

Director Remuneration

Basic Concept

Tsumura's directors' remuneration will be determined based on the following policy with "pay-for purpose" as the basic philosophy.

- To reward the realization of the vision based on our philosophy-based management upholding the Corporate Purpose, which is the foundation of the Company's Group management
- To reward contributions to the Group's sustainable growth

by earning the trust of stakeholders through sustainability and governance initiatives and by solving social issues

- To motivate directors to take on challenges to achieve high goals
 - To reward each and every officer for taking on challenges to achieve high goals
 - To reward the results by the management team, which is essential to achieving high goals

Remuneration Levels

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

Remuneration System and Components

Remuneration for directors of Tsumura consists of basic remuneration (a fixed component and a short-term performance-linked component (STI)) and performance-linked stock remuneration (LTI-I and LTI-II), with the short-term performance-linked component of basic remuneration and performance-linked stock remuneration being positioned as incentives (variable remuneration).

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

Type of Remuneration		Purpose/Outline
Fixed	Fixed component	Fixed component according to role, duties, etc.
	STI (short-term performance-linked component)	Annual incentive to reward efforts aimed at the achievement of the Company's performance and operational targets set by individuals each fiscal year <ul style="list-style-type: none"> • The base amount paid when targets are achieved is set at a fixed percentage of total remuneration according to roles, duties, etc. • The specific amount paid is determined within the range of 15% to 150% of the base amount according to the level of achievement of operational targets each fiscal year • Monthly monetary payment with fixed component
Variable	LTI-I (linked to medium-term performance)	A medium-term incentive for rewarding efforts aimed at the realization of the medium-term management plan <ul style="list-style-type: none"> • Base points are granted and accumulated according to roles, duties, etc. each year, and the Company's shares equivalent to the number of accumulated points varying according to the level of achievement of the operational targets of the medium-term management plan and the level of achievement of individually set operational targets are delivered (50% is provided as a monetary payment for tax purposes) • The specific number of shares delivered is determined within the range of 15% to 150% of cumulative base points • In principle, shares are delivered at once in around July immediately after the end of the medium-term management plan
	LTI-II (linked to long-term vision)	A long-term incentive for encouraging employees to embrace challenges aimed at realization of the long-term vision <ul style="list-style-type: none"> • Base points are granted and accumulated according to roles, duties, etc. each year, and a number of the Company's shares equivalent to the total number of accumulated points varying according to the level of achievement of progress aimed at the realization of the long-term vision after the end of the period covered by the medium-term management plan are delivered (50% is provided as a monetary payment for tax purposes) • The specific number of shares delivered is determined within the range of 0% to 150% of cumulative base points • In principle, shares are delivered at once after leaving office

Short-term Incentives: Short-term Performance-linked Component (basic remuneration)

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	25% to 35%	0% to 150%
Consolidated operating profit	25% to 35%	0% to 150%
Level of achievement of individually set operational targets	30% to 50%	50% to 150%
Total	100%	15% to 150%

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

Evaluation indicators	Allocation ratio	Coefficient variation range
Consolidated net sales	30%	0% to 150%
Consolidated operating profit	20%	0% to 150%
Consolidated ROE (average for the period under review)	20%	0% to 150%
Level of achievement of individually set operational targets	30%	50% to 150%
Total	100%	15% to 150%

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

Evaluation indicators	Allocation ratio	Coefficient variation range	Main targets
Corporate value Relative TSR (TOPIX growth rate comparison)	25%	0% to 200% (However, 0% to 100% until March 31, 2028)	1.0
Sustainability • GHG reduction • Cultivation of wild crude drugs, etc.	25%	0% to 100%	50% reduction of GHG emissions at the end of fiscal 2031 (compared to fiscal 2020), etc. *1
Corporate governance • Diversity of management team, etc.	25%	0% to 100%	*1
Business value Sales ratio of overseas business	25%	0% to 200% (However, 0% to 100% until 2028 March 31)	50% at the end of fiscal 2031 *1
Total	100%	0% to 150% (However, 0% to 100% until 2028 March 31)	

*1 The coefficient is 0% if the level of achievement is less than 100% or 80% depending on the evaluation indicator.

Long-term Incentives: LTI-II approach to select indicators

Corporate value: Relative TSR*2 (TOPIX growth rate comparison)

- Indicators to measure the achievement level of the long-term vision
- Motivate employees to contribute to the realization of the long-term vision and the enhancement of corporate value, and to share value with shareholders

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

Sustainability: GHG reduction, cultivation of wild crude drugs, etc.

- Indicators to measure the achievement level of the Sustainability Vision
- Promote and raise awareness of initiatives to realize sustainable business activities, such as conservation of the natural environment and cultivation of wild crude drugs

Corporate governance: Diversity of management team, etc.

- Indicators that can measure the degree of achievement of the Sustainability Vision and promote the achievement of the long-term management vision
- Encourage the formation of a management team across the Tsumura Group, including overseas bases, that is capable of making timely and appropriate management decisions which can drive medium- to long-term corporate value, including business restructuring

Business value: Sales ratio of overseas business

- Indicators that can measure the achievement level of the long-term management vision
- Build a foundation for overseas operations and increase directors' willingness to contribute to the enhancement of corporate value through growth in overseas markets

Indicators Related to Performance-linked Remuneration

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

Evaluation indicators	Single-year target (Fiscal 2022)		Medium-term management plan (Fiscal 2024)	
	Target value	Results	Target value	
STI	Consolidated net sales (100 million yen)	1,385	1,400	—
	Consolidated operating profit (100 million yen)	208	209	—
LTI-I	Consolidated net sales (100 million yen)	—	—	1,620
	Consolidated operating profit (100 million yen)	—	—	290
	Consolidated ROE (%)	—	—	8
LTI-II	TSR	—	—	1.0

Process of Determining Remuneration

In order to enhance the objectivity and transparency of the deliberation process, the standard amount of remuneration for Tsumura's directors, the method of performance evaluation, and the rules for calculating the amount in accordance with the results of performance evaluation are determined by the resolution of the Board of Directors within the total amount resolved at the General Meeting of Shareholders based on the results of deliberations by the Nomination/Remuneration Advisory Committee (consisting of one internal director and five independent outside directors, chaired by an independent outside director). Of these, the method of performance evaluation and the rules for calculating the amount in accordance with the results of performance evaluation shall be stipulated in the internal rules, and the determination of the level of achievement of individually set operational targets, confirmation of whether the amounts paid by individual are calculated in accordance with internal rules and the content of resolutions of the

Board of Directors, and notification to individuals are delegated to Terukazu Kato, who is the President and Representative Director. The level of achievement of individually set operational targets is determined based on the deliberation and report by the Nomination/Remuneration Advisory Committee. Any revision of these rules shall be resolved by the Board of Directors based on the deliberation and report by the Nomination/Remuneration Advisory Committee. Determination of the level of achievement of individually set operational targets under basic remuneration STI and LTI-I shall be delegated to the Nomination/Remuneration Advisory Committee. The reason for delegation to the Nomination/Remuneration Advisory Committee is to increase objectivity of procedures related to remuneration, etc. by delegating to the committee chaired by an outside director and with a majority of members comprised of outside directors.

Total Amounts of Remuneration, etc. in Fiscal 2022

Category	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)		Total number of directors applicable (people)
		Basic remuneration	Stock remuneration	
Directors (excluding directors who are members of the Audit and Supervisory Committee) (excluding outside directors)	233	200	33	4
Directors (members of the Audit and Supervisory Committee) (excluding outside directors)	25	25	—	1
Outside directors	51	51	—	5

Notes:
1. Includes the amount for one director (excluding directors who are members of the Audit and Supervisory Committee) who left office at the conclusion of the 86th General Meeting of Shareholders held on June 29, 2022.
2. Remuneration for directors (excluding directors who are members of the Audit and Supervisory Committee) does not include the amount of employee's salary for directors who concurrently serve as employees.
3. For stock remuneration, the amounts booked in the fiscal year under review are presented.