

Corporate Governance

Basic Concept

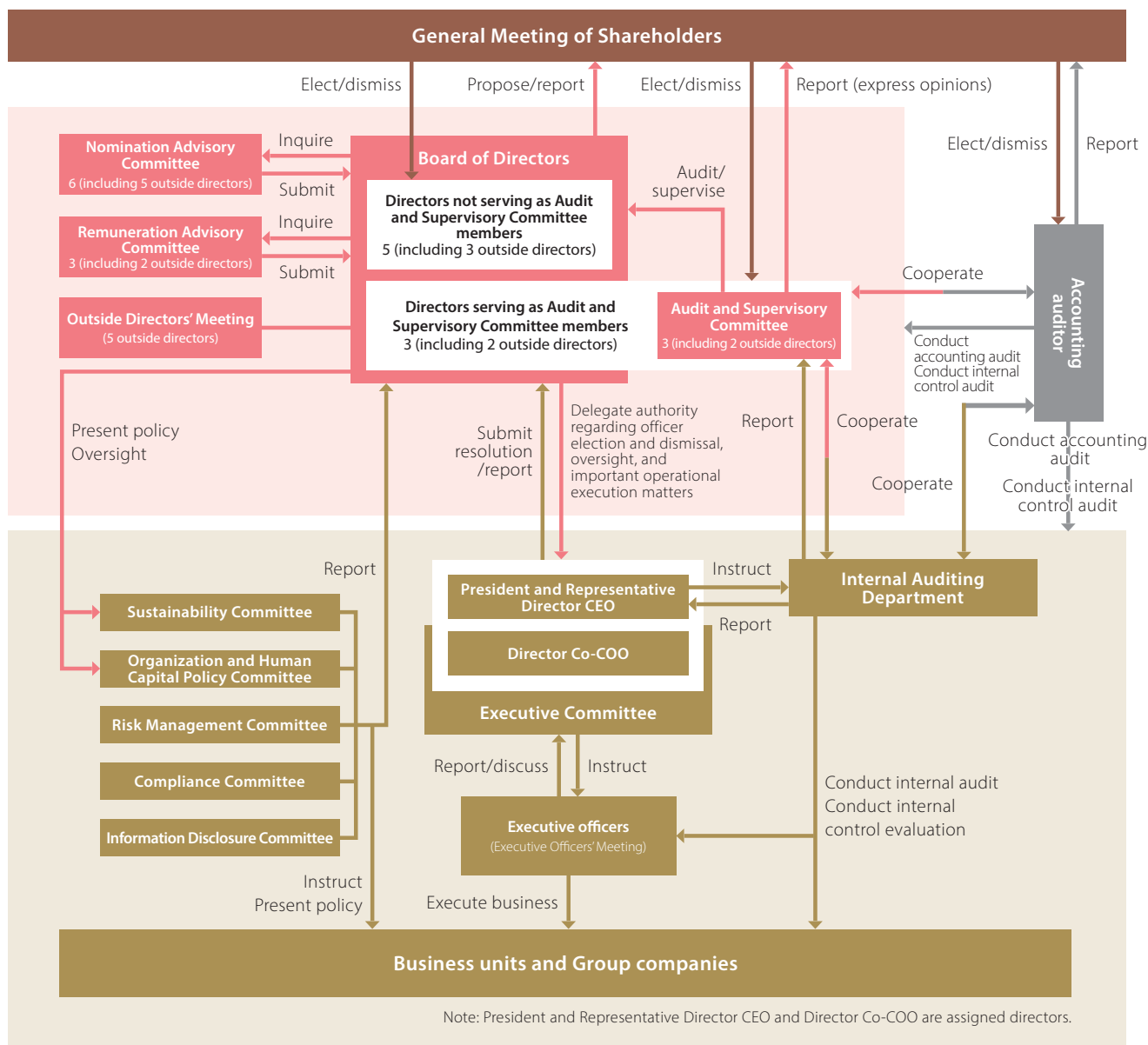
The Tsumura Group is committed to abiding by what we call the “Spirit of Nature’s Laws” and ultimately achieving our Corporate Purpose of facilitating “Lively Living for Everyone.” In conducting our business, we are guided by these two tenets along with our Corporate Value, expressed as the “Best of 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, 2025)



Evolution of Governance Structure

2003	Introduced executive officer system	2019	Introduced CxO system
2004	Appointed outside directors, made term of office of directors one year	2022	Formulated the sustainability vision, "Living with nature for tomorrow," and our long-term management vision, TSUMURA VISION "Cho-WA" 2031, which describes building an infrastructure to realize a future of "Cho-WA" (a well-balanced state); revision of performance-linked stock remuneration plan
2012	Announced the long-term management vision (Tsumura Vision 2021) "Aiming to be a value creation company that contributes to people's health through its Kampo business"	2024	Separated Nomination/Remuneration Advisory Committee into the Nomination Advisory Committee and Remuneration Advisory Committee
2015	Appointed female director, introduced senior executive officer system	2025	Ratio of female directors reached 37.5%
2016	Introduced stock compensation plan		
2017	Made transition to the Company with Audit and Supervisory Committee system, established Nomination/Remuneration Advisory Committee, made majority of the Board of Directors outside directors		

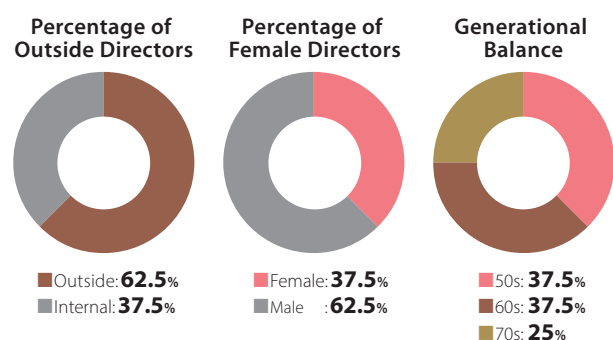
Status of Activities in Fiscal 2024

Meeting	Activities	Main activities considered
Board of Directors <ul style="list-style-type: none"> • Number of meetings: 18 • Chairman: Terukazu Kato 	<p>The Company's Board of Directors makes important decisions to ensure the sustainable growth of the Group and enhance its corporate value over the medium to long term. Furthermore, executive functions have been separated from the Board of Directors to accelerate decision-making processes, and oversight functions over overall management have also been strengthened by appropriately reflecting the high-level insights and objective opinions from the independent perspective of outside directors, who constitute the majority of the board.</p>	<ul style="list-style-type: none"> • Monitor the progress of the first medium-term management plan, and supervise and advise on the formulation of the second medium-term management plan • Monitor the progress of the China business, including establishment of the related corporate governance system • Based on our Purpose and Corporate Philosophy, pursue sustainability-oriented management, human resource development and initiatives to favor the environment and society • Monitor the progress of strategic investments in environmental initiatives, facilities and R&D, and in systems related to M&A, DX, etc. • Further promote capital policies to build corporate value
Nomination Advisory Committee <ul style="list-style-type: none"> • Number of meetings: 9 • Committee Chair: Hiroshi Miyake 	<p>This is a voluntary advisory body to the Board of Directors and the independent outside directors (including outside directors who are Audit and Supervisory Committee members), who constitute a majority of its membership, provide advice and make recommendations to the Board of Directors on matters related to the nomination of directors, executive officers, etc. upon request from the Board of Directors. The committee has six members, and five of these, including the Committee Chair are independent outside directors.</p>	<ul style="list-style-type: none"> • Proposal of election or dismissal of directors to be submitted to the General Meeting of Shareholders • Draft proposals of election or dismissal and division of responsibilities of the Representative Director and senior directors to be submitted to the Board of Directors • Draft proposals of candidates for other management members (executive officers, etc.) to be submitted to the Board of Directors • Draft proposals of candidates for committee members to be submitted to the Board of Directors • Policies for electing directors (and management members) • Procedures for electing directors (and management members) • Management Executive Development Program
Remuneration Advisory Committee <ul style="list-style-type: none"> • Number of meetings: 11 • Committee Chair: Hiroshi Miyake 	<p>This is a voluntary advisory body to the Board of Directors and the independent outside directors (including outside directors who are Audit and Supervisory Committee members), who constitute a majority of its membership, provide advice and make recommendations to the Board of Directors on matters related to the remuneration of directors, executive officers, etc. upon request from the Board of Directors. The committee has three members, and two of these, including the Committee Chair are independent outside directors.</p>	<ul style="list-style-type: none"> • Draft proposals for remuneration to be paid to directors to be submitted to the General Meeting of Shareholders • Draft proposals for individual remuneration amounts (including calculation methods) to be paid to executive directors • Draft proposals for individual remuneration amounts (including calculation methods) to be paid to non-executive directors (excluding members of the Audit and Supervisory Committee) • Draft proposals for individual remuneration amounts (including calculation methods) to be paid to management members other than directors (executive officers, etc.) • Policies including composition of remuneration for directors (and management members) • Procedures for deciding remuneration to be paid to directors (and management members) • Draft proposals for individual remuneration amounts (including calculation methods) to be paid to other persons equivalent to officers (Group company officers, etc.)
Outside Directors' Meeting <ul style="list-style-type: none"> • Number of meetings: 13 • Chairman: Hiroshi Miyake 	<p>The Outside Directors' Meeting ensures that information necessary for management decision-making is collected and shared, and exchanges opinions on topics such as the necessity for discussion and providing opinions to the Board of Directors.</p>	<ul style="list-style-type: none"> • 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.

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 has initiated 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.



Note: As of June 27, 2025

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

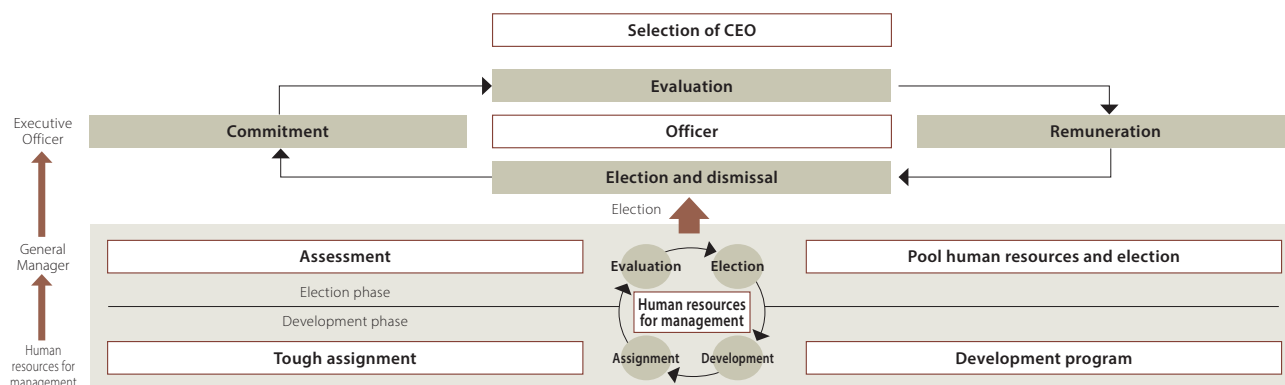
Operation of the Outside Directors' Meeting

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.

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 independent 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 below 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. In fiscal 2024, we utilized an external organization to revise the survey items based on an analysis of board proposals and changes in the business environment surrounding the Company, and to conduct the evaluation. The issues identified based on the results of the board effectiveness evaluation in fiscal 2024 and the specific measures for addressing them were discussed at the Board of Directors meeting held in May 2025. In fiscal 2025, the Board of Directors is implementing our Philosophy-based management and vision-based management in line with the Corporate Purpose, cultivating talent to thrive in the VUCA

era, engaging in environmental and social initiatives, and addressing key priorities of the Board of Directors established to enhance corporate value.

Overview of Fiscal 2024 Evaluation Results

Based on the results of analysis and evaluation for fiscal 2024, it was confirmed that the Board of Directors engaged in active discussions aimed at enhancing oversight and monitoring of business execution, and that the Board of Directors is fulfilling its role and functions. Particular recognition was given to activities designed to further leverage the expertise and experience of outside directors, by conducting lectures by external specialized institutions on the situation in China and exchanging opinions with the top executives of Chinese companies that are major shareholders, enabling outside directors to strengthen their oversight function by integrating their own expertise and experience.

Issues and Response Measures in Fiscal 2025

Based on the results of the fiscal 2024 effectiveness evaluation, we will implement the following measures to further enhance the effectiveness of the Board of Directors.

Issue	Response measures
1. Promotion of the China business	We will closely monitor changes in the political situation and the activities of local enterprises in China to enter the traditional Chinese medicinal products business, develop value-added services for traditional Chinese medicine and drug pieces, and establish a traditional Chinese medicine R&D system, and discuss and determine policies to achieve these objectives.
2. Supervision of progress of strategic investments	To actively promote investments in facilities and businesses toward realizing our long-term management vision, we will evaluate the appropriateness of the cost of specifications for each construction project and supervise the cost performance of each investment, taking into account downside risks such as rising costs for raw materials and labor related to construction, as well as changes in the external environment.
3. DX (digital transformation)	With "DX for Purpose" as our slogan, we aim to establish a stable supply and low-cost operational framework through digital transformation (DX) across the entire Kampo value chain, with the goal of creating the highest customer experience value and enhancing product value, by formulating DX strategies and overseeing the progress of DX initiatives promoted under the DX Promotion Committee.

Five Key Themes for the Board of Directors in Fiscal 2025

In fiscal 2025, the Board of Directors will implement our Philosophy-based management and vision-based management in line with the Corporate Purpose, cultivating talent to thrive in the VUCA era, engaging in environmental and social initiatives, and prioritizing the six items on the right to enhance corporate value.

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.

1. Oversee progress of the second medium-term management plan aimed at realization of the long-term management vision
2. Monitor the progress of the China business and establishment of the corporate governance system
3. Oversee progress in more than doubling labor productivity
4. Oversee effectiveness aimed at DX for Purpose
5. Expand capital investment for stable supply and supervise investment effectiveness
6. Highlight capital policy that balances growth investment with shareholder returns

See the website for details on "Board Effectiveness Evaluation". <https://www.tsumura.co.jp/corporate/corporate-governance/effectiveness/>

Director Remuneration

Basic Concept

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

- ① To reward the realization of the vision based on our Philosophy-based management upholding the Corporate Purpose, which is the foundation of Tsumura's Group management
- ② To reward contributions to Tsumura's sustainable growth by earning the trust of stakeholders through sustainability and governance initiatives and by solving social issues
- ③ 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, 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 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

The remuneration for the Company's directors consists of basic remuneration (fixed component and short-term performance-linked component (STI)) and performance-linked stock remuneration (LTI-I, LTI-II), and the short-term performance-linked component of basic remuneration and the performance-linked stock remuneration are positioned as incentives (variable remuneration). The positioning and outline of each type of remuneration are described below.

Positioning and Outline of Each Type of Remuneration

Type of remuneration		Purpose/outline
Fixed	Basic remuneration (monetary)	Fixed component
		Fixed component according to role, duties, etc.
	Variable	
Variable	Basic remuneration (monetary)	STI (short-term performance-linked component)
		<p>Annual incentive to reward efforts aimed at the achievement of the Company's performance and operational targets set by individuals each fiscal year</p> <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
	Performance-linked stock remuneration (non-monetary)	LTI-I (linked to medium-term performance)
		<p>A medium-term incentive for rewarding efforts aimed at the realization of the medium-term management plan</p> <ul style="list-style-type: none"> • 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) • The specific number of shares delivered is determined within the range of 15% to 150% of cumulative base points • In principle, shares are delivered around October immediately after the end of the medium-term management plan
Fixed	Basic remuneration (monetary)	LTI-II (linked to long-term management vision)
		<p>A long-term incentive for encouraging employees to embrace challenges aimed at realization of the long-term management vision</p> <ul style="list-style-type: none"> • 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 management vision after the end of the period covered by the medium-term management plan, are delivered after retirement (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
	Performance-linked stock remuneration (non-monetary)	

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

Evaluation indicators		Approach to select indicators
Corporate value	Relative TSR* (TOPIX growth rate comparison)	<ul style="list-style-type: none"> Indicators to measure the achievement level of the long-term management vision Motivate employees to contribute to the realization of the long-term management vision and the enhancement of corporate value, and to share value with shareholders
Sustainability	GHG reduction, domestication of wild crude drugs, etc.	<ul style="list-style-type: none"> 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 domestication of wild crude drugs
Corporate governance	Diversity of management team, etc.	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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

* 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 2024

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)	252	211	41	3
Directors (members of the Audit and Supervisory Committee) (excluding outside directors)	25	25	—	1
Outside directors	62	62	—	5

Notes: 1 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.
2 For stock remuneration, the amounts booked in fiscal 2024 are presented.