, the existing methods of use may be restricted, and a loss of confidence in the Group and its pharmaceutical products may result in a drop in the dispensation of our medicines or in patients' refusal to take them. The Tsumura Group's performance may suffer if a situation such as those described above results in a decline in sales volume,

*1 Cultivated Land under Own Management refers to 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 Tsumura Quality Culture: Our policy of emphasizing quality to improve our reliability by pursuing quality and safety in all of the Tsumura Group's products, and a situation in which all employees understand the corporate philosophy and use it as the basis for their values, judgements, and actions.

*3 GACP Good Agricultural and Collection Practice

demand for large amounts of damage compensation, or a large-scale recall, among other possibilities.

4 International Business

The Tsumura Group engages in manufacturing and sales activities in China and other overseas countries and regions. In the Chinese business, to fortify our corporate management functions, we established Tsumura China Inc. Based on our partnership with the Ping An Insurance Group in China, we aim to become a company that widely contributes to the health of the citizens of China by maximizing the use of our Group technologies and knowhow.

We are considering acquisitions and partnerships with companies that possess sales and manufacturing licenses as we have entered operations in China. To select and execute an acquisition, the Tsumura Group is targeting companies with whom its corporate philosophy sufficiently resonate, and is doing its best to avoid acquisition/partnership risks in part by conducting detailed preliminary inspections of the target company or business's financial position and business transactions. However, there is a possibility of contingent debt or unconfirmed debt being uncovered after an acquisition or alliance is formed. In addition, we may not be able to generate synergies going forward based on the currently expected business value or business integration. Accordingly, we may not achieve the future earnings strength initially expected, in which case there is a possibility of negative impact to the Group's earnings performance.

In addition, it is possible for the Group to be negatively affected by unforeseeable changes in legal regulations or in political, economic, or other conditions.

5 Research and Development

In the interest of future growth and better corporate performance, the Tsumura Group makes scientific evidence accumulation efforts and conducts R&D activities related to new products and new technologies both in Japan and abroad. However, we cannot guarantee that all of these activities will be successful. The Group's performance could suffer if, for some reason, R&D activities were canceled or delayed or if costs increased significantly.

In the US, activities are being carried out with the goal of acquiring approval and launching Daikenchuto as a prescription pharmaceutical. Should schedule delays and larger-than-expected costs arise for some reason, there is a possibility of negative impact to the Group's earnings performance and financial position.

6 Intellectual Property

We cannot guarantee the full protection of the intellectual property owned by the Group in relation to Kampo products. By thoroughly implementing information management based on company regulations, the Tsumura Group will adequately protect intellectual assets, technological knowhow and other intellectual properties by managing locks for places where confidential information is stored, restricting access to certain individuals, and restricting the number of people who possess vital knowhow. In addition, the Group will properly manage intellectual properties by acquiring patents mainly for newly-developed technologies and new products, and acquisition of industrial property rights, primarily trademarks, and is paying attention to infringements by third parties. However, should a third party infringe on these rights, there is a possibility of a decline in competitiveness and negative impact to the Group's ability to secure earnings. In addition, in the operation of businesses, a preliminary survey is conducted of the intellectual properties belong to other companies, including confirmation of prior trademarks and prior patents mainly for newly introduced technologies. We are working to ensure that these types of infringements do not occur. However, there is a possibility of negative impact to the earnings performance and financial position of the Group due to disputes over intellectual property rights.

7 Human Resources

In the Kampo business for which there is no model to build on worldwide, the Group aims to become a corporate group comprising people with professional skills who can independently pave the way forward for our Kampo business and who are trusted by all. Human resources⁴ are the most vital capital of Tsumura as they continually drive the company's growth. We are focusing on the hiring and training of these human resources. We strategically implement hiring in line with our corporate strategy. We are also looking to secure global personnel to develop our business in China. The Tsumura Group is enacting the Tsumura Human Resource Development Policy and has also set up the Tsumura Academy, with the goal of nurturing personnel for management in accordance with the Group's philosophy. We are currently developing diverse personnel. The Tsumura Quality Culture* defines the values that are linked to the exercise of our corporate value. We are diligently working to cultivate such a culture. However, in the event we are not able to systematically secure necessary personnel or to train them, there is a possibility of negative impact to the business activities, earnings performance and financial position of the Group. The Tsumura Group complies with various laws and ordinances. Going forward, should measures be insufficient, including dealing with the expected decline in the working population, the diversification and growing complexity of the labor environment, occupational safety and health and harassment, there is a possibility of negative impact to the social credibility, earnings performance and financial position of the Group.

8 Competition

Prescription Kampo formulations, the earnings pillar of the Tsumura Group, has held its competitive edge in the domestic market for many years. This reflects stable procurement of safe and secure crude drugs, steady supply of prescription Kampo formulations that have a high uniformity, and the collection of evidence on safety and efficacy. We are continuing to promote various measures in this area. In addition, MRs provide information face-to-face and also respond to the expectations of medical practitioners by supplying information over the Internet. However, there is a possibility of negative impact to the earnings performance and financial position of the Group due to intensified competition in the event of other pharmaceutical companies entering the prescription Kampo formulation market in Japan and abroad.

9 Exchange Rate Fluctuations

Given we import from China, the Tsumura Group takes into account foreign exchange rate fluctuations when importing crude drugs, the primary raw material for the Kampo products we sell, and when importing Kampo powdered extracts, uses forward contracts to alleviate risk. However, in the event of a major fluctuation in the foreign exchange market, there is a possibility of negative impact to the earnings performance and financial position of the Group. In addition, given the conversion to yen when preparing consolidated financial statements using the financial statements of overseas subsidiaries which are denominated in local currencies, a major fluctuation in the foreign exchange market could possibly have a negative impact on the earnings performance and financial position of the Group.

10 Finance

The following financial factors could potentially negatively impact the earnings performance and financial position of the Tsumura Group.

(1) Risk related to retirement benefit obligations

The Tsumura Group's employee retirement benefit costs and retirement benefit obligations are calculated based on assumptions set for posting actuarial difference, including discounts, and the long-term, expected rate of return for pension assets. In the event of a gap between actual results and assumptions due in part to a drop in share prices or a change in the discount rate, or in the event of revisions to assumption,

there is a possibility of negative impact to the earnings performance and financial position of the Group.

(2) Fundraising risk

Given the Tsumura Group carries out the manufacture and sales of pharmaceuticals, required capital is procured via bank borrowings or bond issuances according to capital expenditure plans. However, there is a possibility the Group will have difficulties procuring capital based on its own terms, due to factors such as a deterioration in the market environment, including interest rates, and changes to its credit rating.

(3) Debt guarantee risk

The Tsumura Group signed a debt guarantee contract with a financial institution for a portion of debt obligations at an affiliate. Going forward, should an incident arise requiring the execution of this debt guarantee, there is a possibility of negative impact to the earnings performance, financial position and social credibility of the Tsumura Group.

(4) Risk of price fluctuation for marketable securities

The Tsumura Group holds marketable securities with a risk of price fluctuation. Although steps are taken in advance to alleviate this risk, price volatility in the financial markets could possibly have a negative impact on the earnings performance and financial position of the Group.

11 Taxation

The operating companies that make up the Tsumura Group calculate taxes based on the tax laws of their respective country of residence and properly pay their taxes. However, should there be revisions to the taxation system in the respective country or a difference in opinion with regulatory authorities when filing taxes, there is a possibility of negative impact to the earnings performance and financial position of the Group.

In addition, the Tsumura Group is working to comply with the transfer pricing taxation system where it is applied. However, should a difference of opinion arise with tax authorities in the respective country, or additional tax be levied or double taxation be implemented, there is a possibility of negative impact to the earnings performance and financial position of the Group.

12 Environment

The Tsumura Group contributes to value creation and to the realization of a sustainable society through its Kampo value chain, based on the premise that the group observes laws and regulations pertaining to the environment. In accordance with this Sustainability Vision, we are working to preserve the natural environment. This includes measures such as switching to container materials with a low environmental impact, domestication of wild crude drugs, the reduce of water use, and the promotion of recycling. However, in the event corporate activities cause soil, water or other pollution which triggers an issue, including legal violations, there is a possibility Tsumura will have to pay a fine, including administrative surcharge payment, fines for criminal proceedings, or damages for a civil lawsuit. Should these incidents arise, there is a possibility of negative impact to the earnings performance, financial position and social credibility of the Tsumura Group.

13 Lawsuits

At present there are no lawsuits that would have a serious impact on the Tsumura Group. However, there is a possibility that various lawsuits could be brought up against the Tsumura Group. This includes adverse effects of prescription drugs, including Kampo, damage to a consumer's health, product liability, labor issues, infringement of intellectual property, breach of contract, and environmental pollution. Depending on these trends or results, there is a possibility of negative impact to the earnings performance, financial position and social credibility of the Tsumura Group.

14 IT information management

The Tsumura Group utilizes various IT systems for its corporate activities, including a large scale production system. The Group

is adequately investing in reinforcing these IT systems, including for full-fledged data protection, as a safeguard against system troubles. The Group has put a Business Continuity Plan (BCP) in place and is implementing emergency drills to minimize impact even if an incident should occur that obstruct the execution of duties due to an IT system malfunction triggered by a disaster, including large-scale earthquake or fire, and power outage. There is a possibility that business operations cannot be adequately performed due to a system malfunction due to a disaster that exceeds expectations.

The Group communicates the Basic Information Management Regulations and other internal rules regarding information management throughout its organization and fortifying information management to ensure appropriate and effective management of information assets. However, we cannot guarantee we will completely avoid all risks, including a system shutdown or leak of confidential information due to a cyber attack by a malicious third party or due to carelessness or an error on the part of an employee or other party. Should these incidents arise, there is a possibility of negative impact to the earnings performance, financial position and social credibility of the Tsumura Group.

15 Internal control

The Tsumura Group is carrying out full-fledged maintenance, operation and conformance for internal control systems, including internal control of financial data based on the Financial Instruments and Exchange Act, and strengthening risk management. In addition, the Company is implementing measures, including the establishment of standards and operations for internal control to ensure that there is no human error in operations, no legal violations by insiders, and no scandals.

However, there is a possibility of negative impact to the Group's earnings performance, financial position and social credibility, in the event the internal control system does not function effectively, an incident that renders it impossible to secure the efficiency and effectiveness of operations and the credibility of financial reporting, and illegal actions/scandals that increase operating cost to recover credibility or potentially lead to an increase in man-hours in each department.

16 Other risks

Owing to the global spread of COVID-19, the Tsumura Group set up an emergency response headquarters, with the president at the helm, prior to the Japanese government's declaration of a state of emergency. We placed priority on the safety of our employees and their families, medical practitioners and suppliers. We set forth basic policy to continue the steady supply of pharmaceuticals, including Kampo products. Based on this policy, the Group's production related department carried out business as usual in accordance with measures in the Business Continuity Plan (BCP). Meanwhile, employees in other departments, in principle, worked from home. We also implemented other measures to prevent infections and to stop the spread of the disease, including cancelling or postponing briefings or events, and prohibiting unnecessary visits and meetings.

In addition, after the state of emergency was lifted, we put a work attendance system in place with measures for preventing infection in stages, including practicing social distancing at work, working from home, and staggered shifts. We are also activity addressing the "new normal" in preparation for the impact of COVID-19 to be prolonged. However, there is a possibility that business operations will not be properly executed due to an unexpected spread of COVID-19. This could potentially have a negative impact on the Group's earnings performance and financial position.

⁴The Tsumura Group considers all members of its workforce and management team to be its "treasure," and therefore writes the Japanese word for "human resources" with the character meaning "treasure."

Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries

	2009	2010	2011
For the year			
Net sales	90,933	94,778	95,450
Cost of sales	28,518	29,435	29,944
Gross profit	62,414	65,342	65,505
Selling, general and administrative expenses	43,475	43,789	44,271
Operating profit	18,938	21,553	21,233
Ordinary profit	19,071	21,725	21,783
Profit before income taxes	18,710	21,058	22,448
Profit attributable to owners of parent	10,704	12,945	13,431
At year-end			
Inventories	22,335	22,057	30,570
Property, plant and equipment, net	40,857	42,154	44,869
Non-current liabilities	8,773	8,587	8,093
Total liabilities	50,944	50,394	49,633
Net assets	83,752	91,154	102,240
Total assets	134,697	141,549	151,874
Other selected data			
Capital investment for property, plant and equipment	5,237	5,264	6,425
R&D expenses	3,770	4,123	4,565
Depreciation	3,225	3,453	3,850
Free cash flow	5,864	5,232	1,972
Cash flows from operating activities	12,019	12,047	7,314
Cash flows from investing activities	(6,155)	(6,815)	(5,342)
Cash flows from financing activities	(5,085)	(3,355)	(5,272)
Cash and cash equivalents at end of period	15,381	17,198	13,906
Per share data (yen)			
Profit attributable to owners of parent	151.77	183.55	190.45
Dividends	46.00	58.00	60.00
Net assets	1,175.04	1,274.06	1,430.94
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	68.6	68.9	68.6
Selling, general and administrative expenses	47.8	46.2	46.4
Operating profit	20.8	22.7	22.2
Ordinary profit	21.0	22.9	22.8
Profit before income taxes	20.6	22.2	23.5
Profit attributable to owners of parent	11.8	13.7	14.1
ROE	13.7	15.0	14.1
ROA	14.5	15.6	14.5
Current ratio	173.8	189.1	207.8

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

¥ million

2012	2013	2014	2015	2016	2017	2018	2019
105,638	110,057	110,438	112,625	114,954	117,879	120,906	123,248
35,927	38,787	41,859	45,055	49,454	49,603	49,451	50,747
69,711	71,269	68,578	67,569	65,499	68,275	71,455	72,500
46,586	48,808	49,087	47,743	49,516	51,224	52,935	53,623
23,124	22,461	19,491	19,826	15,983	17,050	18,520	18,876
24,310	23,966	21,583	19,494	16,399	17,914	19,702	19,649
24,062	28,118	20,078	18,898	17,184	20,284	19,897	19,223
15,373	18,050	14,075	12,557	12,488	14,504	14,593	13,765
35,565	43,424	50,716	52,348	52,138	49,994	51,808	73,310
50,657	57,148	60,624	62,822	64,686	71,329	73,703	77,207
9,448	9,126	23,339	23,063	32,727	47,080*	47,861*	49,516
51,929	54,305	64,706	66,765	64,611	95,846*	81,181*	97,993
118,537	133,318	150,947	155,702	157,397	196,533	206,141	213,048
170,466	187,623	215,654	222,468	222,008	292,379*	287,322*	311,042
9,328	8,991	8,428	9,638	6,438	11,900	9,052	6,304
4,904	5,949	6,252	5,968	6,087	6,048	5,926	6,270
4,049	4,871	5,387	5,059	5,629	6,157	6,362	6,406
3,988	4,214	(5,691)	10,109	14,614	(2,288)	(2,247)	(5,297)
12,011	5,908	4,992	17,570	21,065	21,066	5,450	18,191
(8,022)	(1,694)	(10,683)	(7,461)	(6,451)	(23,354)	(7,697)	(23,488)
(4,275)	(4,575)	10,408	(4,608)	(9,572)	50,305	(18,528)	7,111
13,762	14,418	19,343	25,128	29,901	78,313	56,243	57,692
217.98	255.94	199.58	178.06	179.46	200.55	190.87	179.96
62.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00
1,658.88	1,860.14	2,103.04	2,169.13	2,250.34	2,532.11	2,639.59	2,684.38
66.0	64.8	62.1	60.0	57.0	57.9	59.1	58.8
44.1	44.3	44.4	42.4	43.1	43.5	43.8	43.5
21.9	20.4	17.6	17.6	13.9	14.5	15.3	15.3
23.0	21.8	19.5	17.3	14.3	15.2	16.3	15.9
22.8	25.5	18.2	16.8	14.9	17.2	16.4	15.6
14.6	16.4	12.7	11.1	10.9	12.3	12.1	11.2
14.1	14.5	10.1	8.3	8.1	8.3	7.4	6.8
14.3	12.5	9.7	9.1	7.2	6.6	6.4	6.3
222.5	240.6	310.6	305.9	422.4	391.4*	570.3*	400.8

The Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018) was applied effective April 1, 2018. Figures for fiscal 2017 have been restated to reflect the retroactive application of this accounting standard.

Five-Year Selected ESG Data

Environment (fiscal year)* ¹	Unit	2015	2016	2017	2018	2019
Energy consumption	TJ	1,429	1,580	1,568	1,586	1,635
Energy consumption per unit of production	TJ/t	0.15	0.16	0.15	0.15	0.15
Greenhouse gas emissions	t-CO ₂	78,948	87,502	87,407	88,062	90,914
Greenhouse gas emissions per unit of production	t-CO ₂ /t	8.51	8.94	8.51	8.14	8.42
Water consumption	Thousands of tons	1,492	1,547	1,540	1,571	1,718
Volume of discharged water	Thousands of tons	1,304	1,339	1,288	1,369	1,517
Water consumption per unit of production	t/t	160.80	158.02	149.90	145.14	159.12
Society (fiscal year)* ²	Unit	2015	2016	2017	2018	2019
Number of employees	People	3,242	3,331	3,453	3,547	3,840
Number of managers	People	828	831	846	889	757
Number of female managers	People	57	63	70	73	50
New graduate hires						
Total number of university graduates	People	36	36	34	34	35
Total number	People	54	45	50	54	51
Male	People	35	26	27	36	31
Female	People	19	19	23	18	20
Number of global personnel hires	People	0	0	0	1	2
Mid-career hires						
Total number	People	14	19	22	41	52
Male	People	12	17	14	32	44
Female	People	2	2	8	9	8
Turnover ratio (parent)						
Turnover ratio	%	1.33	0.70	0.90	0.95	0.98
Childcare						
Number of employees that acquired maternity leave	People	16	14	12	20	22
Number of employees that acquired childcare leave	People	17	27	32	21	48
Male	People	0	1	2	1	5
Female	People	17	26	30	20	43
Ratio of employees that returned to duty after taking childcare leave (%)	%	100	100	100	100	100
Ratio of female MRs that returned to duty after taking childcare leave (%)	%	100	100	100	100	100
Total annual work hours						
Average actual work hours (rank-and-file employees)	Time	1,887	1,902	1,890	1,874	1,825
Average overtime hours (including work on a day off)	Time	14.14	15.50	14.66	14.49	13.84
Number of days of paid leave acquired	Days	11.5	12.0	12.1	12.2	12.2
Ratio of paid leave acquired (%)	%	58.3	60.4	62.0	63.3	61.3

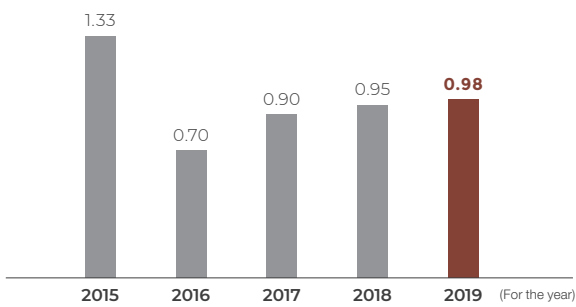
*1: The totals for environmental data are for parent TSUMURA & CO. and consolidated subsidiaries LOGITEM TSUMURA CO., LTD.; YUBARI TSUMURA & CO.; SHENZHEN TSUMURA MEDICINE CO., LTD.; SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.; and LAO TSUMURA CO., LTD.

*2: The totals for social data is for parent TSUMURA & CO.

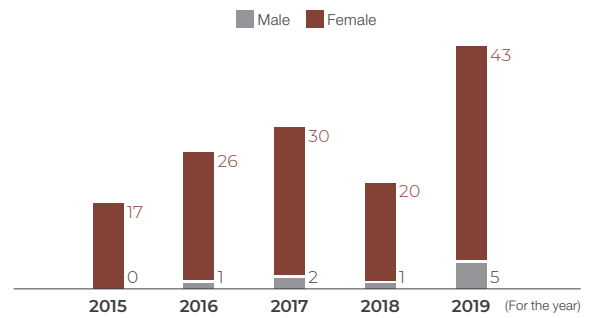
Governance (fiscal year)	Unit	2015	2016	2017	2018	2019
Total number of directors	People	6	6	9	9	9
Male	People	5	5	7	8	8
Female	People	1	1	2	1	1
Total number of outside directors	People	3	3	5	5	5
Ratio of outside directors	%	50	50	55.6	55.6	55.6
Total number of executive officers	People	9	10	10	10	11
Number of times Board of Directors meetings were held	Times	19	19	20	17	19
Average attendance ratio for Board of Director members	%	99.1	97.4	100.0	98.7	97.7

Ratio of compliance questionnaire collection rate						
Questionnaire collection rate	%	99.0	99.4	98.5	91.3	92.5

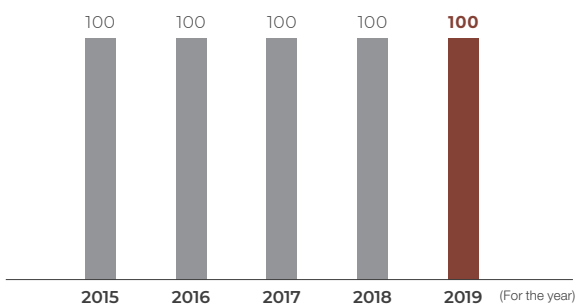
Turnover ratio (%)



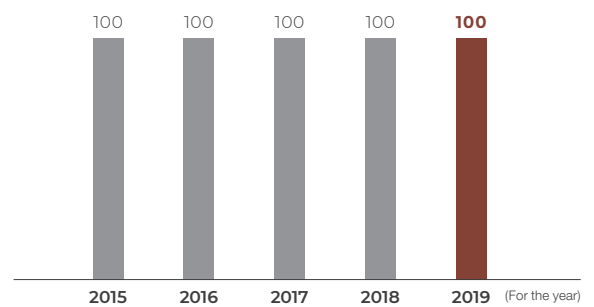
Number of employees that acquired childcare leave (people)



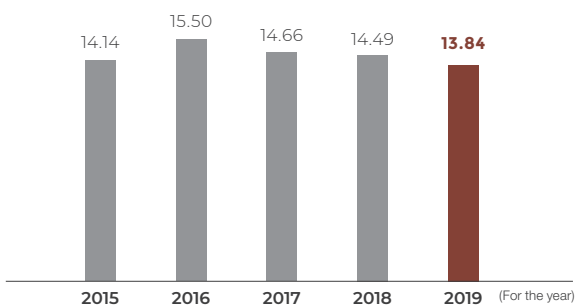
Ratio of female MRs that returned to duty after taking childcare leave (%)



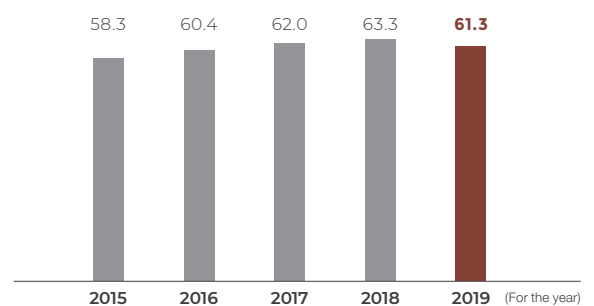
Ratio of female MRs that returned to duty after taking childcare leave (%)



Average amount of overtime (hours)



Ratio of paid leave acquired (%)

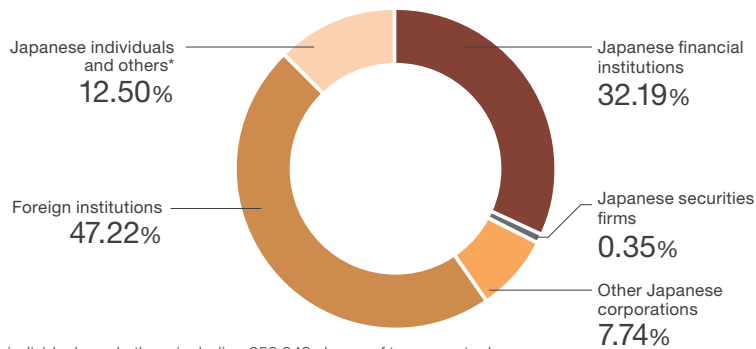


Corporate Data

Current as of
March 31, 2020

Corporate Name	TSUMURA & CO.
Head Office	2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
Founded	April 10, 1893
Incorporated	April 25, 1936
Capital Stock	¥30,142 million
Number of Employees	3,840 people (consolidated)
Closing Date of Accounts	March 31
Stock Exchange Listing	Tokyo Stock Exchange (Stock Code: 4540)
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
Independent Auditor	PricewaterhouseCoopers Aarata LLC
Authorized Common Stock	250,000,000
Issued Common Stock	76,758,362 (Including 250,049 shares of treasury stock)
Number of Shareholders	13,768 people

Ownership and Distribution of Shares



*Japanese individuals and others including 250,049 shares of treasury stock.

Major Shareholders

Shareholder name	No. of shares (1,000 shares)	% of equity
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	7,675	10.03
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,746	7.51
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,710	4.85
Japan Trustee Services Bank, Ltd. (Trust Account)	3,366	4.40
THE BANK OF NEWYORK MELLON (INTERNATIONAL) LIMITED 131800	2,780	3.63
MUFG Bank, Ltd.	2,197	2.87
THE BANK OF NEW YORK MELLON 140051	2,180	2.85
Employees' Stockholding	1,791	2.34
BRIGHT RIDE LIMITED	1,692	2.21
JP MORGAN CHASE BANK 385632	1,320	1.73

Note: The % of equity is calculated deducting 250,049 shares of treasury stock.

The Tsumura Group
Current as of
March 31, 2020

Domestic Bases



TSUMURA & CO.



Shizuoka Plant



Ibaraki Plant



Ishioka Center



Research Laboratories

21 branches and 75 sales offices



Established in July 2009

YUBARI TSUMURA CO., LTD.

Production, procurement, preparation and processing, and storage of raw material crude drugs in Hokkaido



Established in April 1973

LOGITEM TSUMURA CO., LTD.

Logistics operations for supporting stable product supply

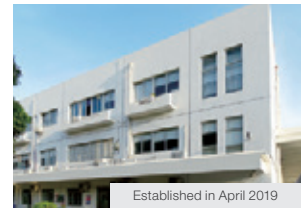
Overseas Affiliates



Established in March 1991

SHENZHEN TSUMURA MEDICINE CO., LTD.

Procurement, selection and processing, quality management, and storage of raw material crude drugs in China



Established in April 2019

Pingcun (Shenzhen) Medical Ltd.

Sales of Medicines and health foods



Established in July 2001

SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts in China using same equipment as that used in Japan



Acquisition of Equity in March 2020

CHINA MEDICO CORPORATION

Procurement, selection and processing, and storage of raw material crude drugs, and Sales of crude drug pieces in China



Established in March 2018

TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts, traditional Chinese medical products, and traditional Chinese medicine powdered extracts in China



Established in December 2011

Baishan Lincun Zhongyao Kaifa Ltd.

Procurement, selection and processing, and storage of raw material crude drugs



Established in February 2010

LAO TSUMURA CO., LTD.

Cultivation and preparation and processing of raw material crude drugs in Laos

Tsumura China Inc.

Regional oversight functions for Group companies in China

Established in December 2016

Ping An Tsumura Inc.

Reinforcement of crude drug procurement systems, analysis and research centered on traditional Chinese medicines, development of traditional Chinese medicines, health foods, healthcare-related products, and other operations in China

Established in June 2018

PIN AN TSUMURA MEDICINE CO., LTD.

Production and Sales of raw material crude drug, and crude drug pieces.

Acquisition of Equity in March 2020

TSUMURA USA, INC.

Development of pharmaceutical products in the United States

Established in August 2001

TSUMURA & CO.

Corporate Communications Department
2-17-11, Akasaka, Minato-ku, Tokyo 107-8521, Japan
TEL: 81-3-6361-7101
FAX: 81-3-5574-6630

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



Bupleurum root (Saiko): The medicinal part of the crude drug bupleurum root being cultivated at site in Kochi Prefecture which appears on the cover picture.