

Corporate Governance

Torii is committed to the improvement of corporate value through timely adaptation to changes in the business environment, and through the maintenance of fair and transparent management processes. We are aware that these goals cannot be achieved without ongoing efforts to enhance the speed and quality of executive decision-making, develop effective internal control systems and ensure timely and accurate disclosure. We will continue to focus on improvements in all of these areas.

Torii's relationship with its parent company, Japan Tobacco Inc. (specifically the pharmaceutical division of the company) is based on its roles and functions, under which Torii is involved primarily in production and distribution, and Japan Tobacco in R&D. Within this framework, we enjoy a certain level of independence while also maintaining close cooperation with the parent company as we work to realize our corporate mission through appropriate business activities.

Corporate Governance Structure

In addition to the General Meeting of Shareholders and the Directors, the corporate governance organs adopted by Torii under the Corporate Law of Japan include the Board of Directors, the corporate auditors, the Audit Board and the accounting auditors, as well as the Executive Committee, the Compliance Committee and the Audit Department.

The current corporate governance structure is based on reciprocal supervision by the seven directors, the audit system maintained by three corporate auditors, of whom two are outside auditors, and cooperation among the corporate auditors, the accounting auditors and units responsible for internal audits and internal control systems. We believe that we have established effective executive and supervisory structures.

Our corporate governance structure is as follows:

Corporate Auditors and the Audit Board—Torii has appointed corporate auditors and established an Audit Board. Their task is to ensure the effectiveness of audit processes by attending board meetings and other important meetings, holding regular meetings with representative directors, and cooperating with the accounting auditors and internal audit departments. The Audit Board consists of three corporate auditors, including two outside auditors with expert knowl-

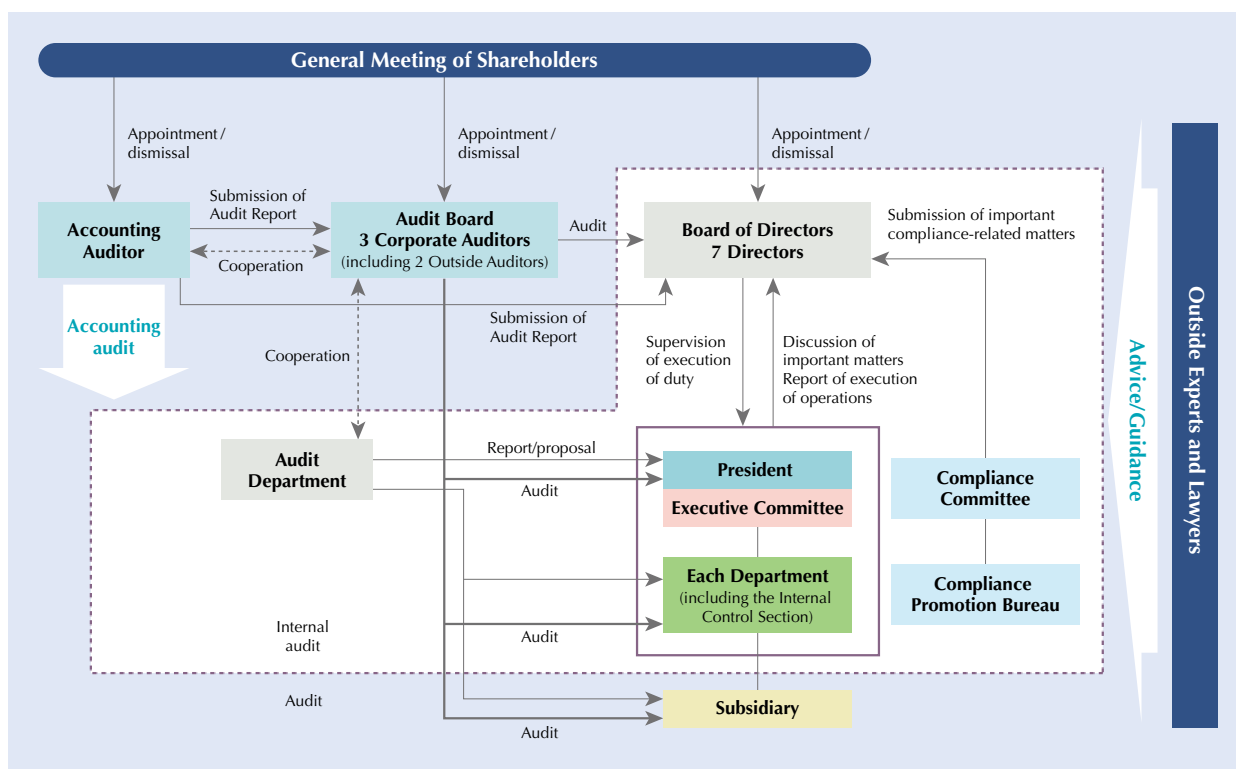
edge. By sharing knowledge and information and exchanging views, members of the Audit Board strive to carry out their audit activities from an independent and neutral perspective and with a high standard of objectivity.

Board of Directors—The Board of Directors currently consists of seven directors. In principle, the board meets monthly, but additional meetings are scheduled flexibly as required. The Board of Directors makes decisions on matters stipulated in laws and regulations and in the Articles of Incorporation. It also receives reports on corporate operations and supervises directors in the performance of their duties.

Executive Committee—The Executive Committee currently has nine members. It normally meets once a week to discuss and reach decisions on important management matters, especially management policies affecting overall operations and matters relating to basic planning.

Compliance Committee—The seven-member Compliance Committee monitors compliance promotion activities and deliberates and makes decisions on important matters pertaining to compliance promotion. However, any matters requiring action in relation to serious compliance violations or situations that could lead to such violations are referred to the Board of Directors.

Overview of Corporate Governance Structure



Audit Department—The Audit Department currently has eight staff members and reports directly to the President. Its task is to study and assess management and operational systems and executive processes in all areas of corporate activities, taking into account the level of importance and the risk factors involved, and to provide information and recommendations to the President based on its findings.

Accounting Auditors—Torii has concluded an audit agreement with an audit corporation, Deloitte Touche Tohmatsu (certified under the provisions of Article 2, Paragraph 1 of the Certified Public Accountants Law of Japan).

Compliance Initiatives

Torii regards the promotion of compliance as an important management priority and we are continually working to enhance the effectiveness of our compliance promotion activities. In addition to measures to ensure compliance with laws, regulations and other requirements, we also formulate compliance-related rules, compile and distribute guidelines stipulating shared values and ethical standards that we expect members of our organization to observe. In addition, we maintain an active program of educational activities.

To ensure the early detection of potential or actual compliance infringements, we have established internal and external contact points for reporting issues. Any such reports are rigorously investigated so that the necessary actions can be taken.