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NEWS RELEASE

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Securities code: 4540
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Tsumura Announces Revision of Performance-Based Stock Compensation System

TSUMURA & CO. today announces that, at a meeting of the Board of Directors held on May 10, 2022, the Company resolved to introduce trust-type stock compensation as an alternative to Performance Share Units in connection with revision of the performance-based stock compensation system (hereinafter “the System”) for Directors of the Company (excluding the Directors who are also Audit and Supervisory Committee Members and the Non-executive Directors) and the Executive Officers who have entered into an engagement agreement with the Company (hereinafter “Director(s), Etc.”) and decided to submit a proposal concerning the System to the 86th Ordinary General Meeting of Shareholders (hereinafter “the General Meeting of Shareholders”) to be held on June 29, 2022. Details are as follows. On condition that the proposal accompanying revision of the System is approved and adopted at the General Meeting of Shareholders, the Company will abolish Performance Share Units and will henceforth no longer deliver shares based on Performance Share Units, with the delivery of shares corresponding to the period from the fiscal year ended March 31, 2020 to the fiscal year ended March 31, 2022 as the last.

1. Purpose of the System and Main Points of Revision, etc.

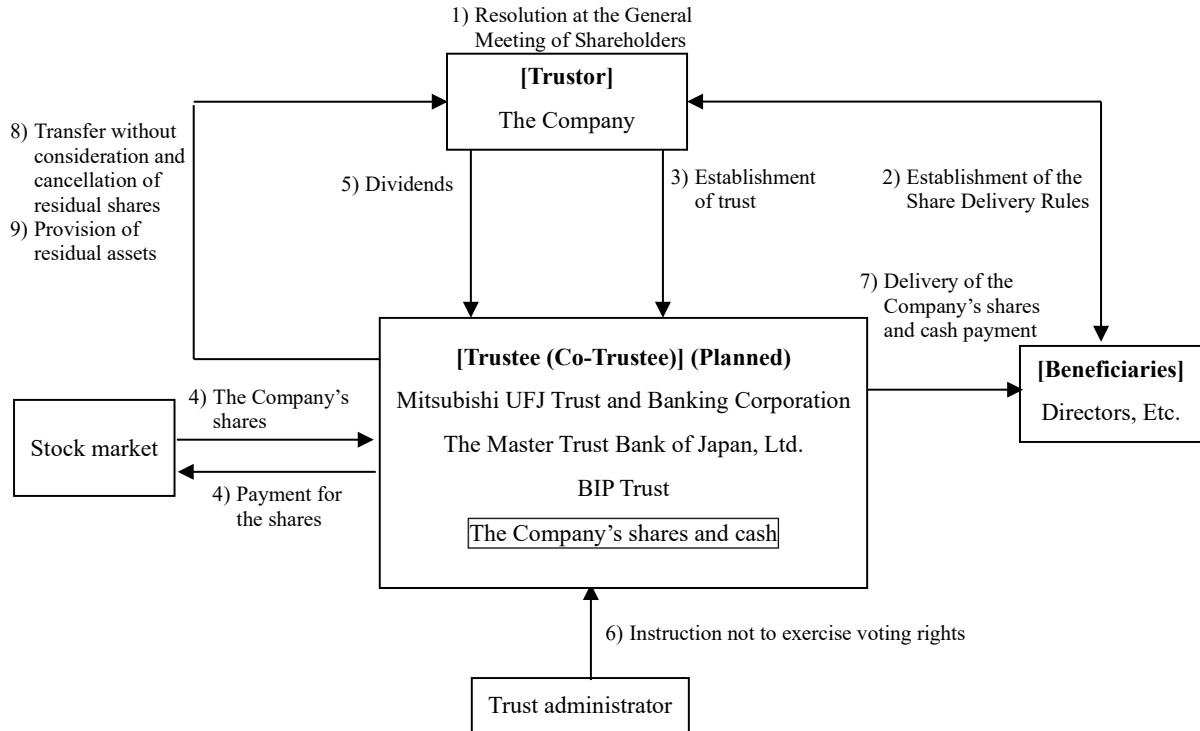
(1) The Company newly established its Sustainability Vision and Long-term Management Vision TSUMURA VISION “Cho-WA” 2031 (hereinafter collectively “the Long-term Vision”) through backcasting from its Corporate Purpose “Lively Living for Everyone,” based on its philosophy and vision management for upholding this purpose. The Company set out a Medium-term Management Plan as a milestone for achieving this Long-term Vision and aims to create new markets and increase people’s happiness in anticipation of a long-term future.

The Company will revise the composition of the System into the two categories “LTI (Long Term Incentive)-I” for realization of the Medium-term Management Plan and “LTI (Long Term Incentive)-II” for realization of the Long-term Vision, for the purpose of further clarifying the link between compensation of Directors, Etc. and the Company’s corporate value, thus encouraging Directors, Etc. to strive for realization of the Long-term Vision and further increasing their awareness of contributing to sustainable growth and improvement in corporate value, based on the Pay-for-Purpose model.

(2) The System employs a framework called Board Incentive Plan trust (hereinafter “the BIP Trust”). As with Performance Shares and Restricted Stock in Europe and North America, a BIP Trust is a system whereby shares in the Company and cash equivalent to the conversion amount of the Company’s shares (hereinafter “the Company’s shares, etc.”) will be delivered or provided (hereinafter “delivered, etc.,” “deliver, etc.,” “delivering, etc.,” “delivery, etc.”) to Directors, Etc. in accordance with rank, degree of achievement of targets under management plans and other factors.

(3) Revision of the System is conditional upon obtaining approval at the General Meeting of Shareholders.

2. Structure of the System



- 1) The Company will obtain a resolution approving officers' compensation with respect to revision of the System at the General Meeting of Shareholders.
- 2) The Company will establish Share Delivery Rules as compensation rules concerning the System at a meeting of the Board of Directors.
- 3) The Company will contribute cash within the scope of the resolution approved by the General Meeting of Shareholders in 1) and establish a BIP Trust (the Trust) with the Directors, Etc. who satisfy the beneficiary requirements as the beneficiaries.
- 4) The Trust will acquire the Company's shares from the stock market with cash entrusted in 3) as the source of funds, in accordance with the instructions of the trust administrator. The number of shares to be acquired by the Trust will be within the range of the resolution approved by the General Meeting of Shareholders in 1).
- 5) Dividends on the Company's shares held by the Trust will be paid in the same manner as for the other Company's shares.
- 6) Voting rights of the Company's shares held by the Trust will not be exercised throughout the trust period.
- 7) During the trust period, Directors, Etc. who satisfy the beneficiary requirements will be granted a certain number of points and will then receive delivery of the Company's shares equivalent to 50% of such points (fractional shares will be discarded) and cash equivalent to the conversion amount of the Company's shares corresponding to the remaining points, after conversion into cash within the Trust, in accordance with the Company's Share Delivery Rules.
- 8) If residual shares occur upon expiration of the trust period, the Company may, by amending the trust agreement and making additional contribution to the Trust, continue to use the Trust as part of the System as it is, or as a similar stock compensation system. If the Trust is not continued and is terminated, the Trust will transfer such residual shares to the Company without consideration and the Company will cancel these based on a resolution of the Board of Directors, as a way of providing returns to shareholders.
- 9) Any residual dividends pertaining to the Company's shares in the Trust when the trust period expires will be utilized as acquisition funds for shares if the Trust continues to be used, but if the Trust is terminated upon expiry of the trust period, the portion in excess of the trust expense reserve will be donated to organizations that have no interest in the Company and the Directors, Etc.

(Note) If, during the trust period, a possibility arises that the number of shares in the Trust will fall short of the number of shares corresponding to the number of points (defined in 3. (5) below; the same applies hereinafter) stipulated for Directors, Etc., or a possibility arises that the amount of cash in the trust assets will fall short of payments of trust fees and trust expenses, the Company may entrust additional cash to the Trust within the upper limit on trust money provided for in 3. (7) below for additional acquisition of the Company's shares by the Trust.

3. Details of the System

(1) Overview of the System

The Trust is a stock compensation system for making delivery, etc. of the Company's shares, etc., to the Directors, Etc. through the Trust for the fiscal years covered by the Company's Medium-term Management Plan (hereinafter "the Applicable Period"). The initial Applicable Period will be the three fiscal years from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2025.

Compensation under the System is composed of "LTI-I" and "LTI-II." "LTI-I" is for the delivery, etc. of the Company's shares, etc. to Directors, Etc. according to their rank, duties, etc. mainly based on the degree of achievement of performance targets under the Medium-term Management Plan. "LTI-II" is for the delivery, etc. of the Company's shares, etc. to Directors, Etc. according to their rank, duties, etc. mainly based on the degree of realization of the Long-term Vision. "LTI-I" and "LTI-II" will each account for a 50% share of total compensation under the System.

(2) Resolution of the General Meeting of Shareholders for introduction of the System

The General Meeting of Shareholders will resolve the upper limit on the trust money to be contributed to the Trust, the upper limit on the total number of points to be granted to Directors, Etc., and other important matters.

(3) Eligibility under the System (beneficiary requirements)

Directors, Etc. will, contingent upon satisfying the following beneficiary requirements and after completion of the prescribed beneficiary vesting procedure, receive delivery, etc. of the Company's shares, etc. in a number corresponding to the number of points from the Trust.

- 1) The beneficiary is a Director, Etc. (including persons who became a Director, Etc. after revision of the System) during the Applicable Period.
- 2) The beneficiary has not resigned (excludes resignation due to injury, illness or other unavoidable circumstances) or has not resigned or been dismissed on grounds such as having committed certain unlawful acts or major infractions of duties or company rules during the term of office.
- 3) The beneficiary has otherwise satisfied requirements deemed necessary for achieving the aims of the stock compensation system.

(* Non-residents in Japan are also eligible under the System. However, if eligibility under the System poses difficulties under the legislation of the country of residence, the Company may pay cash equivalent to the delivery, etc. of shares in place of the System.

(4) Trust period

1) Initial trust period

The initial trust period will be approximately three years from August 4, 2022 (plan) to August 31, 2025 (plan).

2) Continuation of the Trust

When the trust period expires, the Company may continue the Trust by amending the trust agreement and making additional contributions. In this case, a number of years corresponding to the medium-term management plan formulated by the Company at that time will be the new Applicable Period, the trust period of the Trust will be extended by the same length of period as the new Applicable Period and, for each extended Applicable Period, the Company will make additional contributions of trust money within the range of the upper limit on trust money, as approved by resolution at the General Meeting of Shareholders, and continue granting points and delivering, etc. the Company's shares, etc. to Directors, Etc. for the extended Applicable Periods. However, when making such additional contributions, if there are shares in the Company (excluding shares in the Company corresponding to points granted to Directors, Etc., whose delivery, etc. is incomplete) and cash remaining in the trust assets on the final day of the trust period prior to extension (hereinafter "Residual Shares, Etc."), the total amount of the amount of the Residual Shares, Etc., and any trust money additionally contributed will be within the range of the upper limit on trust money, as approved by resolution at the General Meeting of Shareholders.

Such extensions of the trust period shall not be limited to one time only, and the trust period may subsequently be similarly reextended.

3) Handling at the time of termination of the Trust (Extension of trust period not accompanied by additional contributions)

If the Company does not amend the trust agreement and make additional contributions on expiry of the trust period, no more points will be granted to Directors, Etc. from that point onwards. However, if Directors, Etc. who may satisfy the beneficiary requirements are in office at the expiry of the trust period, the Trust will not be terminated immediately, and the trust period of the Trust may be extended until such Directors, Etc. have retired from office and delivery, etc. of the Company's shares, etc. is complete, up to a limit of 10 years.

(5) Number of the Company's shares, etc. to be delivered, etc. to Directors, Etc.

The Company's shares, etc. will be delivered, etc. to Directors, Etc. after the end of the Applicable Period in the case of "LTI-I" and after retirement from office in the case of "LTI-II" in accordance with (6) below.

Directors, Etc. will be granted share delivery points (LTI-I and LTI-II), as defined in 1) and 2) below, on the assumption of delivery, etc. of the Company's shares, etc. One (1) share in the Company will be delivered, etc. for every one (1) share delivery point (LTI-I and LTI-II), with fractions of less than one point discarded. If a share split, share consolidation, etc., of the Company's shares is conducted during the trust period, the number of points and the upper limit on the total number of points to be granted to Directors, Etc. in (7) below will be adjusted in accordance with the split ratio, consolidation ratio, etc.

1) Share delivery points (LTI-I)

Share delivery points (LTI-I) granted to Directors, Etc. will be calculated by multiplying cumulative total base points (*1) awarded for each fiscal year in the Applicable Period by a performance-based coefficient (LTI-I) (*2) after the end of the Applicable Period.

2) Share delivery points (LTI-II)

Share delivery points (LTI-II) granted to Directors, Etc. will be total performance-based points calculated by multiplying cumulative total base points (*1) awarded for each fiscal year in the Applicable Period by a performance-based coefficient (LTI-II) (*3) after the end of the Applicable Period.

(*1) Base points are calculated by dividing an amount set according to compensation benchmarks based on the role, duties, etc. of Directors, Etc. by the benchmark stock price (average closing price of the Company's shares in ordinary trading on the Tokyo Stock Exchange during March directly preceding the start of the Applicable Period (with any fractions less than one discarded)).

(*2) Performance-based coefficient (LTI-I) will be set within the range of 15-150% mainly according to the degree of achievement of performance targets under the Medium-term Management Plan. The indicators used to evaluate the degree of achievement of performance targets include consolidated net sales, consolidated operating profit, consolidated ROE (Applicable Period average) as well as degree of achievement of individually set performance targets.

(*3) Performance-based coefficient (LTI-II) will be set within the range of 0-150% mainly according to the degree of achievement of progress targets towards realization of the Long-term Vision which will be set for each Applicable Period (or within the range of 0%-100% when the period from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2025 is the applicable period). Indicators used to evaluate degree of achievement of progress targets will be non-financial targets such as corporate value (relative TSR; TSR: Total Shareholder Returns), sustainability, governance, and business value (ratio of net sales from overseas business).

(6) Method and timing of delivery, etc. of the Company's shares, etc.

1) LTI-I

The Company's shares, etc. for LTI-I will be delivered, etc. after the end of the Applicable Period.

Directors, Etc. who satisfy the beneficiary requirements will receive delivery of the Company's shares corresponding to 50% of the number of share delivery points (LTI-I) (with fractional shares discarded), and will receive cash equivalent to the conversion amount of the Company's shares corresponding to the remaining number of share delivery points (LTI-I), after conversion into cash within the Trust.

If a Director, Etc. passes away before the end of the Applicable Period, a number of share delivery points (LTI-I) will be calculated according to the degree of progress of the Medium-term Management Plan at such point in time, and the heir of such Director, Etc. will receive a provision of cash equivalent to the number of the Company's shares corresponding to such points, after conversion into cash within the Trust.

2) LTI-II

The Company's shares, etc. for LTI-II will be delivered, etc. after retirement from office of a Director, Etc.

Directors, Etc. who satisfy the beneficiary requirements will receive delivery of the Company's shares corresponding to 50% of the number of share delivery points (LTI-II) calculated upon retirement from office (with fractional shares discarded), and will receive cash equivalent to the conversion amount of the Company's shares corresponding to the remaining number of share delivery points (LTI-II), after conversion into cash within the Trust.

If a Director, Etc. passes away whilst in office, a number of share delivery points (LTI-II) will be calculated according to the degree of progress made towards realization of the Long-term Vision at such point in time, and the heir of such Director, Etc. will receive a provision of cash equivalent to the number of the Company's shares corresponding to such points, after conversion into cash within the Trust.

Directors, Etc. will continue to hold the Company's shares delivered through the System until one year has elapsed after their retirement from office.

(7) Upper limit on the trust money to be contributed to the Trust and upper limit on the total number of points to

be granted to Directors, Etc. from the Trust

The total amount of trust money to be contributed to the Trust during the trust period and the total number of points to be granted to Directors, Etc., in the Trust are subject to the upper limits below, pursuant to the resolution of the General Meeting of Shareholders. Trust money includes trust fees and trust expenses in addition to funds for the acquisition of shares by the Trust.

1) Upper limit on the total amount of trust money to be contributed to the Trust: 290 million yen per fiscal year × number of years in the Applicable Period (*4)

2) Upper limit on the total number of points to be granted to Directors, Etc. per fiscal year: 100,000 points (*5)

(*4) If the Trust is continued in accordance with (4) 2) above, the Company will make contributions to the Trust, with 290 million yen multiplied by the number of years in the new Applicable Period as the upper limit.

(*5) If the Trust is continued in accordance with (4) 2) above, the upper limit on the total number of points to be granted to Directors, Etc. each extended Applicable Period will be 100,000 points multiplied by the number of years in the new Applicable Period. This upper limit on the total number of points will be set based on the above upper limit of trust money, taking into consideration the most recent stock price and other factors.

(8) Method of acquisition of the Company's shares by the Trust

The Company intends for the Trust to acquire the Company's shares from the stock market, within the range of the funds for the acquisition of shares and the number of the Company's shares to be delivered described in (7) above.

(9) Exercise of voting rights of the Company's shares in the Trust

In order to ensure neutrality toward management, voting rights of the Company's shares in the Trust will not be exercised during the trust period.

(10) Treatment of dividends from surplus pertaining to the Company's shares in the Trust

Dividends pertaining to the Company's shares in the Trust will be received by the Trust and used for the trust fees and trust expenses of the Trust.

(11) Treatment of residual shares at the expiry of the trust period

Any residual shares at the time of expiry of the trust period will be used for delivery, etc. to Directors, Etc. if the Company continues to use the Trust as part of the System as it is, or as a similar stock compensation system. If the Trust is terminated on expiry of the trust period, the Trust will transfer such residual shares to the Company without consideration and the Company will cancel these based on a resolution of the Board of Directors, as a way of providing returns to shareholders.

In addition, any residual dividends pertaining to the Company's shares in the Trust when the trust period expires will be utilized as acquisition funds for shares if the Trust continues to be used, but if the Trust is terminated upon expiry of the trust period, the portion in excess of the trust expense reserve will be donated to organizations that have no interest in the Company and Directors, Etc.

(Reference 1)

Details of the trust agreement

1) Type of trust	Trust of cash other than individually operated cash trust (third-party benefit trust)
2) Purpose of the trust	To provide incentive to Directors, Etc.
3) Trustor	The Company
4) Trustee	Mitsubishi UFJ Trust and Banking Corporation (planned) Co-trustee: The Master Trust Bank of Japan, Ltd.)
5) Beneficiaries	Directors, Etc. who satisfy the beneficiary requirements
6) Trust administrator	Third party with no special interests with the Company (Certified Public Accountant)
7) Date of trust agreement	August 4, 2022 (planned)
8) Period of trust	August 4, 2022 (planned) to August 31, 2025 (planned)
9) Exercise of voting rights	None
10) Type of shares to be acquired	Common shares of the Company
11) Amount of trust money	4.5 billion yen (planned) (including trust fees and trust expenses)
12) Method of share acquisition	Acquisition in the stock market
13) Timing of share acquisition	August 12, 2022 (planned) to August 31, 2022 (planned)
14) Rights holder	The Company
15) Residual assets	Residual assets that may be received by the Company, the rights holder, shall be within the range of trust expense reserve after deducting share acquisition funds from the trust money.

(Reference 2)

Background to Revision of the Compensation System

The Company's philosophy consists of its Corporate Value: The Best of Nature and Science and its Corporate Mission: To contribute to the unparalleled medical therapeutic power of the combination of Kampo medicine and Western medicine. To pursue this basic philosophy, the Company formulated its Long-term Management Vision and Medium-term Management Plan, which serves as a milestone for realizing this vision, and has been practicing a style of management which integrates its basic philosophy, Long-term Management Vision and Medium-term Management Plan.

The Company recently established its Purpose: Lively Living for Everyone. This is the business aspiration which the Company ultimately aims to achieve and serves as a social mission linking the origin of its founding and the world 50 years or 100 years in the future. Through backcasting from this purpose, the Company formulated its Sustainability Vision and Long-term Management Vision 2031 (hereinafter collectively "the Long-term Vision").

The Company's business consists of the Kampo Value Chain, which starts with the cultivation of crude drugs, and it is strongly linked to the natural environment. In its Sustainability Vision, the Company sets out initiatives in areas such as preservation of the environment and diversity & inclusion to continue to be a company that is extremely sensitive to changes in and crises facing the natural environment, which is fundamental to its business, and to continue to supply, as a shared value with society, naturally-derived, traditional pharmaceuticals using a scientific approach. Meanwhile, in "Long-term Management Vision 2031," the Company sets out business initiatives such as expanding standard Kampo treatments and personalizing Kampo treatments, undertaking the scientific study of pre-symptomatic diseases, and building the foundation for the China Business, with the goal of creating a future that achieves "Cho-WA" (harmony). The Long-term Vision consists of initiatives which are all very difficult but the Company believes that steady realization of the Long-term Vision is necessary to achieve sustainable improvement in its corporate value and to achieve its purpose.

Since cohesive efforts by the management team as a whole will be essential for realizing the Long-term Vision, the Company recently decided, after much discussion by the Nomination/Remuneration Advisory Committee over the course of a year, to revise the compensation system for Directors (excluding the Directors who are also Audit and Supervisory Committee Members and the Non-executive Directors; the same applies hereinafter) and its policy for determining the details of remuneration. The Company decided to submit a proposal, which is a prerequisite of the revision, to the General Meeting of Shareholders by resolution of the Board of Directors, taking the findings of the report by the Nomination/Remuneration Advisory Committee into consideration. If such proposal is approved and adopted as proposed, the revised compensation system is expected to be applied from FY2022.

The main points of revisions to the compensation system for Directors are as follows.

1. In light of the Company's management style and Long-term Vision, the Company will adopt a compensation system for Directors based on the the Pay-for-Purpose model.
2. The Company will adopt a long-term incentive system that further clarifies the link between compensation of Directors and the Company's corporate value for the purpose of encouraging Directors to strive for realization of the Long-term Vision and further increasing their awareness of contributing to sustainable growth and improvement in corporate value.
3. In addition to evaluation based on financial results, the Company will incorporate evaluation based on non-financial indicators, etc. and seek to lay business foundations which will enable sustainable growth, aiming for realization of the Long-term Vision.

The Company will also make revisions to its compensation system and policy for Executive Officers similar to those for Directors.

Outline of the Company's New Officers' Compensation System

Following continuous deliberation by the Nomination/Remuneration Advisory Committee, the Company resolved, at a meeting of the Board of Directors held on May 10, 2022, to seek shareholders' approval for the revision of its performance-based stock compensation system. An outline of the new system, assuming shareholders' approval at the 86th Ordinary General Meeting of Shareholders to be held on June 29, 2022, is as follows.

Policy for Determining Details of Remuneration for Directors (excluding the Directors who are also Audit and Supervisory Committee Members and the Non-executive Directors)

1. Basic policy

The Company will determine compensation for Directors in accordance with the following policy based on the Pay-for-Purpose model.

- 1) The Company will reward realization of the TSUMURA Group’s vision, which stems from Philosophy-Based Management in line with an underlying purpose.
- 2) The Company will reward TSUMURA’s sustainable growth achieved by earning stakeholders’ trust and resolving social issues through sustainability and governance initiatives.
- 3) The Company will incentivize efforts towards ambitious goals.
 - Rewarding individual officers who strive for ambitious goals
 - Rewarding achievements as a “management team” which are essential for the achievement of ambitious goals

2. Compensation structure

Compensation for Directors of the Company is composed of basic compensation (fixed portion, short-term performance-based portion) and performance-based stock compensation (LTI-I and LTI-II), with the short-term performance-based portion of the basic compensation and the performance-based stock compensation regarded as incentives (variable compensation). The positioning and an outline of each type of compensation is as follows.

		Type of compensation	Purpose and outline
Fixed	Basic compensation (cash)	Fixed portion	Fixed compensation according to role, duties, etc.
		Short-term performance-based portion	Annual incentive to reward efforts towards company performance results and achievement of individually set business targets each fiscal year <ul style="list-style-type: none"> - Base amount to be provided on achievement of targets is set at a certain percentage of the total compensation according to role, duties, etc. - Actual amount provided is determined in range 15%-150% of base amount according to degree of achievement of performance targets each fiscal year Provided in cash each month together with fixed portion
Variable	Performance-based stock compensation (non-cash)	LTI-I (Medium-term performance-based)	Medium-term incentive to reward initiatives for realization of the Medium-term Management Plan <ul style="list-style-type: none"> - Base points according to role, duties, etc. are granted/accumulated each year, and the Company’s shares corresponding to a number of points which is based on such accumulated points are delivered according to the degree of achievement of performance targets under the Medium-term Management Plan and the degree of achievement of individually set business targets (50% is provided in cash for the purpose of paying tax) - The actual number of shares delivered is determined in the range 15-150% of cumulative total base points - Shares are delivered altogether around July directly after the end of the Medium-term Management Plan, in principle
		LTI-II (Based on Long-term Vision)	Long-term incentive to encourage efforts for realization of the Long-term Vision <ul style="list-style-type: none"> - Base points according to role, duties, etc. are granted/accumulated each year, and the Company’s shares in a number corresponding to a total number of points which is based on such accumulated points are delivered according to the degree of achievement of progress targets towards realization of the Long-term Vision after the end of the Medium-term Management Plan period (50% is provided in cash for the purpose of paying tax) - The actual number of shares delivered is determined in the range 0-150% of cumulative total base points - Shares are delivered altogether after retirement from office, in principle

3. Level of compensation

The Company sets compensation levels which are commensurate with roles, duties, etc. in light of the Company’s operating environment, through objective comparison with compensation levels at other companies in the same industry and other companies of a similar scale based on the research data of an outside specialist company, and in view of the salary levels of the Company’s employees.

4. Composition of compensation

The Company adopts the following compensation composition ratios for Directors, to promote the Company's sustainable growth and improvement in its corporate value, with reference to trends at other companies in the same industry and other companies of a similar scale based on the research data of an outside specialist company.

■ If LTI-II is provided

Fixed portion [55%]	Short-term performance-based portion Short-term incentive [25%]	LTI- I Medium-term incentive [10%]	LTI- II Long-term incentive [10%]
Basic compensation (cash)		Performance-based stock compensation (non-cash)	
← Fixed →		← Variable →	

* Composition ratios are ratios of compensation base amount according to role, duties, etc.

* The model assumes 100% achievement of targets for variable compensation.

■ If LTI-II is not paid

Fixed portion [60%]	Short-term performance-based portion Short-term incentive [30%]	LTI- I Medium-term incentive [10%]
Basic compensation (cash)		Performance-based stock compensation (non-cash)
← Fixed →		← Variable →

5. Incentive compensation system

[Short-term Incentive: Short-term performance-based portion (basic compensation)]

The amount paid for the short-term performance-based portion of basic compensation is determined based on the degree of achievement of each fiscal year's targets for consolidated net sales and consolidated operating profit, which are used as target indicators under the Medium-term Management Plan, and the degree of achievement of the individually set business targets of those responsible for business execution.

The allocation ratio of each evaluation indicator and fluctuation ranges are as follows.

(1) Allocation ratio of each evaluation indicator and fluctuation ranges

Evaluation indicators	Allocation ratio	Coefficient fluctuation range
Consolidated net sales	25%-35%	0%-150%
Consolidated operating profit	25%-35%	0%-150%
Degree of achievement of individually set business targets	30%-50%	50%-150%
Total	100%	15%-150%

[Medium-term Incentive: LTI-I (Performance-based stock compensation)]

The number of shares delivered for LTI-I is determined based on the degree of achievement of targets for consolidated net sales, consolidated operating profit and consolidated ROE, under the Medium-term Management Plan, and the degree of achievement of the individually set business targets of those responsible for business execution. On share delivery, 50% of the shares are converted into and provided as cash to be applied to the payment of tax. The provision of shares and cash to each Director is carried out through a Board Incentive Plan trust (hereinafter "the BIP Trust") with Mitsubishi UFJ Trust and Banking Corporation as Trustee.

The calculation formula for the number of shares to be delivered, as well as the allocation ratios of each evaluation indicator and fluctuation ranges are as follows.

(1) Calculation formula for stock compensation (medium-term performance-based)

Base points = Amount specified according to compensation benchmark based on role, duties, etc. of Director ÷ Benchmark stock price (*)

Number of shares delivered = Cumulative total number of base points during Medium-term Management Plan period × Performance-based coefficient

(*) Average closing price of the Company's shares in ordinary trading on the Tokyo Stock Exchange during March directly preceding the start of the Medium-term Management Plan period (with any fractions less than one discarded).

(2) Allocation ratio of each evaluation indicator and fluctuation ranges

Evaluation indicators	Allocation ratio	Coefficient fluctuation range
Consolidated net sales	30%	0%-150%
Consolidated operating profit	20%	0%-150%
Consolidated ROE	20%	0%-150%
Degree of achievement of individually set business targets	30%	50%-150%
Total	100%	15%-150%

[Long-term Incentive: LTI-II (Performance-based stock compensation)]

The number of shares to be delivered for LTI-II is determined based on the degree of achievement of evaluation indicators related to corporate value, sustainability, corporate governance and business value during the period corresponding to the Medium-term Management Plan. On share delivery, 50% of the shares are converted into and provided as cash to be applied to the payment of tax. The provision of shares and cash to each Director is carried out through the BIP Trust.

The calculation formula for the number of shares to be delivered, as well as the allocation ratios of each evaluation indicator and fluctuation ranges are as follows.

(1) Calculation formula for stock compensation (Long-term Vision-based)

Base points = Amount specified according to compensation benchmark based on role, duties, etc. of Director ÷ Benchmark stock price (*)

Performance-based points = Cumulative total number of base points during Medium-term Management Plan period × Performance-based coefficient

Number of shares delivered = Total performance-based points granted as of retirement from office

(*) Average closing price of the Company's shares in ordinary trading on the Tokyo Stock Exchange during March directly preceding the start of the Medium-term Management Plan period (with any fractions less than one discarded).

(2) Purpose of each evaluation indicator and selection approach

Evaluation indicators		Approach to selection of indicators
Corporate value	Relative TSR*1 (Compared with TOPIX growth rate)	- Indicator for measuring degree of realization of Long-term Vision - Intended to increase motivation to help realize the Long-term Vision and enhance corporate value and to encourage value sharing with shareholders
Sustainability	GHG reduction - Promotion of wild crude drug cultivation, etc.	- Indicator which measures the degree of realization of the Sustainability Vision - Intended to promote and raise awareness of initiatives to realize sustainable business activities such as preservation of the natural environment and wild crude drug cultivation
Corporate governance	- Diversity of management team, etc.	- Indicator which can measure the degree of achievement of the Sustainability Vision and encourage realization of the Long-term Management Vision - Intended to encourage the formation of a TSUMURA Group management team encompassing overseas business units which can make the right management decisions at the right time and can drive corporate value in the medium and long term including transformation of the business structure
Business value	Ratio of net sales from	- Indicator which can measure the degree of realization of the

	overseas business	Long-term Management Vision - Intended to increase motivation to help lay the foundation for overseas business and improve corporate value through growth in overseas market
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*1 TSR: Total Shareholder Return. The ratio of the Company's TSR to the TOPIX growth rate is used.

(3) Allocation ratio of each evaluation indicator, fluctuation ranges, and key targets

Evaluation indicators		Allocation ratio	Coefficient fluctuation range	Key targets
Corporate value	Relative TSR (Compared with TOPIX growth rate)	25%	0%-200% (or 0%-100% in the initial Applicable Period*1)	1.0
Sustainability	GHG reduction - Promotion of wild crude drug cultivation, etc.	25%	0%-100%	Reduce GHG emissions by 50% by the end of FY2031 (versus FY2020), etc.*2
Corporate governance	- Diversity of management team, etc.	25%	0%-100%	*2
Business value	Ratio of net sales from overseas business	25%	0%-200% (or 0%-100% in the initial Applicable Period*1)	50% by the end of FY2031 (versus FY2020)*2
Total		100%	0%-150% (or 0%-100% in the initial Applicable Period*1)	

*1 The initial Applicable Period indicates the period from the fiscal year ending March 31, 2023 to the fiscal year ending March 31, 2028.

*2 If the degree of achievement is below 100% or 80%, depending on the evaluation indicator, the coefficient is 0%.

6. Rule on the holding of shares

Directors will continue to hold the Company's shares delivered through performance-based stock compensation until one year has elapsed after their retirement from office.

7. The process for determining compensation

The compensation benchmark amount for Directors of the Company, the performance evaluation method, and the rules for calculating final amounts according to performance evaluation results are determined by resolution of the Board of Directors within the limits of a total amount resolved by a General Meeting of Shareholders, taking into consideration the deliberation results of the Nomination/Remuneration Advisory Committee (which is composed of one internal Director and five Independent Outside Directors and is chaired by an Independent Outside Director), to increase the objectivity and transparency of the deliberation process. The performance evaluation method and the rules for calculating the final amounts according to performance evaluation results that form part of this process must be set out in internal regulations and any revisions to such method and rules will require a resolution at a meeting of the Board of Directors based on the deliberation and report of the Nomination/Remuneration Advisory Committee. Decisions on the degree of achievement of individually set business targets for the short-term performance-based portion of basic compensation and LTI-I will be delegated to the Nomination/Remuneration Advisory Committee.

Policy and procedure for determining the remuneration for Non-executive Directors who are not Audit and Supervisory Committee Members and Directors who are Audit and Supervisory Committee Members

The remuneration for Non-executive Directors who are not Audit and Supervisory Committee Members and Directors who are Audit and Supervisory Committee Members will consist of basic compensation (fixed portion/cash) only, in light of their role of overseeing the Company's management from an objective and independent perspective.