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Securities code: 4551

March 7, 2023

(Commencement date of measures for provision in electronic format: March 1, 2023)

**To Shareholders with Voting Rights:**

Goichi Matsuda  
President and  
Representative Director  
Torii Pharmaceutical Co., Ltd.  
4-1, Nihonbashi-Honcho 3-chome,  
Chuo-ku, Tokyo, Japan

**NOTICE OF  
THE 131st ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

We would like to express our appreciation for your continued support and patronage.

We hereby inform you that the 131st Annual General Meeting of Shareholders of Torii Pharmaceutical Co., Ltd. (the “Company”) will be held as described below (the “General Meeting of Shareholders”).

In convening the General Meeting of Shareholders, the Company has taken measures for provision in electronic format regarding materials for the General Meeting of Shareholders, and has posted the matters subject to the measures for provision in electronic format as the “Notice of the 131st Annual General Meeting of Shareholders” on the Company’s website. Please access the Company’s website below, scroll down the screen and check the section of “Shareholders’ Meeting.”

The Company’s website <https://www.torii.co.jp/en/ir/stock/info.html>

In addition to the Company’s website, the matters subject to the measures for provision in electronic format are also posted on the website of the Tokyo Stock Exchange (“TSE”). Please access the TSE website below (Listed Company Search), enter and search for the issue name (company name) or the securities code, and select “Basic information,” and “Documents for public inspection/PR information” to check the information.

TSE website (Listed Company Search)

<https://www2.jpx.co.jp/tseHpFront/JJK020010Action.do?Show=Show>

The documents delivered to shareholders also serve as the documents that state the matters subject to the measures for provision in electronic format as stipulated in each item of Article 325-3, Paragraph 1 of the Companies Act, which should be delivered to shareholders who have requested the delivery of the documents.

In order to prevent the spread of COVID-19, we would like you to consider exercising your voting rights in writing or by electromagnetic means (the Internet, etc.) in advance, instead of attending the General Meeting of Shareholders in person. Please review the Reference Documents for the General Meeting of Shareholders shown below and exercise your voting rights in accordance with the “Guide to the Exercise of Voting Rights (pages 3 to 5) (Japanese version only)” by 5:30 p.m. (JST) on Monday, March 27, 2023.

If you plan to attend the General Meeting of Shareholders in person, please check the prevalence of the disease as of the date of the General Meeting of Shareholders and your own health condition, and wear a mask or take other precautions to prevent infection.

- 1. Date and Time:** Tuesday, March 28, 2023 at 10:00 a.m. (JST)  
(Reception opens at 9:00 a.m. (JST))
- 2. Place:** 10F Meeting Room at the Company's head office in Torii Nihonbashi Bldg.,  
4-1, Nihonbashi-Honcho 3-chome, Chuo-ku, Tokyo, Japan
- 3. Meeting Agenda:**
- Matters to be reported:** The Business Report and Financial Statements for the Company's 131st  
Fiscal Year (from January 1, 2022 to December 31, 2022)
- Matters to be resolved:**
- <Proposals by the Company (Proposals 1 to 5)>**
- Proposal 1:** Appropriation of Surplus
  - Proposal 2:** Partial Amendment to the Articles of Incorporation
  - Proposal 3:** Election of Two (2) Directors
  - Proposal 4:** Election of One (1) Substitute Director
  - Proposal 5:** Election of One (1) Substitute Audit & Supervisory Board Member
- <Proposals by Shareholder (Proposals 6 to 9)>**
- Proposal 6:** Appropriation of Surplus
  - Proposal 7:** Repurchase of Treasury Stock
  - Proposal 8:** Partial Amendment to the Articles of Incorporation (Disclosure of  
Remuneration for Directors with Representative Authority)
  - Proposal 9:** Partial Amendment to the Articles of Incorporation (Disclosure of Result of  
Examination of Fund Management through CMS)

The details of each proposal are shown in the Reference Documents for the General Meeting of Shareholders below. However, **the Board of Directors opposes the proposals by shareholder (Proposals 6 to 9).**

- Any amendments to the matters subject to the measures for provision in electronic format will be posted on the Company's website and the TSE website on the Internet mentioned above.
- To institutional investors:  
Nominee shareholders (including standing proxies) such as management trust banks can use the electronic voting system platform operated by ICJ, Inc. if application for the use of the platform is made in advance.

# Reference Documents for the General Meeting of Shareholders

## Proposals and References

### <Proposals by the Company (Proposals 1 to 5)>

#### **Proposal 1:** Appropriation of Surplus

Appropriation of surplus is as follows.

#### Matters concerning year-end dividends

The Company's basic policy is to distribute its surplus dividends in a stable and continuous manner based on the understanding that generating appropriate shareholder returns is one of the key roles of management.

Based on the above basic policy, and while considering investment and financial status from a medium-/long-term perspective focused on future business growth, we propose the following year-end dividend for the 131st fiscal year.

- (1) Matters concerning the allocation of dividend assets to shareholders and the total amount thereof  
Dividend per share of common stock of the Company: ¥76      Total: ¥2,135,496,488  
As a result, the annual dividend for the fiscal year under review, including the interim dividend of ¥24, will be ¥100 per share.
- (2) Effective date of dividends of surplus  
March 29, 2023

**Proposal 2: Partial Amendment to the Articles of Incorporation**

1. Reasons for amendments

For the purpose of strengthening corporate governance, the term of office of Directors as stipulated in Article 20 of the current Articles of Incorporation shall be changed from two years to one year in order to build a management structure that can promptly respond to changes in the business environment, increase opportunities to seek shareholders’ confidence, and clarify the management responsibility of Directors. In addition, a supplementary provision shall be added to clarify that the previous provision will apply to the term of office of the Director elected at the Company’s Annual General Meeting of Shareholders held on March 29, 2022.

2. Details of amendments

The details of the amendments are as follows.

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendments
<p>(Term of Office of Directors)</p> <p>Article 20 The term of office of Directors shall expire at the conclusion of the Annual General Meeting of Shareholders with respect to the last fiscal year ending within <u>two years</u> after their election.</p> <p>Articles 21 to 38 (Omitted)</p> <p>(Newly established)</p>	<p>(Term of Office of Directors)</p> <p>Article 20 The term of office of Directors shall expire at the conclusion of the Annual General Meeting of Shareholders with respect to the last fiscal year ending within <u>one year</u> after their election.</p> <p>Articles 21 to 38 (Unchanged)</p> <p><u>Supplementary Provision</u></p> <p><u>(Transitional Measures Concerning Term of Office of Directors)</u></p> <p><u>Article 1 Notwithstanding the provision of Article 20, the term of office of the Director elected at the 130th Annual General Meeting of Shareholders held on March 29, 2022 shall expire at the conclusion of the Annual General Meeting of Shareholders with respect to the fiscal year ending on December 31, 2023. This Article shall be deleted after the date of the Annual General Meeting of Shareholders with respect to the fiscal year ending on December 31, 2023 has elapsed.</u></p>

**Proposal 3: Election of Two (2) Directors**

The term of office of Directors Goichi Matsuda and Masao Torikai will expire at the conclusion of the General Meeting of Shareholders. Accordingly, the Company proposes the election of two (2) Directors including one (1) Outside Director.

The candidates for Directors are as follows:

Candidate No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
1	Goichi Matsuda (February 13, 1967)  [Reappointment]	<p>April 1990      Joined Japan Tobacco Inc.</p> <p>January 2009    Vice President, Planning Dept., Soft Drink Business Division, Food Business Headquarters of Japan Tobacco Inc.</p> <p>June 2009      Member of the Board, Director of JT Beverage Inc.</p> <p>July 2010      Vice President, Planning Dept., Soft Drink Business Division of Japan Tobacco Inc.</p> <p>July 2012      Senior Manager, Soft Drink Business Division of Japan Tobacco Inc.</p> <p>July 2012      Member of the Board, Senior Vice President of Japan Beverage Holdings Inc.</p> <p>June 2013      Senior Vice President, Head of Beverage Business, of Japan Tobacco Inc.</p> <p>June 2013      Member of the Board, Director of JT Beverage Inc.</p> <p>January 2016    Senior Vice President, Deputy President, Pharmaceutical Business of Japan Tobacco Inc.</p> <p>January 2017    Corporate Advisor of Pharmaceutical Division of Japan Tobacco Inc.</p> <p>March 2017     Member of the Board, Director, Deputy Head of Pharmaceutical Marketing &amp; Promotion Group and Vice President, Marketing Planning Dept. of the Company</p> <p>March 2019     Representative Director, President and Chief Executive Officer of the Company (current position)</p>	15,300
<p>[Reasons for nomination as a candidate for Director]</p> <p>After serving as a Member of the Board, Director of a subsidiary in the beverage business division of the Company's parent company, a Senior Vice President of the Company's parent company, and a Member of the Board, Director of the Company, Mr. Goichi Matsuda holds a position as Representative Director, President and Chief Executive Officer of the Company and has a wealth of experience and insight into corporate management in general. The Company believes that he will be able to appropriately perform his duties as a Director of the Company by utilizing his experience and insight, and therefore, the Company requests that he continue to be elected as a Director.</p>			

Candidate No.	Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
2	Masao Torikai (January 7, 1963)  [Reappointment] [Outside Director] [Independent]	April 1994 Registered as lawyer (The Dai-ichi Tokyo Bar Association)	1,100
		April 1994 Joined Momo-o, Matsuo & Namba	
September 2000 Registered as lawyer in New York State			
January 2002 Partner of Momo-o, Matsuo & Namba (current position)			
June 2010 Outside Audit & Supervisory Board Member of the Company			
		June 2013 Outside Director of the Company (current position)	
[Reasons for nomination as a candidate for Outside Director and outline of expected roles] Although Mr. Masao Torikai has never been involved in corporate management other than as an outside officer, he has accumulated experience as an attorney-at-law, and has abundant expertise and a high level of insight in management. The Company expects him to fulfill the role of management supervision by making statements, etc., at meetings of the Board of Directors as an Outside Director by utilizing his experience and expertise, etc., and therefore, the Company requests that he continue to be elected as an Outside Director.			

- Notes:
1. There is no conflict of interest between each candidate for Director and the Company.
  2. Mr. Goichi Matsuda was an employee of Japan Tobacco Inc., the parent company of the Company, until March 23, 2017. His position and responsibilities as an executive at the parent company during the past 10 years are as stated in "Career summary, positions, responsibilities, and significant concurrent positions."
  3. Mr. Masao Torikai is a candidate for Outside Director.
  4. The Company has submitted a notification of the appointment of Mr. Masao Torikai as Independent Director in accordance with the stipulations of the Tokyo Stock Exchange.
  5. Mr. Masao Torikai has served as an Outside Director of the Company since June 20, 2013 and has been in office for nine (9) years and nine (9) months at the conclusion of the General Meeting of Shareholders since his appointment.
  6. The Company has entered into a contract with Mr. Masao Torikai in accordance with the Articles of Incorporation of the Company to limit his liability pursuant to Article 423, Paragraph 1 of the Companies Act. The limit amount of liability pursuant to the contract is the amount stipulated by laws and regulations. If Mr. Torikai is elected, the Company intends to renew such contract with him.
  7. The Company has entered into a directors and officers liability insurance contract with an insurance company, as stipulated in Article 430-3, Paragraph 1 of the Companies Act, where the insurance covers the damages to be borne by the insured (referring to damages (legal damages and litigation costs) incurred by the insured due to a claim for damages made against the insured during the insurance period, which may result from the business activities engaged in by the insured). However, there are certain exemptions, such as in the case of a claim for damages arising from an action taken by the insured with the knowledge that such an action is in violation of laws and regulations, and a certain amount of deductible is stipulated. The insured parties of the insurance contract are Directors, Audit & Supervisory Board Members and Executive Officers of the Company, and the Company bears the entire premium for all the insured parties. Each candidate for Director is currently insured under the insurance contract and will continue to be insured under the insurance contract if each candidate for Director is elected. The insurance contract is scheduled to be renewed with the same terms and conditions at the next renewal.

(Reference) The Board of Directors and the Audit & Supervisory Board are composed of well-balanced members with knowledge, expertise, and experience in various fields in accordance with their respective roles and responsibilities in order to achieve sustainable growth and enhance corporate value of the Company over the medium-/long-term. In addition, the Company has introduced an executive officer system for the purpose of separating management decision-making and supervision from business execution. The expertise, experience, etc. of each Director, Audit & Supervisory Board Member and Executive Officer in the event that Proposal 3 is approved as originally proposed at the General Meeting of Shareholders are as follows:

	Name	Position	Responsibility	Expertise / Experience							Certification
				Corporate management / Management strategy	Legal affairs / Compliance / Risk management	Finance / Accounting	Sales / Marketing	Business development	Research and development	Production / Quality assurance	
Directors	Goichi Matsuda	Representative Director, President and Chief Executive Officer		●	●	●	●	●			
	Masao Torikai	Member of the Board, Director (Outside)			●						Attorney-at-law
	Toshio Fukuoka	Member of the Board, Director (Outside)				●					Tax accountant
Audit & Supervisory Board Members	Ken Yamamoto	Standing Audit & Supervisory Board Member		●		●					
	Eiichi Izumo	Audit & Supervisory Board Member (Outside)				●					Certified public accountant
	Takaharu Matsumura	Audit & Supervisory Board Member (Outside)			●						Attorney-at-law
Executive Officers	Atsuyuki Kakee	Senior Executive Officer	Head of Innovation Group and Vice President, Business Development Dept.	●				●	●		
	Katsunobu Fujiwara	Senior Executive Officer	Head of Pharmaceutical Marketing & Promotion Group	●			●				
	Nobumasa Kondo	Senior Executive Officer	Head of Planning & Administration Group	●	●	●					
	Masaki Sunami	Executive Officer	Head of Production Group	●					●	●	
	Noriaki Nishino	Executive Officer	Head of Pharmacovigilance & Quality Assurance Group	●					●	●	Pharmacist

**Proposal 4:** Election of One (1) Substitute Director

The Company proposes the election of one (1) Substitute Director in advance, in case the number of Directors falls short of the number stipulated in laws and regulations.

The appointment may be revoked by a resolution of the Board of Directors only prior to the assumption of office.

The candidate for Substitute Director is as follows:

Name (Date of birth)	Career summary, positions, responsibilities, and significant concurrent positions	Number of shares of the Company held
Nobumasa Kondo (September 28, 1968)	April 1992 Joined Japan Tobacco Inc.	3,292
	July 2012 Vice President, CSR Division of Japan Tobacco Inc.	
	October 2015 Senior Manager of Business Planning Dept., Pharmaceutical Division of Japan Tobacco Inc.	
	January 2016 Senior Manager of Business Administrative Dept., Pharmaceutical Division of Japan Tobacco Inc.	
	March 2016 Vice President, Corporate Planning Dept. of the Company	
	March 2019 Executive Officer, Head of Planning & Administration Group and Vice President, Corporate Planning Dept. of the Company	
	October 2019 Executive Officer, Head of Planning & Administration Group of the Company March 2020 Senior Executive Officer, Head of Planning & Administration Group of the Company (current position)	

[Reasons for nomination as a candidate for Substitute Director]

Mr. Nobumasa Kondo has a high level of insight into corporate management in general gained through his abundant business experience in the corporate planning departments of the Company and its parent company. He also participates in the management of the Company as an Executive Officer of the Company. The Company believes that he will be able to appropriately perform his duties as a Director of the Company by utilizing his experience and insight, and therefore, the Company requests that he continue to be elected as a Substitute Director.

- Notes:
1. There is no conflict of interest between Mr. Nobumasa Kondo and the Company.
  2. Mr. Nobumasa Kondo was an employee of Japan Tobacco Inc., the parent company of the Company, until March 26, 2019. His position and responsibilities as an executive at the parent company during the past 10 years are as stated in “Career summary, positions, responsibilities, and significant concurrent positions.”
  3. The Company has entered into a directors and officers liability insurance contract with an insurance company, as stipulated in Article 430-3, Paragraph 1 of the Companies Act, where the insurance covers the damages to be borne by the insured (referring to damages (legal damages and litigation costs) incurred by the insured due to a claim for damages made against the insured during the insurance period, which may result from the business activities engaged in by the insured). However, there are certain exemptions, such as in the case of a claim for damages arising from an action taken by the insured with the knowledge that such an action is in violation of laws and regulations, and a certain amount of deductible is stipulated. The insured parties of the insurance contract are Directors, Audit & Supervisory Board Members and Executive Officers of the Company, and the Company bears the entire premium for all the insured parties. Mr. Nobumasa Kondo is currently insured as an Executive Officer of the Company under the insurance contract and will continue to be insured under the insurance contract if he assumes the position of Director. The insurance contract is scheduled to be renewed with the same terms and conditions at the next renewal.

**Proposal 5: Election of One (1) Substitute Audit & Supervisory Board Member**

Mr. Nobuaki Hayashi, who was elected as a Substitute Audit & Supervisory Board Member at the 128th Annual General Meeting of Shareholders held on March 26, 2020, has expressed his intention to resign from the position of Substitute Audit & Supervisory Board Member as of the commencement of the General Meeting of Shareholders. Accordingly, based on the resolution of the 128th Annual General Meeting of Shareholders, the Board of Directors, with the Audit & Supervisory Board’s consent, resolved to revoke his appointment as a Substitute Audit & Supervisory Board Member as of the commencement of the General Meeting of Shareholders.

Therefore, the Company proposes the election of one (1) Substitute Audit & Supervisory Board Member as a substitute for Audit & Supervisory Board Member Mr. Ken Yamamoto in advance, in case the number of Audit & Supervisory Board Members falls short of the number stipulated in laws and regulations.

The appointment may be revoked by a resolution of the Board of Directors after obtaining the Audit & Supervisory Board’s consent only prior to the assumption of office.

The Audit & Supervisory Board has given consent to this Proposal.

The candidate for Substitute Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary, positions, and significant concurrent positions	Number of shares of the Company held
Kazuki Nakayama (August 27, 1970)	April 1994 March 2009	Joined Japan Tobacco Inc. Deputy General Manager, Business Development Dept., Pharmaceutical Division of Japan Tobacco Inc.
	January 2016	General Manager, Business Planning & Development Dept., Pharmaceutical Division of Japan Tobacco Inc.
	April 2022	Vice President, Business Planning & Development Dept., Pharmaceutical Division of Japan Tobacco Inc. (current position)
		0

[Reasons for nomination as a candidate for Substitute Audit & Supervisory Board Member]  
Mr. Kazuki Nakayama has a high level of insight into the field of business development gained through his abundant business experience in the pharmaceutical divisions of the Company’s parent company. The Company believes that he will be able to audit the Company as an Audit & Supervisory Board Member by utilizing his experience and insight, and therefore, the Company requests that he newly be elected as a Substitute Audit & Supervisory Board Member.

- Notes:
1. There is no conflict of interest between Mr. Kazuki Nakayama and the Company.
  2. Mr. Kazuki Nakayama is currently an employee of Japan Tobacco Inc., the parent company of the Company. His position and responsibilities as an executive at the parent company during the past 10 years are as stated in “Career summary, positions, and significant concurrent positions.”
  3. The Company plans to enter into a contract with Mr. Kazuki Nakayama in accordance with Articles of Incorporation of the Company to limit his liability pursuant to Article 423, Paragraph 1 of the Companies Act, if he assumes the position of Audit & Supervisory Board Member. The limit amount of liability pursuant to the contract is the amount stipulated by laws and regulations.
  4. The Company has entered into a directors and officers liability insurance contract with an insurance company, as stipulated in Article 430-3, Paragraph 1 of the Companies Act, where the insurance covers the damages to be borne by the insured (referring to damages (legal damages and litigation costs) incurred by the insured due to a claim for damages made against the insured during the insurance period, which may result from the business activities engaged in by the insured). However, there are certain exemptions, such as in the case of a claim for damages arising from an action taken by the insured with the knowledge that such an action is in violation of laws and regulations, and a certain amount of deductible is stipulated. The insured parties of the insurance contract are Directors, Audit & Supervisory Board Members and Executive Officers of the Company, and the Company bears the entire premium for all the insured parties. Mr. Kazuki Nakayama will be insured under the insurance contract if he assumes the position of Audit & Supervisory Board Member. The insurance contract is scheduled to be renewed with the same terms and conditions at the next renewal.

### <Proposal by Shareholder (Proposals 6 to 9)>

Proposals 6 to 9 are proposals made by one shareholder (number of voting rights held: 300) (the “Proposing Shareholder”) (the “Shareholder Proposal”).

The following details of each proposal (summary of the proposal) and reason for proposal are the relevant portions of the shareholder proposal document submitted by the Proposing Shareholder in the original text (the reasons for the proposals except for Proposal 6 “Appropriation of Surplus” are the summaries of the original text submitted by the Proposing Shareholder).

#### **Proposal 6:** Appropriation of Surplus

##### (1) Summary of the Proposal

The Proposing Shareholder proposes that appropriation of surplus be as described below.

This proposal should be treated as an independent and additional proposal when the Board of Directors of the Company proposes appropriation of surplus at the General Meeting of Shareholders.

##### a. Type of dividend assets

Cash

##### b. Dividend per share

The amount obtained by deducting the amount of dividend of surplus per share of common stock in the Company proposed by the Board of Directors of the Company at the General Meeting of Shareholders and approved at the General Meeting of Shareholders from ¥153 (or ¥153 if the Board of Directors of the Company does not propose appropriation of surplus at the General Meeting of Shareholders).

##### c. Matters regarding allocation of dividend assets and their total amount

The amount of dividend per share in b. above per share of common stock in the Company (The total amount of dividend is calculated by multiplying the dividend per share by the total number of common stock issued by the Company as of December 31, 2022 (excluding treasury stock).)

##### d. Date when the dividend of surplus takes effect

Date of the General Meeting of Shareholders

##### e. Start date of dividend payment

Three weeks from the business day following the date of the General Meeting of Shareholders

##### (2) Reason for Proposal

The Company is not an asset management company. Despite this, as of September 30, 2022, the Company recorded cash and deposits of ¥7.2 billion, the cash management system (CMS) deposits of ¥14.1 billion, marketable securities recorded as current assets reaching ¥37.7 billion, and investment securities recorded as noncurrent assets amounting to ¥27.9 billion. The total amount of assets under management, which is unrelated to the Company’s main business and offers low returns but has high liquidity, has reached ¥87.1 billion, exceeding the market capitalization of ¥83.5 billion as of January 20, 2023. The Company has no debts, and its stock price has constantly remained below a level equivalent to PBR (price-to-book ratio) of 1, which is the liquidation value. The actual business value (EV) after deduction of the amount of investment securities is rated as negative. EV negative means an abnormal value, at which, if the Company were to be acquired by other companies without a premium being provided, the Company’s business could be bought at no charge with the excess value being returned.

This extremely low market rating is the result of neglecting capital allocation and abandoning surplus capital, which has led to the degradation of capital efficiency. The Company’s management policy announced in February last year, i.e., “New Corporate Philosophy, Medium-/Long-Term Business Vision, and ‘Medium-Term Management Plan 2022-2024,’” was simply emotional philosophy. The policy merely showed the amount of sales and operating profit as quantitative indicators, and there was no discussion about capital allocation and capital efficiency. Considering the Company’s dismissive attitude toward shareholders under which EV negative was abandoned, the Company is not fit for the “Prime Market,” a new market category on the Tokyo Stock Exchange to which it belongs, and it is fair to say that the Company lacks the qualities required for a listed company.

As the Company has no clear guidelines for capital allocation, the retention of cash and deposits, CMS, and investment securities is likely to further increase the shareholder’s equity and further reduce PBR of only 0.7 resulting in an increase of the negative margin of EV. Given the risk of corporate value and shareholder value being continuously diminished, providing shareholder

returns contributes to protecting minority shareholders in order to put an end to the vicious cycle of continuous degradation of the Company's capital efficiency.

To this end, it will be necessary to have a dividend payout ratio of at least 100%. As described in (1) above, we propose to pay a dividend of ¥153 per share, which is equivalent to the net income per share of the Company's earnings forecast for the fiscal year ended December 31, 2022.

## Opinion of the Board of Directors

The Board of Directors **opposes this proposal** for the reasons stated below.

In the pharmaceutical business, after a product is launched and its patent period eventually expires, other generic products become available on the market. This will reduce the sales of proprietary products rapidly and drastically. Therefore, when pharmaceutical companies fail to create and sell new drugs in a continuous manner, not only their growth but their very survival can be at stake.

For a company like the Company that has limited R&D functions, in-licensing is a very effective way of acquiring new drugs. The Company will work more aggressively than before on business investments in in-licensed drugs, in order to recover quickly from the decrease in business volume after the return of sales rights for anti-HIV drugs, achieve the goals of the Medium-/Long-Term Business Vision “VISION2030” (“Net sales break the all-time high” and “Operating income comes within the range of breaking the all-time high”), which was formulated by the Company in February last year, and ensure sustainable growth thereafter. By considering the current state of the lineup of products in development and development risks, the Company aims to acquire in-licensed drugs that are adequate in quality and quantity.

Competition to acquire in-licensed drugs is intensifying, and considering the fact that acquisitions are achieved in a crowded field of competitors through tough negotiations and the possibility that there may be multiple opportunities to acquire promising in-licensed drugs at the same time, the important factors will be to have sufficient cash on hand and be able to proceed flexibly. In addition, preparation of sufficient cash on hand is needed because there is a risk of failure in development after in-licensing and it takes a long time to create revenue after development.

The Company sees shareholder returns as one of its most important management goals, and always strives to pay stable and continuous dividends. At the same time, the Company sees the achievement of increased corporate value over the medium-/long-term as being the greatest return to shareholders. Based on this belief, the Company will give priority to using cash on hand for business investments, and continue to grow its sales and profits through business investments, and aim to enhance medium-/long-term corporate value with awareness of the cost of capital.

The nature of the business of investment with respect to in-licensing does not allow the Company to decide the investment amount, timing, or other matters on its own in advance, and thereby makes it difficult for the Company to present concrete plans. However, with regard to capital allocation, the Company set the next five years through 2027 as an intensive business investment period, and intends to use approximately ¥40.0 billion for business investments for in-licensing, among others. In addition, in consideration of the need for a certain amount of cash on hand as working capital for ordinary business operations and as investment capacity from FY 2027, the Company will regularly evaluate the adequacy of its lineup of in-licensed drugs and its financial situation, etc., and provide the appropriate shareholder returns.

In light of the above, while comprehensively considering the Company’s current performance, its medium-/long-term business prospects and progress in respect of its products in development and the status of its acquisition of in-licensed drugs, the Company reviewed the level of dividends that will enable the Company to make stable and continuous dividend payments while making proactive business investments to increase the Company’s medium-/long-term corporate value. As a result of this review, in regard to the Company’s proposal for the appropriation of surplus at the General Meeting of Shareholders, the Company plans to propose paying a dividend of ¥76 per share at the end of FY2022. If this proposal is approved, the full-year dividend per share for FY 2022 will be ¥100, an increase of ¥52 from the full-year dividend per share of ¥48 for FY 2021. In addition, in FY 2023 and thereafter, the Company will maintain our basic policy of continuous and stable dividends while further enhancing the Company’s shareholder returns, and the Company will review the progress the Company has made in our business operations and investments while striving to improve dividend on equity ratio (DOE) over the medium-/long-term, aiming for a DOE level that compares favorably with that of other companies within the same industry in the future.

In contrast, the Company believes that the appropriation of surplus stated in the Shareholder Proposal, the amount of which far exceeds the amount of the appropriation of surplus to be proposed by the Company at the General Meeting of Shareholders, is based on a short-term perspective without consideration of the characteristics of the pharmaceutical business or the need for the Company to conduct proactive business investments. There are concerns about the risk that it will be difficult to achieve results from in-licensing if this proposal is approved; therefore, the Company has determined that it will not lead to increased corporate value in the medium-/long-term.

For the above reasons, the Board of Directors opposes this proposal.

## **Proposal 7: Repurchase of Treasury Stock**

### **(1) Summary of the Proposal**

In accordance with the provisions of Article 156, Paragraph 1 of the Companies Act, within one year from the conclusion of the General Meeting of Shareholders, the Company shall acquire its common stock of up to 2,807,300 shares in total, with a total acquisition price of up to ¥8,357,340,000, by delivering cash (however, if the total acquisition price permitted under the Companies Act (i.e., the “distributable amount” as defined in Article 461 of the Companies Act) is less than such amount, the maximum amount of the total acquisition price permitted under the Companies Act).

### **(2) Reason for Proposal (Summary)**

Since Japan Tobacco Inc. (“JT”) acquired a majority stake in the Company in 1998, the R&D Department of the Company has been transferred to JT, leading the Company to specialize in sales and marketing. However, a synergistic effect between the parent and the subsidiary was not expected, and it is reasonably assumed that the reason there is almost no mention of the Company in the management plan that JT announced in 2022 is that the goals that JT had when it acquired a majority stake in the Company have not been achieved.

The contract for exclusive marketing rights to sell anti-HIV drugs created by the U.S. company Gilead Sciences, Inc. has been terminated, and the Company has lost this pillar of its revenue. As it is increasingly easier for customers to obtain information about pharmaceutical products via the Internet, the competitiveness of the Company’s sales and marketing business staffed by medical representatives (“MRs”) has weakened. While the Company has entered a phase of seeking a new business model, it has not provided any guidelines regarding capital allocation in line with the conversion of its business model.

With the exception of the fiscal year ending December 2019, when the contract with Gilead was terminated and the Company earned extraordinary gains of more than ¥40.0 billion, the Company’s average return on shareholder’s equity (ROE) over the last 10 years was just approximately 3%, and its corporate value and shareholder value has been continuously diminished. After the continuous accumulation of assets under management, EV has also become negative.

The Company’s capital-to-asset ratio was 91% as of September 30, 2022, the highest-ever level. Even if the profit scale continues to be at a level equivalent to the scale of previous years and the dividend payout ratio continues to be 100%, as long as surplus capital and low-return assets under management are preserved, corrections cannot be made to the inefficient capital allocation in which ROE is lower than shareholders’ cost of capital; moreover, EV will continue to be negative. Therefore, correcting surplus capital is an urgent issue for the Company. However, even if the dividend payout ratio becomes 100%, this only means that there will be no accumulation of profit, and surplus capital will be maintained.

Accordingly, a drastic share buyback is required. The amount of assets under management that do not contribute to the main business is at least 100% of its market capitalization; therefore, the Company has more than adequate funds for the repurchase. In view of this, as described in (1) above, we propose to acquire up to 2,807,300 shares of common stock in the Company by delivering cash up to a total of ¥8,357,340,000, which is equivalent to approximately 10% of the Company’s market capitalization.

### **Opinion of the Board of Directors**

The Board of Directors **opposes this proposal** for the reasons stated below.

The Company sees the repurchase of treasury stock as one of the options to return profits to its shareholders. However, as stated in the opinion of the Board of Directors on Proposal 6 “Appropriation of Surplus”, the Company believes that it is indispensable for the Company to conduct proactive business investments for acquiring new in-licensed drugs in order to ensure sustainable growth in the future under the Company’s current business circumstances, and that the Company must secure adequate cash on hand for that purpose.

The Company believes that a large-scale repurchase of treasury stock as stated in the Shareholder Proposal is based on a short-term perspective without considering the characteristics of the pharmaceutical business or the need for the Company to conduct proactive business investments. There are concerns about the serious risk that it will be difficult to achieve results from in-licensing if this proposal is approved; therefore, the Company has determined that it will not lead to increase of the corporate value in the medium-/long-term.

For the above reasons, the Board of Directors opposes this proposal.

**Proposal 8:** Partial Amendment to the Articles of Incorporation (Disclosure of Remuneration for Directors with Representative Authority)

(1) Summary of the Proposal

The Proposing Shareholder proposes to establish the new article below in the Company’s Articles of Incorporation. If a technical revision (including, but not limited to, an amendment to the number of articles) is required to be made to any of the provisions described in this proposal due to the passage of other proposals (including proposals by the Company) at the General Meeting of Shareholders, the provision pertaining to this proposal must be replaced with the amended provision to which the necessary revisions have been made.

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(N/A)	(Remuneration, etc. for Directors) Article 25 (Omitted) <u>(2) The amount, details, and determination methods of the remuneration for each Director with representative authority shall be disclosed annually in the business report and the annual securities report.</u>

(2) Reason for Proposal (Summary)

Since the Company became a listed subsidiary of JT in 1998, multiple former employees of JT have been appointed as top management of the Company; however, Norihiko Matsuo, Shoichiro Takagi, and Goichi Matsuda, each a President and Representative Director of the Company, who were employees of JT, do not appear to have abundant insight into the pharmaceutical business. They have neglected capital allocation and have done nothing about PBR of less than 1 and EV negative. Meanwhile, no information has been disclosed regarding the details of JT’s rights to nominate the Company’s officers, the reasons for appointing former employees of JT who are not experts in the pharmaceutical business, and other related matters.

The Company’s Corporate Governance Report dated March 29, 2022, states that, with respect to the remuneration for Directors, “the remuneration level of the Directors is determined in consideration of objective data such as remuneration surveys conducted by external organizations and maintaining a balance with the remuneration level of the Company’s employees, etc., and the rates of monthly remuneration, bonuses and restricted stock compensation for the directors are determined as incentives for pursuing sustainable growth and to enhance medium-/long-term corporate value”; with respect to the remuneration for executive directors, “it consists of monthly remuneration and bonuses in accordance with each position. Bonuses consist of a portion linked to individual evaluations and a portion linked to the Company’s performance”; and “the Directors (excluding outside directors) are eligible for the restricted stock compensation plan for the purpose of providing incentives for pursuing sustainable growth of the Company’s corporate value and further ensuring that the same perspective on corporate value is shared between the Directors and shareholders.”

The Corporate Governance Code stipulates, “The board should design management remuneration systems such that they operate as a healthy incentive to generate sustainable growth, and determine actual remuneration amounts appropriately through objective and transparent procedures. The proportion of management remuneration linked to medium-/long-term results and the balance between cash and stock should be set appropriately.” (June 2021 version, Supplementary Principle 4.2.1 [on page 16]). However, considering the Company’s situation where PBR of less than 1 and EV negative is becoming the norm, the Company’s remuneration system is unlikely to serve as an incentive to realize the interests of minority shareholders. Therefore, the individual remuneration for those Directors with representative authority, who were former employees of JT, needs to be disclosed.

## Opinion of the Board of Directors

The Board of Directors **opposes this proposal** for the reasons stated below.

The Board of Directors has established a decision-making policy with regard to the content of remuneration for each Director, including the Representative Director (the “Decision-Making Policy”), and in accordance with such Decision-Making Policy, etc., remuneration is determined through an appropriate process described below. Independent outside directors now constitute a majority of the Board of Directors, leading to a system to enhance the independence and objectivity of the function of the Board of Directors and accountability of the Board of Directors.

- Remuneration for Directors is determined for each position, and when setting the remuneration level, it is determined in consideration of objective data such as remuneration surveys conducted by external organizations and maintaining a balance with the remuneration level of the Company’s employees, etc.
- Remuneration for executive directors consists of monthly remuneration, bonuses, and restricted stock compensation, which are determined according to position. The ratio of monthly remuneration, bonuses and restricted stock compensation are determined as incentives to pursue the Company’s sustainable growth and enhance its medium-/long-term corporate value.
- Bonuses for executive directors consist of a portion reflecting individual evaluations and a portion linked to the Company’s performance.
- The amount of monthly remuneration and bonus is determined individually based on the Decision-Making Policy, and within the range of remuneration approved at the 115th Annual General Meeting of Shareholders held on June 21, 2007. The determination of the specific amount and timing of payment is at the sole discretion of President and Representative Director Goichi Matsuda; however, to ensure that such determination is made appropriately, each remuneration amount is explained to and approved by the independent outside directors in advance.
- Based on the content approved at the 126th Annual General Meeting of Shareholders held on March 28, 2018, the Board of Directors determines the specific timing and allocation of the restricted stock compensation to each eligible Director. Since independent outside directors constitute a majority of the Board of Directors of the Company, and since the independent outside directors are not eligible for restricted stock compensation, in determining the specific timing and allocation of restricted stock compensation to each eligible Director, a system has been established that ensures that the Board of Directors, containing the independent outside directors, makes appropriate decisions in the interest of providing incentives to pursue the Company’s sustainable growth and enhance its medium-/long-term corporate value.

In addition, in accordance with applicable laws and regulations, the Company appropriately discloses Directors’ remuneration, including an overview of the Decision-Making Policy and the total amount of remuneration for each position and total remuneration by type, including restricted stock compensation, in its business reports and annual securities reports. Accordingly, the Company believes that it discloses sufficient information for shareholders and the stock market to properly assess the performance of the Company’s Representative Director and its corporate governance system.

This proposal calls for provisions to be newly established that require the individual disclosure of remuneration for Directors with representative authority; however, such provisions are not aligned with the provisions of the Articles of Incorporation, which constitute the fundamental rules of a company, and given that the amount of Director remuneration is determined through an appropriate process in the Company as described above, and that proper disclosure is made with respect to Director remuneration, in accordance with applicable laws and regulations, the Company believes that this proposal is inappropriate.

The Company’s Directors are appointed through an appropriate and transparent process. Specifically, the Representative Director selects persons of excellent personal characteristics who possess the ability and insight to appropriately perform their duties as a Director, formulates a proposal for Director candidates, and, prior to submitting the proposal to the Board of Directors, secures an opportunity to obtain appropriate advice from independent outside directors. Thereafter, ultimately, the final determination is made by a resolution of the Board of Directors, the majority of which consists of independent outside directors. Accordingly, it is incorrect for the Proposing Shareholder to claim that the appointment of some former employees of Japan Tobacco Inc. as officers of the Company is improper.

For the above reasons, the Board of Directors opposes this proposal.

**Proposal 9:** Partial Amendment to the Articles of Incorporation (Disclosure of Result of Examination of Fund Management through CMS)

(1) Summary of the Proposal

The Proposing Shareholder proposes to establish the new chapter and article below in the Company's Articles of Incorporation. If a technical revision (including, but not limited to, an amendment to the number of articles) is required to be made to any of the provisions described in this proposal due to the passage of other proposals (including proposals by the Company) at the General Meeting of Shareholders, the provision pertaining to this proposal must be replaced with the amended provision to which the necessary revisions have been made.

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(N/A)	<p data-bbox="767 555 1329 622" style="text-align: center;"><u>Chapter 8 Disclosure of Result of Examination of Fund Management through CMS</u></p> <p data-bbox="767 651 1302 719"><u>(Disclosure of Result of Examination of Fund Management through CMS)</u></p> <p data-bbox="767 719 1329 949"><u>Article 40 The Company shall examine the necessity of fund management through the cash management system (CMS), etc. at the Board of Directors' meetings and shall specifically disclose the result of the examination in the Corporate Governance Report submitted to the Tokyo Stock Exchange by the Company.</u></p>

(2) Reason for Proposal (Summary)

The Company must not be a “piggy bank” for its parent company. However, as of September 30, 2022, the Company had ¥14.1 billion, or approximately 20% of the Company's market capitalization, on deposit in JT's account via CMS, through which the parent company centrally manages group funds. Due to the termination of the contract for exclusive marketing rights to sell anti-HIV drugs manufactured by the U.S. company Gilead Sciences, Inc., the Company has obtained more than ¥40 billion in 2019 and the amount of the Company's operating assets has increased. However, judging from the management situation regarding the assets, the existence of CMS causes the Company to passively miss the opportunity to utilize this enormous amount of cash properly from the perspective of capital allocation, and this is one of the main causes of the prolonged situation in which stock prices and financial indicators regarding the Company are being discounted substantially, as shown by our PBR of less than 1 and EV negative, etc. The returns from CMS is more likely to be lower than the capital cost of the Company, but the Company also does not disclose the capital cost.

In the first place, the significance and necessity of providing so much cash to JT have not been fully explained from the perspective of protecting minority shareholders by the Company. It has been noted that CMS is a type of transaction that may harm the interests of minority shareholders of subsidiary companies (20th Meeting of the Companies Act Subcommittee of the Legislative Council held in May 2012). The 13th Corporate Governance System Study Group of the Ministry of Economy, Trade and Industry (held in January 2019) has also pointed out CMS as an example of a “specific situation where a conflict of interest may occur in a listed subsidiary” (Document 4).

Since CMS may harm the interests of minority shareholders of subsidiaries, the “Interim Report of Review of Minority Shareholder Protection or Other Framework of Listed Companies with Controlling Shareholders or Quasi-Controlling Shareholders” published by the Tokyo Stock Exchange states, “It is important to enhance information disclosure by listed companies on transactions that listed companies with Controlling Shareholders or Quasi-Controlling Shareholders may differently perceive from investors in terms of significance, including loans and deposits through the cash management system of the Controlling Shareholder's corporate group.” (Note 14 on page 8).

Therefore, the Company should examine the necessity of fund management through CMS, etc. at the Board of Directors' meetings and should specifically disclose the result of the examination.

### **Opinion of the Board of Directors**

The Board of Directors **opposes this proposal** for the reasons stated below.

Given the recent discussions for strengthening corporate governance over the transactions between parent and subsidiary companies, and based on the policy to reduce funds managed through CMS to the amount necessary for the purpose of using CMS as a fund settlement account, the balance of the Company's funds in CMS as of December 31, 2022, amounted to 11,217 million yen, a reduction of approximately 52% from 23,362 million yen as of December 31, 2021. In addition, by the end of FY 2023, the Company plans to further reduce the outstanding balance to the extent required in light of the use of CMS as a fund settlement account and taking into account the advantages of using CMS as a fund settlement account (such as reduction of payment fees, exchange contracts at favorable exchange rates, etc.).

In addition, the Board of Directors periodically reviews the status of the Company's fund management, including that handled through CMS, and ensures that the Company's transactions with the parent company, including those conducted through CMS, are properly disclosed in the business reports and annual securities reports in accordance with applicable laws and regulations. Going forward, in light of the Company's policy of using CMS as its fund settlement account, the Board of Directors will periodically check the status of its use and will appropriately disclose the Company's transactions with the parent company that were handled through CMS in accordance with applicable laws and regulations.

This proposal calls for provisions to be newly established in the Articles of Incorporation that require the disclosure of the results of the review of management of cash on hand, which is a discrete matter related to management; however, this proposal is not aligned with the provisions of the Articles of Incorporation, which constitute the fundamental rules of a company, and, as mentioned above, the Company is using CMS appropriately after clarifying the purposes of its use, and given that the Board of Directors, the majority of which consists of independent outside directors, checks the status of the use of CMS and properly discloses such status in accordance with applicable laws and regulations, the Company believes that this proposal is inappropriate.

For the above reasons, the Board of Directors opposes this proposal.