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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 131st General Meeting of Shareholders scheduled for March 28, 2023 (the “General Meeting of Shareholders”). After a series of careful deliberations on its contents, at the Board of Directors’ meeting of Torii held today, the Board of Directors made the decision to oppose the Proposing Shareholder’s shareholder proposal (the “Shareholder Proposal”). The following is a notice regarding this decision.

I. Content of the Shareholder Proposal and Reason

1. Agenda Items

- (1) Appropriation of Surplus
- (2) Repurchase of Treasury Stock
- (3) Partial Amendment to the Articles of Incorporation (Disclosure of Remuneration for Directors with Representative Authority)
- (4) Partial Amendment to the Articles of Incorporation (Disclosure of Result of Examination of Fund Management through CMS)

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 the proposals except for “Appropriation of Surplus” provided here are the summaries of the original text submitted by the Proposing Shareholder.)

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

1. 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 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 Torii in February last year, and ensure sustainable growth thereafter. By considering the current state of the lineup of products in development and development risks, Torii 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.

Torii sees shareholder returns as one of its most important management goals, and always strives to pay stable and continuous dividends. At the same time, Torii sees the achievement of increased corporate value over the medium-/long-term as being the greatest return to shareholders. Based on this belief, Torii 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 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, with regard to capital allocation, Torii 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, Torii 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 Torii’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, Torii reviewed the level of dividends that will enable Torii to make stable and continuous dividend payments while making proactive business investments to increase Torii’s medium-/long-term corporate value. As a result of this review, in regard to Torii’s proposal for the appropriation of surplus at the General Meeting of Shareholders, Torii 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, Torii will maintain our basic policy of continuous and stable dividends while further enhancing Torii’s shareholder returns, and Torii will review the progress Torii 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, Torii 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 Torii 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 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-/long-term.

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

2. Repurchase of Treasury Stock

(1) Opinion of the Board of Directors

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

(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 “1. 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 need 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-/long-term.

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

3. Partial Amendment to the Articles of Incorporation (Disclosure of Remuneration for Directors with Representative Authority)

(1) Opinion of the Board of Directors

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

(2) Reason for Opposition

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 Torii’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 Torii’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 Torii’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 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 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 Torii, 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 Torii's sustainable growth and enhance its medium-/long-term corporate value.

In addition, in accordance with applicable laws and regulations, Torii 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, Torii believes that it discloses sufficient information for shareholders and the stock market to properly assess the performance of Torii'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 Torii as described above, and that proper disclosure is made with respect to Director remuneration, in accordance with applicable laws and regulations, Torii believes that this proposal is inappropriate.

Torii'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 Torii is improper.

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

4. Partial Amendment to the Articles of Incorporation (Disclosure of Result of Examination of Fund Management 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

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 (cash management system) to the amount necessary for the purpose of using CMS as a fund settlement account, the balance of Torii'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, Torii 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 Torii's fund management, including that handled through CMS, and ensures that Torii'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 Torii'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 Torii'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, Torii 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, Torii believes that this proposal is inappropriate.

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 proposals except for “Appropriation of Surplus” 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. Appropriation of Surplus
2. Repurchase of Treasury Stock
3. Partial Amendment to the Articles of Incorporation (Disclosure of Remuneration for Directors with Representative Authority)
4. Partial Amendment to the Articles of Incorporation (Disclosure of Result of Examination of Fund Management through CMS)

II. Summaries of the Proposal and Reasons for Proposal

1. 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 the General Meeting of Shareholders and approved at the General Meeting of Shareholders from ¥153 (or ¥153 if the Board of Directors of Torii 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 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, 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

Torii is not an asset management company. Despite this, as of September 30, 2022, Torii 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 Torii’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. Torii 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 Torii were to be acquired by other companies without a premium being provided, Torii'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. Torii'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 Torii's dismissive attitude toward shareholders under which EV negative was abandoned, Torii 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 Torii lacks the qualities required for a listed company.

As Torii 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 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 ¥153 per share, which is equivalent to the net income per share of Torii's earnings forecast for the fiscal year ended December 31, 2022.

2. 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, Torii 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 Torii in 1998, the R&D Department of Torii has been transferred to JT, leading Torii 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 Torii in the management plan that JT announced in 2022 is that the goals that JT had when it acquired a majority stake in Torii 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 Torii 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 Torii's sales and marketing business staffed by medical representatives ("MRs") has weakened.

While Torii 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 Torii earned extraordinary gains of more than ¥40.0 billion, Torii'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.

Torii'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 Torii. 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, Torii 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 Torii by delivering cash up to a total of ¥8,357,340,000, which is equivalent to approximately 10% of Torii's market capitalization.

3. Partial Amendment to the Articles of Incorporation (Disclosure of Individual Remuneration for Directors with Representative Authority)

(1) Summary of the Proposal

The Proposing Shareholder proposes to establish the new article below in Torii'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 Torii) 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) (2) <u>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 Torii became a listed subsidiary of JT in 1998, multiple former employees of JT have been appointed as top management of Torii; however, Norihiko Matsuo, Shoichiro Takagi, and Goichi Matsuda, each a President and Representative Director of Torii, 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 Torii's officers, the reasons for appointing former employees of JT who are not experts in the pharmaceutical business, and other related matters.

Torii'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 Torii'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 Torii'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 Torii'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 Torii's situation where PBR of less than 1 and EV negative is becoming the norm, Torii'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.

4. 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 Torii'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 Torii) 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><u>Chapter 8 Disclosure of Result of Examination of Fund Management through CMS</u></p> <p><u>(Disclosure of Result of Examination of Fund Management through CMS)</u></p> <p><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</u></p>

(2) Reason for Proposal (Summary)

Torii must not be a “piggy bank” for its parent company. However, as of September 30, 2022, Torii had ¥14.1 billion, or approximately 20% of Torii’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., Torii has obtained more than ¥40 billion in 2019 and the amount of Torii’s operating assets has increased. However, judging from the management situation regarding the assets, the existence of CMS causes Torii 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 Torii 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 Torii, but Torii 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 Torii. 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, Torii 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.