Tokyo, February 10, 2022

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FOR IMMEDIATE RELEASE

Notice of the Opinion of the Board of Directors Regarding the Shareholder Proposal

Torii Pharmaceutical Co., Ltd. ("Torii") (TSE:4551) hereby announces that it has received a document (the "Shareholder Proposal Document") from its shareholder LIM JAPAN EVENT MASTER FUND (the "Proposing Shareholder") that makes a proposal for the 130th General Meeting of Shareholders scheduled for March 29, 2022 (the "Shareholder Proposal"). At the Board of Directors' meeting of Torii held today, the Board of Directors made the decision to oppose the Shareholder Proposal after a series of careful deliberations on its contents. The following is a notice regarding this decision.

I. Content of the Shareholder Proposal and Reason

1. Agenda Items

(1) Partial Amendment to the Articles of Incorporation (Prohibition of Appointments of Officials from Japan Tobacco Inc.)
(2) Partial Amendment to the Articles of Incorporation (Prohibition of Providing Funds to Japan Tobacco Inc. through CMS)
(3) Partial Amendment to the Articles of Incorporation (Experience of Directors)
(4) Partial Amendment to the Articles of Incorporation (Disclosure of Cost of Capital)
(5) Appropriation of Surplus
(6) Repurchase of Treasury Stock

2. Summaries of the Proposal and Reasons for Proposal

The content is described in the attachment entitled, "Details of the Shareholder Proposal."
This attachment contains the relevant portions of the Shareholder Proposal Document submitted by the Proposing Shareholder in the original text (The reasons for proposal are the summaries of the original text submitted by the Proposing Shareholder).

II. Opinion of the Board of Directors Regarding the Shareholder Proposal

1. Partial Amendment to the Articles of Incorporation (Prohibition of Appointments of Officials from Japan Tobacco Inc.)

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

Directors of Torii are appointed through an appropriate and transparent process. In particular, regarding candidates for Directors, the Representative Director selects individuals who have the ability and insight to appropriately perform their duties as Directors, as well as excellent personal characteristics. The Representative Director prepares candidate proposals and explains them to Independent Outside Directors before submitting proposals to the Board of Directors, to secure opportunities to obtain appropriate advice from Independent Outside Directors. Ultimately, candidates for Directors are determined by resolution of the Board of Directors, the majority of which are Independent Outside Directors. (Currently, the Board of Directors consists of three Directors, of which two are Independent Outside Directors, and it is not possible to determine candidates for Directors at the sole discretion of the Representative Director.)

In this way, Torii has ensured the objectivity and transparency of the process for selecting Directors and the President and Representative Director, through which Torii examines whether the selection of a candidate will contribute to the improvement of corporate value and shareholder returns. As such, it is incorrect for the Proposing Shareholder to allege that the appointment of former employees of Japan Tobacco Inc. ("JT") to some officers of Torii is improper.

Norihiko Matsuo and Shoichiro Takagi, who previously have served as President and Representative Director of Torii, and current President and Representative Director Goichi Matsuda, are former employees of JT. All of them have a wealth of experience and insight into company management in general. Since they were deemed capable of using these advantages to appropriately execute their duties, Torii appointed them as President and Representative Director. This decision was made by Torii independent of the parent company JT. During the period when Norihiko Matsuo or Shoichiro Takagi served as the President and Representative Director, after launching a generic drug for the core product FUTHAN, they made a full-scale entry into the HIV field and cultivated this into one of Torii's core fields. In addition, their steady business judgment and decision-making led to the current profit/financial foundation and future growth, such as cultivation of the renal diseases and hemodialysis area through acquisition of in-licensed drugs and start of development and launch of allergen immunotherapy drugs, etc. After Goichi Matsuda took office as President and Representative Director, he steadily rebuilt Torii's management foundation and implemented the growth strategy, by making business structural reforms after returning sales rights for anti-HIV drugs, developing and launching multiple new products, increasing market penetration of allergen immunotherapy drugs, and concluding in-licensed contracts for several drugs.

In addition, the Board of Directors needs to examine and decide on the selection of candidates for Directors from various perspectives, regardless of whether or not they worked for JT. Therefore, the Board of Directors considers it inappropriate to stipulate the content of the Shareholder Proposal in the Articles of Incorporation, which constitutes the fundamental rules of Torii.

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

2. Partial Amendment to the Articles of Incorporation (Prohibition of Providing Funds to Japan Tobacco Inc. through CMS)

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

Torii intends to make more aggressive efforts than before on business investments to 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 our newly formulated Medium-/Long-Term Business Vision "VISION2030," and ensure sustainable growth thereafter. With consideration given to the current status of the lineup of products in development and development risks, Torii aims to acquire in-licensed drugs that are adequate quality and quantity. In order to succeed in in-licensing, it is necessary to prepare adequate cash on hand available for flexible use.

Torii manages some of this cash on hand with CMS (cash management system) operated by its parent company, JT. With consideration given to interest rates, fees, and convenience of fund settlement, Torii, not JT, has made the independent and proactive choice to manage funds through CMS. In fact, the interest rate obtained from the management of CMS is comparable to the market interest rate; therefore, the criticism that the existence of CMS has harmed the interests of Torii's minority shareholders is unjustified.

Given the recent discussions for strengthening corporate governance between parent and subsidiary companies, Torii is already re-examining the management of funds through CMS. Over the next few years, Torii plans to reduce funds managed through CMS to the amount necessary for the purpose of using CMS as a fund settlement account.

However, the timing and amount of reduction of funds managed through CMS should be determined and implemented based on comparison and balance with other measures of fund management. In addition, there are some advantages to using CMS as a fund settlement account (such as reduction of payment fees, exchange contracts at favorable exchange rates, etc.); therefore, Torii has determined that it is not appropriate to uniformly prohibit management of funds through CMS.

Torii also believes that provisions regarding management of cash on hand, a discrete matter related to management, do not fit in with provisions of the Articles of Incorporation, which constitutes the fundamental rules of Torii.

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

3. Partial Amendment to the Articles of Incorporation (Experience of Directors)

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

Goichi Matsuda, who has abundant experience and insight into corporate management in general, currently serves as President and Representative Director, and under such management system, Torii achieved favorable results during the period of the Medium-Term Management Plan 2021, by making business structural reforms after returning sales rights for anti-HIV drugs, developing and launching multiple new products, and increasing market penetration of allergen immunotherapy drugs. Torii is also steadily implementing measures that will lead to future growth, such as concluding in-licensed contracts for several drugs.

Based on these activities, Torii's Board of Directors, including internal Directors, is confident that Torii has achieved and continues to achieve results that will lead to improvement of corporate value and shareholder returns; therefore, the allegations made by the Proposing Shareholder are incorrect.

In addition, Torii has introduced an executive officer system for the purpose of accelerating decision-making in business execution and separating management decision-making and supervision from business execution. Torii's business execution is conducted by Executive Officers who have been delegated appropriate authority by the Representative Director. Four of the five Executive Officers have more than 25 years of experience in the pharmaceutical business. Executive Officers also participate in the business strategy planning process and contribute significantly to achieving the results described above. For these reasons, we believe that the current management system is appropriate for the operation of our pharmaceutical business. Under this management system, we will continue to strive towards improving corporate value and shareholder returns.

The proposal to appoint Goichi Matsuda as Director was approved with a high approval vote of more than 90% at the General Meeting of Shareholders of Torii in March 2021. In addition, given the high approval votes in recent years, Torii sees that its Board of Directors, including internal Directors, has gained support of many shareholders in terms of its structure.

Torii believes that restriction of the experience of Directors in the Articles of Incorporation as in the Shareholder Proposal will deprive the company of a timely and flexible decision-making structure for the Board of Directors, which may result in losing diversity of skills and flexibility of management in the Board of Directors, and may in turn diminish corporate value.

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

4. Partial Amendment to the Articles of Incorporation (Disclosure of Cost of Capital)

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

Torii has regarded the "4S MODEL," which represents the fulfillment of Torii's responsibilities to various stakeholders (consumers, shareholders, society and employees) in a well-balanced manner and increase in their total satisfaction as its basic concept for management.

Under this management policy, Torii intends to make more aggressive efforts than before on business investments to in-licensed drugs, in order to recover quickly from the decrease in business volume after the return of sale rights for anti-HIV drugs, achieve the goals of our newly formulated Medium-/Long-Term Business Vision "VISION2030," and ensure sustainable growth thereafter. Through the business investment, Torii will sustainably grow our sales and profits and aim to improve medium- to long-term corporate value with awareness of cost of capital.

Torii makes decisions after properly understanding the cost of capital, with consideration given to the cost of capital in each phase of business, including in-licensing and promotion of new drug development. Competition to acquire in-licensed drugs is intensifying, and in many cases, acquisition is achieved among a crowded field of competitors through tough negotiations. In light of this, there is concern that disclosure of our cost of capital to the general public, which is the information that affects competition, may cause disadvantages in negotiations for investment projects conducted by Torii in the future.

Principle 5.2 of the Corporate Governance Code does not require disclosure of figures of the cost of capital or the basis for their calculation in reports on corporate governance. In accordance with the intent of this principle of the Corporate Governance Code, Torii does not consider it to be important for the company to disclose cost of capital figures or the basis for their calculation, but considers it to be important to explain the medium- to long-term business strategy formulated with consideration given to the cost of capital through dialogue with our shareholders as necessary.

In addition, Torii believes that provisions regarding disclosure of the cost of capital do not fit in with provisions of the Articles of Incorporation, which constitutes the fundamental rules of Torii.

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

5. Appropriation of Surplus

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

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 Torii that has limited R&D functions, in-licensing is a very effective way of acquiring new drugs. Torii will work more aggressively than before on business investments to 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 our newly formulated 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") and ensure sustainable growth thereafter. With consideration given to the current state of the lineup of products in development and development risks, we aim 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 acquisition is achieved among 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, 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.

Torii sees shareholder returns as one of its most important management goals, and we always strive to pay stable and continuous dividends. At the same time, Torii sees the achievement of increased corporate value over the medium- to long-term as being the greatest return to shareholders. Based on this belief, Torii will position the "Medium-Term Management Plan 2022-2024" (FY2022 to FY2024) as the period in which we will focus our efforts in proactive business investment, and will give priority to using cash on hand for such investment. The nature of the business of investment for in-licensing does not allow Torii to decide the investment amount, timing, or other matters on its own in advance, and thereby makes it difficult for Torii to present concrete plans. However, Torii will continue to grow its sales and profits through business investment, and aim to improve medium- to long-term corporate value with awareness of the cost of capital. Going forward, Torii will regularly evaluate adequacy of its lineup of in-licensed drugs and its financial situation, and flexibly review the capital policy, including shareholder returns.

Based on the above, Torii believes that appropriation of surplus as stated in the Shareholder Proposal is based on a short-term perspective, without consideration given to the characteristics of the pharmaceutical business or the need for Torii 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, Torii has determined that it will not lead to increased corporate value in the medium- to long-term.

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

6. Repurchase of Treasury Stock

(1) Opinion of the Board of Directors

<u>The Board of Directors opposes this proposal for the reasons stated below.</u>

(2) Reason for Opposition

Torii 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 "5. Appropriation of Surplus" above,

Torii believes that it is indispensable for Torii to conduct proactive business investments for acquiring new in-licensed drugs in order to ensure sustainable growth in the future under Torii's current business circumstances, and that Torii must secure adequate cash on hand for that purpose.
Torii 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 necessity for Torii 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, Torii has determined that it will not lead to increase of the corporate value in the medium- to long-term.

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

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(Attachment: "Details of the Shareholder Proposal")

*The relevant portion of the Shareholder Proposal Document submitted by the Proposing Shareholder is provided here in its original text. (The reasons for proposal provided here are the summaries of the original text submitted by the Proposing Shareholder.)

I. Matters for the General Meeting of Shareholders (proposed agenda items)

1. Partial Amendment to the Articles of Incorporation (Prohibition of Appointments of Officials from Japan Tobacco Inc.)
2. Partial Amendment to the Articles of Incorporation (Prohibition of Providing Funds to Japan Tobacco Inc. through CMS)
3. Partial Amendment to the Articles of Incorporation (Experience of Directors)
4. Partial Amendment to the Articles of Incorporation (Disclosure of Cost of Capital)
5. Appropriation of Surplus
6. Repurchase of Treasury Stock

II. Summaries of the Proposal and Reasons for Proposal

1. Partial Amendment to the Articles of Incorporation (Prohibition of Appointments of Officials from Japan Tobacco Inc.)

(1) Summary of the Proposal

The Proposing Shareholder proposes to establish the following new article in Torii's Articles of Incorporation:

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(N/A)	<u>(Prohibition of Appointments of Officials from Japan Tobacco Inc.)</u> <u>Article 19-2</u> <u>The Company shall not propose as a candidate for director anyone who has worked as an officer or an employee for five years or longer at Japan Tobacco Inc., or any of its subsidiaries or affiliates.</u>

(2) Reason for Proposal (Summary)

Since Japan Tobacco Inc. ("JT") acquired a majority stake in Torii Pharmaceutical Co., Ltd. ("Torii") in 1998, multiple former employees of JT have been appointed as Representative Director, and the R&D Department of Torii has been transferred to JT, leading Torii to specialize in sales and marketing. However, sales of pharmaceutical products developed by JT are limited, and we cannot expect a synergistic effect between the parent and the subsidiary. We can reasonably assume that there is almost no mention of Torii in the management plan that JT announced in 2021 because the goals that JT had when it acquired a majority stake in Torii have now been abandoned.

In addition, the contract for exclusive marketing rights to sell anti-HIV drugs created by the U.S. company Gilead Sciences, Inc. has been terminated, and Torii has lost this pillar of its revenue. It has become easier for users to obtain information about pharmaceutical products on the Internet, weakening the very competitive strength of Torii's sales and marketing business divisions staffed by medical representatives ("MRs").

Against this backdrop, Torii has entered a phase of seeking a new business model, and appointments of officials from JT are not appropriate for selecting personnel. No information has been disclosed regarding the details of JT's rights to nominate Torii's officials, the reasons for appointing former employees of JT who are not experts in the pharmaceutical business, and other related matters. Without this information, Torii's minority shareholders cannot make an objective assessment of the validity of personnel selection.

In the first place, the Corporate Governance Code of the Tokyo Stock Exchange states, "Controlling shareholders should respect the common interests of the company and its shareholders and should not treat minority shareholders unfairly, and accordingly, companies with a controlling shareholder are required to develop a governance system to protect the interest of minority shareholders." (Notes to the General Principle 4)

In particular, regarding the nomination of senior management teams of a listed subsidiary, the Ministry of Economy, Trade and Industry's "Practical Guidelines on Group Governance Systems" state, "Parent companies that are controlling shareholders have the actual authority to appoint listed subsidiary's senior management teams, and have a great impact on the nomination process," and, therefore, the Guidelines point out, "Regarding the nomination of listed subsidiary's senior management teams, given the risk of conflict of interest between controlling shareholders and other shareholders, it is a challenge to select personnel who can contribute to improving corporate value of the listed subsidiary, by giving consideration to the interests of other shareholders."

2. Partial Amendment to the Articles of Incorporation (Prohibition of Providing Funds to Japan Tobacco Inc. through CMS)

(1) Summary of the Proposal

The Proposing Shareholder proposes to add the following new article in Torii's Articles of Incorporation:

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(N/A)	<u>Chapter 7 Prohibition of Providing Funds to the Controlling Shareholders through CMS</u> <u>(Prohibition of Providing Funds to the Controlling Shareholders through CMS)</u> <u>Article 39 The Company shall not provide funds to Japan Tobacco Inc. or its subsidiaries or affiliates through the cash management system (CMS).</u>

(2) Reason for Proposal (Summary)

Torii must not be a "piggy bank" for its parent company. However, as of September 30, 2021, ¥25.7 billion or 30% of Torii's market capitalization had been deposited in JT's account via the cash management system (CMS), through which the parent company centrally manages group funds. The significance and necessity of providing so much cash to JT have not been fully explained from the perspective of protecting minority shareholders.

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).
In 2019, Torii obtained more than ¥40.0 billion through the termination of the contract with Gilead, but the existence of CMS is a testament to the fact that management of Torii has not been able to properly utilize large amounts of cash, and has postponed capital allocation that contributes to protecting minority shareholders. Accumulated cash through CMS excessively inflates shareholders' equity and raises the cost of capital. This results in a long-term PBR (price-to-book ratio) of less than 1, which is equivalent to the liquidation value.
Therefore, in order to correct the unhealthy relationship with JT, Torii should prohibit providing funds through CMS to JT or its subsidiaries or affiliates.

3. Partial Amendment to the Articles of Incorporation (Experience of Directors)

(1) Summary of the Proposal

The Proposing Shareholder proposes to add the following new paragraph in Torii's Articles of Incorporation:

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(Method of Appointing Directors) Article 19 Directors shall be appointed by resolution of a general meeting of shareholders. (2) Resolutions to appoint directors shall be made by a majority of voting rights of shareholders in attendance who have at least one-third of voting rights and can exercise voting rights. (3) Resolutions to appoint directors shall not be based on cumulative votes.	(Appointment Method) Article 19 (Paragraphs 1 to 3 remain the same as at present) <u>(4) At least two-thirds of directors of the Company, excluding outside directors, shall have at least 10 years of experience working in the pharmaceutical business.</u>

(2) Reason for Proposal (Summary)

Torii has entered a phase of breaking away from appointments of officials from its parent company's executives. Because of the termination of the contract with Gilead, Torii's focus in recent years has been to lower its break-even point. However, cost-cutting has reached its end, and operating income has been positive. Now, Torii's future challenge should shift to the revision of its business model and capital allocation. Therefore, internal Directors responsible for the management of Torii must have a wealth of knowledge and experience in the pharmaceutical business.
However, Norihiko Matsuo, Shoichiro Takagi, and Goichi Matsuda, President and Representative Directors of Torii, who were employees of JT, do not appear to have abundant insight into the pharmaceutical business. Goichi Matsuda is currently the only internal Director of Torii and was an

employee of JT. At JT, he had been engaged in work that is clearly outside his current domain for a long time, such as serving as Vice President of the Planning Department in the Soft Drink Business Division, and Senior Manager of the Soft Drink Business Division, as well as Head of the Beverage Business of JT; therefore, it cannot be said that he has abundant insight into the pharmaceutical business. In spite of this, he suddenly took office as Deputy President of the Pharmaceutical Business of JT, perhaps as a stepping stone to an official of Torii. Just one year later, he was appointed as Corporate Advisor of the Pharmaceutical Division of JT, and two months after that, he was appointed as Deputy Head of the Pharmaceutical Marketing & Promotion Group and Vice President of the Marketing Planning Department of Torii. After only two years of this work, he was appointed as President and Representative Director of Torii.

In order to guarantee a composition of the Board of Directors suitable for Torii's new pharmaceutical business, we propose to establish a provision in the Articles of Incorporation that requires experience working in the pharmaceutical business as a professional qualification for a certain percentage of internal Directors. Of course, this proposal also has the aim of supporting internal promotion of career employees, and is expected to contribute to raising the motivation of employees.

4. Partial Amendment to the Articles of Incorporation (Disclosure of Cost of Capital)

(1) Summary of the Proposal

The Proposing Shareholder proposes to establish the following new chapter and article in Torii's Articles of Incorporation:

(The amended portions are underlined.)

Current Articles of Incorporation	Proposed Amendment
(N/A)	<u>Chapter 8 Disclosure of Shareholders' Cost of Capital</u> <u>(Disclosure of Shareholders' Cost of Capital)</u> <u>Article 40 In Corporate Governance Report submitted to the Tokyo Stock Exchange by the Company, the Company shall disclose the shareholders' cost of capital which it has ascertained within one month before the date of submission of the report, along with the basis for calculation of the cost.</u>

(2) Reason for Proposal (Summary)

Minority shareholders of Torii have been forced to exercise patience as Torii's stock price has been constantly below a level equivalent to PBR (price-to-book ratio) of 1, which is the liquidation value, and this means that ROE (return on equity) is not reaching the level required by investors, or the cost of capital as seen from shareholders (shareholders' cost of capital). As described above, future management issues for Torii after restructuring will shift to the revision of the business model itself and capital allocation, and the effective means to measure this is the shareholders' cost of capital.

The Corporate Governance Code of the Tokyo Stock Exchange stipulates, "When establishing and disclosing business strategies and business plans, companies should articulate their earnings plans and capital policies, and present targets for profitability and capital efficiency after accurately identifying the company's cost of capital. Also, companies should provide explanations that are clear and logical to shareholders with respect to the allocation of management resources, such as reviewing their business portfolio and investments in fixed assets, R&D, and human capital, and specific measures that will be taken in order to achieve their plans and targets" in "Principle 5.2 Establishing and Disclosing Business Strategies and Business Plans."

Therefore, Torii should also "present" the shareholders' cost of capital as "targets for profitability and capital efficiency" and "should provide explanations that are clear and logical to shareholders on what specific measures will be taken with respect to review of business portfolio and allocation of management resources including investments in capital expenditure, R&D, and human capital in order to achieve the plans and targets." This will catalyze dialogue between Torii and its shareholders and improve the poor valuation of Torii's shares on the market.

5. 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 Torii 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 Torii proposed by the Board of Directors of Torii at this General Meeting of Shareholders and approved at this Meeting from ¥114 (or ¥114 if the Board of Directors of Torii does not propose appropriation of surplus at this 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 Torii (The total amount of dividend is calculated by multiplying the dividend per share by the total number of common stock issued by Torii as of December 31, 2021 [excluding treasury stock].)

d. Date when the dividend of surplus takes effect

Date of this General Meeting of Shareholders

e. Start date of dividend payment

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

(2) Reason for Proposal (Summary)

Torii is not an asset management company. In spite of this, as of September 30, 2021, Torii recorded cash and deposits equivalent to approximately ¥4.5 billion, CMS deposits of approximately ¥25.7 billion, marketable securities recorded as current assets reaching approximately ¥36.4 billion, and investment securities recorded as noncurrent assets amounting to approximately ¥21.5 billion. The total amount of assets under management, which does not contribute to Torii's main business and have high liquidity but offer low returns, has reached nearly ¥90.0 billion, far exceeding the market capitalization of approximately ¥80.0 billion. In addition, since Torii has no debts, it falls below the liquidation value at the current stock price, and moreover, the business value is rated as "negative." This low market rating is the result of neglecting capital allocation and abandoning surplus capital. At the end of last year, Torii decided to select and apply for the "Prime Market," a new market category on the Tokyo Stock Exchange. Improvement of capital efficiency is essential for a listed company whose business value is rated as "negative" to achieve a "prime" rating.

At present, Torii has not announced in any way how it will review its business model or what its capital allocation policy will be. Thus, there is uncertainty as to whether or not Torii can shift toward a business model that generates returns in excess of the cost of capital. With consideration given to the risk of corporate value being diminished in the future, due to assets such as cash and deposits, CMS, investment securities to be maintained and preserved, as well as a further increase in shareholders' equity and a rise in the cost of capital without clear guidelines for capital allocation, shareholder returns contribute to protecting minority shareholders, in order to put an end to the vicious cycle of continuous degradation of Torii'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 ¥114 per share, which is equivalent to the net income per share of Torii's earnings forecast for the fiscal year ended December 31, 2021.

6. 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 this General Meeting of Shareholders, Torii shall acquire its common stock of up to 1,968,000 shares in total, with a total acquisition price of up to ¥5,614,000,000, by delivering cash (However, if the total acquisition price permitted under the Companies Act (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)

"Correcting" surplus capital is an urgent issue for Torii's capital allocation. The shareholders' cost of capital was 11% as of January 7, as indicated by the Bloomberg information terminal, which is widely used by institutional investors. In contrast, the average ROE over the past 10 years was just over 3%, excluding abnormal values in the fiscal year ended on December 31, 2019, when Torii gained an extraordinary income of more than ¥40.0 billion due to the termination of the contract with Gilead. As such, both of the shareholder value and corporate value of Torii have been damaged continuously.

Torii's capital-to-asset ratio was 90% on September 30, 2021, 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%, so long as surplus capital and low-return assets under management as described above are preserved, corrections cannot be made to the inefficient capital allocation in which ROE is lower than shareholders' cost of capital.

Torii has not announced how it will review its business model or what its capital allocation policy will be. Thus, there is uncertainty as to whether or not Torii can shift toward a business model that generates returns which exceed the cost of capital. Therefore, if the ratio of the total amount of shareholder returns which is the sum of the dividend payment and share buybacks to Torii's market capitalization does not reach the shareholders' cost of capital that is at least 11%, it is likely that PBR will be kept below 1.

The total amount of dividend payment of ¥114 per share proposed in "5. Appreciation of Surplus" is equivalent to approximately 4% of Torii's market capitalization as of January 7. In order for the ratio of total shareholder returns to market capitalization to reach 11% of shareholders' cost of capital, Torii must buy back shares equivalent to approximately 7% of its market capitalization. As mentioned in Item 5 above, the amount of assets under management that do not contribute to the main business is at least 100% of its market capitalization; therefore, Torii has more than adequate funds for the repurchase of treasury stock. In view of this, as described in (1) above, we propose to acquire up to 1,968,000 shares of common stock in Torii by delivering cash up to a total of ¥5,614,000,000, which is equivalent to approximately 7% of Torii's market capitalization.