



Corporate Governance

We continue working for better corporate governance as the essential foundation for sustainable growth of corporate value.

Message from Outside Directors

Discussion in the Nomination/Remuneration Advisory Committee



Hiroshi Miyake

Outside Director
Chairman of the Nomination / Remuneration Advisory Committee
Chairman of Outside Directors' Meeting

In Tsumura's Nomination/Remuneration Advisory Committee we conduct broad-view discussions to make our procedures for selecting and appointing directors and executives and deciding their remuneration as objective and transparent as possible. In addition to our discussions in committee meetings, held eight times a year, we work to understand the qualities and abilities of executive candidates from their speeches to present the results of the TSUMURA ACADEMY Department's executive training program as well as from the executive officer reports in meetings of the Board of Directors. In these activities committee members tap their respective individual knowledge to evaluate the candidates and deepen discussion. The committee's most important discussion theme, I think, is succession planning. That's because steady progress with training our future executives is a precondition for effective corporate governance. With our business in China reaching full scale, I understand that we urgently need to diversify the core personnel who will lead the operation.

Discussion in the Outside Directors' Meeting



Tadashi Okada

Outside Director

In the Outside Directors' Meeting, I often realize how it gives us part-time members opportunities to better understand Tsumura Group businesses and enhance the quality of decision-making by the Board of Directors. From the standpoint of reinforcing our governance functions, I think we've been very effective in grasping what is discussed in the Executive Committee, the Group's executive body, as has our system for getting reports on important matters directly from floor managers.

In fiscal 2022 we put particular emphasis on discussing large investments in the Chinese operation as well as mergers and acquisitions. That's because we needed to raise the quality of decision-making on these matters, which require quick, flexible decisions. To realize our long-term vision, we will continue to monitor the Chinese operation and major investment targets as important discussion themes for the Outside Directors' Meeting.

Message from a newly appointed outside director



Ryohei Yanagi

Outside Director

I think my responsibility is to apply my knowledge and expertise in support of high-quality financial and non-financial strategies, and contribute as an independent outside director representing all stakeholders to secure the long-term sustainable growth of the corporate value of the Tsumura Group. In that, creating a harmonious balance between social value and economic value is needed based on the Group's Corporate Purpose and materiality. I will focus my work on advice and supervision related to balance sheet management and equity spread to achieve higher PBR, growth-oriented investment with a medium- to long-term view, and the relationship between ESG and corporate value.

Directors (as of June 29, 2023)



Front row from left: Hiroshi Miyake, Terukazu Kato, Akemi Mochizuki. Back row from left: Ryohei Yanagi, Tadashi Okada, Kei Sugii, Muneki Handa, Tomihiro Nagafuchi, Mitsutoshi Matsushita

Terukazu Kato

August 26, 1963
President and Representative Director CEO

1986

Joined the Company

2001

President and Representative Director, TSUMURA USA, INC.

2011

Director and Executive Officer of the Company, Head of Corporate Communications Department

2012

President and Representative Director of the Company

2016

President and Representative Director CEO of the Company (incumbent)

■

Year of assumption of the post of Director

2011

■

Number of shares in the Company held

38,200*

Kei Sugii

December 16, 1969
Director Co-COO

1994

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

2006

Joined Accenture Japan Ltd.

2009

Joined the Company

2013

Head of Logistics Planning Department

2016

Head of SCM Planning Department

2017

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

2018

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

2020

Executive Officer, Head of Production Division of the Company

2022

Co-COO

2022

Director and Co-COO (incumbent)

■

Year of assumption of the post of Director

2022

■

Number of shares in the Company held

4,100*

Muneki Handa

July 7, 1962
Director CFO

1985

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

2014

Executive Officer of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently MUFG Bank, Ltd.)

2015

General Manager, Loan Department

2016

Vice President, Mitsubishi UFJ Capital Co., Ltd.

2019

President, Mitsubishi UFJ Capital Co., Ltd.

2019

Director and Managing Executive Officer, CFO of the Company

2021

Director CFO of the Company (incumbent)

■

Year of assumption of the post of Director

2019

■

Number of shares in the Company held

8,000*

Ryohei Yanagi

July 6, 1962
Outside Director

1985

Joined The Saitama Bank, Ltd. (The Asahi Bank, Ltd., currently Resona Bank, Limited)

2003

Joined Eisai Co., Ltd.

2007

Joined UBS Securities Japan Co., Ltd., Executive Director

2009

Rejoined Eisai Co., Ltd., General Manager of the IR Department

2019

Executive Vice President & CFO, Eisai Co., Ltd.

2022

Visiting professor of Waseda University, Graduate School of Accountancy (incumbent)

2022

Senior Advisor, Eisai Co., Ltd. (incumbent)

2022

Executive Advisor, ABeam Consulting Ltd. (incumbent)

2022

Deputy President, M&G Investments Japan Co., Ltd. (incumbent)

2023

Outside Director of TSUMURA & CO. (incumbent)

■

Year of assumption of the post of Director

2023

■

Number of shares in the Company held

0*

Akemi Mochizuki

June 10, 1954
Outside Director and Audit and Supervisory Committee Member

1984

Joined Aoyama Audit Corporation

1988

Registered as certified public accountant

2018

Partner, Akahoshi Audit Corporation (incumbent)

2019

Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)

2021

Outside Audit and Supervisory Board Member of Asahi Kasei Corporation (incumbent)

2022

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

■

Year of assumption of the post of Director

2019

■

Number of shares in the Company held

1,900*

Hiroshi Miyake

August 4, 1949
Outside Director

1973

Joined Mitsubishi Corporation

2005

Senior Vice President, Mitsubishi Corporation, President, Mitsubishi International GmbH, and Deputy Regional CEO for Europe

2010

Senior Managing Executive Officer, Tokushu Tokai Paper Co., Ltd.

2015

Representative Director, Executive Vice President, Tokushu Tokai Paper Co., Ltd.

2018

Outside Director of TSUMURA & CO. (incumbent)

■

Year of assumption of the post of Director

2018

■

Number of shares in the Company held

2,500*

Tadashi Okada

May 1, 1956
Outside Director

1979

Joined Komatsu Ltd.

2003

Vice President of Komatsu (China) Ltd.

2014

Senior Executive Officer, Supervising Corporate Communications, CSR, General Affairs, and Compliance, Komatsu Ltd.

2017

Representative Director and Chairman of QUALICA Inc.

2020

Outside Director of TSUMURA & CO. (incumbent)

■

Year of assumption of the post of Director

2020

■

Number of shares in the Company held

400*

Tomihiro Nagafuchi

September 25, 1964
Director and Full-Time Audit and Supervisory Committee Member

1987

Joined the Company

2014

Head of Internal Auditing Department

2023

General Manager, Director and Full-Time Audit and Supervisory Committee Member of the Company (incumbent)

■

Year of assumption of the post of Director

2023

■

Number of shares in the Company held

2,700*

Mitsutoshi Matsushita

October 3, 1970
Outside Director and Audit and Supervisory Committee Member

1997

Registered as lawyer and joined Kajitani Law Offices (incumbent)

2016

Outside Auditor of Pacific Systems Corporation (incumbent)

2017

Outside Director and Audit and Supervisory Committee Member of TSUMURA & CO. (incumbent)

■

Year of assumption of the post of Director

2017

■

Number of shares in the Company held

2,600*

Skill Matrix of the Company’s Board of Directors

	Name	Gender	Age	Outside/Independent	Corporate Management	Global	Sales/Marketing	SDGs/ESG	IT	Finance/Accounting	Legal/Risk management	Human resources management
Directors	Terukazu Kato	♂	59		●	●	●	●	●	●		●
	Kei Sugii	♂	53		●	●		●	●			
	Muneki Handa	♂	60		●		●	●	●	●	●	●
	Hiroshi Miyake	♂	73	○	●	●	●	●	●		●	
	Tadashi Okada	♂	67	○	●	●		●	●		●	
	Ryohei Yanagi	♂	60	○	●	●		●		●		
Directors who are Audit and Supervisory Committee Members	Tomihiro Nagafuchi	♂	58					●			●	
	Mitsutoshi Matsushita (attorney at law)	♂	52	○							●	
	Akemi Mochizuki (certified public accountant)	♀	69	○						●		

♂ Represents male ♀ Represents female

Requirements for Skill Items

Corporate Management	Person who has experienced executive officer at listed companies, or has insights and experience necessary for the formulation of business strategies and has the ability to offer advice	IT	Person who has insights in IT technologies, etc., and has the ability to recognize a challenge and propose solutions toward digitalization
Global	Person who has experienced overseas business management, and has insights and experience regarding global corporate management	Finance/Accounting	Person who has insights and experience of finance and accounting, person who has operational experience in financial institutions, or person who is qualified as a certified public accountant or a tax accountant
Sales/Marketing	Person who has insights and experience regarding sales and marketing, person who is well-versed in the pharmaceutical industry and has the ability to offer appropriate advice on marketing	Legal/Risk management	Person who has experienced risk management and has insights and experience of legal affairs and risks, or who is qualified as an attorney
SDGs/ESG	Person who has insights and experience in handling climate change and other environmental issues, person who has insights and experience regarding expertise of diversity, CSR, CSV, and corporate governance, etc.	Human resources management	Person who has experienced the formulation of human resources strategies, and has insights and experience regarding the field of human resources development

Executive Officers

	Terukazu Kato	CEO In charge of External Affairs Department and Internal Auditing Department
	Kei Sugii	Co-COO In charge of Corporate Communications Department and Sustainability Management Department
	Koin Toda	Co-COO (General Representative for China) In charge of China Cordination Department
	Muneki Handa	CFO In charge of Corporate Planning Department, Accounting Department and Information Technology Department
	Susumu Adachi	Chief Human Resources Officer (CHRO) In charge of Human Resources Department and Secretary Department
	Yukinori Sorada	Executive Officer Head of Sales and Marketing Division
	Hiroshi Hoshi	Executive Officer Head of Legal and Compliance Department In charge of General Affairs Department

	Koji Endo	Executive Officer Head of TSUMURA ACADEMY Department
	Akihito Konda	Executive Officer, Head of Kampo Research and Development Division, in charge of Kampo Scientific Strategies Division and International Pharmaceutical Research & Development Division
	Mitsutoshi Yuzurihara	Executive Officer Head of Quality & Safety Management Division
	Shoichi Kumagai	Executive Officer Head of Production Division
	Tadahiro Abe	Executive Officer Head of Healthcare Division
	Zhang Liqing	Executive Officer Supervising production in operations in China, and supervising formulation platform in China
	Yoshiharu Watanabe	Executive Officer Supervising crude drug platform in China, in charge of Botanical Raw Materials Division

* As of March 31, 2023

Basic Concept

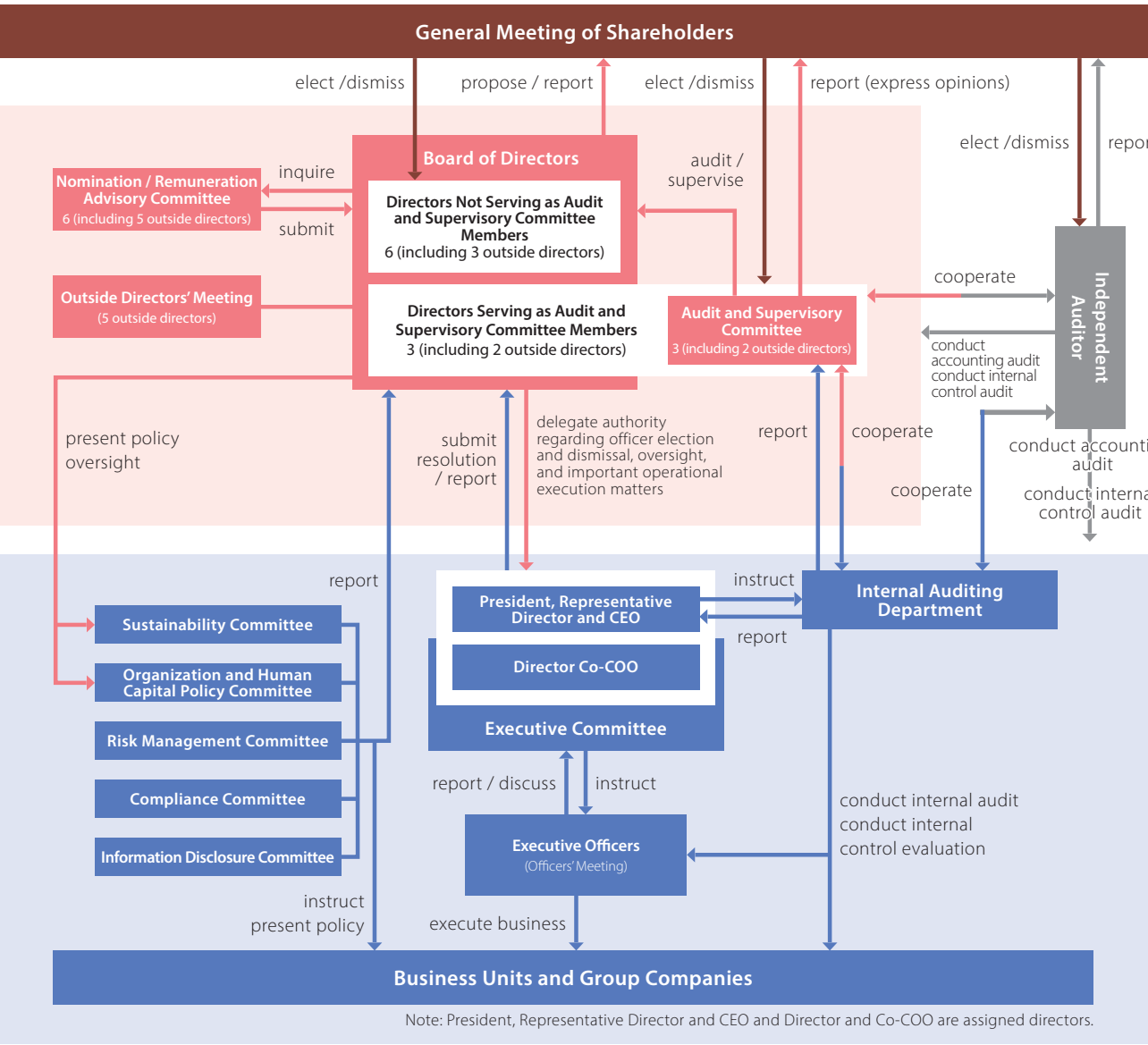
The Tsumura Group is committed to abiding by what we call the “Spirit of Nature’s Laws” and fulfilling our ultimate Purpose of facilitating “Lively Living for Everyone.” In conducting our business, we are guided by these two tenets along with Corporate Value, expressed as the “Best of Nature and Science,” and Corporate Mission: “To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine.” To achieve sustainable growth and increase our corporate value over the medium to long term, our basic policy is to strengthen our corporate governance in order to ensure sound, transparent, and fair management and make prompt and sound decisions.

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.

See the corporate site for details on the “Corporate Governance Basic Policy” <https://www.tsumura.co.jp/english/ir/corporate-governance/index.html>

Corporate Governance Structure (As of June 29, 2023)



Themes Discussed by Each Committee in Fiscal 2022

- Board of Directors**
(Number of sessions: 18; Chairman: Terukazu Kato)
- Checking the progress of the first medium-term management plan
 - Monitoring and following-up the progress of the China business
 - Development of management human resources who will embody the corporate purpose and philosophy
 - Checking the progress of strategic investment deals (Investment in systems including facilities, R&D, M&A, and digital transformation, etc.)
 - Evaluating the effectiveness of the Board of Directors and establishing priority themes
 - Discussion on enhancing corporate governance of Group companies
 - Enhancement of information disclosure, etc.
- Nomination/Remuneration Advisory Committee**
(Number of sessions: 8; Chairman: Kenichi Matsui*)
- Proposal of election and dismissal of Directors to be submitted to the General Meeting of Shareholders
 - Draft proposals of election and dismissal of the Representative Director to be submitted to the Board of Directors
 - Draft proposals of candidates for Executive Officers to be submitted to the Board of Directors
 - Policies for electing Directors and Executive Officers, election process
- Audit and Supervisory Committee**
(Number of sessions: 17; Chairman: Kimikazu Okochi*)
- Audit policy and plan
 - Reelection and remuneration of independent auditor
 - Details of matters to be submitted to the General Meeting of Shareholders
 - Preparation of audit report
 - Status of the use of hotline, etc.
- Outside Directors' Meeting**
(Number of sessions: 13; Chairman: Kenichi Matsui*)
- Advance explanation about matters to be discussed at the Board of Directors
 - Follow-up on the Board effectiveness evaluation
 - Briefing on Executive Committee matters
 - Progress report of China business
 - Discussion of important matters, etc.
- *Left office as of the conclusion of the General Meeting of Shareholders held on June 29, 2023

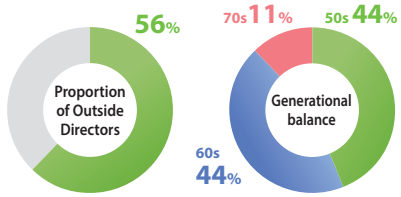
Approach to Diversity of Directors

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 constantly making appropriate and prompt decisions regarding corporate governance, the foundation of management.

At present, Outside Directors account for a majority of the Directors. We have built highly effective governance systems to make decisions on important matters from diverse perspectives, such as those of people with corporate

management experience, attorneys at law, and certified public accountants, and to ensure that decisions are not made based solely on the knowledge of inside directors.

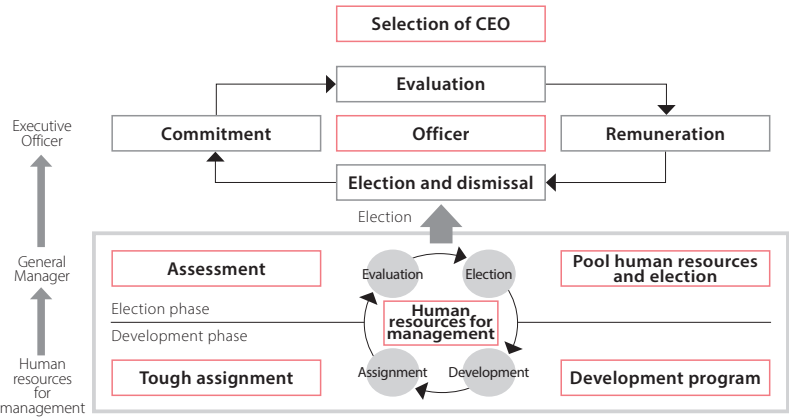
We will continue to strengthen corporate governance in order to achieve sustainable growth.



As of June 29, 2023

Succession Plan

Tsumura recognizes that the selection of the upper management (CEO) is one of our most important decisions, and the Nomination/Remuneration Advisory Committee is consulted on the draft of the Succession Plan (plan to develop next generation of leaders) and reports to the Board of Directors. For the development of the next upper management (CEO), the cycle on the right is implemented, and the Board of Directors supervises and provides opinions as appropriate in order to enhance, strengthen, and improve the effectiveness of the corporate governance system.



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.

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.

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.

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.

(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

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.

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>

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

4. Checking the progress of strategic investment deals (Investment in systems including facilities, R&D, M&A, and digital transformation, etc.)

5. Capital policies

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.

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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.

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.

Internal Control and Compliance

Basic Concept

We recognize that compliance is an important basic element supporting the foundations of corporate management.

For the Tsumura Group to meet the expectations of society and be a trusted company as a life-related company, we believe it is important for each employee to be conscious of acting by adhering to compliance based on high ethical standards and that this develops into a corporate culture, and we thoroughly implement activities promoting compliance. To this end, based on the Sustainability Charter, which is our basic policy of business activities, we have formulated the Compliance Program Regulations and established the Compliance Promotion System, and we periodically conduct training and activities to raise awareness. In addition, we conduct surveys every year, and have established and are operating an internal reporting system (Tsumura Group Hotline) to promptly identify and correct problems within the Group.

Compliance Promotion Activities

The Compliance Committee formulates a policy for compliance promotion activities every year based on questionnaire results and events occurring inside and outside the Company, and reports to the Board of Directors. Each division and Group company drafts and implements initiatives for compliance promotion activities in the workplace according to this policy.

Furthermore, systematic training is provided to all Group officers and employees to foster compliance awareness.

In fiscal 2022, the Tsumura Group Hotline was used 19 times. The content of consultations and reports received on the hotline are periodically reported to the President and Representative Director CEO, who is also the Chief Compliance Officer, other internal directors, and the CHRO.

Code of Practice

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

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

Corporate Management of Affiliated Companies

The Corporate Planning Department establishes and oversees systems for corporate management of affiliated companies, establishes Regulations on Management of Intragroup Transactions and Regulations on Management of Affiliated Companies, and makes monthly reports on internal control systems.

The Regulations on Management of Affiliated Companies provide a system for the responsible divisions within the Company to receive prior approval applications and reports from affiliated companies on matters requiring prior discussion pursuant to the regulations.

Furthermore, the Internal Auditing Department conducts internal audits of affiliated companies, and performs efficient monitoring according to Group management.

Internal Audit

Internal audits are conducted in accordance with Internal Auditing Regulations pursuant to internal audit plans formulated by the Internal Auditing Department and approved by the Executive Committee. Results are reported to the Board of Directors, the Executive Committee, the Audit and Supervisory Committee and the Independent Auditor.

Ongoing evaluations are performed on the status of establishment and the status of operation of companywide internal control, internal control of business processes and overall IT control in accordance with the Financial Instruments and Exchange Act, implementation standards published by the Business Accounting Council of the Financial Services Agency, and Internal Control Regulations pursuant to internal control evaluation plans formulated by the Internal Auditing Department and approved by the Executive Committee. Results are reported to the Board of Directors, the Executive Committee, the Audit and Supervisory Committee and the Independent Auditor.

Audit and Supervisory Committee Members

All Audit and Supervisory Committee Members attend meetings of the Board of Directors, and the Full-Time Audit and Supervisory Committee Member attends important meetings such as the Executive Committee, the Executive Officers' Meeting, the Compliance Committee and the Risk Management Committee to confirm the status of establishment and operation of internal control systems for which internal control organizations are responsible. Furthermore, the committee maintains close coordination with the Internal Auditing Department, the Independent Auditor and auditors of affiliated companies through periodic meetings with them, monitors overall internal control systems of the Company and affiliated companies through direct reporting, etc. from internal control organizations, and provides advice on more efficient operation.

The Audit and Supervisory Committee holds meetings to exchange opinions with internal directors including the President and Representative Director CEO, exchanging information and sharing awareness on matters such as the business environment surrounding the Company and companywide risks and issues.

The Audit and Supervisory Committee receives reports on the status of operations from executive officers, and checks consistency with the medium-term management plan and risks, etc. in the departments for which they are responsible.