

# Corporate Governance

## Basic Concept

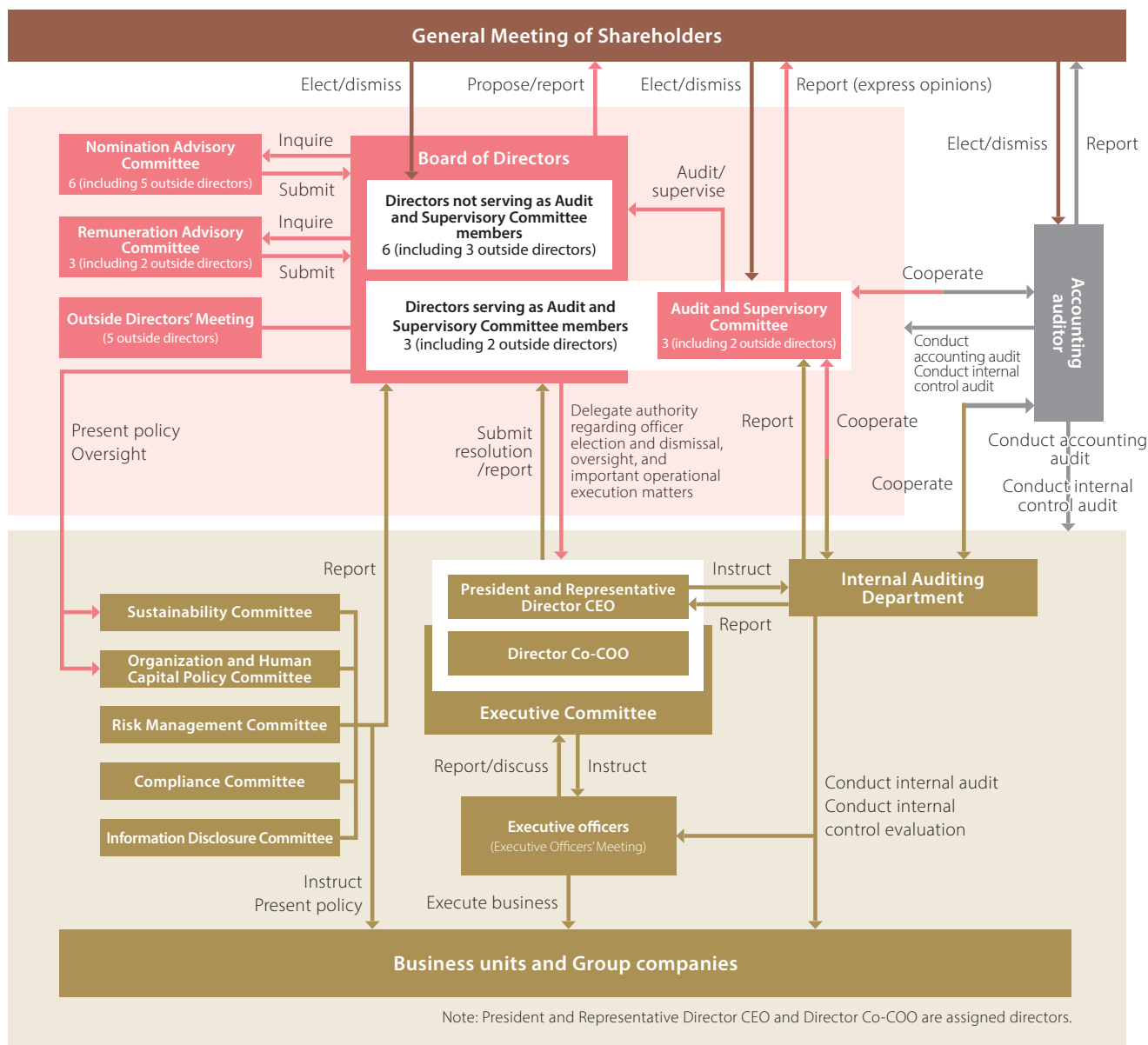
The Tsumura Group is committed to abiding by what we call the “Spirit of Nature’s Laws” and ultimately achieving our Corporate Purpose of facilitating “Lively Living for Everyone.” In conducting our business, we are guided by these two tenets along with our Corporate Value, expressed as the “Best of 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 website for details on the “Corporate Governance Basic Policy”  
<https://www.tsumura.co.jp/english/sustainability/basic-policy/governance/>

## Corporate Governance Structure (As of June 27, 2024)



## Themes Discussed by Each Committee in Fiscal 2023

### Board of Directors

(Number of sessions: 19; Chairman: Terukazu Kato)

- Checking the progress of the first medium-term management plan
- Monitor the progress of the China business, including establishment of the related corporate governance system
- Development of management human resources who will embody the corporate purpose and philosophy
- Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.
- Capital policies, etc.

### Nomination/Remuneration Advisory Committee\*1

(Number of sessions: 7; Chairman: Hiroshi Miyake\*2)

- 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
- Draft proposals for individual remuneration to be paid to directors and executive officers

- Policy including the composition of directors' remuneration, procedure for determining remuneration of directors, etc.

### Audit and Supervisory Committee

(Number of sessions: 18; Chairman: Tomihiro Nagafuchi\*2)

- Audit policy and plan
- Reelection of accounting auditor and consent to remuneration of accounting auditor
- Opinions on proposals to the General Meeting of Shareholders
- Opinions on remuneration of directors (excluding members of the Audit and Supervisory Committee), etc.
- Preparation of audit reports, etc.

### Outside Directors' Meeting

(Number of sessions: 13; Chairman: Hiroshi Miyake\*2)

- 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 on the China business
- Discussion of important matters, etc.

\*1 Separated into the Nomination Advisory Committee and Remuneration Advisory Committee on June 27, 2024  
\*2 Since June 29, 2023

## Approach to Diversity of Directors

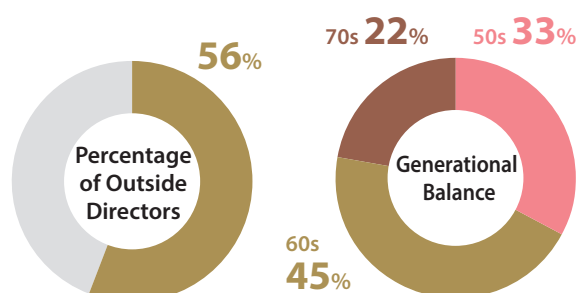
The Tsumura Group formulates its long-term management vision and medium-term management plans in response to social demand and changes in the operating environment, and initiates various measures to achieve them. Along with our value creation cycle, we have, in particular, pursued and evolved a system 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.

### Operation of the Outside Directors' Meeting

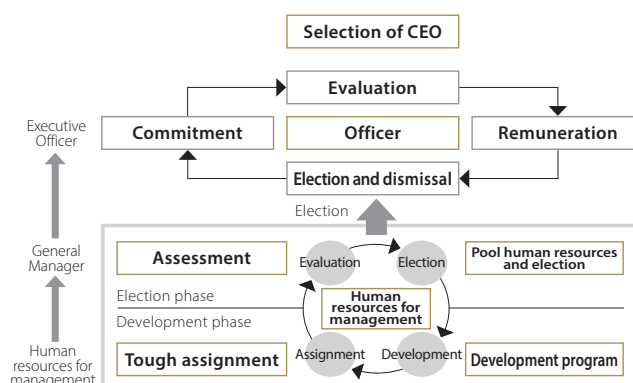
The Outside Directors' Meeting started in 2015 is periodically held as a place for executive officers in charge and division heads to directly explain overviews, decision points, risks, etc. concerning proposals to be resolved in the Board of Directors and proposals determined to require an advance explanation. 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 that information necessary for management decision-making is collected and shared at the Outside Directors' Meeting, and will continue to endeavor to increase the effectiveness of the Board of Directors.



As of June 27, 2024

## Succession Plan

Tsumura recognizes that the selection of the top executive (CEO) is one of our most important decisions. The Nomination Advisory Committee is made up of five outside directors and one internal director, is chaired by an outside director, is consulted on the draft of the succession plan (plan to develop the next generation of leaders) and reports to the Board of Directors. For the development of the next top executive (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.



## Board Effectiveness Evaluation

Tsumura evaluates and analyzes the effectiveness of the Board of Directors every fiscal year for the purpose of enhancing the Board of Directors' effectiveness. From the perspective of strengthening the supervisory and monitoring functions of the Board of Directors, we are working to ensure continuous improvement and enhanced effectiveness of the Board of Directors with respect to issues identified by analyzing the results of the board effectiveness evaluation. As a result, there was a trend of improvement in the priority issues identified in fiscal 2022. The issues identified based on the results of the board effectiveness evaluation in fiscal 2023 and the specific measures for addressing them were discussed at the Board of Directors meeting held in May 2024, and it was agreed that they should continue to be addressed as important management issues in fiscal 2024. Subsequently, five key themes for the Board of Directors in fiscal 2024 were established and are being addressed.

### <Five Key Themes for the Board of Directors in Fiscal 2024>

1. Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan
2. Monitor the progress of the China business, including establishment of the related corporate governance system
3. Based on our Purpose and Corporate Philosophy, pursue sustainability-oriented management, human resource development and initiatives to favor the environment and society
4. Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc.
5. Further promote capital policies to build corporate value

## Issues and Response Measures in Fiscal 2024

Issue	Response measures
1 <b>Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan</b>	<ul style="list-style-type: none"> <li>• Supervise the achievement status of the five strategic challenges and the progress of the action plans for achieving them at the end of the first medium-term management plan, and provide guidance as necessary.</li> <li>• In formulating the second medium-term management plan, the Board of Directors will present basic policies to the executive side with the aim of realizing the long-term management vision and sustainability vision, supervise whether the plan is in line with the basic policies, and provide guidance as necessary.</li> </ul>
2 <b>Monitor the progress of the China business, including establishment of the related corporate governance system</b>	<ul style="list-style-type: none"> <li>• Decide on basic policies and strategic investments for the China business, give instructions as appropriate, and supervise progress.</li> <li>• Have top management go on-site at appropriate times and communicate with the local management team to supervise the direction of the business and the progress of the plan, and give the necessary instructions.</li> <li>• Supervise and give instructions as necessary regarding risk management in preparation for geopolitical risks and the development of a stable supply system.</li> </ul>
3 <b>Monitor the progress of strategic investments in environmental initiatives, facilities and R&amp;D, and in systems related to M&amp;A, DX, etc.</b>	<ul style="list-style-type: none"> <li>• The Board of Directors makes decisions on the overall picture and direction of strategic investment deals, presents policies to the executive side, and then supervises the progress of the action plan for realizing the long-term management vision.</li> <li>• Consider and make decisions on capital investment for the establishment of systems for stable supply of products from all aspects such as construction cost, securing human resources and smartification of factories.</li> </ul>
4 <b>DX</b>	<ul style="list-style-type: none"> <li>• Discuss the "ideal way of being" when DX is implemented, present basic policies, and oversee the speed of execution.</li> <li>• Periodically establish opportunities for reporting and oversee issues with the current state of implementation of DX and the status of progress of measures aimed at their resolution.</li> </ul>

The Company's Board of Directors believes in presenting policies based on the external environment, and receiving reports and performing supervision as needed on execution by the executive side based on strategizing in line with policies. The Company will continue to implement its PDCA cycle with the aim of realizing further improvements in the effectiveness of its Board of Directors.

See the website for details  
<https://www.tsumura.co.jp/english/corporate/corporate-governance/>

## Director Remuneration

### Basic Policies

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 Company'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

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

## Long-Term Incentives: LTI-II Approach to Select Indicators

Evaluation indicators		Approach to select indicators
Corporate value	Relative TSR* <sup>3</sup> (TOPIX growth rate comparison)	<ul style="list-style-type: none"> <li>Indicators to measure the achievement level of the long-term vision</li> <li>Motivate employees to contribute to the realization of the long-term vision and the enhancement of corporate value, and to share value with shareholders</li> </ul>
Sustainability	GHG reduction, cultivation of wild crude drugs, etc.	<ul style="list-style-type: none"> <li>Indicators to measure the achievement level of the sustainability vision</li> <li>Promote and raise awareness of initiatives to realize sustainable business activities, such as conservation of the natural environment and cultivation of wild crude drugs</li> </ul>
Corporate governance	Diversity of management team, etc.	<ul style="list-style-type: none"> <li>Indicators that can measure the degree of achievement of the sustainability vision and promote the achievement of the long-term management vision</li> <li>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</li> </ul>
Business value	Sales ratio of overseas business	<ul style="list-style-type: none"> <li>Indicators that can measure the achievement level of the long-term management vision</li> <li>Build a foundation for overseas operations and increase directors' willingness to contribute to the enhancement of corporate value through growth in overseas markets</li> </ul>

\*Total shareholder returns: Ratio of Tsumura's TSR to the TOPIX growth rate

## Process for Determining Remuneration

- In order to enhance the objectivity and transparency of the deliberation process, the standard amount of remuneration, method of performance evaluation, rules for calculating the amount in accordance with the results of performance evaluation, and procedures for determining remuneration based on these are determined by resolution of the Board of Directors within the total amount resolved at the General Meeting of Shareholders based on reports on the results and process of consultation with the Remuneration Advisory Committee. Of these, the method of performance evaluation and rules for calculating the amount in accordance with the results of performance evaluation shall be stipulated in the internal rules, and any revision of these rules shall be resolved by the Board of Directors based on the deliberation and report by the Remuneration Advisory Committee.
- The Board of Directors delegates the determination of the level of achievement of individually set operational

targets under the portion of basic remuneration linked to short-term performance and LTI-I to the Remuneration Advisory Committee. The reason for delegation to the Remuneration Advisory Committee is to increase objectivity and transparency of procedures related to remuneration, etc. by delegating to the committee chaired by an outside director and with a majority of members composed of outside directors.

- 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 reason for delegation is because it was determined that he is in a position able to verify the appropriateness of the amount of remuneration based on the results of deliberations by the Remuneration Advisory Committee.



See the website for details on "Director Remuneration"  
<https://www.tsumura.co.jp/corporate/corporate-governance/executive-compensation/>

## Total Amounts of Remuneration, etc. in Fiscal 2023

Category	Total remuneration (million yen)	Total remuneration by type (million 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)	246	205	40	3
Directors (members of the Audit and Supervisory Committee) (excluding outside directors)	25	25	—	2
Outside directors	51	51	—	6

Notes: 1 Includes the amount for one outside director (not serving as a member of the Audit and Supervisory Committee) and one director (serving as a member of the Audit and Supervisory Committee) who left office at the conclusion of the 87th General Meeting of Shareholders held on June 29, 2023.

2 Remuneration for directors (not serving as a member of the Audit and Supervisory Committee) does not include the amount of employee salary for directors who concurrently serve as employees.

3 For stock remuneration, the amounts booked in fiscal 2023 are presented.