

Initiatives to Improve the Effectiveness of the Board of Directors

Basic Concept

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

The Company shifted to a Company with an Audit and Supervisory Committee in 2017 to strengthen the supervisory function of the Board of Directors and further enhance the soundness and transparency of management by having independent outside directors account for a majority of the Board of Directors. We have put in place a system that enables swift and resolute decision-making by separating the business execution function from the Board of Directors. Therefore, from the perspective of strengthening the supervisory and monitoring functions of the Board of Directors, we are working to ensure continuous improvement with respect to the issues identified by

analyzing the results of the evaluation of the Board of Directors' effectiveness of the Board of Directors and are endeavoring to further improve the effectiveness of the Board of Directors. Regarding the effectiveness of the Board of Directors in fiscal 2022, a questionnaire evaluation was conducted for all nine Directors, and the issues identified and specific measures for addressing them were discussed at the Board of Directors meeting held in May 2023. Based on questionnaire design developed with an external organization in fiscal 2020, we continued to make an effort in fiscal 2022 to conduct a more objective evaluation and analysis, while designing the questionnaire internally, by utilizing an external organization to collect responses and analyze the evaluation results, thus ensuring anonymity.

Evaluation Items (Six categories, 25 items)

The evaluation for fiscal 2022 was conducted from the perspectives of confirming the status of efforts to address issues identified in the results of the analysis of the fiscal 2021 effectiveness evaluation, confirming the themes that require priority supervision in order for the Board of Directors to fulfill its role, and identifying issues and considering measures for addressing them so as to further improve effectiveness in the future.

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

Overview of Evaluation Result

As a result of fiscal 2022's analysis and evaluation, it was confirmed that the Board of Directors is fulfilling its role and function, with active discussions aimed at ensuring substantial supervision and monitoring of business execution.

In the effectiveness evaluation questionnaire for each director, the respondents answered "accomplishing sufficiently" or "accomplishing overall" to many of the questions.

Improvement was observed in all the items identified as priority issues in fiscal 2021.

Review of the Effectiveness of the Board of Directors in Fiscal 2022

1. As for the current composition of the Board of Directors, the number is appropriate for active discussion and exchange of opinions. In addition, the Board of Directors is composed of diverse members with various types of experience and expertise, which is required for matters to be properly discussed at the Board of Directors meetings. Furthermore, the Board of Directors operates in an atmosphere that encourages the frank, free, and open expression of opinions. We will continue to discuss the suitability and diversity of the composition of the Board of Directors.

2. The Board of Directors has established "Lively Living for Everyone" as the new purpose, and discussed priority issues for the realization of TSUMURA VISION "Cho-WA" 2031, the Long-Term Management Vision established to realize the Corporate Value and Corporate Mission that are our basic principles. Furthermore, in addition to confirming the progress of the first medium-term management plan from fiscal 2022 to fiscal 2024 based on the theme of "laying the foundations for creating a future that achieves 'Cho-WA' (a well-balanced state)," decisions were made for the realization of priorities.

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

Status of Efforts to Address the Issues Identified in Fiscal 2021

1. China business

As for the Chinese operations, to implement M&A aimed at developing the foundation of the traditional Chinese medicines business, the process of M&A was also reported to the Board of Directors periodically in order to tighten oversight and speed up the decision-making of the Board.

2. Establishment of governance systems for Group companies

As for the establishment of governance systems for Group companies, we secured and developed human resources at Chinese Group companies, and strengthened the governance system in the Group by establishing a governance system in which Tsumura China Inc., the company that controls all our operations in China, mainly oversees the execution of business of each Group company. We also strengthened supervision and monitoring by the Board of Directors, including establishment and operation based on the "three lines of defense" (first line: operating divisions; second line: administrative divisions; third line: internal auditing divisions) approach in risk management.

Operation of the Outside Directors' Meeting

The Outside Directors' Meeting started in 2015 is periodically held as a place for executive officers in charge and division heads to directly explain overview, decision points, risks, etc. concerning proposals to be resolved in the Board of Directors and proposals determined to require an advance explanation. Explaining important matters in advance enables time to be spent on substantial discussion in the Board of Directors, supporting decision-making. In the latter half of the meeting, time is assigned to communication among only Outside Directors for honest sharing of information to ensure there are no discrepancies in the awareness of issues among

Outside Directors. Outside Directors have commented that it is easier to understand proposals based on not only materials distributed in advance but also listening to the direct opinions of people in each workplace, and opportunities for communication between Outside Directors and employees in each workplace also lead to improving the motivation of employees. In the future, we will ensure to collect and share the information necessary for the management to make decisions in the Outside Directors' Meeting, and endeavor to increase the effectiveness of the Board of Directors.

Issues and Response Measures in Fiscal 2023

Based on the results of the fiscal 2022 effectiveness evaluation, we will take the following measures to further improve the effectiveness of the Board of Directors:

1. Confirmation of progress of strategic investment deals

- We will aim to maximize the effect of investment by taking the following actions concerning the confirmation of progress of strategic investment deals.
- Decide on the overview and direction of strategic investment deals in the Board of Directors, present policies to the executive side, and oversee whether strategizing and investment are carried out in accordance with the policies.
- Consider capital investment for the establishment of systems for stable supply of products from all aspects such as construction cost, securing human resources, smartification of factories and sustainability, and make decisions including where to strengthen in Japan and overseas.
- Oversee the recoverability and recovery plans for strategic investment deals, and instruct revisions to the plans as necessary.

2. DX

- We will aim to establish information infrastructure for DX by taking the following actions targeting the "Kampo value chain" based on the "DX for Purpose" policy.
- Discuss the "ideal way of being" when DX is implemented, present policies on overall planning, and oversee the speed of execution, cost effectiveness, etc.
- Oversee important issues with the current state of implementation of DX, measures aimed at their resolution and the status of progress.

3. Sharing of information outside the Company

- We will aim to enhance corporate value by taking the following actions to enhance information disclosure.
- Increase opportunities for dialogue through quarterly financial results briefings, one-on-one meetings with analysts and investors, and IR for foreign institutional investors, and also make efforts to foster an environment for information dissemination with a wide range of stakeholders in mind, including general consumers.
- Conduct ample discussion in the Board of Directors on the content of information to be communicated in order to ensure the Group's businesses and efforts to enhance corporate value are correctly conveyed and evaluated.

Furthermore, this fiscal year, we will be focusing on tackling the following five items as key management issues, including confirmation of the progress of strategic investment deals mentioned earlier.

<Five Key Themes for the Board of Directors in Fiscal 2023>

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| <ol style="list-style-type: none"> 1. Checking the progress of the first medium-term management plan 2. Checking the progress of the China business (Including establishment of the corporate governance system) 3. Development of management human resources who will embody the corporate purpose and philosophy | <ol style="list-style-type: none"> 4. Checking the progress of strategic investment deals (Investment in systems including facilities, R&D, M&A, and digital transformation, etc.) 5. Capital policies |
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The Company's Board of Directors believes in presenting policies based on the external environment, and performing supervision of execution by the executive side based on strategizing in line with policies, and receiving reports as needed. The Company will continue to implement its PDCA cycle with the aim of realizing further improvements in the effectiveness of its Board of Directors.