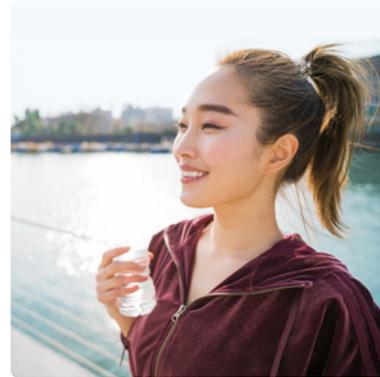
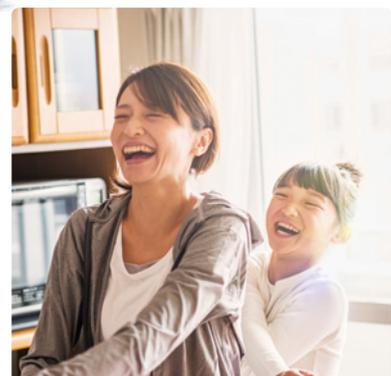


TSUMURA & CO.



Integrated Report 2019



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Editorial Policy

Tsumura has been publishing integrated reports since fiscal 2019. *Integrated Report 2019* was prepared with the goal of communicating Tsumura's efforts to improve its corporate value from a medium-to-long-term perspective to stakeholders. We look forward to making our future reports more insightful for stakeholders by gaining valuable input and information via interactions with them going forward.

Scope of Data Collection and Applicable Period

Performance data is from fiscal 2019.

- TSUMURA & CO., LOGITEM TSUMURA CO., LTD., and YUBARI TSUMURA CO., LTD. (From April 1, 2018 to March 31, 2019)
- Tsumura China Inc., SHENZHEN TSUMURA MEDICINE CO., LTD., SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., Ping An Tsumura Inc., and TSUMURA USA, INC. (From January 1, 2018 to December 31, 2018)

Notice will be provided in cases when the scope of data collection differs from the above.

Forward-Looking Statements and Precautions

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

Corporate Philosophy

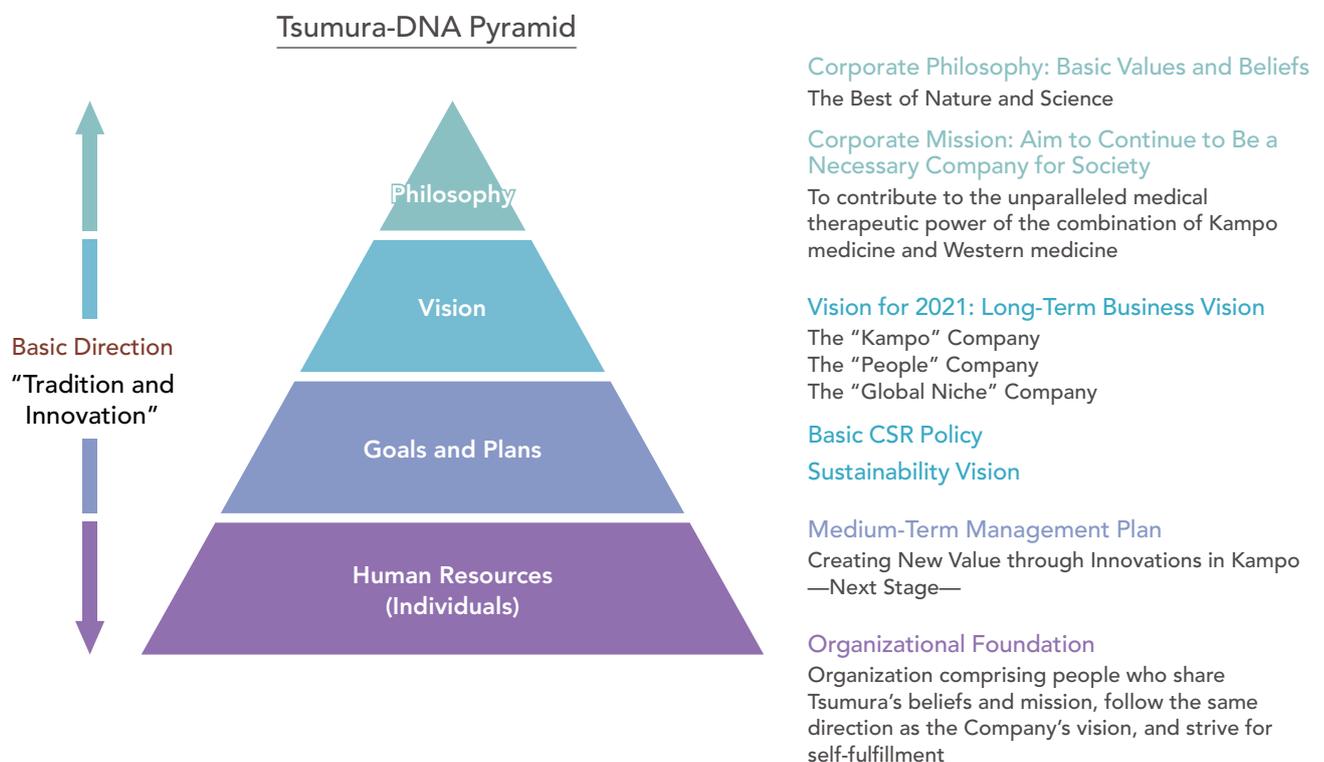
The Tsumura-DNA pyramid comprises the most fundamental and most important principles of the “management that is rooted in basic principles” preached by Tsumura.

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.



Tsumura's History



Founder Jusha Tsumura

Founder's Belief

"Quality Medicine Is Guaranteed to Sell"

Tsumura's predecessor, Tsumura Juntendo, was established in 1893 based on Founder Jusha Tsumura's belief that "quality medicine is guaranteed to sell." Aspiring to contribute to society by providing people with high-quality and effective medicines, the company began selling Chujoto medicine for women, a family tradition. We value the belief inherited from our founder and recognize our responsibility to continue contributing to the health of people through our Kampo business. We are committed to growing sustainably in tandem with society by putting into practice our corporate philosophy, "The Best of Nature and Science."

(Year)

1893

- Tsumura Juntendo is founded, starting the manufacture and sale of Chujoto medicine for women.



Tsumura Juntendo is established in Nihonbashi-ku, Tokyo. Company founder Jusha Tsumura and two staff begin production 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 site of Meguro Plant to promote research into medicinal plants.

1930

- Bathclin aromatic bath salt is launched.



1936

- TSUMURA JUNTENDO, INC., is established.

1964

- Shizuoka Plant is completed.

1974

- Sales of prescription Kampo products begin.

1976

- A total of 33 prescription Kampo formulations are added to the National Health Insurance (NHI) drug price list.



1978

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



1982

- Tsumura's stock is listed on the First Section of the Tokyo Stock Exchange.

1983

- The Ibaraki Plant is completed and research facilities are moved thereto.



Corporate Identity and Changes in Corporate Logo



1987

- The total number of Kampo formulations listed on the NHI drug price list reaches 129.

1988

- Company name is changed to TSUMURA & CO.

1991

- SHENZHEN TSUMURA MEDICINE CO., LTD., is established. (March 1991)

2001

- SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., is established. (July 2001)



- An agreement is concluded for collaborative research on the cultivation of crude drugs in China.

2006

- Tsumura Lifescience Co., Ltd., is established.
- Share unit number is changed.

2008

- Shares of stock in Tsumura Lifescience Co., Ltd., are sold.

2009

- YUBARI TSUMURA CO., LTD., is established. (July 2009)

2010

- LAO TSUMURA CO., LTD., is established. (February 2010)

2011

- A local business in Laos is certified as a public-private partnership under the Japanese government's program regarding partnerships that accelerate growth.
- An agreement for the joint development of raw material crude drugs is concluded with the government of Baishan in China.

2013

- A sponsorship agreement is concluded for the University of Oxford Innovative Systems Biology Project.

2014

- An agreement is signed for joint research on *Atractylodes lancea* rhizome with the China Academy of China Medical Sciences.
- YUBARI TSUMURA CO., LTD., transitions to an agricultural production corporation.

2015

- A joint research agreement is signed with Hong Kong Baptist University.

2016

- *Journal of Japanese Botany* celebrates its 100th anniversary.
- A business alliance agreement is concluded with Tianjin China Medico Technology Co., Ltd.
- Tsumura China Inc. is established. (December 2016)

2017

- Tsumura transitions to the Company with Audit and Supervisory Committee system.
- A capital and business alliance is formed with Ping An Insurance (Group) Company of China, Ltd.

2018

- TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD., is established. (March 2018)
- Ping An Tsumura Inc. is established. (June 2018)

Message from the Group CEO



Terukazu Kato

President and Representative
Director, CEO

Ibaraki Plant

Tsumura is committed to making ongoing contributions to patient health through Kampo products while also fulfilling its social responsibilities to help realize a sustainable society.

In fiscal 2020, the Tsumura Group launched its third medium-term management plan. Based on the theme of “Creating New Value through Innovations in Kampo—Next Stage—” this plan targets the realization of the Group’s Vision for 2021 long-term business vision, “Aim to be a value-creation company that contributes to people’s health through its Kampo business.”

In formulating the third medium-term management plan, we engaged in numerous discussions, constantly asking ourselves what exactly is the unique value that only Tsumura can provide. During this process, we kept coming back to our basic direction of “Tradition and Innovation.” Kampo medicine is a form of traditional Japanese medicine that traces its origins back to a medical approach created in ancient China. After this approach was transmitted to Japan some 1,400 years ago, those who studied and administered treatment based on this approach did not merely uphold the tradition; through a relentless process of trial and error, they evolved this approach into a medical craft tailored to the people of Japan. This process demonstrates that Kampo medicine and our basic direction are inseparable. With the Kampo business as the central pillar of its operations, the ongoing innovation of the Tsumura Group is inevitable as it continues to respond to the ever-changing society and to the contemporary needs of people. This innovation will be pursued while continuing to uphold tradition.

Our commitment to “Tradition and Innovation” is apparent in the legacy of our founder and other forebearers. Founder and first president Jusha Tsumura started his business at the end of the 19th century, a time when Japan was embracing Western medicine as part of its push for modernization, and consequently moving away from Kampo medicine. Believing strongly that quality medicine was guaranteed to sell, he set about recovering the standing of Kampo medicine. The second president, who inherited the name of his predecessor, worked to acquire scientific data on the efficacy of Kampo formulations in post-World War II Japan, thereby succeeding in having our products listed on the National Health Insurance (NHI) drug price list. This spirit of “Tradition and Innovation” can even be seen in the late 1990s, when Tsumura was plunged into a management crisis due to the deterioration of its finances as a result of business diversification and to illegal activities involving senior management. It was this spirit that drove us to management reforms aimed at securing the survival of the Company. The spirit of “Tradition and Innovation” has always been at the heart of Tsumura’s ability to survive and continue contributing to the development of Kampo medicine for more than 126 years.

Fiscal 2019 Business Results

¥ million			Vs. Target		YoY		Second Medium-Term Management Plan	
	Target	Fiscal 2019	Amount	%	Amount	%	Amount	Vs. target
Net sales	120,500	120,906	406	100.3%	3,027	2.6%	120,000	906
Operating profit	17,500	18,520	1,020	105.8%	1,469	8.6%	14,000	4,520
Profit attributable to owners of parent	12,800	14,593	1,793	114.0%	88	0.6%	10,000	4,593
Operating profit margin	14.5%	15.3%		+0.8 percentage point		+0.8 percentage point	11.5%	+3.8 percentage points

Inherited Dedication to Reinforcing Corporate Governance

I did not recount our history, including our past failures, merely out of a sense of nostalgia. No, this look back at our history was provided because truly understanding Tsumura's growth and value creation initiatives requires that one be privy to the process out of which the corporate philosophy and corporate mission that shape these initiatives was born. Since I became president in 2012, I have focused on "management that is rooted in basic principles." This focus is a reflection of my realization of the necessity of injecting into the management of today the spirit of "Tradition and Innovation" that drove the managers of the past to overcome the adversities we faced.

Earnest reflection on the past performance slumps and scandals that arose from a lack of effectiveness in governance is also at the root of our current dedication to the ongoing reinforcement of corporate governance. I will never forget the acute sense of danger I felt every day the management crisis loomed over us as I scrambled to reorganize the subsidiaries that were the cause of our dip in performance. I therefore recognize that corporate governance truly is a top management priority for ensuring the long-term continuity of the Company's business. Today, when we are pressed to make major management decisions swiftly, advice and supervision from an effective Board of Directors are imperative. Currently, five of the Company's nine directors are outside directors, who have also been designated as

independent directors, and these directors boast a diverse range of specialties and backgrounds. In addition to discussions on the pros and cons of our strategies, the Board of Directors is empowered with authority for the appointment and dismissal of the president, a situation that keeps constant pressure on me as I recognize that this authority may be exercised should my capabilities fall into question.

On the execution side, I was assigned the title of chief executive officer in June 2019, and we also established the positions of chief operating officer and chief financial officer at this time. As chief executive officer, I will focus on flexible management decisions as we enhance Tsumura's management capital and advance its business strategies based on the long-term business vision. The implementation of the third medium-term management plan will be left up to Susumu Adachi in his capacity as chief operating officer. Meanwhile, Muneki Handa, a financial specialist newly recruited from outside of the Group, will function as chief financial officer. We intend to utilize Mr. Handa's insight on the cross-border fund management that will be necessitated by the expansion of our operations in China as well as on M&A activities and corporate value assessments. The three of us will function as a team while also fulfilling our individual roles in order to spur the Tsumura Group forward in the creation of value.

Pursuit of Long-Term Business Vision for Fiscal 2022

For Tsumura, medium-term management plans are not merely about what can be accomplished over a given three-year period. Rather, we have positioned each of our plans as one of the three stages of our realization of the Group's Vision for 2021 long-term business vision, "Aim to be a value-creation company that contributes to people's health through its Kampo business," which is to be pursued over the period from fiscal 2013 to fiscal 2022.

During the second stage of this period—the three-year period from fiscal 2017 to fiscal 2019 covered by the second medium-term management plan—we were able to achieve our numerical targets for all items, namely, net sales, operating profit, profit attributable to owners of parent, the operating profit margin, earnings per share, and return on equity. However, this does not mean that we are satisfied with our performance in fiscal 2019. The second medium-term management plan was formulated based on the assumption that NHI drug price revisions would be instituted for three consecutive years beginning with 2016. However, one of these revisions was forgone in

consideration of the delay in the consumption tax hike in Japan. Given this development, I think that there was room for net sales and operating profit to have grown further.

Although we accomplished our targets, we failed to achieve this further growth in net sales and operating profit. This outcome was a result of the new sales measures, instituted in line with the strategic challenge of expansion and stable growth in the Kampo medicine market, only going as far as to solidify foundations. Conversely, we were able to achieve progress and results as planned with regard to the other two strategic challenges of continued reinforcement of profitability and maximization of cash flows and challenge of new businesses in China. Initiatives for boosting earnings capacity have included controlling costs by expanding procurement based on long-term contracts while introducing new production equipment to bolster production capacity. In China, meanwhile, we have begun supplying products in this market centered on Yakushokudogen.

Aggressive Investments Aimed at Future Growth

The third medium-term management plan launched in fiscal 2020 has been positioned, on the road map toward the accomplishment of the long-term business vision, as a phase of proactive growth investments aimed at future growth in fiscal 2023 and beyond.

This plan defines the themes of establishing the concept of Kampo medicine for operations in Japan and contributing to the health of China's citizens for operations in China. Based on these themes, we will address the plan's five strategic challenges and conduct the necessary investments for future growth while taking appropriate risks. As we will be aggressively investing under this plan, we project a slight

decline in profitability over the three-year period.

Accounting for this decline as well as for the NHI drug price revisions instituted alongside the consumption tax hike in fall 2019, we have set the targets of net sales of over ¥135.0 billion, operating profit exceeding ¥19.0 billion, and return on equity of more than 6%.

A more detailed look at measures of the third medium-term management plan will be provided later on in this report.*1 I will be explaining the underlying thinking of the third medium-term management plan in relation to the three elements of the long-term business vision.

*1 Please refer to page 10 of this report for more information on the third medium-term management plan.

Resolution-Driven Advancement toward Vision

One element of the Tsumura Group's long-term business vision is to become the "Kampo" Company. This element represents our mission of contributing to the creation of 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. Driven by this resolution, we will advance toward our vision of a situation in which one in two physicians is able to prescribe at least 10 Kampo formulations. Our path toward this vision will be paved by the continuation of the sales measures and scientific evidence accumulation efforts we have conducted thus far.

Revisions to government healthcare systems in Japan are unavoidable in the midst of the country's aging population and declining birth rate. Nonetheless, we cannot deny that the ongoing decreases in the prices of Kampo medicines will create difficulty when it comes to continuous procurement of crude drugs with the appropriate quality and price. The Tsumura Group has been making efforts to respond to

price decreases, including reducing the cost of sales ratio, improving distribution efficiency, and spreading understanding regarding the value of its Kampo formulations. Nonetheless, there is a limit to what we can accomplish through our efforts alone. In order to continue supplying the Kampo medicines that are so important to people's health, I see a need for us to coordinate with industry associates to provide advice to the relevant government agencies.



Creation of Frameworks for Enabling Future Prosperity

My first presidential role was at a U.S. subsidiary in the 2000s. Together with the local staff, I endeavored to start up new businesses, and I was struck by the perseverance that appeared when employees were united under the same principles. I became president of Tsumura in fiscal 2013. The “People” Company was included as one of the elements of our long-term business vision based on this experience.

We celebrated the 125th anniversary of Tsumura’s founding in 2018. To commemorate this momentous occasion, we arranged various opportunities for all employees to reflect on our history and reexamine the basic principles of our corporate philosophy and corporate mission. The results of this undertaking manifested in a clear change in the stance of employees toward their daily work. With the goal of spreading these results further, the Tsumura Academy program was established in January 2019. This program serves as a venue for training management, specifically officers and candidates for these positions, as well as for fostering the corporate culture, through education for all employees.

The Kampo business is one without precedent anywhere in the world. For this reason, the ongoing prosperity of the Tsumura Group requires that we secure human resources*² who are capable of autonomous thought and action. Moreover, this lack of precedent presents the risk of us falling into a state of narrow-mindedness, looking only at our own operating environment. Recognizing this risk, we have prepared original, systematic training programs that entail lectures by both internal lecturers and external specialists. I believe that training through the Tsumura Academy program, particularly the stimulation gained from external lecturers, will deepen understanding with regard to the “management that is rooted in basic principles” Tsumura preaches. I therefore anticipate that such training will provide an opportunity for employees to realize the need to turn their eyes to the greater society and to re-evaluate their mission therein.

*2 Human resources: The Tsumura Group considers all members of its workforce and management team to be its “treasure,” and writes the Japanese word for “human resources” with the character meaning “treasure,” rather than using the conventional character meaning “material.”

Foundations for Supporting a Century of Business

There is an old saying in China along the lines of “when you drink a glass of water, you should remember the person who dug the well.” For four decades now, China has been the source of roughly 80% of all the raw material crude drugs used to make the prescription Kampo products we supply to the Japanese market. We have received requests from China to supply crude drugs of the same high quality that Tsumura routinely procures and to deliver easily transportable extract granule products with consistent quality. I believe that responding to these requests, and thereby contributing to the health of people in China, is one way to repay the

country for all it has given us over the years. Furthermore, if we are able to develop a customer base and gain a reputation for value in the Chinese market, the accompanying evaluation would serve as an incredibly important form of management capital for use in realizing the stable, ongoing procurement of high-quality crude drugs. Conversely, were we to neglect the need to foster such management capital, there is no guarantee that we would be able to continue procuring raw material crude drugs.

The “Global Niche” Company is another element of the long-term business vision. Our operations in China are an

Net Sales / Operating Profit Margin



important part of the concrete strategies for realizing this element of the vision. We are therefore working to develop business foundations capable of supporting the development of our operations for a century. One of my responsibilities as a manager is to develop new business pillars in preparation for the future demand declines projected as the population contracts in the Japanese market. Traditional Chinese medicines*³ are highly compatible with Kampo medicines, and the market for these medicines presents massive potential when considering its scale and the competition therein. Luckily, Tsumura received an offer for a capital and business alliance from Ping An Insurance

(Group) Company of China, Ltd., a very promising partner. When presenting this offer, Ping An founder Ma Mingzhe demonstrated his respect for the management capital that the Tsumura Group has fostered thus far, clearly stating his desire to work together with us to achieve success in a business that contributes to the health of people in China. Looking ahead, we will boldly develop our operations in China with the goals of having half of sales come from overseas, and half from Japan, and of establishing a No. 1 position in the traditional Chinese medicine market.

*³ Traditional Chinese medicines are medicinal formulations used as part of traditional Chinese medical practices.

Creation of Diverse Value through the Kampo Value Chain

Kampo products are pharmaceuticals that are sold after being produced using crude drugs derived from plants and other natural substances. These products have substantial social value in their ability to contribute to the treatment of illnesses and to the quality of life, and subsequently happiness, of patients. Additional value is created at each stage of Tsumura's Kampo value chain, an important form of management capital built over years of operation and the source of our competitiveness. For example, we make contributions to the preservation of the environments of crude drug producing regions and to the sustainable use of natural resources by systematically cultivating crude drugs and developing cultivation technologies. These efforts in crude drug procurement are founded on our belief that the quality of Kampo products begins with crude drug production. Meanwhile, the procurement of crude drugs based on long-term cultivation contracts creates employment opportunities in producing regions while invigorating agricultural communities.

Through initiatives that take advantage of the characteristics of the management capital represented by our Kampo value chain, we aim to create value that only Tsumura can in terms of contributions to cures for diseases and general health, innovations in Kampo (technological innovation), responses to climate change, and water

conservation. Through these efforts, we will contribute to the accomplishment of the United Nations Sustainable Development Goals.

Famous U.S. business consultant James C. Collins used the phrase "good is the enemy of great" in one of his works. I often find myself chewing over this phrase. Our basic direction of "Tradition and Innovation" is not to be misinterpreted as "Tradition and Improvement." As president, my job is to lead us in generating innovation that will allow the Tsumura Group to continue creating value over the next century. Keenly aware of this responsibility, I will boldly pursue innovation, unfettered by fear of risks, to improve corporate value and realize medium-to-long-term growth. I ask for the ongoing support of our stakeholders as we tackle the challenges placed before us on the path to future growth.

October 2019



President and Representative Director, CEO

Medium-Term Management Plan

In fiscal 2017, Tsumura launched its six-year medium-term management plan. Formulated based on the Company’s Vision for 2021 long-term business vision, “Aim to be a value-creation company that contributes to people’s health through its Kampo business,” this plan is centered on the three elements of this vision: (1) The “Kampo” Company, (2) The “People” Company, and (3) The “Global Niche” Company.

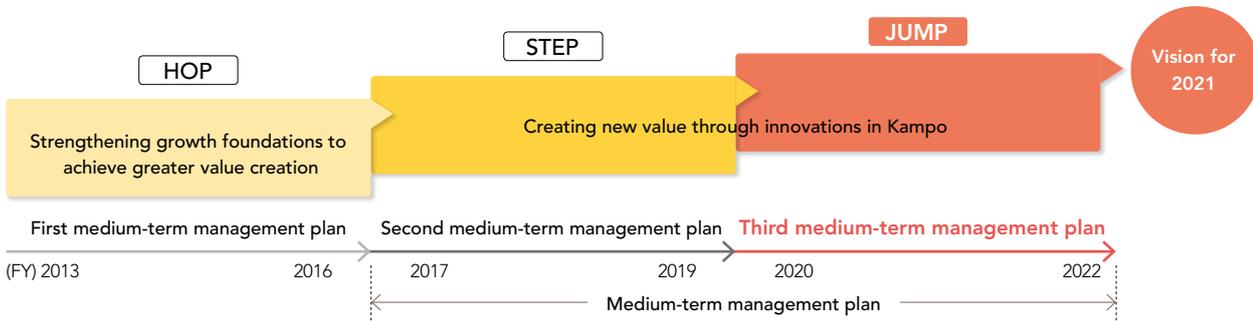
The third medium-term management plan was launched in fiscal 2020. This plan represents a phase of proactive growth investments aimed at the accomplishment of Tsumura’s Vision for 2021. Under this plan, we have formulated business strategies based on the theme of “Creating New Value through Innovations in Kampo–Next Stage–”and will address our new strategic challenges through a concerted Group effort.

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
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.

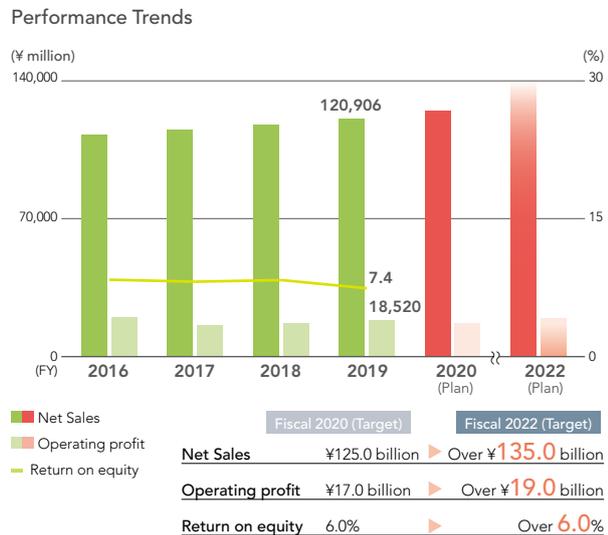


Third Medium-Term Management Plan (Fiscal 2020–Fiscal 2022)

The third medium-term management plan was launched in fiscal 2020 to further progress toward Tsumura’s Vision for 2021.

This plan will entail conducting aggressive growth investments for the purposes of sustainably expanding the Kampo market in Japan and building business foundations in China. We thereby aim to achieve consolidated net sales of over ¥135.0 billion. In the future, these growth investments will contribute to the establishment of the concept of Kampo medicine in Japan or, in other words, to the realization of a situation in which one in two physicians is able to prescribe at least 10 Kampo formulations.

Meanwhile, Tsumura will strive to contribute to the health of China’s citizens by developing a position as the No. 1 and most trusted supplier of traditional Chinese medicines in the Chinese market. In this manner, the Company will aim to raise the amount of net sales generated overseas above 50%.



Operating Environment Outlook and Measures Underlying Strategies and Targets

Japanese Market

Contributions to Society and Expansion of Kampo Market through Efforts in Three Important Domains

One of Tsumura’s strategic challenges to be addressed in the domestic market is sustainably expanding the Kampo market and establishing a presence. Our initiatives to address this challenge will be concentrated on our three important domains—geriatric health; cancer, supportive care in particular; and women’s health. Based on this

approach, we will drive Tsumura’s growth by focusing on the fields in which Kampo medicine can make contributions in consideration of medium-to-long-term changes in demographics and in the structure of diseases, in order to help patients lead healthier lives.

Geriatric Health

Faced with the rapid aging*1 of the Japanese society, Tsumura has been charged with a mission of helping address the diseases that are particularly common among senior citizens. The number of patients suffering from dementia, for example, is increasing to become a serious social issue. Tsumura’s Yokukansan is a formulation that has been proven effective at treating the behavioral and psychological symptoms of dementia*2 and is thus prescribed at an incredibly large number of clinical departments. Other disorders plaguing senior citizens include frailty,*3 gastrointestinal diseases, respiratory diseases, and heart failure and other cardiovascular diseases. Although symptoms can vary based on the stages of these illnesses, Kampo medicines are effective at treating many of the possible symptoms.

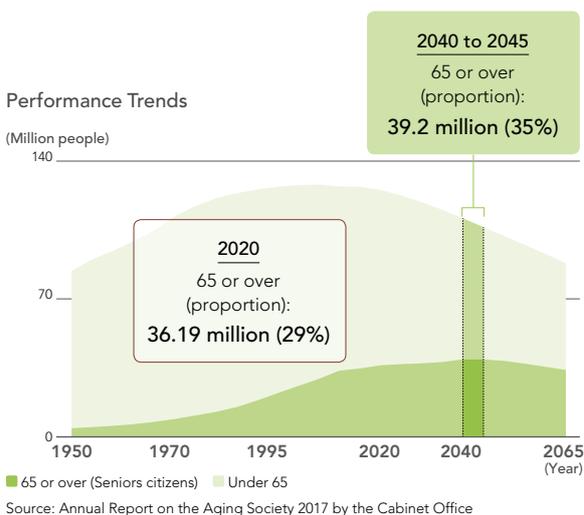
In fact, one formulation can often exhibit efficacy against multiple symptoms, reducing the burden of taking numerous forms of medication. These benefits are expected to prompt increases in Kampo medicine demand.

Going forward, Tsumura will continue efforts to establish scientific evidence regarding its products, have these products listed in treatment guidelines, and provide information on these products with the aim of creating a society in which people can enjoy longer and healthier lives.

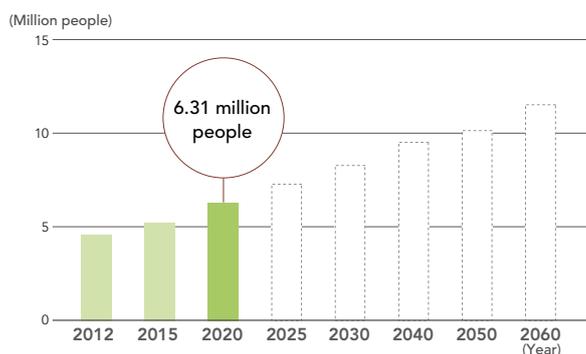
*1 According to the digest version of the fiscal 2017 edition of Annual Report on the Aging Society released by the Cabinet Office, 27.3% of Japan’s population was over the age of 65 in October 2016, the highest level in the world.

*2 Including arousal, aggression, and sleep disorders

*3 Diminished physical and mental capabilities accompanying aging resulting in impediments to basic life functions and needs for intensive nursing care



The Number of Patients with Dementia



Women’s Health

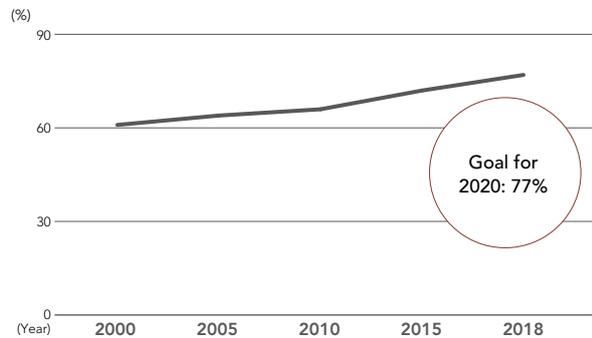
Women are prone to various symptoms as a result of hormonal imbalances arising from changes in life stages. There is a wide range of areas in which Kampo medicines can help treat such symptoms unique to women. As a result, the Kampo prescription rate among women is currently

incredibly high, more than twice that for men.

As women increasingly take part in the workforce going forward, it can be estimated that interest in Kampo medicines will rise among younger generations, who seek to continue working in good health regardless of their life

stage. To respond to this interest, 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.

Female Employment Rate (Ages 22 to 44)



Source: From the Cabinet Office (Headquarters for Japan's Economic Revitalization) Future Investment Strategy 2018, Ministry of Internal Affairs and Communications' Labour Force Survey

Cancer (Supportive Care)

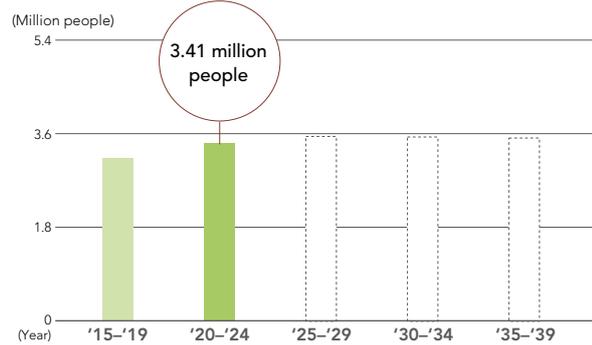
The number of cancer patients is expected to grow leading up to 2029. There is thus a need to provide treatment for these patients along with frameworks for supporting them in achieving a good work-life balance as they undergo this treatment. It is therefore important for us to seek out ways of contributing to this process with Kampo medicine.

Kampo medicines are effective at reducing the side effects of cancer treatment. With its approach of considering both the physical and mental state of patients to help improve quality of life and safeguard it against declines stemming from treatment, Kampo medicine is a holistic medicine approach. There is high anticipation for the contributions Kampo medicine can make to cancer supportive care.

Going forward, the Tsumura Group will continue to supply Kampo formulations while engaging in educational programs to provide accurate information on Kampo medicine,

in order to make ongoing contributions to the resolution of various social issues related to cancer treatment.

The Number of Cancer Sufferers



Source: Cancer Registry and Statistics. Cancer Information Service, National Cancer Center, Japan
The number of people suffering from cancer is defined as "the number of living people who have been diagnosed with cancer within the past five years."

Chinese Market

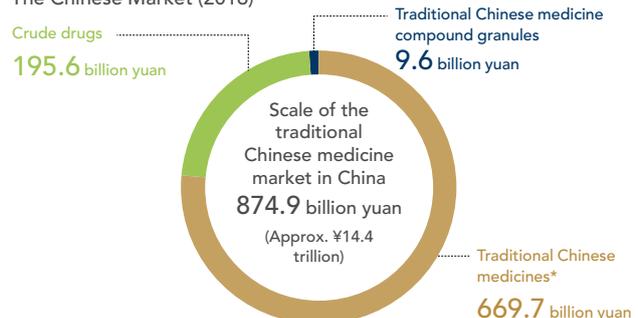
Building of Business Foundations in China to Address Rising Health Awareness

The population of China is projected to age at a similar rate to that of Japan going forward, a trend that is stimulating a rise in health awareness among the people of China. At the same time, the "Healthy China 2030" plan outline announced by the China State Council in 2016 indicates an intention to focus on both Western and traditional Chinese medicine and to normalize and increase the scale of traditional Chinese medicine production. This plan also puts forth policies for advancing initiatives pertaining to theoretical research and pharmaceutical development. These changes are anticipated to stimulate further growth in the traditional Chinese medicine market, which currently boasts a scale of ¥14.4 trillion.

Capitalizing on its accumulated expertise and partnerships with Ping An Insurance (Group) Company of China, Ltd., and other local companies, Tsumura is working to build business foundations in China to become a leading

company in the traditional Chinese medicine market with unrivaled reliability and brand power in China.

The Chinese Market (2016)



Source: Ministry of Industry and Information Technology of the People's Republic of China
CFDA Southern Medicine Economic Research Institute (2016)
Exchange rate: ¥16.5 to the yuan
* Traditional Chinese medicinal products are traditional Chinese medicines that have been produced through industrial processes.

Overview of Third Medium-Term Management Plan

In order 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 supply of Yakushokudogen* and various other products.

With eyes to the future, we will advance the third medium-term management plan. Our goals through this plan are to create new value and contribute to increased happiness by means of Kampo innovation while maximizing long-term profit growth.

* Yakushokudogen means that medicine used to cure illnesses and food that we eat daily are both indispensable for nurturing life and maintaining health. They both stem from the same origins.

Road Map to Realizing Our Long-Term Vision

Growth Investments during (Fiscal 2020–Fiscal 2022)

Rapid Progress (Fiscal 2023)

Third Medium-Term Management Plan (Fiscal 2020–Fiscal 2022)

Sustainably expanding the Kampo market

Building the foundation for the Chinese business

Strategic Challenges

In the third medium-term management plan, Tsumura has established five strategic challenges based on its strategies for businesses in China and Japan. Going forward, we will address these challenges to achieve sustainable growth while improving corporate value.

- 1 Sustainably expanding the Kampo market and establishing a presence
- 2 Investing in growth and building business foundations in China
- 3 Improving productivity using new technologies (AI, automation, RPA)
- 4 Fostering a corporate culture through philosophy-based management and developing diverse human resources
- 5 Promoting the SDGs through the Kampo Value Chain

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

Domestic Business

Establishing a Kampo medicine business

Having one in every two doctors writing over 10 Kampo prescriptions

Chinese Business

Contributing to the health of China's citizens

Aiming to become the most trusted and No. 1 Chinese medicine company in China

Overseas Sales Ratio
Over 50%

Numerical Targets

Net sales	Operating profit	ROE
Over ¥ 135.0 billion	Over ¥ 19.0 billion	Over 6%

Explanation of Strategic Challenges

Strategic Challenge 1: Sustainably Expanding the Kampo Market and Establishing a Presence

Tsumura will concentrate its efforts on three important domains—geriatric health; cancer, supportive care in particular; and women’s health—expected to see growth in demand for Kampo formulations in order to heighten the presence of Kampo products in the domestic medical market. In addition, we are deploying a sales approach focused on the “drug fostering” program formulations, the “growing” formulations, and the three important domains with the aim of proposing a wide range of Kampo formulation options for treating illnesses in the applicable areas and are thereby expanding the Kampo market.

Furthermore, Tsumura is developing scientific evidence indicating the treatment benefits (safety and efficacy) of Kampo products. These efforts have resulted in a higher number of Kampo formulations being listed in treatment guidelines and consequently a rising number of physicians prescribing Kampo formulations.

Geriatric Health		Cancer (Supportive Care)	Women’s Health
Psychiatric and neurological disorders Yokukansan F + Associated formulations	Digestive system diseases Rikkunshito F Daikenchuto F Hochuekkito G + Associated formulations	Mitigation of side effects, etc. Rikkunshito F Hangeshashinto F Goshajinkigan F + Associated formulations	Diseases specific to women Kamishoyosan G + Associated formulations
Respiratory diseases Bakumondoto G + Associated formulations			Other diseases and symptoms Daikenchuto F Goreisan G + Associated formulations

F “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.

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.

Strategic Challenge 2: Investing in Growth and Building Business Foundations in China

Tsumura has set the target of achieving net sales of 240 million yuan in fiscal 2022, and measures are being implemented to this end. This target will primarily be pursued by selling products made from crude drugs, such as Yakushokudogen products and crude drug pieces for decoction.* In addition, we intend to conduct M&A activities and other proactive growth investments over the period of the third medium-term management plan in order to solidify the foundations of our traditional Chinese medical product operations so that they can function as a growth pillar from fiscal 2023 onward.

* Crude drug pieces for decoction are raw material crude drugs that have been chopped.



Strategic Challenge 3: Improving Productivity Using New Technologies (AI, Automation, and RPA)

Tsumura is using artificial intelligence (AI), automation, robotic process automation (RPA), and other new technologies to improve efficiency in cultivation, crude drug processing, production, sales activities, and routine work in order to boost productivity in response to increased Kampo product demand and to cut costs via laborsaving measures. Meanwhile, the supply chain management reforms that have been advanced in a phased manner since the period of the first medium-term management plan will be continued. Also, under the period of the third medium-term management plan, steps will be taken to optimize all processes, spanning from demand forecasts to crude drug commissioning plans, with the goal of improving production efficiency through the optimal allocation of inventories.

Efficiency-Boosting Measures for Improving Productivity

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

Strategic Challenge 4: Fostering a Corporate Culture through Philosophy-Based Management and Developing Diverse Human Resources

Tsumura recognizes that the development of human resources who are capable of exercising its corporate philosophy is imperative to its ongoing growth. For this reason, it established the Tsumura Academy in January 2019. The Tsumura Academy has two functions. The first function is the planning and implementation of systematic training programs, including courses by both internal and external lecturers, in order to continuously cultivate human resources capable of exercising the corporate philosophy in management. The second function is to promote the entrenchment of the corporate philosophy among Group employees and foster a corporate culture in line with Tsumura's basic direction through the implementation of coaching, business etiquette training, and basic skills improvement programs. The expansion of businesses in China is creating a pressing need to foster personnel to manage Group companies. Tsumura is therefore working to develop diverse human resources capable of contributing to the exercise of its corporate philosophy.

Tsumura Academy	Training Management For executives and executive candidates	Further Fostering Corporate Culture For all employees
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Strategic Challenge 5: Promoting the SDGs 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
- Adopt cyclical systems, such as renewable energy, and promote efficient use and conservation of resources including water
- Spread the sustainable use of natural resources, create job opportunities, and improve the link between agriculture and welfare through cultivation of and research into crude drugs

Contribution to disease cures and general health	Innovations in Kampo (technological innovation)	Strengthening of the Kampo value chain	Response to climate change	Water conservation
  		  		

Special Feature

Reinforcing Business Foundations in China

Progress with Businesses in China

One of the strategic challenges set out in Tsumura’s medium-term management plan is to invest in growth and reinforce business foundations in China, in order to contribute to the health of people in the country while raising Tsumura’s corporate value as the “Global Niche” Company. Accordingly, we have been steadily investing in growth and strengthening the foundations of the traditional Chinese medical products business.

We aim to increase the overseas sales ratio of the Tsumura Group to more than 50% of total sales by fiscal 2028. To this end, we have been implementing various measures in our three main business categories of crude drug pieces for decoction, traditional Chinese medical products, and analytical research.

Market Conditions and Tsumura’s Growth Strategies

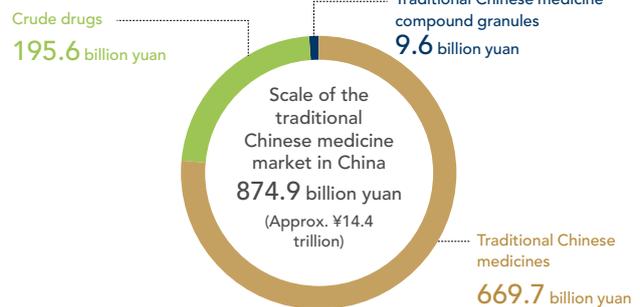
The traditional Chinese medicine market in China—combining traditional Chinese medical products, crude drugs, and traditional Chinese medicine compound granules—was worth around 874.9 billion yuan (approximately ¥14.4 trillion) in 2016, and has displayed a compound annual growth rate of more than 15%.

Such growth is much larger than that of Japan’s prescription Kampo product market, whose total value amounted to over ¥10 trillion as of 2018. There are around 3,000 Chinese domestic manufacturers, and there is no market leader with a share of more than 3%. The main reason for this is that there are few companies capable of achieving high quality standards for drugs that use naturally derived crude drugs, as Kampo medicines do.

In tandem with rising income levels in China, demand for high-quality Kampo formulations has been growing in the country. With our know-how as a company dedicated to the highest Kampo product quality, we seek to become a leading, trusted pharmaceutical company with strong

brand power in China in cooperation with local partners such as Ping An Insurance (Group) Company of China, Ltd. In this way, we aim to contribute to the health of Chinese people while ensuring stable procurement of naturally derived crude drugs in the future.

The Chinese Market (2016)



Source: Ministry of Industry and Information Technology of the People’s Republic of China
CFDA Southern Medicine Economic Research Institute (2016)
Exchange rate: ¥16.5 to the yuan

The Tsumura Group’s Ongoing Business Development in China

Until Now		Going Forward
1991	<ul style="list-style-type: none"> • SHENZHEN TSUMURA MEDICINE CO., LTD., is established (March 1991) 	<p>FY2020–FY2022</p> <ul style="list-style-type: none"> • Achieve sales of 240 million yuan by expanding sales of existing Kampo products • Begin preparations for launching a traditional Chinese medical products business • Make proportionate investments of between ¥50 billion and ¥100 billion with business partners
2001	<ul style="list-style-type: none"> • SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., is established (July 2001) 	
2016	<ul style="list-style-type: none"> • A joint venture agreement with Tianjin China Medico Technology Co., Ltd., is concluded. The supply of crude drug pieces for decoction to the Chinese market is thereby started • Tsumura China Inc. is established (December 2016) 	<p>FY2028</p> <ul style="list-style-type: none"> • Target overseas sales totaling 10 billion yuan, with the traditional Chinese medical products business as a pillar of the Chinese business
2017	<ul style="list-style-type: none"> • A capital and business alliance with Ping An Insurance (Group) Company of China, Ltd., is finalized 	
2018	<ul style="list-style-type: none"> • TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD., is established (March 2018) • Ping An Tsumura Inc. is established (June 2018) • Ping An Tsumura Inc. begins test marketing of herbal products that use crude drugs as a raw material 	

Progress with Different Businesses in China

Crude Drugs Pieces for Decoction Business

At SHENZHEN TSUMURA MEDICINE CO., LTD., our base for raw material crude drug procurement in China, we are promoting joint business with Tianjin China Medico Technology Co., Ltd., which has long been a Tsumura Group trading partner.



Crude drug pieces for decoction

Analysis Business

Ping An Tsumura Inc. is moving toward establishing an analysis and research center to implement quality standards for traditional Chinese medicines and further entrench the Tsumura Group's high-quality brand in China.

Traditional Chinese Medical Products Business

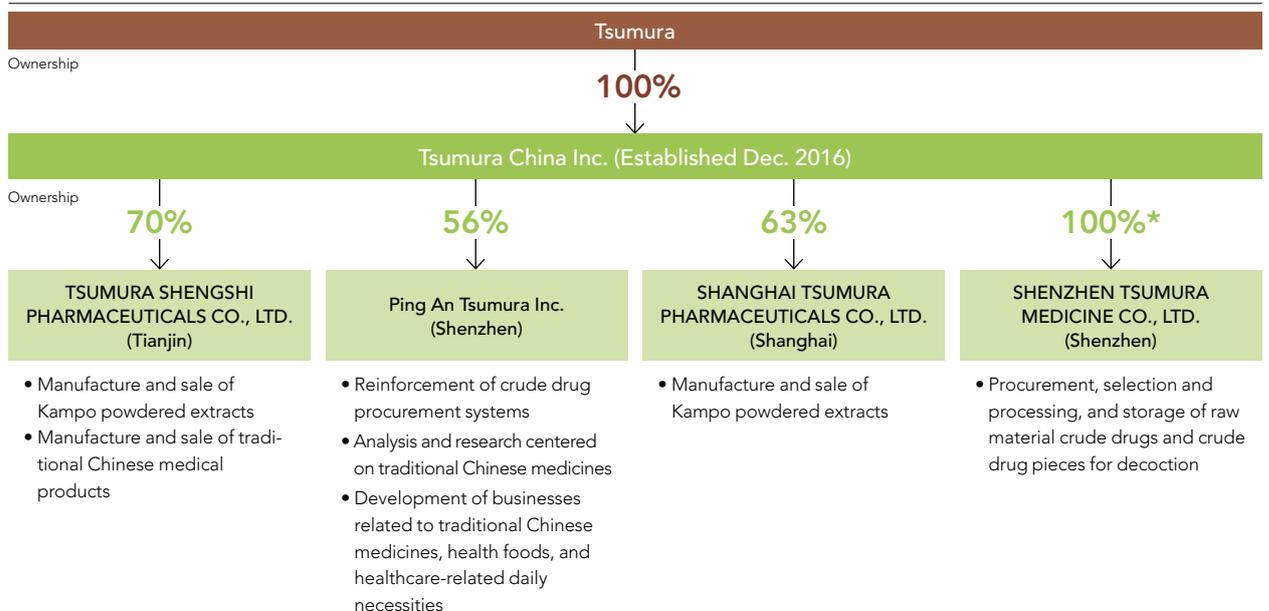
TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD., is currently building a plant to manufacture Kampo powdered extracts as an intermediate form of Kampo products for the Japanese market. The company is considering embarking on the business of manufacturing and selling traditional Chinese medical products for the Chinese market. Ping An Tsumura is also planning to enter the market for traditional Chinese medical products.

Viewing these operations as a pillar of our future business activities in China, we are moving ahead with the selection of M&A candidates among local traditional Chinese medical product manufacturers.



Tianjin Plant (Tsumura Shengshi Pharmaceuticals Co., Ltd.)

Overview of Businesses in China



* Currently, Tsumura invests directly in SHENZHEN TSUMURA MEDICINE CO., LTD. In the future, however, the Company plans to transition to indirect investment through Tsumura China Inc.

Message from the Group COO

Tsumura will live up to the trust of all stakeholders by generating results through the third medium-term management plan.

Susumu Adachi
Director, Managing
Executive Officer and COO



Mission as COO

In addition to granting me the position of COO, the Company appointed, for the first time, a chief executive officer (CEO) and a chief financial officer. The introduction of these new positions was meant to allow for increased speed in initiatives to address the five strategic challenges of the third medium-term management plan and to ensure success in these ventures based on an understanding of the challenging operating environment Tsumura currently faces. This move entailed delegating a portion of the responsibilities for reporting, decision-making, and instruction issuance previously concentrated on the president and executive officer to me, in my position as COO. Specific areas for which I will be delegated authority will include

medium-term management plan and other strategies as well as projects for which the overarching policies have been decided. By fulfilling my role, I will enable the CEO to devote his time to the building of relationships with important business partners and key individuals worldwide, critical decision-making, and focused training of management personnel.

My mission as COO is to dedicate my efforts to the implementation of the business strategies prescribed for the period leading up to fiscal 2022 in the third medium-term management plan. By generating results through these strategies, I aim to gain the trust of all stakeholders and drive improvements in the corporate value of Tsumura.

Initiatives of the Third Medium-Term Management Plan—Solidification of Foundations for Growth in Fiscal 2023 and Beyond

Domestic Operations

The target for net sales in domestic operations in fiscal 2022, the final year of the third medium-term management plan, will not be easily accomplished. Nevertheless, I feel confident in our ability to achieve this target through steady-state initiatives.

Over the three-year period of this plan, we will focus our efforts on the three important domains of geriatric health, cancer (supportive care in particular), and women's health. Tsumura boasts Kampo formulations worthy of frequent use in these fields, but many of these formulations are not yet being utilized to their full potential. By effectively

communicating the efficacy of these formulations and gaining recognition, I believe that we can contribute to the health of a wider range of patients with our Kampo medicines and thereby drive rapid growth in the domestic Kampo market and our share therein.

The process through which Tsumura will grow the market for its Kampo formulations is a bit different from that of Western medicine manufacturers. For example, there has recently been a trend among Western medicine manufacturers toward cutting back on their numbers of medical representatives (MRs), as the scope of the activities of these MRs at medical institutions becomes increasingly more narrow. Conversely, Tsumura places great emphasis on the importance of direct communication between MRs and physicians and other medical practitioners as a means for providing information on Kampo products. This emphasis has won our MRs a strong reputation among medical practitioners. However, we refuse to be satisfied with this evaluation. We are therefore always seeking to reach new pinnacles in information provision activities based on education curricula that accurately illustrate the relationship between Western medicine and Kampo medicine.

Furthermore, we are responding to the shrinking scope of MR activities by supplementing prior seminars and explanatory forums with new information provision channels such as explanatory forum broadcasts via the Internet. The key performance indicators for the third medium-term management plan were set after extensive discussions regarding the tasks needing attention in the short-to-medium term as well as research activities for creating scientific evidence with an eye to further down the line. All organizations are marching forward to accomplish the targets for these indicators.

Chinese Operations

In China, we will grow our operations through a two-pronged approach centered on Ping An Tsumura Inc., a joint venture company established together with leading Chinese insurance and finance company Ping An Insurance (Group) Company of China, Ltd. The first prong of this approach is related to Yakushokudogen products and crude

drug pieces for decoction. These products can be manufactured using existing production equipment, and we have already entered this market. The second prong is traditional Chinese medical products. Entering into the traditional Chinese medical products business will require that we acquire manufacturing and sales licenses and secure the necessary production equipment. For this reason, we are currently researching potential traditional Chinese medical product companies to be purchased while at the same time moving forward with the construction of a factory in Tianjin, China, to realize mass production in the future. If we are to grow our Chinese operations to the same scale as that of our domestic operations, it will be absolutely essential for us to get our traditional Chinese medical products business off the ground and onto the growth track.

As for marketing initiatives in China, through collaboration with partner Ping An, we held large-scale training programs targeting 1.4 million insurance salespersons with the aim of fostering recognition for the brand and products of Ping An Tsumura among their customers. In addition, we have begun deploying Ping An Tsumura products on the Ping An Good Doctor* healthcare ecosystem platform. We will also work together with this partner to market our traditional Chinese medical products after their launch.

The acquisition of manufacturers of traditional Chinese medical products will be imperative to our entry into this market. The conditions we are looking for in acquisition targets include a sufficient business scale, promising products and sales channels, and healthy corporate governance systems. Another important factor to be considered is whether we can share with them our discerning eye and commitment to quality. We have already approached numerous companies, but it has not been easy to find ones that meet our requirements. However, we will not be hasty. Even if it takes time, we will seek out companies that meet our standards, visiting countless companies and communicating with senior and other management and employees throughout this process.

* The Ping An Good Doctor healthcare ecosystem platform comprises 1,000 Ping An online support physicians, more than 60,000 partner physicians, and 5,000 partner hospitals. The number of registered users exceeds 150 million and as many as 250,000 medical examinations are conducted every day.

Improvement of Corporate Value Based on Confidence and Dedication

One of the Tsumura Group's principal strengths is the unshakable confidence of its employees in the value of Kampo medicines. As demonstrated by our ability to continue to generate new scientific evidence on the efficacy of Kampo medicines, the possibilities for these medicines will only grow in the future. I am dedicated to living up to the

expectations of all our stakeholders by communicating the Tsumura Group's commitment to the quality of Kampo medicines and the efficacy of these medicines, in order to improve our corporate value through contributions to people's health.

The Kampo Value Chain

Tsumura has developed a Kampo value chain that encompasses everything from the cultivation and procurement of the crude drugs that serve as the raw materials for Kampo products to extract manufacturing, promotion of the spread of Kampo medicine, research and development, and even quality assurance.

Tsumura's business model is characterized by its being founded on this Kampo value chain, through which the Company manages and integrates all its business activities, from upstream to downstream areas. Cultivated over an extended period of time, this value chain is the source of our competitiveness in the stable supply of high-quality Kampo products.

Kampo Value Chain

Cultivation and Procurement

P.22



Tsumura procures the crude drugs that are the raw materials for Kampo products from China, Japan, and Laos, among other countries. We are working to expand Cultivated Land under Own Management,*1 for which we are able to provide direct cultivation guidance, and implementing measures to ensure a stable supply of crude drugs and control procurement costs. Procured crude drugs are submitted to rigorous inspections to guarantee compliance with legal requirements as well as Tsumura's own quality standards.

Manufacture

P.26



Raw material crude drugs that have passed inspections are chopped and Tsumura's proprietary equipment is used to produce Kampo extracts in accordance with traditional methods. After separating out liquids and solids, the extracts are made into powdered extracts through low-temperature, short-period condensation and drying. Powdered extracts are mixed with diluting agents*2 and submitted to granulation processes to form granules, which are then packaged and labeled to be shipped to distribution centers as products. These products are supplied to pharmaceutical agencies.

For more information on manufacturing processes, please refer to the following website page on quality assurance and manufacturing (Japanese only).
https://www.tsumura.co.jp/quality/value_chain/02.html

Optimization of Group Supply Chain

Utilization of Artificial Intelligence and Big Data

Research and Development

Quality Assurance

Human Resources

*1 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.

*2 Diluting agents are additives that are used when handling pharmaceuticals or to improve form or the convenience of use.

Enhancement of the Kampo Value Chain

With its Kampo value chain as its foundation, Tsumura has been able to maintain an unshakable position as the market leader with a share of more than 80% of the prescription Kampo product market in Japan. This value chain is dependent on our connections with society, and our efforts to provide value for contracted producers, communities, and the environment are thus directly linked to the maintenance and reinforcement of this value chain. For this reason, Tsumura has positioned promoting the SDGs through the Kampo value chain as one of the strategic challenges of the third medium-term management plan. Through initiatives aimed at addressing this challenge, we hope to help resolve social issues with innovation while spurring the growth of Tsumura.

Sale, Education, and Popularization

P.28



Tsumura's products are sold to medical institutions and pharmacies across Japan through pharmaceutical agencies. At the same time, our medical representatives (MRs) provide, collect, and transmit information on Tsumura's pharmaceutical products to expand the Kampo market. We also seek to establish the concept of Kampo medicine by developing scientific evidence for and supporting education on Kampo medicine.

Quality Assurance

P.34



Acting in accordance with Tsumura's quality policy, we have established the Tsumura Quality Management System to further improve the quality assurance system, and we promote initiatives that prioritize quality. In addition, strict in-house standards have been established, based on which rigorous quality inspections are performed at each stage of the value chain.

Cultivation and Procurement



The ability to stably secure supplies of 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. We have developed and are enacting a medium-to-long-term plan designed to guarantee our ability to stably procure crude drugs of the required quality based on long-term Kampo product demand projections. 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, we have adopted cultivation management systems (data cultivation and analysis) and are embracing cutting-edge technologies for improving productivity in order to increase and stabilize crude drug harvest volumes.

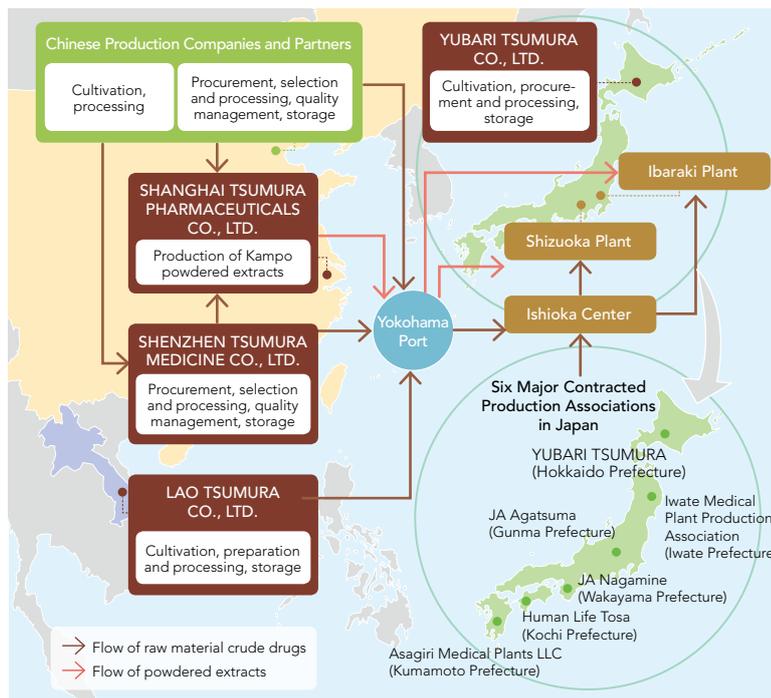
The recent rise in crude drug prices is having a heavy impact on the Company's earnings. For this reason, controlling procurement costs is a matter of urgency. Measures for addressing this task are centered on the expansion of Cultivated Land under Own Management.

Reliable Crude Drug Procurement Based on Contracts

For use in manufacturing its 129 prescription Kampo products, Tsumura procures raw material crude drugs from crude drug production associations and production companies. Contracts are concluded with these producers to decide

procurement volumes and prices in advance. In addition, these contracts enable us to assure quality by requiring adherence to production standard documents that stipulate the permissible cultivation methods and agricultural

Process from Raw Material Crude Drug Cultivation to Manufacturing



chemicals, among other factors, based on the TSUMURA Good Agricultural and Collection Practice (▶ GACP, see page 35) for crude drugs.

Raw material crude drugs procured from producers and production companies throughout China undergo selection and processing at SHENZHEN TSUMURA MEDICINE CO., LTD., where contaminants are removed. Afterward, this company performs physiochemical tests to confirm safety by identifying any residual agrichemicals, microbes, or heavy metals. Only those raw material crude drugs that meet our

stringent standards are sent to SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., or to Tsumura's Ishioka Center. Raw material crude drugs procured in Japan or Laos are submitted to selection and processing and quality tests at the Ishioka Center.

Similar quality tests are performed at SHENZHEN TSUMURA MEDICINE and at the Ishioka Center, and only those raw material crude drugs that meet the Tsumura Group's quality standards are supplied to factories manufacturing Kampo formulations.

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 China, we conduct joint research on the cultivation of crude drugs together with research organizations in this field. Research in Japan includes projects aimed at realizing artificial cultivation of crude drugs grown in the wild as well as projects for increasing crude drug yields and stabilizing quality centered on Hokkaido.

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. Meanwhile, we are targeting more precise cultivation technologies for licorice, which is used in approximately 70% of our Kampo formulations, developing sustainable cultivation methods for ginseng that help preserve forests, and researching other methods of expanding the range of crude drugs that can be produced artificially.

Expansion of Crude Drug Production in Japan

In conjunction with growth in demand for Kampo formulations, we are expanding cultivation sites in Japan as well as overseas. In Japan, we contribute to the development of local communities while securing stable supplies of Kampo formulations through cooperation with producers involved in the cultivation of raw material crude drugs centering on six main domestic sites (Hokkaido, Iwate, Gunma, Wakayama, Kochi, and Kumamoto prefectures).

In Hokkaido, we currently cultivate around 600 tons of

Cnidii Rhizoma, Perillae Herba, Angelicae Radix, Aconiti Tuber, and other crude drugs per annum. In the future, we are planning to enlarge our cultivation areas throughout Hokkaido to 1,000 hectares to expand production volumes to around 2,000 tons a year. At the same time, steps will be taken to improve efficiency and thereby productivity. One such measure will be to introduce equipment for automating washing, drying, and other processing procedures that producers have until now performed by hand.

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 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. Examples of such land include production sites managed by LAO TSUMURA, YUBARI TSUMURA, and partner companies. As crude drug prices have been rising in recent years, expanding the production of crude drugs on Cultivated Land under Own Management is a measure of crucial importance in stabilizing crude drug procurement costs and volumes.

Through ongoing efforts with this regard, Tsumura aims to bolster its quality assurance capabilities for crude drugs.



Bupleurum root cultivation site on Cultivated Land under Own Management

Cultivation and Procurement

Message from the Head of the Botanical Raw Materials Division

Significance of Crude Drug Procurement Based on Medium-to-Long-Term Contracts

Tsumura's Kampo value chain is based on procurement through medium-to-long-term cultivation contracts with production associates. There are two major reasons why we employ this approach, which entails purchasing contracts spanning several years, rather than negotiating with crude drug producers each time we want to make a purchase or attempting to procure the materials we need from one of China's multiple crude drug markets.

The first reason is that such agreements enable us to consistently secure high-quality crude drugs. The "quality" I speak of refers to whether the composition of the crude drugs matches the specifications for the production of Kampo formulations as well as whether it meets safety standards, such as those pertaining to agrichemical residues, heavy metals, and contaminants. Certain crude drugs take several years to reach the point at which they can be used as raw materials in Kampo formulations, and these crude drugs also often need to be washed or dried during cultivation and after harvest or to undergo other processes. For this reason, it is incredibly important to have a clear record of cultivation, including where specific crude drugs were cultivated and what processes they underwent, in order to assure quality. In addition, regulations pertaining to the TSUMURA Good Agricultural and Collection Practice have been established as a set of standards for the cultivation and processing of crude drugs, and the Tsumura Group practices exhaustive production management in accordance with these standards. Considering these facts, the procurement of crude drugs via cultivation contracts is the

natural conclusion to be arrived at through our pursuit of high-quality crude drugs based on our belief that the quality of Kampo products begins with crude drug production.

The second reason is to stabilize prices. Many of the crude drugs used as materials to create Kampo products are derived from plants, which means that harvest volumes and quality, and consequently prices, can vary based on temperature, sunlight and rain amounts, and other weather factors. In addition, the recent trend toward speculative purchasing among certain buyers in China is driving up crude drug prices. To stabilize the prices at which it procures crude drugs, the Tsumura Group uses a scheme in which it purchases crude drugs from reputable producers based on agreements with set purchase prices and quantities. This scheme has been utilized for more than 30 years.

These medium-to-long-term cultivation contracts also have benefits for producers, the greatest of which is the ability to formulate earnings projections. This ability contributes to increased stability in the management of producers while also enabling them to carry out the investments necessary for the ongoing cultivation of crude drugs in a planned manner. Furthermore, this approach helps us foster trusting relationships with producers and with production associations through the provision of cultivation guidance and information, thereby creating an atmosphere that makes it easier for these partners to approach us should they have questions or issues.

We will reinforce our frameworks for the sustainable procurement of high-quality crude drugs to meet the demand for Kampo medicine.

Takemi Hirate
Head of Botanical Raw
Materials Division



Progress in Measures for Expanding Crude Drug Procurement

The Tsumura Group is currently enjoying smooth growth in the domestic Kampo market and at the same time promoting its businesses in China. For these reasons, bolstering our ability to procure crude drugs in response to future needs to increase the supply of our products is a matter of utmost importance. The Group is therefore engaged in a variety of measures for boosting its procurement capabilities, including expanding the range of areas where high-use crude drugs are grown and researching means of artificially cultivating those that are grown in the wild.

One example of these efforts is the development of artificial cultivation techniques for crude drugs. We have succeeded in shifting completely from harvesting the wild-grown ephedra herb, a crude drug used in Kakkonto and other Kampo formulations, to artificial cultivation. Meanwhile, we previously faced an obstacle to expanding cultivation of ginseng, a relatively high-price crude drug, in that the existing cultivation techniques only enabled it to be grown at the sites of logged natural forests. However, we have since achieved a certain degree of success in the development of a sustainable cultivation technique that allows ginseng to be stably produced on farmland, and tests are currently being carried out with the aim of realizing practical application of this technique.

Tsumura is also focused on increasing crude drug procurement in Japan. Among the major domestic cultivation sites from which the Group procures crude drugs, we are undertaking new initiatives at a site in Hokkaido in conjunction with the expansion of the area at this site. These initiatives entail introducing automation equipment

and other measures for improving the efficiency of post-harvest cleaning and drying processes previously conducted by individual farmers.

However, the aging of agricultural workers in Japan is creating a rising need to secure new crude drug farmers. We took a step toward addressing this need by commencing a capital and business alliance with MYFARM Inc. in April 2018. MYFARM is developing unique agriculture businesses, including the rental of abandoned and dormant farmland to general citizens to give them an opportunity to experience agricultural work. We are currently utilizing a network of producers and production associations primarily furnished by MYFARM to expand the cultivation of crude drugs in Japan. We also see the potential to cultivate new crude drug producers over the medium-to-long term if we are able to provide opportunities for training on crude drug production through the agricultural school MYFARM operates for individuals who are currently working in other fields but are interested in getting into agriculture in the future.



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 scheme of direct purchase from production companies and production associations that we have built over the course of many years enables us to interact with the numerous producers that occupy the most upstream area of our value chain. Through this scheme, we practice communication with various producers, including farmers affiliated with production associations in China and Japan as well as the members of Temiru Farm, an agricultural production organization in Hokkaido that endeavors to expand the opportunities for stable full-time and other employment for differently abled individuals. From this communication, we have gleaned a strong sense of responsibility and pride with

regard to how these individuals are producing the raw materials for pharmaceuticals, as opposed to agricultural crops.

The Tsumura Group's contracted cultivation approach contributes to improved quality of life for all people involved in crude drug cultivation while also supporting the development of the regional economies of crude drug producing areas. As a procurer of crude drugs, we recognize our responsibility in procuring the raw materials to be used in the creation of pharmaceuticals that affect people's health. We are also keenly aware of the contributions we are making by creating and expanding employment opportunities in crude drug producing areas and helping invigorate agricultural communities.

Manufacture



Tsumura has an unprecedented business model that entails performing all steps of manufacturing prescription Kampo products from raw materials. To support this business model, we have accumulated manufacturing technology insight in-house and developed highly unique 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 prescription Kampo products 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 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.

Improvement of Productivity through New Technology Utilization

Tsumura is introducing robots, AI, and other new technologies at production sites to automate manufacturing processes, improve productivity, and reduce labor requirements.

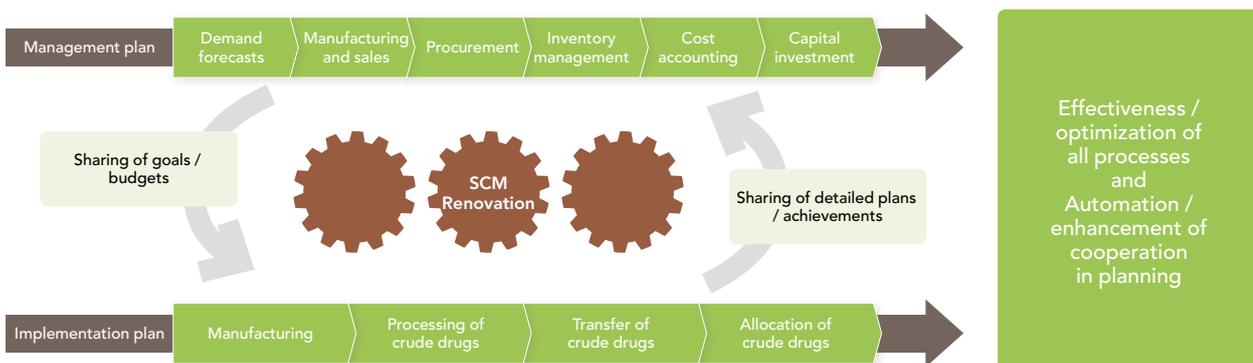
Robots have been developed to Tsumura's specifications by employing technologies from various fields. These robots are being introduced in manufacturing processes related to transporting raw materials and products, including those in

intermediary forms; handling containers; and packaging and boxing finished products. The introduction of new technologies is contributing to improved productivity along with reduced labor burden for employees and enhanced hygiene management. In the future, Tsumura aims to automate crude drug sorting with AI-powered image recognition and adopt other new technologies.

Optimization of the Group's Supply Chain

Kampo products 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 will continue to execute management incorporating the concept of supply chain management (SCM),* a reform method for realizing further efficiency and optimization. Through SCM reforms for optimizing processes spanning from demand forecasts to crude drug commissioning plans, we will accelerate plan

formulation and shorten rolling periods to promptly anticipate future risks and optimize the inventory placement by bolstering cooperation between Chinese and Japanese business bases.

* Tsumura aims to build an SCM system to automate and speed up processes by coordinating sales plans and production plans; raw material crude drug cultivation, allocation, procurement, processing, and transporting; and inventory plans based on demand forecasts.

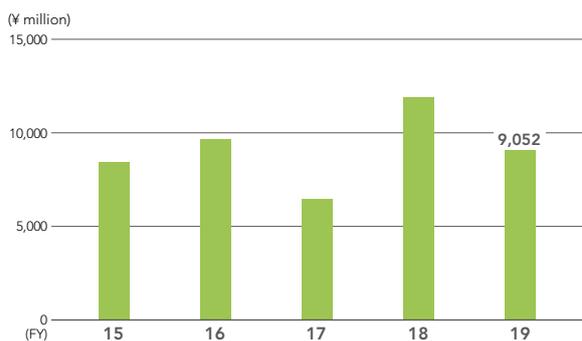
Capital Investment

Under the third medium-term management plan, Tsumura is working to establish a production system capable of responding to projected growth in demand. Investments in the third year of the second medium-term management plan totaled ¥27.4 billion and were primarily used for the construction of new granulation and packaging facilities at the Shizuoka Plant and a third spray drying facility at the

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

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

Capital Investment



Shizuoka Plant

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.

Sale, Education, and Popularization



Tsumura aims to help realize a society in which people can enjoy longer and healthier lives based on its mission of “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” 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.

Establishment of the Concept of Kampo Medicine

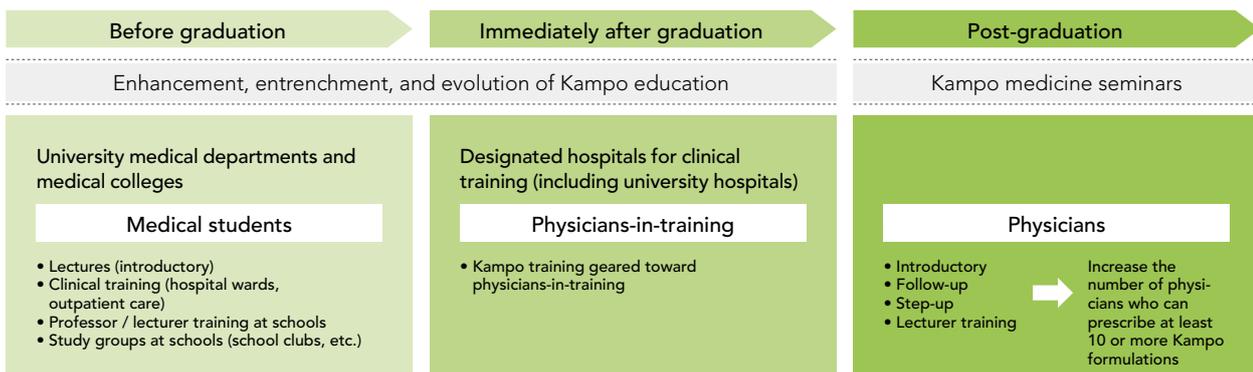
With the goal of establishing the concept of Kampo medicine in Japan, Tsumura provides systematic assistance for Kampo education at 82 medical colleges and university medical departments nationwide. This assistance includes support for education of medical students on Kampo medicine, Kampo training sessions for physicians-in-training working at designated hospitals for clinical training,^{*1} 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.

- Training sessions in schools for fostering individuals capable of becoming future Kampo medicine lecturers
- Establishment of Kampo outpatient^{*2} clinics for providing clinical training in universities

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 curriculum for medical education, demonstrating that Kampo education is steadily becoming entrenched at universities throughout Japan.

^{*1} Hospitals that provide two-year practical training to physicians who have graduated from medical departments and acquired their medical license
^{*2} 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)



Information Provision Activities for Medical Practitioners

In order to promote proper use of Kampo formulations, we provide the latest scientific evidence on Kampo medicines while also holding various seminars for medical practitioners. Examples of these seminars include introductory Kampo medicine seminars and step-up seminars that take a systematic approach toward learning about Kampo medicine as well as training sessions and lectures for specific fields. Tsumura also conducts seminars for the female physicians staffing women's Kampo outpatient clinics in a bid to respond to the rising anticipation for the contributions by Kampo medicines in treating symptoms unique to women, one of the Company's three important domains. These

seminars serve as opportunities for gaining knowledge on Kampo medicine as well as for passionate discussions and exchanges of opinion between physicians.

In recent years, team-based medical approaches, which entail wide-ranging coordination among dentists, pharmacists, nurses, and other professionals, are becoming increasingly more important. Accordingly, we continue to conduct information provision activities such as our Kampo luncheon seminars for academic associations for team medical staff and our Kampo medicine seminars for medical staff for catering to rising demand.



Sale, Education, and Popularization

Message from the Head of the Sales & Marketing Division

Quest to Increase Market Presence

The Tsumura Group is currently advancing a sales approach that entails focusing marketing measures on formulations related to three important domains—geriatric health; cancer, supportive care in particular; and women's health. Although a little bit later than initially expected, this sales approach began producing results during the second half of fiscal 2019. A major contributor to our growth was Rikkunshito. Receiving particular attention in the activities of our medical representatives (MRs), sales of Rikkunshito in fiscal 2019 were up 3.0% year on year, driving the growth of all 129 of Tsumura's Kampo formulations.

For Rikkunshito, we aim to secure a solid position in the area of upper abdominal complaints, an area for which there are already existing pharmaceuticals. By winning out against other pharmaceuticals to claim a solid share in the gastrointestinal stimulant market, which boasts a scale of more than ¥30.0 billion on a Japanese National Health Insurance (NHI) listed drug price basis, I am confident that

Rikkunshito can help greatly increase the market presence of Tsumura's Kampo formulations.

In marketing Rikkunshito, we sought to utilize the latest and most potent scientific evidence. We therefore prepared videos explaining the newly identified functions and mechanisms of Rikkunshito and provided training to MRs via e-learning. In addition, we arranged question and answer training with an unprecedented level of depth to ensure preparedness when it came time for communicating with physicians. The fact that these efforts were able to stimulate sales growth strengthened our conviction in the high potential of Kampo formulations and gave us renewed confidence in the sales strategies to be implemented under the third medium-term management plan. We are committed to rolling out effective measures going forward in order to achieve our target of ¥10.0 billion in domestic sales of Rikkunshito in fiscal 2022.

Growing Demand in Three Important Domains

In the important domain of geriatric health, Yokukansan is known for its ability to treat arousal and insomnia from oversensitivity in dementia patients and is already used by some 65,000 medical and other institutions, indicating that Kampo medicines are coming to be recognized as effective treatments for mental and neurological disorders. In addition to the upper gastrointestinal tract illnesses I mentioned earlier, Kampo medicines are used to treat a wide range of

other illnesses, including respiratory illnesses, heart failure and other cardiovascular diseases, and frailty. We can therefore expect that the need for these medicines will increase going forward. We are also seeing increased use of Kampo formulations in the cancer field, particularly in terms of the use of Rikkunshito and other formulations to lessen the side effects of cancer treatments as a type of supportive care.



Driven by our confidence
in the value of Kampo
medicines, we will
pursue top-line growth.

Yukinori Sorata
Executive Officer
Head of Sales & Marketing
Division

As for women's health, we are targeting disorders specific to women that arise from hormonal imbalances and other causes. The strong need for Kampo medicines in this field can be observed in the fact that an overwhelming majority of patients at Kampo outpatient clinics are women. Previously, we focused our measures on formulations that

treat disorders occurring around menopause. Today, however, we are drafting sales measures for stepping up our approach across the entire life cycle of women, including women who are still growing and those in their 20s and 30s who will be working while possibly raising small children.

Reception of Kampo Medicines by the Medical Field

One element of Tsumura's Vision for 2021 long-term business vision is to become the "Kampo" Company by "contributing to creating a healthcare environment where all patients can receive treatment that includes Kampo medicine where 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 March 31, 2019, the number of clinical physicians in Japan was 355,000, and surveys by Tsumura estimate that only around 30,000 of them can prescribe at least 10 or more Kampo formulations. Our team of roughly 800 MRs is currently engaged in a drive to provide information in order to add another 24,000 physicians to this number in the three years leading up to the end of fiscal 2022.

Given the current trends toward team-based medical approaches, which entail wide-ranging coordination among physicians, pharmacists, nurses, and other professionals, as well as medical coordination between physicians and pharmacists, there is now a need to provide information to not just physicians but also pharmacists and nurses, among others. This reality is underscored by the fact that our Kampo luncheon seminars for medical staff at academic associations have been proving so popular that we seem to run out of seats each time. Nurses have many opportunities to interact with patients and observe their condition and thus play a role that is very compatible with inspections based on Kampo medicine approaches. We therefore see the significant interest of nurses in Kampo medicine as an opportunity to be capitalized on.

Communication of the Value of Kampo Medicines

At Tsumura, MRs aspire to communicate the true value of Kampo medicines. Prior to being processed as the raw materials for creating Kampo medicines, crude drugs are medicinal plants raised by farmers. Also, Tsumura believes that the quality of Kampo products begins with crude drug production, and therefore rigorously manages the quality of crude drugs from the cultivation phase. Communicating these facts to medical practitioners is incredibly important

to receiving appropriate evaluations of the value of Tsumura's Kampo medicines. Going forward, we will step up our efforts to provide information on the Tsumura Group's crude drug procurement initiatives and manufacturing processes in order to communicate the unique value of our Kampo medicines to medical practitioners and to a wide range of other stakeholders.

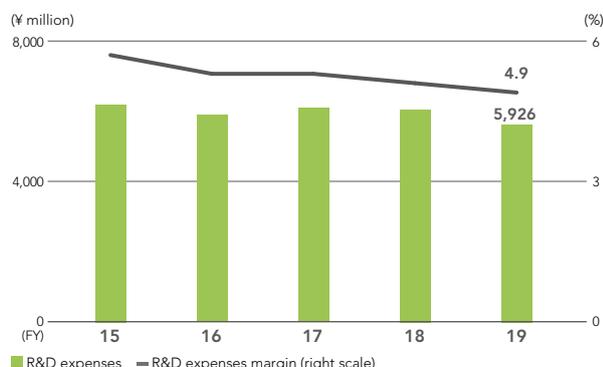
Research and Development

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 the Japan of 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

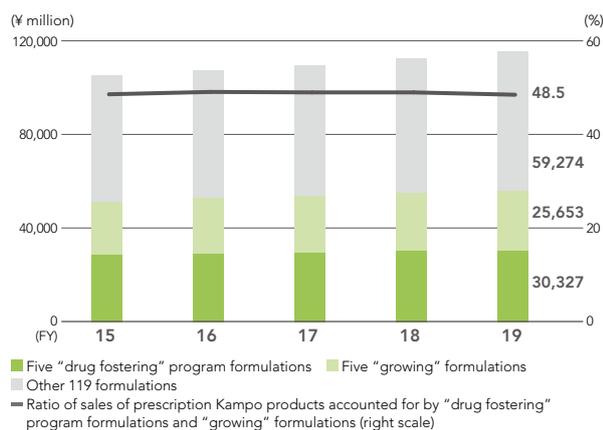


Marketing Activities Utilizing Scientific Evidence

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,*1 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*2 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 supply basic and clinical evidence on the “drug fostering” program formulations, the “growing” formulations, and formulations pertaining to the Company’s three important domains as well as disseminate information on how to use different formulations based on Kampo medicine. We thereby aim to grow the Kampo product market by expanding the presence of Kampo formulations in medical treatment.

Sales of Prescription Kampo Products (Strategic Formulations)



*1 Daikenchuto, Yokukansan, Rikkunshito, Goshajinkigan, and Hangeshashinto
 *2 Hochuekkito, Shakuyakukanzoto, Bakumondoto, Kamishoyosan, and Goreisan

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.

Major New Technologies	Area of Analysis
<p>1. System Biology</p> <p>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.</p>	<p>→</p> <p>Multi-component networks*¹</p>
<p>2. Metabolomics</p> <p>Metabolomics is a method of analyzing metabolic substances using mass spectrometry and other approaches that is performed because the types and quantities of metabolic substances within an organism change due to external stimulants, such as environmental changes in temperature and light as well as the ingestion of food and drugs. This is a research domain applicable to the diagnosis of diseases.</p>	<p>→</p> <p>Biomarkers*² Responders, non-responders*³</p>
<p>3. Analysis of Intestinal Flora</p> <p>Analysis of intestinal flora is performed to analyze the wide variety of microbes and bacteria in the intestine through the use of investigative methods and technologies to determine their origin.</p>	<p>→</p> <p>Responders, non-responders</p>
<p>4. Utilization of Big Data</p> <p>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.</p>	<p>→</p> <p>Health economics</p>

*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

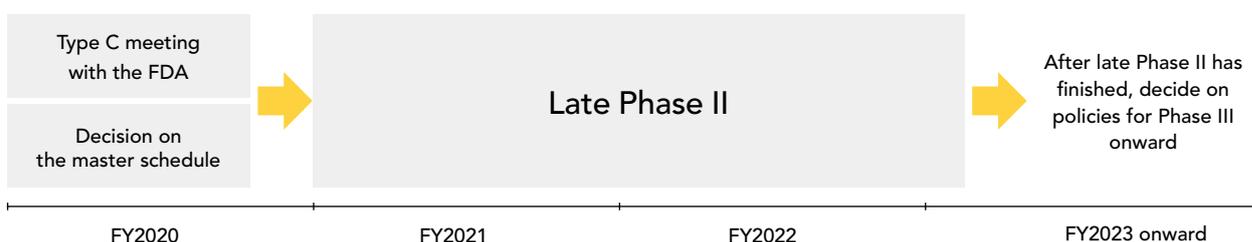
We have organized a system to link the technologies and know-how developed through our Kampo and crude drug businesses as well as our latest basic and clinical research data in Japan accrued through our “drug fostering” program with product development in the United States. We are now working toward 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, 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



Quality Assurance

In keeping with its corporate mission, “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine,” product quality management is of the utmost importance to Tsumura. In order to manufacture and sell Kampo products with consistent quality, 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.

Acting in accordance with Tsumura's quality policy, we have established the Tsumura Quality Management System to further improve the quality assurance system, and we promote initiatives that prioritize quality. Beyond comprehensively encompassing the entire Group, the Tsumura Quality Management System has clarified the role of management in controlling quality. Also, the system is formulated to facilitate appropriate responses to revisions of laws and regulations and globalization (including PIC/S* compliance).

* The Pharmaceutical Inspection Convention and Pharmaceutical Inspection Co-operation Scheme (PIC/S) is a framework for advancing the internationalization of standards such as good manufacturing practices.

Tsumura Quality Culture and Corporate Philosophy

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.

* 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

A situation in which the Tsumura Quality Culture has been cultivated is described as follows.

- All employees understand the corporate philosophy and use it as the basis for their values, judgments, and actions.
- A system embodying our emphasis on quality is in place and quality is emphasized in the judgments and actions of individuals and organizations based on this system.

The cultivation of the Tsumura Quality Culture is anticipated to further improve among our stakeholders the reputation for reliability Tsumura Group products have garnered.

Topic: External Communication of the Tsumura Quality Culture

In fiscal 2020, the Japan Pharmaceutical Manufacturers Association held a good manufacturing practice case study research conference based on the theme of quality assurance for the new era. At this conference, which drew more than 1,100 attendees, a presentation of Tsumura's quality-emphasizing policies and activities was conducted by Takashi Sekine, executive officer and head of the Quality & Safety Management Division, describing the Company's initiatives for cultivating a quality culture.



Quality Policy

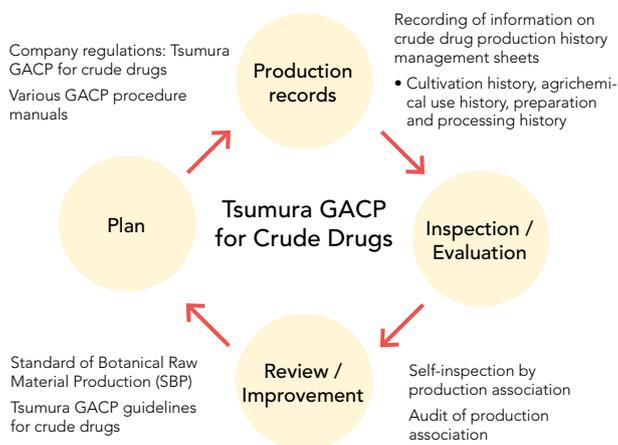
The Tsumura Group has formulated a quality policy consisting of the following principles in line with its aim of becoming a value-creation company that contributes to people's health through its Kampo business.

- 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

TSUMURA GACP for Crude Drugs

Regulations pertaining to the TSUMURA Good Agricultural and Collection Practice (TSUMURA GACP) for crude drugs have been implemented to further solidify the Company's crude drug safety and quality assurance system. The TSUMURA GACP for crude drugs includes adhering to guidelines for these practices, utilizing documents pertaining to crude drug production standards, maintaining a traceability system for crude drugs, conducting training and audits, and bestowing certifications. Inspections regarding compliance with these standards are conducted regularly. The items, details, and methods for these inspections are revised annually. Unscheduled inspections of contracted crude drug producers are also conducted as part of thorough checks of the implementation status of the TSUMURA GACP guidelines in actual operations. These efforts help us ensure strict adherence to the TSUMURA GACP for crude drugs.

PDCA Cycle for Implementing TSUMURA GACP for Crude Drugs



Differing Quality in Raw Materials and Consistency in Formulations

The raw material crude drugs used in Kampo formulations are derived from natural materials, and are therefore subject to disparities in quality. In addition, numerous variants can exist for the same crude drug, each with different components and balances of these components. There can even be differences between the compositions of variants as a result of disparities between producing regions, cultivation environments, harvest timings, and storage conditions.

Tsumura aspires to overcome these differences in order to produce Kampo formulations with consistent levels of quality. Our ongoing efforts to this end include using the same producing regions and providing cultivation method

guidance to contracted producers. Only those crude drugs that meet Tsumura's strict standards are actually used in its products.



Belief That the Quality of Kampo Products Begins with Crude Drug Production Underpinning Quality Assurance

Tsumura has installed frameworks for procuring crude drugs directly from producing regions in Japan, China, and other locations. Under these frameworks, we require management based on our production standards, which encompass everything from planting to agrichemical and fertilizer use, harvesting, and processing, and on detailed checklists for each production process. Crude drugs are procured only from those production associates that comply with these requirements.

There are multiple crude drug markets across China, the primary producing region for crude drugs. However, it is incredibly difficult to track the cultivation and processing histories of crude drugs sold on these markets. Tsumura therefore refrains from making purchases through such markets.

This decision was prefaced on the importance of clearly identifying producing regions and production processes, in order to ensure the quality and safety of crude drugs through procurement based on our belief that the quality of Kampo products begins with crude drug production.



Quality Assurance

Extensive Inspections Forming Foundation for Reliability

Crude drugs of the same variation produced in the same locations, at the same time, and with the same cultivation, processing, and storage methods can be treated as a single lot, the smallest possible unit for production and quality management. Lots are formed based on predetermined rules, and inspections of quality and contamination are performed on a by-lot basis. Only those crude drugs found to comply with Tsumura's strict standards through these inspections are used.

With regard to agrichemical residues, we ensure the reliability of crude drugs through rigorous management from the cultivation stage as well as through inspections that test for roughly 200 agrichemicals on top of the two chemicals that require testing under Japanese Pharmacopoeia. We also test for heavy metals, microbes, aflatoxin, and other contaminants in accordance with Japanese Pharmacopoeia requirements. Meanwhile, inspections are conducted to test for radioactive material, and these inspections also look at the water used in manufacturing processes. We thereby aim to provide Kampo formulations with the reliability that enables them to be prescribed by medical practitioners and used by patients with peace of mind.



Crude Drug Mixing Based on Data and Expertise

Data on the compositions of raw material crude drugs is collected and managed based on inspection lots. We use this data together with the expertise we have honed over the years to produce Kampo formulations with the portions defined in advance for the crude drug production lots to be used.

Daikenchuto (TJ-100), for example, is made using four crude drugs (Japanese pepper, ginseng, processed ginger, and malt sugar). In producing this Kampo formulation, we do not simply blend the four crude drugs without forethought. Rather, we identify several lots to be used in mixing based on defined rules pertaining to each of the four crude drugs.



Japanese pepper

Pursuit of Consistency in Manufacturing Processes

Tsumura achieves consistency in Kampo formulation manufacturing processes by leveraging its unique manufacturing expertise along with manufacturing equipment developed based on this expertise.

For example, the process of producing powdered extracts from mixed crude drugs entails isolating and condensing crude drug liquid extracts made in accordance with traditional methods in a manner that has minimal impact on composition and then instantly drying these extracts with large spray dryers. In addition, we employ a method of producing extract granules from powdered extracts that prevents changes to composition.

The production lines used in these processes have been proprietarily developed by Tsumura based on the expertise it has continued to refine over its many years of operation. Furthermore, manufacturing processes are controlled by computers in accordance with plans for each Kampo formulation.



Spray dryer

Scientific Evidence on Kampo Supported by Consistency

In recent years, research for elucidating the action mechanisms of Tsumura's Kampo formulations and the development of bodies of scientific evidence have been advancing at research institutions in Japan and around the world. Whether via randomized controlled trials or other methods, the accumulation of scientific evidence requires consistency in the Kampo formulations being tested. Our ability to amass such evidence is thus supported by our pursuit of quality in all processes related to Kampo formulations and by our ensuring the consistency that is of the utmost importance in producing formulations using naturally derived raw material crude drugs.

Tsumura's commitment to the quality of its Kampo formulations is simultaneously a commitment to people's health and an act of fulfilling its corporate mission of "To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine." Our founder's belief that quality medicine was guaranteed to sell lives on in Tsumura's quality management activities even today.



Human Resources

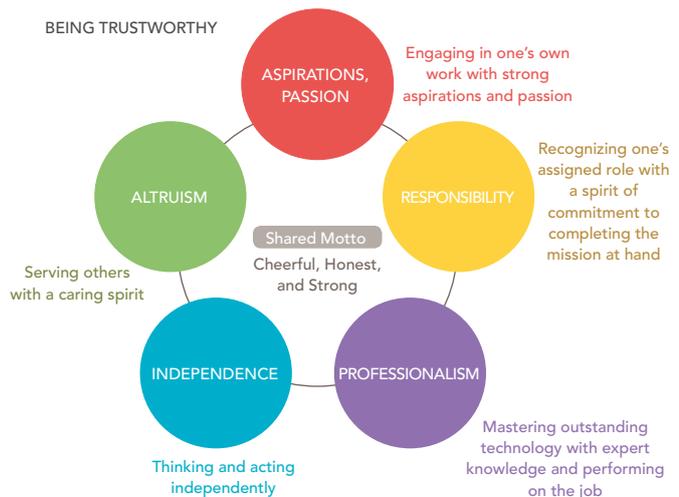
One of the elements of our Vision for 2021 long-term business vision is for us to become the "People" Company. This element was included in the vision based on the recognition that, as Kampo medicine is a pioneering field with no precedent to build upon worldwide, human capital is the most critical form of capital underpinning the ongoing development of the Company. In other words, Tsumura must become the "People" Company if it is to fulfill the other elements of the vision, namely, becoming the "Kampo" Company and the "Global Niche" Company.

The third medium-term management plan defines "fostering a corporate culture through philosophy-based management and developing diverse human resources" as one of its strategic challenges. We are therefore working to further disseminate our corporate philosophy, "The Best of Nature and Science," in order to develop frameworks and workplace environments for cultivating a corporate culture in accordance with our basic direction of "Tradition and Innovation." At the same time, we are developing educational systems for continuously fostering people who can independently pave the way forward and who are trusted by all as well as candidates for future positions in management who are capable of embodying our corporate philosophy.

Vision for Ideal Human Resources

The ideal human resources Tsumura envisions are keenly aware of the fact that the growth of the Company is dependent on the growth of individual employees. These employees should be universally trusted; exhibit aspirations, passion, and responsibility; and be able to act with professionalism, independence, and altruism. In order to cultivate human resources who live up to this ideal vision, Tsumura implements multifaceted human resource development programs based on the Tsumura Human Resource Development Policy, which calls on it to "foster a corporate culture that develops people capable of growing on their own." Founded on the concept of merging on-the-job training (the most fundamental aspect of human resource development) with off-the-job training (opportunities for enhancing on-the-job training), Tsumura's human resource development programs include those based on level, role, and career as well as specialized education at the divisional level to help employees acquire skills and expertise.

In addition, we provide global education as well as training aimed at empowering female employees.



Tsumura Human Resource Development Policy

The Tsumura Human Resource Development Policy was defined for the purpose of cultivating the ideal human resources envisioned by Tsumura and clarifying our priorities in human resource development.

Tsumura Human Resource Development Policy

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

- People—** 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.)
- Organization—** 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.)
- Company—** 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.)

Specialized MR Training

Tsumura's medical representatives (MRs) are responsible for providing, collecting, and transmitting information pertaining to the Company's pharmaceutical products as well as for promoting the spread of Kampo medicine itself. As our MRs are expected to proactively visit and interact with a variety of physicians, regardless of their medical department, they require knowledge on a wide range of disorders and products. We therefore implement a plethora of measures designed to enhance the knowledge and skills of all Tsumura MRs.

Training for MRs at Tsumura consists of two types: introductory and ongoing. Introductory training is designed to

help MRs acquire and build upon the attributes required in their position and to enable participants to obtain the basic ethical standards, knowledge, and skills expected of Tsumura MRs. The goal of ongoing training is to help MRs maintain and improve the attributes expected of their position. MRs are required to undergo an ongoing training program totaling 75 hours each year.



Utilization of Diverse Human Resources

The Tsumura Group aims to be an organization that harnesses the diversity of its employees and in which employees can exercise their full potential to succeed. We have implemented various initiatives to accomplish this objective, including efforts to develop human resource systems and a corporate culture that are blind to gender and nationality. In 2017, these initiatives earned Tsumura Platinum Kurumin certification, signifying it as a company offering high-level support for employees raising children, as well as Eruboshi certification for exhibiting excellence based on the Act on Promotion of Women's Participation and Advancement in the Workplace.

Furthermore, the promotion of employment of differently abled individuals has been positioned as a task to be addressed on a Groupwide basis. As a result, we have continuously exceeded the legally mandated ratio of differently abled employees of 2.2% in Japan; our ratio was 2.9% on March 31, 2019.



Tsumura Platinum Kurumin certification



Eruboshi certification

Topic: Establishment of Tsumura Academy

The Tsumura Academy was established in January 2019, and full-fledged training programs were launched in April of this year. The Tsumura Academy is overseen by President Terukazu Kato, and the academy is designed to fulfill the following two 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). This function also contributes to ongoing improvements in corporate value through means such as facilitating compliance with Japan's Corporate Governance Code. The second function is further fostering the corporate culture. This function entails promoting the Groupwide dissemination of the corporate philosophy while also implementing programs aimed at cultivating a culture of coaching and exercising business etiquette and at fostering the basic skills needed to engage in these activities. This function thereby furnishes the foundations necessary for the exercise of Tsumura's corporate philosophy.

The ability to exercise Tsumura's corporate philosophy requires the maintenance of a situation in which all members of the Tsumura Group understand the philosophy. For this reason, we are engaged in ongoing activities to disseminate the corporate philosophy throughout the Group to become an organization that continuously cultivates management personnel capable of exercising the corporate philosophy. These functions of the Tsumura Academy will be reinforced going forward as we aspire to become a team of people who are universally trusted and capable of exercising autonomy in blazing new trails in the Kampo business, which has no precedent to build upon anywhere in the world. We thereby aim to become "the 'People' Company," one of the elements of Tsumura's Vision for 2021 long-term business vision.



Sustainability Vision and Materiality

The Tsumura Group believes that it is important for it to create shared value for society and contribute to the realization of a sustainable society through its Kampo and crude drug businesses.

Tsumura's Basic CSR Policy is a guideline for the Groupwide advancement of CSR activities while the Sustainability Vision, based upon this policy, sets the direction for concrete initiatives.

Furthermore, from among the various issues plaguing society, we have defined material issues (Materiality) to be prioritized through our business activities in order to achieve growth together with all stakeholders.

Tsumura's Basic CSR Policy, Sustainability Vision, and Materiality constitute the framework through which it will pursue sustainable growth.

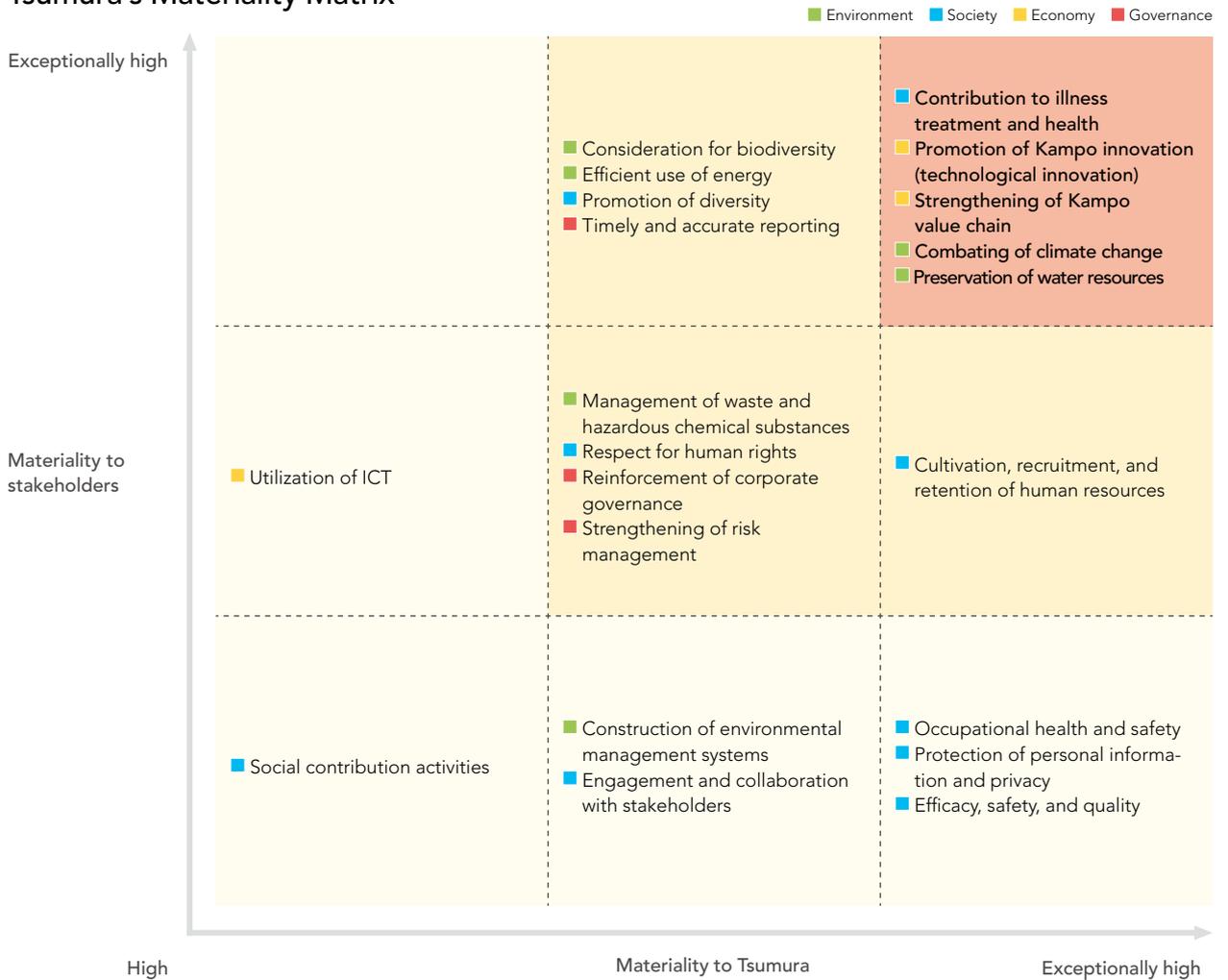
Basic CSR Policy

Based on its corporate philosophy of "The Best of Nature and Science," the Tsumura Group will contribute to the medical field and to people's health through the stable supply of high-quality Kampo medicines made using naturally derived crude drugs. At the same time, we will fulfill our corporate social responsibilities by accelerating initiatives for resolving environmental and social issues and reinforcing corporate governance.

Sustainability Vision

The Tsumura Group contributes to value creation and to the realization of a sustainable society through its Kampo value chain.

Tsumura's Materiality Matrix



Concrete Initiatives for Realizing Sustainability Vision

Contribution to Health and Medicine

Tsumura will increase access to high-quality medicine through the provision of Kampo formulations (in Japan) and traditional Chinese medical products (in China) with reliable quality.

Expansion of access to high-quality healthcare

Environmental Preservation

Tsumura strives to preserve the natural environment by switching to eco-friendly containers, promoting the complete transition from harvesting wild-grown ginseng to artificially cultivating this crude drug, realizing artificial cultivation of other crude drugs, and reducing use of and recycling water.

Reduction of greenhouse gas emissions

Preservation of water resources

Protection of biodiversity

Respect for Human Rights and Communities

While promoting the artificial cultivation of crude drugs grown in the wild, Tsumura will also create opportunities for employment through crude drug cultivation.

Alleviation of poverty and contributions to local economies

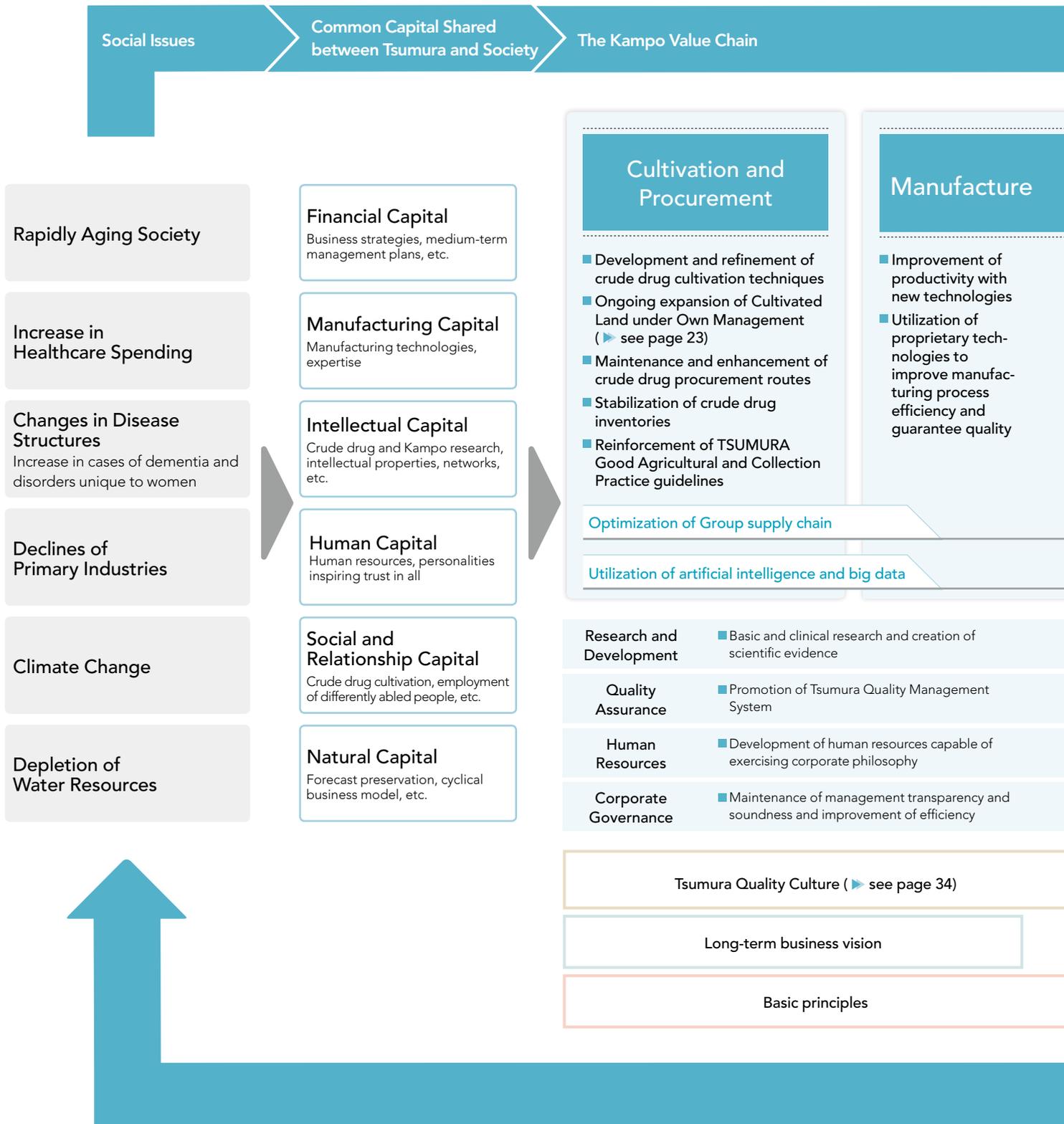
Provision of opportunities for motivating and dignified employment

Information on concrete initiatives will be disclosed on Tsumura's corporate website and through other venues going forward.

Tsumura's Value Creation Cycle

Tsumura's value creation cycle clearly defines a business structure for contributing to sustainable development by resolving social issues through the Group's business activities and promoting the creation of shared value with society.

By means of this cycle, Tsumura will address the material issues it has identified in order to contribute to the accomplishment of the relevant United Nation Sustainable Development Goals (SDGs).



Output

Outcome

Sale, Education, and Popularization

- Energy efficiency improvement

- Ongoing expansion of Kampo market and establishment of presence therein
- Promotion of appropriate use of Tsumura products through provision, collection, and transmission of pharmaceutical information
- Support for Kampo medicine education

Third Medium-Term Management Plan

- Accomplishment of numerical targets of third medium-term management plan
- Establishment of the concept of Kampo medicine
- Contribution to the health of China's citizens

Environment and Society

- Reduction of greenhouse gas emissions
- Effective use of resources (crude drugs, water)
- Creation of employment opportunities through crude drug cultivation

Materiality and Relevant SDGs

Contribution to illness treatment and health



Promotion of Kampo innovation (technological innovation)



Strengthening of Kampo value chain



Combating of climate change



Preservation of water resources



Basic CSR Policy
Sustainability Vision

Special Feature

Discussion among
Outside Directors

Mitsutoshi Matsushita
Director
(Outside Director)
Audit and Supervisory
Committee Member

Hiroshi Miyake
Director
(Outside Director)

Kenichi Matsui
Director
(Outside Director)

Shigeru Sugimoto
Director
(Outside Director)

Akemi Mochizuki
Director
(Outside Director)
Audit and Supervisory
Committee Member

Ongoing Evolution of Tsumura's Corporate Governance

The ongoing evolution of Tsumura's corporate governance systems will be imperative to fulfilling its social responsibilities and continued growth. Tsumura is in the process of massively adjusting the course of its management, as seen in its efforts to drive the expansion of the domestic Kampo market and to develop its operations in China. It will be important for these efforts to be supported by highly effective corporate governance systems and proactive participation in management by outside directors.

In recognition of this situation, Tsumura arranged a discussion among five outside directors in August 2019. This discussion covered a variety of topics, including the background for the establishment of the third medium-term management plan and the deliberations that shaped it, the reasons behind the decision to develop operations in China, and the outside directors' sentiments toward Tsumura and their messages for the Company.

What sort of deliberations shaped the third medium-term management plan?

The Japanese Kampo market is expected to continue growing gradually, but the numerical targets of the plan are a bit conservative.

Matsui

The three-year period of the third medium-term management plan launched in fiscal 2020 has been positioned as a time for preparing to achieve rapid growth in fiscal 2023 and beyond. For this reason, Tsumura will need to conduct investments to build foundations in China to support future business expansion. Accordingly, the plan targets growth in net sales and operating profit, while return on equity (ROE) is expected to remain at around the same level or even decline. However, this does not mean that the Company will be content so long as it achieves ROE of 6.0%

or more. Rather, it has positioned the period of the plan as a transitional one during which it will construct the foundations that will support ongoing growth in the future.

Sugimoto We are of the opinion that Tsumura should not adopt an optimistic view with regard to the growth potential of the domestic Kampo market. Net sales and operating profit exceeded their targets and ROE reached 7.4% in fiscal 2019. However, this resulted from the renegeing of revisions to Japanese National Health Insurance (NHI) drug prices in fiscal 2018, as the scheduled consumption tax hike was delayed until the following year. The domestic Kampo market is forecast to grow gradually. However, the growth of the Company may be impeded as NHI drug price revisions lower selling prices and as crude drug procurement prices rise over the long term. Given that the downward pressure placed on profits will increase going forward, I see issues in relying purely on the domestic Kampo market to grow the Company's business. New business ventures will thus be imperative to medium-to-long-term growth.

Are there any concerns that the risks of developing operations in China may be too great?

Matsushita I am incredibly optimistic with regard to Tsumura's operations in China. I see no reason why the Company should not develop such operations, and the prospects fill me with hope and anticipation. The traditional Chinese medicine market in China boasts an impressive scale of more than ¥14 trillion. Regardless, this market is without a leader capable of reliably supplying products of truly high quality. Considering this fact, I believe that the returns to be generated by developing operations in China far outweigh the risks.

Mochizuki I just assumed my position at Tsumura in June 2019, and I am still in the process of learning about the Company's business. Looking at the risks alone, however, I think that the risks of not developing operations in China are greater than those of embarking on this expedition. Around 80% of the crude drugs used to make Kampo formulations sold on the domestic market are imported from China. I therefore think we need to recognize the risks of using China as the primary source of raw

material crude drugs while not being knowledgeable of this market.

Sugimoto I agree. The main bottleneck in Tsumura's business is crude drug procurement. Tsumura boasts a share of more than 80% in the domestic Kampo market, and the Company is thus charged with the mission of providing a stable, ongoing supply of its products. Fulfilling this mission will require that it take steps to mitigate risks pertaining to crude drug procurement. Should the Tsumura brand become commonly recognized in the Chinese market, it will place the Company in an advantageous position when it comes to crude drug procurement, which in turn will enable it to reduce procurement risks. Accordingly, the development of operations in China is simultaneously an attempt to capitalize on new growth opportunities and a risk management measure for ensuring that reliable supplies of crude drugs can be secured on into the future.

Matsui Tsumura lacks know-how regarding distributing products manufactured in China in the market of this country. The Company's partnership with Ping An Insurance (Group) Company of China, Ltd., is therefore critical to operations in China. Tsumura and Ping An make good partners as their expertise lie in different fields. Tsumura specializes in the production of high-quality Kampo formulations while Ping An's strength lies in distributing these products throughout the market and in utilizing the Internet for carrying out such operations. Moreover, Tsumura's Kampo value chain management expertise and high-quality Kampo formulation production technologies are most likely of a level that rivals cannot reach.



Special Feature

Discussion among
Outside Directors**Miyake**

Some stakeholders have concerns arising from the sheer size of the Ping An Group. There are those who fear that Tsumura may be crushed under the giant that is the Ping An Group while others worry that the Company will be treated as merely one of its other countless investments of little consideration. I think these concerns can be dispelled by stakeholders recognizing the commitment to contributing to the health of the people of China shared by Chairman and CEO Ma Mingzhe of Ping An and President Terukazu Kato of Tsumura. I have no doubt that this shared commitment will result in a successful partnership. This confidence, however, does not eliminate the need for the Board of Directors to take an earnest approach toward addressing these concerns.

Mochizuki

All of Tsumura's directors are scheduled to visit China in September 2019 to observe the progress of operations in this country and to meet with Chairman and CEO Ma Mingzhe of Ping An. This visit will be a prime opportunity for addressing the issues Mr. Miyake speaks of. By speaking directly with Chairman and CEO Ma Mingzhe, I hope to gauge his commitment to the partnership with Tsumura and to the traditional Chinese medical products business.

Miyake

Tsumura's ability to make progress in this partnership will hinge on the extent to which the Company is able to clearly indicate what it hopes to accomplish through its operations in China and to create value together with Ping An. The speed of businesses and of market changes in China eclipses that of Japan. It will therefore be crucial for the Board of Directors to be able to act swiftly and flexibly.

Tsumura implemented reforms to its corporate governance systems a step ahead of its commencing of operations in China. Do you feel that Tsumura has furnished the necessary corporate governance systems for the upcoming transformations in its business structure?

Sugimoto

The corporate governance system reforms were not necessarily conducted in preparation for operations in China. Even since prior to the introduction of Japan's Corporate Governance Code, Tsumura has been reinforcing its corporate governance systems in a phased manner with the aim of increasing transparency and ensuring that it can explain the appropriateness of its management and decisions effectively to anyone. As the Company undertakes a massive course change in its business, these reinforced corporate governance systems are proving incredibly meaningful in exercising accountability toward stakeholders. I think it is important for us directors to recognize that we are expected to help Tsumura improve upon itself in response to changes in social expectations and the market environment.

Mochizuki

Speaking of Tsumura improving upon itself, there might be a need to reinforce global Group governance systems going forward. In Tsumura's Chinese operations, it can be expected that there will be numerous projects needing to be examined and that M&A activities will move swiftly. For this reason, Tsumura must be able to exercise conscious control to govern the entire Group in conjunction with changes in its frameworks.

Sugimoto

An important aspect of global Group governance will be to share Tsumura's corporate philosophy of "The Best of Nature and Science" throughout the entire Group, while ensuring that it is regarded in a consistent manner even among employees with different languages and cultures. During the visit to China, I hope to confirm how the corporate philosophy is being received among local employees to ascertain any discrepancies in their understanding.

Matsui

Tsumura aspires to the lofty ideal of contributing to people's health through Kampo products. This quest, however, means that the Company will always be exposed to extreme scrutiny from society. If an issue were to occur that

disrupts the continuity of Tsumura's business, it would greatly impact the numerous people in need of Kampo products. This situation must be avoided at all costs. Driven by President Kato's strong commitment to Tsumura's ideal, the Company has placed corporate governance among its most important management tasks, and is moving ahead with reforms accordingly. These reforms have led to the current corporate governance systems, which feature a Board of Directors membered by a majority of outside directors.

What are your expectations for the executive team going forward?

Miyake Key to the success of the third medium-term management plan will be the ability to secure human resources in step with the speed of progress in operations in China. Getting this new business on track will, necessarily, require management to concentrate its energies on these operations. In addition to the current management team, it will be crucial to swiftly cultivate and recruit future leaders along with local managers in China. This need was part of the reason behind the establishment of the Tsumura Academy program. However, this program is, at the end of the day, merely a venue. The ability to truly cultivate human resources will be dependent on the initiatives conducted going forward.

Matsushita Progress in IT as well as other changes in the operating environment are accelerating. While cultivating human resources in-house will, of course, be important, it will also be vital for the Company to be able to attract human resources with an eye for global business or for IT. The president, meanwhile, will be increasingly tasked with

two roles going forward: guiding the Group as its leader and fostering shared understanding among all employees, including those at overseas subsidiaries.

Mochizuki A propensity for communicating information will be more important than ever to accomplish for that reason. President Kato has a plethora of ideas for management. If those ideas can be shared and entrenched throughout the Tsumura Group, the result will be increased motivation for employees and consequently further growth for the Group.

Matsui In addition to improvements in people's health, Tsumura's Kampo business helps create employment and preserve ecosystems in agricultural villages by contributing to sustainable agriculture through the procurement of crude drugs. In communication activities, Tsumura should make efforts to have this value understood by stakeholders.

Sugimoto I hope that President Kato will communicate in such a way with all stakeholders, both across the Group and outside of it, that shares with them the future vision for the larger and continuously growing Tsumura Group to be realized as a result of the operations in China.



Topic: All Directors Visit China

On September 4, 2019, all nine directors, including President Terukazu Kato, visited Ping An in Shenzhen, China, where they met with CEO Ma Mingzhe and other members of Ping An's management.

This meeting served as an opportunity for both parties to reaffirm their commitment to advancing joint businesses through even stronger systems based on their strategic partnership.



Message from an Outside Director



Pursuit of Ideal Management for a Trusted Company

Kenichi Matsui
Director (Outside Director)

Board of Directors Capable of Discussing Fundamental Aspects of Management

Corporate governance is not about static systems but about systems that dynamically evolve together with a company's management vision and growth stage. The formulaic frameworks are, of course, necessary, but the primary emphasis should be on facilitating ongoing discussion, at a fundamental level, about how management can continue to generate value in order to realize management that earns trust.

At Tsumura, the role of the Board of Directors is to exhaustively assess whether management conforms with the Company's Vision for 2021 long-term business vision, "Aim to be a value-creation company that contributes to people's health through its Kampo business." We must also provide supervision on behalf of shareholders and other investors to determine whether the results of business strategies are being reflected in performance. Over the past two fiscal years, Tsumura has been endeavoring to separate the

oversight and execution functions. Through this process, discussions at Board meetings have come to be more focused on the overarching theme of how the Tsumura Group can achieve ongoing growth. I therefore feel that the Board of Directors is effectively fulfilling its function.

Five of the nine members of the Board of Directors are outside directors who have been designated as independent directors. This composition is appropriate from the perspective of eliminating arbitrariness and securing diversity as well as from the perspective of addressing various risks. The ability to counter risks is of particular importance given the large responsibility toward society Tsumura has to supply its products, in light of its sole focus on the Kampo and crude drug businesses. A variety of opinions can be heard at Board meetings, and discussions are quite lively, a testament to the good balance of membership.

Focus on Partner Selection and Capital Allocation Needed in Chinese Operations

The third medium-term management plan, which was announced in May 2019, signals Tsumura's entry into a stage in which it should utilize the foundations built in domestic operations under the second medium-term management plan to achieve growth. I therefore suspect that the scope of authority in domestic operations delegated to the executive side will expand going forward.

For Chinese operations, meanwhile, a clear direction was set during the period of the second medium-term

management plan. However, the Board of Directors is still required to exercise significant responsibility for supervision under the third medium-term management plan, which calls upon the Company to invest in the full-fledged development of operations in China.

The Tsumura Group has been procuring crude drugs from China for years, but this is the first time the Chinese market has been positioned as a business target. It goes without saying that we currently lack insight and are thus unable to

fully understand the various characteristics of this market, ranging from regulations and business customs to the needs and expectations of patients and medical practitioners. The selection of business partners will therefore be critical to the success of Tsumura's Chinese operations under these conditions. In 2017, a capital alliance agreement was concluded with Ping An Insurance (Group) Company of China, Ltd., a crucial partner, after which a mutual promise for collaboration was made. Going forward, Tsumura will examine the possibility of acquiring traditional Chinese medical product manufacturers in order to construct the reliable and high-quality value chain expected in the Chinese market.

However, any potential acquisitions will need to share the Company's corporate philosophy and management vision. In addition, we will need to divide business responsibilities in the manner that best utilizes the areas of expertise of all parties. Put simply, investments involve a commitment that goes beyond just monetary capital. Decisions on the most strategically effective means of allocating various business capital, including funds, human resources, technologies, information, and networks, will be made swiftly and carefully, and these decisions will be monitored thereafter. Moreover, these decisions will be made based on input from the employees involved in developing operations in China.

Visit to Chairman and CEO Ma Mingzhe at Ping An's Headquarters

In September 2019, all of Tsumura's directors visited Ping An. During the visit, we shared our thoughts and ideas on collaboration in the rapidly growing online medical business with Chairman and CEO Wang Tao of Ping An, head of the Ping An Good Doctor healthcare ecosystem platform, a central pillar of Ping An's healthcare operations. A similar discussion was held with Chairman and CEO Ma Mingzhe at Ping An's headquarters in Shenzhen, China, on the topic of future business collaboration. This meeting greatly exceeded the allocated time. The meeting was attended by all of Tsumura's directors as well as the relevant

senior managers at Ping An. I am confident that our efforts will gain extra momentum from the energy behind our clear vision for a rapidly growing, world-leading company, our strategies for realizing this vision, and our pursuit of clear strategic measures and methods. At the end of the meeting, Chairman and CEO Mingzhe promised the ongoing cooperation of the Ping An Group while offering us words of encouragement, expressing his desire for Tsumura to prosper into the future. This meeting proved to be a very meaningful portion of the visit for outside directors.

"Management That Is Rooted in Basic Principles" and Human Resource Development

The Nomination / Remuneration Advisory Committee was established in June 2017. One of the principal reasons behind its establishment was the recognition of the importance of the Board of Directors' responsibility to formulate succession plans for the president and to cultivate future management personnel. In terms of the cultivation of management personnel, in-depth discussions between the Nomination / Remuneration Advisory Committee and the Board of Directors led to the launch of the Tsumura Academy program in January 2019.

The Tsumura Academy program is aimed at fostering human resources who can practice "management that is rooted in basic principles" as preached by Tsumura and to

thereby develop a corporate culture that exudes Tsumura's character. This program comprises basic principle education and management training. Through this curriculum, we hope to cultivate highly ambitious leaders capable of transcending the boundaries between intent and appearance in order to support the development of the Kampo business in Japan. However, it is crucial that our basic principles go beyond mere words to become something tangible that employees refer back to when they are concerned or struggling. For this reason, it is of the utmost importance that we directors and other members of senior management lead by example in exercising "management that is rooted in basic principles."

Responsibility to Society

The pharmaceutical industry is transforming in conjunction with advancements in biotechnology and digital technology. The Kampo industry must follow suit in this transformation. Against this backdrop, I believe that Tsumura will be able to leverage this technology to stimulate new Kampo demand by identifying the latent potential of Kampo that is not yet fully understood.

No matter how volatile the operating environment, the Company cannot lose sight of its vision of being the "Kampo" Company. One tradition that the Tsumura Group must protect is its commitment to contributing to the health

of people with the Kampo medicines and crude drugs it supplies.

The Group's share of the prescription Kampo product market exceeds 80%. This large share represents a hefty responsibility to society to maintain a continuous and reliable supply of Kampo products. The Board of Directors must also remain keenly aware of the need to live up to the trust of patients, medical practitioners, and various other stakeholders to help Tsumura pursue the ideal management for a trusted company.

Directors

(As of June 27, 2019)



(Standing, from left) Akemi Mochizuki, Hiroshi Miyake, Shigeru Sugimoto, Kenichi Matsui, Kimikazu Okochi, Mitsutoshi Matsushita
(Seated, from left) Muneki Handa, Terukazu Kato, Susumu Adachi

Name

Position

Year appointed

Number of Company shares owned (As of March 31, 2019)

Career summary

Terukazu Kato

President and Representative Director CEO

2011

19,500 shares

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)

Susumu Adachi

Director Managing Executive Officer COO

2018

6,100 shares

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)

Muneki Handa

Director Managing Executive Officer CFO

2019

0 shares

Apr. 1985 Joined The Mitsubishi Bank, Limited (currently MUFG Bank, Ltd.)
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)

Shigeru Sugimoto

Director (Outside Director)

2012

6,300 shares

Apr. 1982 Joined Housing & Urban Development Corporation (currently Urban Renaissance Agency)
Oct. 1985 Joined Ohta Showa Audit Corporation (currently Ernst & Young ShinNihon LLC)
Jun. 1987 Registered as Real Estate Appraiser
Jul. 1988 Representative of Sakura Horwath & Co. (incumbent)
Feb. 1989 Registered as Certified Public Accountant
Mar. 1992 Registered as Certified Public Tax Accountant
Dec. 1995 Representative of Sakura Horwath LLC (currently Sakura Horwath Audit Corporation) (incumbent)
Jun. 2012 Outside Director of the Company (incumbent)
Nov. 2013 Supervisory Officer of Hulic Reit, Inc. (incumbent)

Kenichi Matsui

Director (Outside Director)

2015

2,600 shares

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

Hiroshi Miyake

Director (Outside Director)

2018

300 shares

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
Senior Vice President, Mitsubishi International GmbH, 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 the Company (incumbent)

Kimikazu Okochi

Director Audit and Supervisory Committee Member (Full-Time)

2017

5,300 shares

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)

Mitsutoshi Matsushita

Director (Outside Director) Audit and Supervisory Committee Member

2017

500 shares

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 the Company (incumbent)

Akemi Mochizuki

Director (Outside Director) Audit and Supervisory Committee Member

2019

0 shares

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, Audit Committee Member, NSK Ltd. (incumbent)
Jul. 2018 Partner, AKAHOSHI AUDIT CORPORATION (incumbent)
Jun. 2019 Outside Director and Audit and Supervisory Committee Member of the Company (incumbent)

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.

We have established diversified and highly effective corporate governance systems in which decisions on important matters are not based solely on the understanding of Tsumura's inside directors. Rather, these decisions reflect various viewpoints, including those of outside directors, who currently account for more than half of the Company's directors.

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

Fiscal year	'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) Directors serving as Audit and Supervisory Committee members: 2 years																			
Advisory bodies to the Board of Directors																Nomination / Remuneration Advisory Committee						
Executive officer system		Executive officer system											Executive officer system (Reviewed)									

Governance Structure

(As of June 27, 2019)

Organizational structure	Company with Audit and Supervisory Committee
Executive officer system	Yes
Term of office of directors under the articles of incorporation	1 year
Chairman of the Board of Directors	President and representative director
Number of directors	9
Of whom, outside directors	5
Number of independent directors	5
Advisory committee to the Board of Directors (voluntary)	Nomination / Remuneration
Advisory committee chairman of the Nomination / Remuneration Advisory Committee	Outside director
Performance-linked remuneration system	Yes

Advisory committee to the Board of Directors (voluntary)

Committee members	Members of the Nomination / Remuneration Advisory Committee
Role	Regarding the nomination of directors and their remuneration, the committee has been established to strengthen the independence, objectivity, and explanatory responsibility of the Board of Directors through appropriate participation and advice from independent outside directors.
Composition	Inside directors, 1; outside directors, 4
Committee chairman	Outside director

Diversity of Outside Directors

	Management experience	Finance, accounting	Legal	Overseas management experience	Gender
Shigeru Sugimoto	Representative Director, Sakura Horwath & Co. (incumbent)	Certified public accountant Certified public tax accountant			
Kenichi Matsui	Executive Vice President and Representative Director, Idemitsu Kosan Co., Ltd.				
Hiroshi Miyake	Executive Vice President and Representative Director, Tokushu Tokai Paper Co., Ltd.			President, Mitsubishi International GmbH (Germany)	
Mitsutoshi Matsushita			Lawyer		
Akemi Mochizuki		Certified public accountant			Female

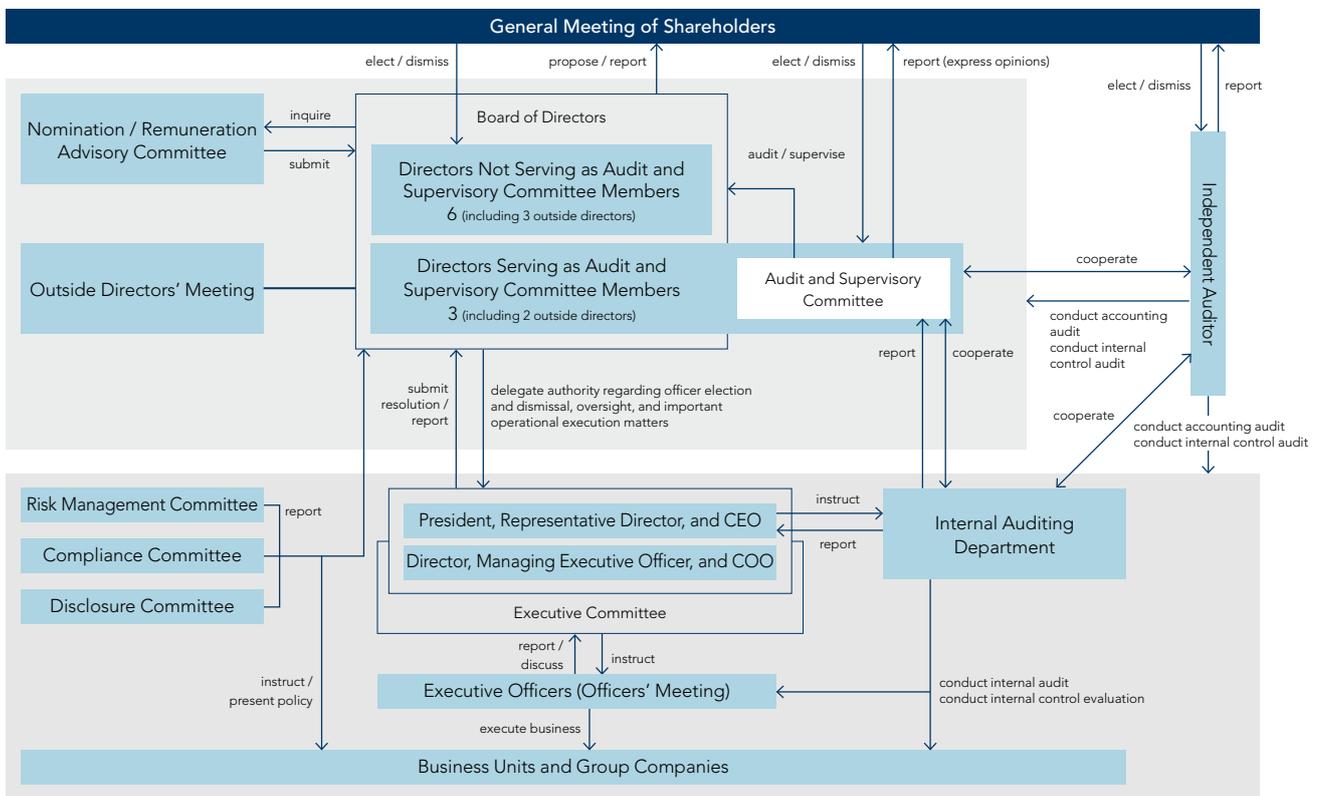
Basic Policy

The basic principles of Tsumura are encapsulated in its corporate philosophy of “The Best of Nature and Science” and in its corporate mission of “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” Guided by these 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.

In June 2017, Tsumura transitioned from the Company with Company Auditor(s) system described in the

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

Corporate Governance Structure



Overview of Corporate Governance Systems

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)

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 one outside director 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: 5 (including 4 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

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

Corporate Governance Activities in Fiscal 2019

Item	Details		
Annual number of Board of Directors' meetings	17		
Board of Directors' meetings attended by outside directors (excluding outside directors serving as Audit and Supervisory Committee members)	Shigeru Sugimoto	17 times	100%
	Kenichi Matsui	16 times	94%
	Hiroshi Miyake	13 times	100%
Board of Directors' meetings attended by outside directors serving as Audit and Supervisory Committee members	Kiyomi Haneishi	17 times	100%
	Mitsutoshi Matsushita	17 times	100%
Annual number of Audit & Supervisory Committee meetings	21		
Audit and Supervisory Committee meetings attended by outside directors serving as Audit and Supervisory Committee members	Kiyomi Haneishi	21 times	100%
	Mitsutoshi Matsushita	21 times	100%
Standards for determination of independence of outside directors	Contained in the Notice of the 83rd Ordinary General Meeting of Shareholders held on June 27, 2019, available through our corporate site		
Audit corporation	PricewaterhouseCoopers Aarata LLC		
Audit corporation remuneration	¥50 million		

Note: Hiroshi Miyake was appointed director upon approval at the 82nd Ordinary General Meeting of Shareholders held on June 28, 2018.

Kiyomi Haneishi was appointed Audit and Supervisory Committee member after receiving approval at the 83rd Ordinary General Meeting of Shareholders held on June 27, 2019.

Director and Audit & Supervisory Board Member Remuneration in Fiscal 2019

Category	Total remuneration (¥ in millions)	Basic remuneration (¥ in millions)	Stock remuneration (¥ in millions)	Number of officers compensated (people)
Directors (excluding directors serving as Audit and Supervisory Committee members) (excluding outside directors)	170	153	17	4
Directors serving as Audit and Supervisory Committee members (excluding outside directors)	25	25	—	1
Outside directors	51	51	—	6

Notes: 1. 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 82nd Ordinary General Meeting of Shareholders held on June 28, 2018.
2. The upper limit for stock remuneration for directors is ¥17 million for the fiscal year under review.

Remuneration for Directors and Executive Officers

Matters Related to the Policy Regarding the Determination of the Amount of Remuneration for Directors and the Calculation Method

1. System for determining director and Audit and

Supervisory Committee member remuneration

a) 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.

b) 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.

c) 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). Based on a resolution of the 81st Ordinary General Meeting of Shareholders held on June 29, 2017, 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).

[Roles and Activities of the Nomination / Remuneration Advisory Committee]

The Company has established the Nomination / Remuneration Advisory Committee as an advisory body to the Board of Directors to improve the transparency and impartiality of decisions related to director remuneration. The committee consists of five members, four of whom are independent outside directors.

The Nomination / Remuneration Advisory Committee undertakes discussions chiefly on the following matters.

- Draft proposals for director remuneration to be submitted to the General Meeting of Shareholders
- Draft proposals for remuneration paid to the representative director (including calculation method)
- Draft proposals for remuneration paid to members of the management team (executive directors, etc.) other than the representative director (including the calculation method)
- Policy including the composition of executive officer remuneration
- Procedure for determining remuneration of directors (roles and activities of the Board of Directors)

The Board of Directors deliberates and determines matters related to director remuneration based on discussions and proposals made by the Nomination / Remuneration Advisory Committee as an organization that supervises directors. We have also established rules including those on director remuneration, grant of the Company's common shares, and executive officer remuneration.

2. Composition of remuneration

The composition of remuneration of directors is as follows. Remuneration of directors is to be the same in fiscal 2020.

a) Representative director and other executive officers who also serve as directors (excluding directors who are Audit and Supervisory Committee members)

Fixed portion (60%)	Portion linked to short-term performance (30%)	Portion linked to medium-to-long-term performance (10%)
Basic remuneration (monetary remuneration)		Stock remuneration

Notes:

1. The Company directors (excluding directors who are Audit and Supervisory Committee members) with a level of remuneration, as shown above in the remuneration composition, that contributes 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.
2. Remuneration ratios are determined by remuneration standards based on roles, duties, and positions.
3. This model assumes that the achievement ratio for performance-linked remuneration is 100%.
4. The allocation ratios linked to each performance measure are as follows.

• Portion linked to short-term performance

Consolidated net sales and consolidated operating income, which are used as indicators for the numerical targets of the medium-term management plan, are important evaluation indicators for the portion linked to short-term performance. Remuneration reflects the level of achievement of forecasts for consolidated net sales and consolidated operating profit for each fiscal year. In addition, emphasis is placed on the accomplishment of performance goals set for each director reflecting their responsibility for business execution. Achievement ratios are set as the most important evaluation index for the portion linked to short-term performance. There is no difference in the allocation ratio according to roles, duties, and positions.

Achievement ratio of numerical target	Numerical target allocation ratio
Consolidated net sales	20%
Consolidated net profit	20%
Degree of achievement of performance goals set for each director*	60%

* Achievement ratios of numerical targets are determined based on the degree of achievement, within the range of 70% to 120%.

- Portion linked to medium-to-long-term performance

The Company pays remuneration based on the achievement ratios of numerical targets for consolidated net sales, consolidated operating profit, and consolidated ROE under the medium-term management plan, giving equal importance to each, in order to contribute to the sustainable growth of the Company and enhanced corporate value over the medium-to-long term through the improvement of performance. In addition, among the evaluation indicators for this portion, we place emphasis on consolidated net sales and set applicable numerical target allocation ratios as follows.

Evaluation index allocation	Numerical target allocation ratio
Consolidated net sales	40%
Consolidated operating profit	30%
Consolidated ROE	30%

b) Outside directors and other non-executive officers who also serve as directors (excluding directors who are Audit and Supervisory Committee members) and directors who are Audit and Supervisory Committee members.

Basic remuneration (monetary remuneration) (100%)
--

Note: Such directors receive a fixed amount of basic remuneration based on their roles in supervising operational execution.

3. Targets and results of indicators for performance-linked remuneration

Targets and results of performance-related remuneration for executive officers who also serve as directors (excluding directors who are Audit and Supervisory Committee members), including the representative director, are as follows.

	Medium-term management plan		Fiscal 2019 target		Fiscal 2019 results
	Target	Achievement ratio	Target	Achievement ratio	
Consolidated net sales (¥ in billions)	120.0	100.8%	120.5	100.3%	120.9
Consolidated operating profit (¥ in billions)	14.0	132.1%	17.5	105.7%	18.5
Consolidated ROE (%)	6	123.3%	6.4	115.6%	7.4

Based on the above table, the following figures apply for payment coefficients.

Coefficient for the portion of remuneration linked to short-term performance	1.012
Coefficient for the portion of remuneration linked to medium-to-long-term performance	1.169

Notes: 1. The coefficient for the portion linked to short-term performance is based on achievement ratios, with the level corresponding to the numerical target set at 100%. The monetary basic remuneration of executive officers, including the representative director, who also serve as directors (excluding directors who are Audit and Supervisory Committee members) in "2. Composition of remuneration" is (basic remuneration based on roles, duties, and positions x 0.6) + (basic remuneration based on roles, duties, and positions x 0.3 x payment coefficient) (the same formula applies to fiscal 2020).

2. Regarding the payment coefficient for the portion of remuneration linked to medium-to-long-term performance, this formula is applied when calculating the number of common shares of the Company's stock to be granted.

Evaluation of the Board of Directors' Effectiveness

For the purpose of improving the effectiveness of the Board of Directors, all nine directors, of whom five are outside directors, were asked to fill out surveys on the effectiveness of the Board of Directors in fiscal 2019. The results of those surveys were discussed at a meeting of the Board of Directors held in May 2019 along with the issues identified and the measures for addressing those issues. The results of the discussions are described below.

1. Areas evaluated

- (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)

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 four years. Every year, we review the issues identified in the previous year and the measures for addressing those issues. For each 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, at a meeting held in March, 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
- Determination of succession plan for president after enhancing functionality of Nomination / Remuneration Advisory Committee and engaging in constructive discussions at meetings of the Board of Directors
- Further improvements in provision of information regarding background for major agenda items, discussion history, and other factors

The results of the fiscal 2019 survey were as follows.

<Fiscal 2019 survey results (discussed in fiscal 2020)>
(Highly Evaluated Areas)

- There is an appropriate number of directors, with a majority of those directors being outside directors.
- The Board of Directors demonstrated strong oversight of the effectiveness of management and of itself, and appropriately delegated authority for business decision-making to the executive side.
- The Board of Directors shares information on risk-taking regarding new businesses and the relevance of those businesses from an early stage, and discussions are held on the opportunities and risks involved.

[Issues and Response Measures]

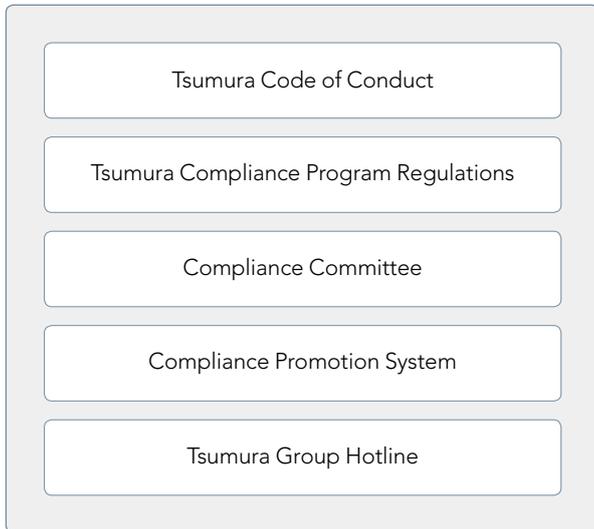
- Although the diversity of the Board of Directors is secured, we will continue to strengthen the system by providing training opportunities to endow directors with the insight and knowledge necessary for carrying out new business development.
- Regarding the governance of Group companies, we will continuously monitor and verify the business development of each Group company and strengthen the supervisory function.
- 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.

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.

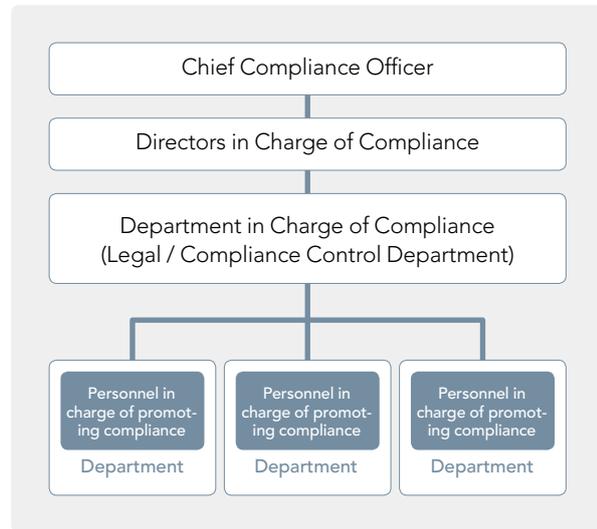
Policies for promoting compliance at the Tsumura Group are examined and set by the Compliance Committee based on the findings of annual surveys and compliance incidents that have occurred inside and outside of the Group. After the policies set by the committee are reported to the Board of Directors, these policies are presented with accompanying instructions to business units and Group companies so that they can be implemented at workplaces.

Tsumura Compliance Program



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.

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 the pharmaceutical industry, changes to medical care systems exert a major influence on the pharmaceutical market. Depending on the direction of change, a negative effect on the industry as a whole and on the performance of the Tsumura Group could result.

(2) Competition

In Japan, we have long maintained a dominant position in the field of prescription Kampo products, which is the mainstay source of earnings for the Group. However, if a major domestic or foreign pharmaceutical company entered the Kampo medicines market, competition would intensify further, and the Group's performance could suffer as a result.

(3) Product Supply

Approximately 80% of the crude drugs that constitute the main ingredients of Tsumura's Kampo formulations are imported from China, and some processes in the production of Kampo products are conducted in China by our joint venture in the country on a consignment basis. Because most of the crude drugs grow in the wild, we are researching the cultivation of major crude drugs to prepare for the future. However, in the event of unforeseeable changes in legal regulations or political or economic conditions, it could become difficult to secure or import sufficient quantities. In addition, bad weather, natural disasters, or destabilizations of social conditions resulting from wars or other causes could create instability in demand, supply, or other distribution-related circumstances for raw materials procured domestically and internationally for the manufacture of products. Such occurrences could result in hikes in the market prices of raw materials or scarcity of their supply, which would have a negative impact on the supply of products. Likewise, while we have incorporated earthquake-resistant features in construction and conduct regular inspections of production equipment and facilities within Japan, we cannot completely guarantee that the functioning of our facilities will not be hampered or lost in the event of a massive earthquake, fire, power outage, or other disaster.

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 above.

(4) Product Safety and Adverse Reactions

In the manufacturing of the Group's products, we strictly adhere to the quality control standards of the countries and regions in which we operate as well as to our own original

standards for crude drugs. However, we cannot completely guarantee that there will not be a defect or safety problem, including undetected pesticide residue on a crude drug used in a Kampo product. In addition, should consumers experience unexpected adverse reactions from a pharmaceutical product marketed by the Tsumura Group, 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, demand for large amounts of damage compensation, or a large-scale recall, among other possibilities.

(5) Research and Development

In the interest of future growth and better corporate performance, the Tsumura Group 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.

(6) International Business

The Tsumura Group engages in manufacturing and sales activities in China and other overseas countries and regions. Because of this involvement in international business, it is possible for the Group to be negatively affected by unforeseeable changes in legal regulations or in political, economic, or other conditions.

(7) Financial Condition

The Group's performance and financial condition could be negatively affected by such developments as a sharp decline in its stock price or an increase in retirement liabilities arising from a drop in the discount rate.

(8) Intellectual Property

We cannot guarantee the full protection of the intellectual property owned by the Group in relation to Kampo products. The Group's performance may be negatively affected if there were leakage of such information that led to a decline in competitiveness.

(9) Exchange Rate Fluctuations

The Group imports from China most of the crude drugs used in the Kampo products that it markets. Therefore, sharp movements in exchange rates could impact negatively on the Group's business results and financial position.

About Kampo

Kampo Products



Kampo products are therapeutic formulations created based on the principles of Kampo medicine, a traditional form of Japanese medicine. The raw materials for Kampo medicines are crude drugs derived mainly from plants.

Kampo medicines are basically made by combining more than two and sometimes up to 10 crude drugs. While, traditionally, Kampo medicines have entailed boiling and drinking crude drugs, most of the prescription Kampo products used in Japan today are powdered extracts, the active ingredients of which have been extracted from crude drugs.

Many of the raw material crude drugs for making Kampo formulations used in Japan today are imported from China. As the ingredients contained in crude drugs can vary based on their type or where they are grown, crude drugs that have not been grown in specific locations may not be suited to the production of Kampo products.

History of Kampo Medicine



The roots of Kampo medicine can be traced back to China, although its methods differ from those of traditional Chinese medicine or from those of Korean medicine, the latter of which shares similar roots. The predecessor of Kampo medicine was a medical approach created in ancient China that was introduced to Japan sometime in the fifth or sixth century. In the 17th century, the Kampo medical tradition was codified through accounts of treatments conducted over the course of its long history, and it then went on to evolve as a distinctive Japanese medical tradition.

Throughout a long portion of the history of Kampo medicine, a word for “Kampo” did not exist in Japan. The word “Kampo” would first come to be used to refer to traditional Japanese medicine in the middle of the Edo period, when the Western medicine introduced from the Netherlands came to be referred to as “Rampo.”

Differences between Kampo Medicine and Western Medicine



While Western medicine is scientific and theoretical in nature, Kampo medicine is philosophical and experimental at its heart.

The fundamental treatment method of Western medicine is to directly address and remove the cause of the illness. Conversely, Kampo medicine entails examining the patient as a whole, as opposed to just focusing on the illness, to provide a means of stimulating their natural healing power and resistance and bringing their entire body into balance. In addition, Western drugs almost always contain only one ingredient made from chemical compounds. A single drug is thus administered for a single symptom or disorder. In contrast, Kampo medicines are often composed of crude drugs containing a mixture of ingredients. For this reason, one formulation can demonstrate positive results for multiple symptoms.

Establishment of Scientific Evidence



Kampo medicines are made from naturally derived crude drugs and contain several active ingredients. Accordingly, it can be difficult to determine the mechanisms through which specific ingredients affect diseases. In recent years, however, steady progress has been made in elucidating the mechanism of Kampo medicine, and the effectiveness of Kampo medicines has been documented in numerous clinical trials and prominent medical journals.

Tsumura is also working to establish scientific evidence on the efficacy of Kampo medicine. Specifically, we have identified a total of 10 formulations on which we are focusing efforts to form a body of evidence. These include the five “drug fostering” program formulations identified in fiscal 2005, 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. The other formulations are the five “growing” formulations that we identified in fiscal 2017 with the aim of having them listed in medical treatment guidelines by establishing scientific evidence in fields where treatment satisfaction and contributions from medicine are low.

Prescriptions of Kampo Products by Domestic Physicians



According to a 2011 survey by the Japan Kampo Medicines Manufacturers Association, 89% of Japan’s physicians had prescribed Kampo products to their patients.

Reasons stated for prescribing Kampo products include their efficacy in treating ailments for which Western drugs are not effective, requests by patients, and academic reports on scientific evidence related to these products. In fact, the ability for a physician to combine Western medicine and Kampo medicine in order to treat patients by calling upon the strengths of both could be said to be a characteristic of Japanese medicine.

Coverage under the Japanese National Health Insurance Plan



Currently, 148 prescription Kampo products are covered under the Japanese National Health Insurance (NHI) plan, and these products are becoming an indispensable part of medical services in Japan in a similar manner to Western drugs. All of the 129 Kampo formulations made by Tsumura are covered under the NHI plan and are thus subject to the establishment of set prices by the Ministry of Health, Labour and Welfare and, consequently, the price revisions that are instituted once every two years, in principle.

Eleven-Year Selected ESG Data

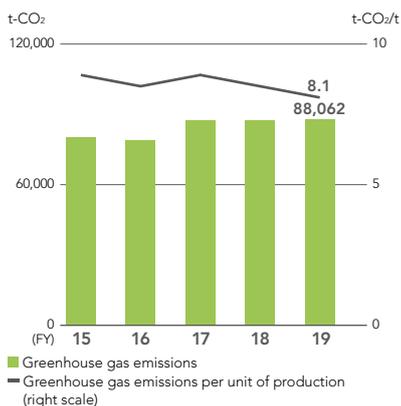
TSUMURA & CO. and subsidiaries

(Fiscal Year)	Unit	2009	2010	2011
Environmental*1				
Energy consumption	TJ	1,160	1,257	1,269
Energy consumption per unit of production	GJ/t	182.6	183.8	179.5
Greenhouse gas emissions	t-CO ₂	63,400	65,900	65,885
Greenhouse gas emissions per unit of production	t-CO ₂ /t	10.0	9.6	9.3
Water consumption	Thousands of tons	1,601	1,728	1,379
Volume of discharged water	Thousands of tons	1,455	1,483	1,132
Water consumption per unit of production	t/t	252	253	195
Social				
Number of Kampo medicine seminars for physicians	Times	286	269	249
Number of participants of Kampo medicine seminars for physicians	People	5,683	5,261	5,099
Number of employees	People	2,631	2,702	2,717
Number of managers*2	People	—	—	—
Number of female managers*2	People	—	—	—
Governance*3				
Inside directors (Men)	People	8	8	8
Outside directors designated as independent directors (Men)	People	0	0	0
Outside directors designated as independent directors (Women)	People	0	0	0
Inside directors (Audit & Supervisory Committee members)*4	People	2	2	2
Independent outside directors (Audit & Supervisory Committee members)*4 (Men)	People	1	1	1
Independent outside directors (Audit & Supervisory Committee members)*4 (Women)	People	1	1	1
Outside directors' rate of attendance at Board of Directors' meetings	%	—	—	—
Outside Audit & Supervisory Committee members' rate of attendance at Audit & Supervisory Committee meetings*4	%	100.0	100.0	98.1
Outside Audit & Supervisory Committee members' rate of attendance at Board of Directors' meetings*4	%	100.0	97.5	97.2

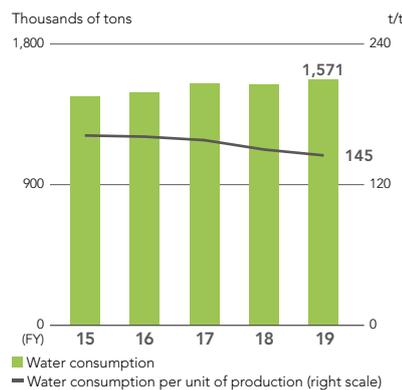
*1 Figures for items under the "Environmental" category represent the total of figures from TSUMURA & CO. and certain Group companies (LOGITEM TSUMURA CO., LTD.; SHENZHEN TSUMURA MEDICINE CO., LTD.; SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.; YUBARI TSUMURA CO., LTD. (from fiscal 2013); and LAO TSUMURA CO., LTD. (from fiscal 2015)).

*2 Figures represent the total of figures from TSUMURA & CO.; SHENZHEN TSUMURA MEDICINE CO., LTD.; and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD. Figures from SHENZHEN TSUMURA MEDICINE CO., LTD., and SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD., are as of December 31 of the preceding year.

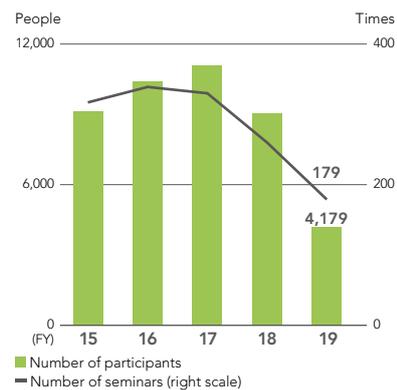
Greenhouse Gas Emissions / Greenhouse Gas Emissions per Unit of Production



Water Consumption / Water Consumption per Unit of Production



Kampo Medicine Seminars for Physicians

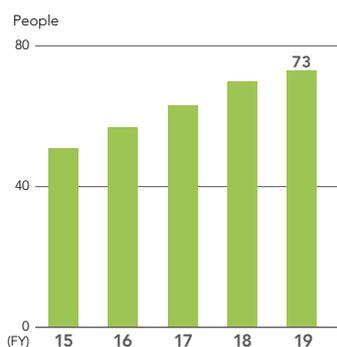


	2012	2013	2014	2015	2016	2017	2018	2019
	1,357	1,343	1,473	1,395	1,429	1,580	1,568	1,586
	166.2	158.5	162.2	154.1	153.9	161.4	152.6	146.5
	69,707	73,820	80,414	80,404	78,948	87,502	87,407	88,062
	8.5	8.7	8.9	8.9	8.5	8.9	8.5	8.1
	1,565	1,528	1,622	1,466	1,492	1,547	1,540	1,571
	1,274	1,228	1,353	1,312	1,304	1,339	1,288	1,369
	192	180	179	162	161	158	150	145
	265	311	356	317	339	330	260	179
	5,473	7,257	8,758	9,115	10,411	11,089	9,032	4,179
	2,784	2,831	2,898	3,335	3,242	3,331	3,453	3,547
	—	834	873	843	828	831	846	889
	—	40	46	51	57	63	70	73
	9	9	9	7	3	3	3	3
	0	1	1	1	2	2	2	3
	0	0	0	0	1	1	1	0
	2	2	2	2	2	2	1	1
	1	1	1	1	0	0	1	1
	1	1	1	1	2	2	1	1
	—	100.0	100.0	100.0	98.2	94.7	100.0	98.8
	98.2	100.0	100.0	96.0	100.0	100.0	98.5	100.0
	100.0	100.0	100.0	93.0	100.0	100.0	100.0	100.0

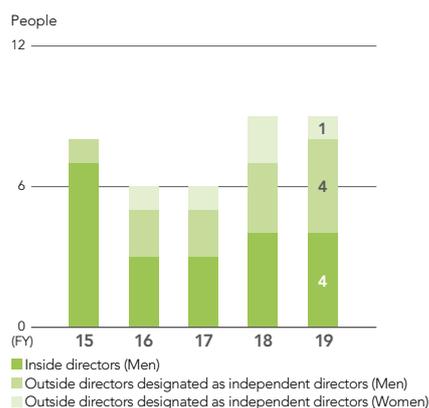
*3 Figures for the applicable items in fiscal 2020 are as follows: Inside directors (Men): 3; Outside directors designated as independent directors (Men): 3; Outside directors designated as independent directors (Women): 1; Inside directors (Audit & Supervisory Committee members): 1; Independent outside directors (Audit & Supervisory Committee members) (Men): 1; and Independent outside directors (Audit & Supervisory Committee members) (Women): 1.

*4 The position of Audit & Supervisory Board member was replaced with the position of Audit and Supervisory Committee member after receiving approval at the 81st Ordinary General Meeting of Shareholders held in June 2017.

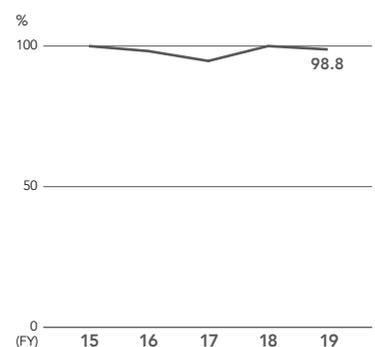
Number of Female Managers



Composition of the Board of Directors



Outside Directors' Rate of Attendance at Board of Directors' Meetings



Eleven-Year Selected Financial Data (Unaudited)

TSUMURA & CO. and subsidiaries
Years ended March 31

	2009	2010	2011
For the year			
Net sales	¥ 90,016	¥ 90,933	¥ 94,778
Cost of sales*	29,028	28,518	29,435
Gross profit	60,987	62,414	65,342
Selling, general and administrative expenses	44,504	43,475	43,789
Operating profit	16,483	18,938	21,553
Ordinary profit	16,622	19,071	21,725
Profit before income taxes	17,940	18,710	21,058
Profit attributable to owners of parent	10,777	10,704	12,945
At year-end			
Inventories	¥ 19,810	¥ 22,335	¥ 22,057
Property, plant and equipment, net	38,754	40,857	42,154
Non-current liabilities	8,970	8,773	8,587
Total liabilities	52,855	50,944	50,394
Total net assets	73,968	83,752	91,154
Total assets	126,824	134,697	141,549
Other selected data			
Capital investment for property, plant and equipment	¥ 5,479	¥ 5,237	¥ 5,264
R&D expenses	3,958	3,770	4,123
Depreciation	3,298	3,225	3,453
Free cash flow	7,293	5,864	5,232
Cash flows from operating activities	10,634	12,019	12,047
Cash flows from investing activities	(3,341)	(6,155)	(6,815)
Cash flows from financing activities	(6,354)	(5,085)	(3,355)
Cash and cash equivalents at end of period	14,596	15,381	17,198
Per share data (yen)			
Profit attributable to owners of parent	¥ 152.80	¥ 151.77	¥ 183.55
Dividends	34.00	46.00	58.00
Net assets	1,037.76	1,175.04	1,274.06
Financial ratios (%)			
As a percentage of net sales:			
Gross profit	67.8%	68.6%	68.9%
Selling, general and administrative expenses	49.4	47.8	46.2
Operating profit	18.3	20.8	22.7
Ordinary profit	18.5	21.0	22.9
Profit before income taxes	19.9	20.6	22.2
Profit attributable to owners of parent	12.0	11.8	13.7
ROE	14.9	13.7	15.0
ROA	12.6	14.5	15.6
Current ratio	157.2	173.8	189.1

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

¥ in millions

	2012	2013	2014	2015	2016	2017	2018	2019
	¥ 95,450	¥ 105,638	¥ 110,057	¥ 110,438	¥ 112,625	¥ 114,954	¥ 117,879	¥ 120,906
	29,944	35,927	38,787	41,859	45,055	49,454	49,603	49,451
	65,505	69,711	71,269	68,578	67,569	65,499	68,275	71,455
	44,271	46,586	48,808	49,087	47,743	49,516	51,224	52,935
	21,233	23,124	22,461	19,491	19,826	15,983	17,050	18,520
	21,783	24,310	23,966	21,583	19,494	16,399	17,914	19,702
	22,448	24,062	28,118	20,078	18,898	17,184	20,284	19,897
	13,431	15,373	18,050	14,075	12,557	12,488	14,504	14,593
	¥ 30,570	¥ 35,565	¥ 43,424	¥ 50,716	¥ 52,348	¥ 52,138	¥ 49,994	¥ 51,808
	44,869	50,657	57,148	60,624	62,822	64,686	71,329	73,703
	8,093	9,448	9,126	23,339	23,063	32,727	47,080*	47,861*
	49,633	51,929	54,305	64,706	66,765	64,611	95,846*	81,181*
	102,240	118,537	133,318	150,947	155,702	157,397	196,533	206,141
	151,874	170,466	187,623	215,654	222,468	222,008	292,379*	287,322*
	¥ 6,425	¥ 9,328	¥ 8,991	¥ 8,428	¥ 9,638	¥ 6,438	¥ 11,900	¥ 9,052
	4,565	4,904	5,949	6,252	5,968	6,087	6,048	5,926
	3,850	4,049	4,871	5,387	5,059	5,629	6,157	6,362
	1,972	3,988	4,214	(5,691)	10,109	14,614	(2,288)	(2,247)
	7,314	12,011	5,908	4,992	17,570	21,065	21,066	5,450
	(5,342)	(8,022)	(1,694)	(10,683)	(7,461)	(6,451)	(23,354)	(7,697)
	(5,272)	(4,275)	(4,575)	10,408	(4,608)	(9,572)	50,305	(18,528)
	13,906	13,762	14,418	19,343	25,128	29,901	78,313	56,243
	¥ 190.45	¥ 217.98	¥ 255.94	¥ 199.58	¥ 178.06	¥ 179.46	¥ 200.55	¥ 190.87
	60.00	62.00	64.00	64.00	64.00	64.00	64.00	64.00
	1,430.94	1,658.88	1,860.14	2,103.04	2,169.13	2,250.34	2,532.11	2,639.59
	68.6%	66.0%	64.8%	62.1%	60.0%	57.0%	57.9%	59.1%
	46.4	44.1	44.3	44.4	42.4	43.1	43.5	43.8
	22.2	21.9	20.4	17.6	17.6	13.9	14.5	15.3
	22.8	23.0	21.8	19.5	17.3	14.3	15.2	16.3
	23.5	22.8	25.5	18.2	16.8	14.9	17.2	16.4
	14.1	14.6	16.4	12.7	11.1	10.9	12.3	12.1
	14.1	14.1	14.5	10.1	8.3	8.1	8.3	7.4
	14.5	14.3	12.5	9.7	9.1	7.2	6.6	6.4
	207.8	222.5	240.6	310.6	305.9	422.4	391.4*	570.3*

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

Corporate Data

As of March 31, 2019

Corporate Name

TSUMURA & CO.

Head Office

2-17-11, Akasaka,
Minato-ku, Tokyo 107-8521, Japan
Corporate Communications
Department

Founded

April 10, 1893

Incorporated

April 25, 1936

Capital Stock

¥30,142 million

Number of Employees

3,547 (Consolidated)

Closing Date of Accounts

March 31

Stock Exchange Listing

Tokyo (Stock Code: 4540)

Shareholder Register Agent for Common Stock in Japan

Mitsubishi UFJ Trust and Banking Corporation
PO Box 29, Shin-Tokyo Post Office 137-8081

Independent Auditor

PricewaterhouseCoopers Aarata LLC

Authorized Common Stock

250,000,000

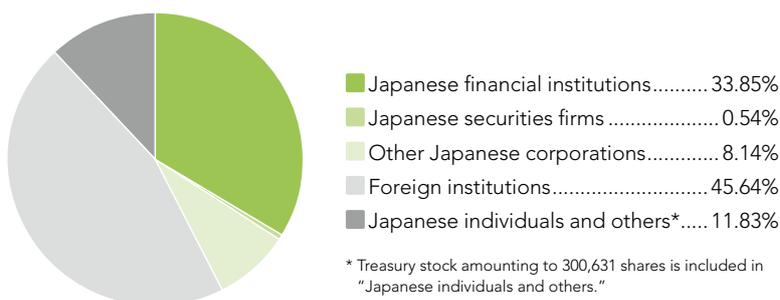
Issued Common Stock

76,758,362 (Including 300,631 shares of treasury stock)

Number of Shareholders

11,767

Ownership and Distribution of Shares



Major Shareholders

	No. of shares (thousands)	% of equity
BANK OF CHINA (HONG KONG) LIMITED-PING AN LIFE INSURANCE COMPANY OF CHINA, LIMITED	7,675	10.04
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,614	7.34
Japan Trustee Services Bank, Ltd. (Trust Account)	4,904	6.41
Japan Trustee Services Bank, Ltd. (Trust Account 9)	2,784	3.64
THE BANK OF NEW YORK MELLON 140051	2,230	2.92
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2,197	2.87
THE BANK OF NEW YORK MELLON (INTERNATIONAL) LIMITED 131800	2,067	2.70
Employees' Stockholding	1,790	2.34
JP MORGAN CHASE BANK 385632	1,737	2.27
BRIGHT RIDE LIMITED	1,692	2.21

Note: The Company holds treasury stock amounting to 300,631 shares, which is excluded from the above list of major shareholders. The % of equity above is calculated after deducting treasury stock.

The Tsumura Group

(As of June 30, 2019)

Domestic Bases



TSUMURA & CO.



Shizuoka Plant



Ibaraki Plant



Ishioka Center



Research Laboratories

21 branches and 75 sales offices



YUBARI TSUMURA CO., LTD.

Production, procurement, preparation and processing, and storage of raw material crude drugs in Hokkaido
Established in July 2009



LOGITEM TSUMURA CO., LTD.

Logistics operations for supporting stable product supply
Established in April 1973

Overseas Affiliates



SHENZHEN TSUMURA MEDICINE CO., LTD.

Procurement, selection and processing, quality management, and storage of raw material crude drugs in China
Established in March 1991



SHANGHAI TSUMURA PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts in China using same equipment as that used in Japan
Established in July 2001

Tsumura China Inc.

Regional oversight functions for Group companies in China
Established in December 2016



TSUMURA SHENGSHI PHARMACEUTICALS CO., LTD.

Production of Kampo powdered extracts, traditional Chinese medical products, and traditional Chinese medicine powdered extracts in China
Established in March 2018

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



LAO TSUMURA CO., LTD.

Cultivation and preparation and processing of raw material crude drugs in Laos
Established in February 2010

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
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FAX: 81-3-5574-6630

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



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