

Otsuka Holdings Co., Ltd.
Corporate Governance Guidelines

1. General Provisions

(1) Basic Position on Corporate Governance

Otsuka Holdings Co., Ltd (the Company), seeks to promote an increase of our sustainable corporate value over the medium- to long-term through ongoing actualization of our corporate philosophy. In support of this, we have established a corporate governance structure with the basic policy to make transparent, fair and timely decisions and fulfil our responsibilities to society. We strive to live up to the expectations of all of our stakeholders including customers, business partners, employees, local communities and shareholders, advanced through dialogue with them.

(2) Corporate Philosophy

United under the banner of our corporate philosophy “*Otsuka-people creating new products for better health world wide*”, the Company contributes to people’s health worldwide in the form of innovative products.

(3) Otsuka Group Global Code of Business Ethics

The Company, in order to build on our legacy of innovation and conduct our business based on the highest standards of ethical conduct, has established and disclosed our corporate code of conduct, *Otsuka Group Global Code of Business Ethics*, that all individuals working for, or on behalf of, the Otsuka group of companies must uphold. This code of conduct applies to all of our worldwide business operations and stipulates that all applicable laws and regulations, public policies, and professional standards of each country where we operate shall be understood and followed under the most stringent interpretation of them.

2. Securing the Rights and Equal Treatment of Shareholders

(1) The Company treats its shareholders in accordance with the number of the shares each shareholder holds, and prohibits giving any special benefits, such as property benefits, to a specific shareholder.

(2) The Company takes appropriate measures to fully secure shareholder rights in accordance with relevant laws and regulations, and develops an environment in which shareholders can exercise their rights fully by giving adequate consideration to all the shareholders including non-Japanese and

minority shareholders.

3. Annual Shareholders Meeting

- (1) The Company recognizes that the Shareholders Meeting is the highest decision-making body, and conducts the meeting so as to appropriately reflect the views of shareholders.
- (2) The Company recognizes that Shareholders Meeting is an opportunity for constructive dialogue with the shareholders, and therefore strives to ensure an environment in which deliberations can occur based on accurate information.
- (3) Under the condition that the audit period of both the Audit & Supervisory Board and the Accounting Auditor is assured to be sufficient, the Company ensures that there is sufficient time for shareholders to consider the items on the agenda, and sets the date of the Shareholders Meeting and any associated dates so that a large number of shareholders can attend it.
- (4) In order that shareholders may make informed decisions before exercising their voting rights, the Company strives to include sufficient details in convocation notices for the Shareholders Meeting including reference documents and business report and discloses them promptly on the Company's website.
- (5) The Company provides an environment in which all shareholders can properly exercise their voting rights, by allowing for electronic voting via an electronic voting platform, and providing an English translation of the convocation notices of the Shareholders Meeting on the Company's website.

4. Cross-shareholdings of Listed Stocks and the Exercise of Their Voting Rights

- (1) The Company may strategically hold shares of other stock exchange-listed companies in order to maintain and strengthen business relationships and thereby increase corporate value over the medium- to long-term.
- (2) Each year, the Board of Directors of the Company (the Board) assesses whether or not to maintain holdings of each individual stock, and carefully scrutinizes continuation of any stock holdings if it does not contribute to an increase of corporate value.
- (3) With respect to the exercise of voting rights on our cross-shareholdings, in principle the Company votes for approval of all proposals submitted by the boards of directors at the shareholders meetings.

However, the Company rationally decides whether or not to vote for approval of proposals if their adoption is not likely through the holding to contribute to the increase of our corporate value.

5. Related party Transactions

- (1) The Board takes appropriate steps for related-party transactions in accordance with the Companies Act and any other applicable laws.
- (2) The Board examines transactions between the Company and, respectively, Directors, Audit & Supervisory Board Members, their close relatives, and major shareholders. Major transactions are reported on at meetings of the Board.

6. Establishment and Disclosure of Code of Conduct

- (1) The Company has established and disclosed "*The Otsuka Group Global Code of Business Ethics*" on our website. We adhere to this code in full and assesses adherence on an ongoing basis.
- (2) The Company defines and describes conflicts of interest, bribery and corruption, discrimination and harassment as well as diversity and inclusion in "*The Otsuka Group Global Code of Business Ethics*." Training on the above Code is provided to employees at Otsuka group companies.

7. Establishment and Disclosure of Management Plans

As a company centered on total healthcare, we establish mid- and long-term policies on earnings planning and capital policy, mindful of capital cost, in order to achieve sustainable growth and enhance corporate value. These policies are disclosed to all stakeholders, including shareholders.

8. The Board of Directors

(1) Duties

The Board advances the execution of management plans, supervises the Company's management, and also assumes roles and responsibilities to enhance the profitability and capital investment efficiency in order to promote the sustainable growth of the Company and the increase of corporate value over the medium- to long-term.

(2) Standards for the appointment and dismissal of Directors

In order to promote sustainable growth and an increase of corporate value over the medium- to long-term, and effective governance, the Company seeks diverse representation on the Board and appoints Directors with significant expertise and experience.

In particular, the Company appoints Internal Directors after evaluating whether their experience, expertise and insights qualify them to advance the corporate philosophy, the Code of Conduct and the corporate strategies.

In addition, the Company appoints talented Outside Directors in order for their knowledge, experience and expertise in a various fields, including corporate management, are reflected in the Company's management.

The number of Directors including Outside Directors is no more than eighteen. Furthermore, the Company appoints and dismisses senior management and directors with the input of the Corporate Governance Committee.

(3) Independence Standards for Outside Directors

The Company determines that an Outside Director is independent if none of the following applies:

- ① A person who is a relative within the second degree of kinship of an Outside Director is currently or has been in the past three fiscal years a managing director, executive officer, executive operating officer or important employee (each an Executive) of the Company or one or more of the Company's subsidiaries.
- ② A company to which an Outside Director belongs as an Executive has transactions with the Otsuka group of companies, in which the amount of such transactions in any fiscal year within the past three fiscal years exceeds two percent of consolidated net sales of either company.
- ③ An Outside Director, as a legal, accounting or tax expert or as a consultant, has received remuneration exceeding five million yen per fiscal year directly from the Otsuka group (excluding remuneration as the Company's Outside Director) in any fiscal year within the past three years
- ④ The amount of donations to a non-profit organization to which an Outside Director belongs as an executive has exceeded 10 million yen in total for the past three fiscal years and such amount exceeds two percent of the income of such non-profit organization.

(4) Remunerations

The remuneration structure of Directors is designed to correspond to their responsibilities, taking into account motivational influence for sustainable growth of the Company, an increase of corporate value over the medium- to long-term, and recruitment of excellent personnel. The

Company strives to make the remuneration structure objective, utilizing external data.

Remuneration of Directors consists of fixed monthly remuneration, a performance-based annual bonus, as well as medium- to long-term performance-based share-remuneration-type stock options. However remuneration of Outside Directors consists of only a fixed monthly remuneration.

(5) Delegation to Managing Directors and operating officers

The Board stipulates in the internal regulations regarding which material matters relating to management should be referred for discussion by the Board. It delegates decisions on other management matters which do not fall within the above regulations and its operation to the Company's managing directors as well as to its operating officers.

(6) Evaluation of Effectiveness

The Board assesses the effectiveness of its functioning on an annual basis through self-evaluations by each Director and Audit & Supervisory Board Member. In addition, analyses are undertaken of its size, operation, agenda items, deliverables following deliberation, supporting system etc.

(7) Internal Control

The Board has established the policy, "*Basic Views on System to Ensure Appropriateness of Operations*" (internal control system), and periodically receives a report and confirms its operation. The Board also periodically receives a report on the enforcement of internal controls on financial reports and confirms the controls.

In addition, the Board has established the "*Risk Management Committee*" which consists of the Company president as chairperson and Director in charge of administration etc. The Risk Management Committee manages individual risks and then reports major risks to the Board.

(8) Operation

The Company has organized the Secretariat of the Board in the Administration Department. It administers the support system for the Board's effective operation, cooperating with the Finance and Accounting Departments as well as the Corporate Planning Department.

In addition to the above support, the Company provides Outside Directors with opportunities to cultivate their understanding of the Otsuka group of companies by receiving explanations of the business operations and visiting offices, factories and laboratories.

9. Audit & Supervisory Board

(1) Duties

The Audit & Supervisory Board and its members play critical roles in auditing the Directors' performance of their duties, electing and dismissing the Accounting Auditor and through involvement in decisions on remunerations for the Accounting Auditor.

(2) Securing the soundness of the Company with the aim of its sustainable growth and increase of corporate value over the medium- to long-term, the Company ensures that the Audit & Supervisory Board can appropriately perform from an objective standpoint.

(3) Standards for the selection of Audit & Supervisory Board Members

The Company appoints at least one member to the Audit & Supervisory Board who has appropriate expertise in finance and accounting.

In addition, in order to enable the Audit & Supervisory Board to perform multifaceted audits, the Company appoints, as Outside Directors, talented persons who have expertise in a variety of fields.

(4) Operation

The Company has established the Statutory Auditor's Office and appoints its full-time staff. The Audit & Supervisory Board, as necessary, collects information from the Legal Affairs Department, the Administration Department, the Corporate Finance and Accounting Departments and the Business Development and Corporate Planning Department to undertake audits on management. In addition, the Company provides Outside Auditors with opportunities to better understand the businesses of the Otsuka group of companies by receiving explanations and visiting offices, factories and laboratories.

The Company also ensures that Audit & Supervisory members can appropriately audit in collaboration with the Accounting Auditor, as well as the Internal Audit Department etc.

10. Corporate Governance Committee

As an advisory body to the Board, the Company has established the Corporate Governance Committee as follows. The Committee discusses and deliberates on the appointment of Directors and Audit & Supervisory Board members, the remunerations of Directors as well as matters relating to corporate governance of the Company.

(1) Composition of the Committee

The Committee consists of the CEO, the Director in charge of

Administration, and Outside Directors. The CEO serves as the chair of the Committee.

(2) Matters for Discussion:

- ① Regarding the election and dismissal of Directors and Audit & Supervisory Board Members, the Committee discusses and evaluates their suitability and fairness and submits reports to the Board. The Committee shall obtain consent on Audit & Supervisory Board Members candidates from the Audit & Supervisory Board, prior to submitting the report to the Board of Directors. The Representative Director makes the final recommendation of Directors and Audit & Supervisory Board Members candidates to the Committee.
- ② Remuneration of Directors
The Committee discusses the remuneration structure and criteria of Directors and reports to the Board.
- ③ Other
The Committee deliberates on matters relating to enhancement of corporate governance, and reports as necessary to the Board.

11. Training of Directors and Audit & Supervisory Board Members

The Company, as necessary, provides Directors and Audit & Supervisory Board Members with opportunities to receive lectures regarding laws and regulations from lawyers or other experts. In addition, the Company provides financial support for expenses associated with such training.

12. Accounting Auditor

Considering that the Accounting Auditor performs an important role for effective corporate governance, which presupposes secure, credible financial reporting, the Company demands that the Accounting Auditor comply with standards of quality control necessary for appropriate accounting audits, and maintains its independence and expertise, and also secures the framework under which the Accounting Auditor can fairly audit collaborating with the Audit & Supervisory Board as well as the Internal Audit Department.

13. Development of Management Talent

In order to systematically develop management talent who can act consistently with the corporate philosophy, the Company seeks to identify and foster people with the qualities and skills required for management in the next generation. Training programs are provided continually and their status is reported to the Board periodically.

14. Information Disclosure

The Company discloses important information with regard to our businesses on a timely and appropriate basis.

15. Dialogue with Shareholders

- (1) The Company acknowledges that a trusting relationship with shareholders is essential for its sustainable growth and increase of corporate value over the medium- to long-term. Therefore, accurate information is provided to shareholders on a timely basis in order to sustain constructive dialogue with them.
- (2) The Investor Relations Department is responsible for dialogue with shareholders.
- (3) The Investor Relations Department provides appropriate responses to shareholders, following consultation with the CEO, Managing Directors and Operating Officers in charge.
- (4) Appropriate disclosure of financial results etc., is done, taking into consideration the protection of insider information, after discussion among the Investor Relations Department, the Finance and Accounting Department, the Corporate Planning Department and other relevant departments.
- (5) Opinions from shareholders and analysts are shared at the Board and utilized for implementation of business strategies.

16. Sustainability

- (1) To contribute to the realization of a sustainable global society, the company actively works on social issues, reflecting the corporate philosophy.
- (2) The Company regards the fulfillment of its corporate philosophy as the core element of all business operations, and promotes corporate social responsibility by aligning it with business activities as a total healthcare company.

17. Diversity

- (1) By encouraging employees to share and effectively link together different cultures, backgrounds, experiences and viewpoints, the Company fosters a corporate culture which enables us to create products and services that correspond to diversified consumer needs around the world.

- (2) The Company actively recruits and promotes talented people with different backgrounds who can relate with a diversified society. In addition, the Company strives to establish working environments in which employees, including women, can fully utilize their abilities.

18. Whistleblowing

- (1) The Company operates a whistleblowing system under internal regulations and has established points of contact at law firms independent from the Company, in addition to points of contact in the Administration and the Human Resources Departments.
- (2) The Company prohibits any disadvantageous treatment against any internal whistleblowers.
- (3) The Company periodically assesses the effectiveness and appropriateness of the internal whistleblower system then reports on it to the Board.

19. Roles of the Corporate Asset Owner

- (1) The Company funds and operates corporate pensions through the Otsuka Pharmaceutical Corporate Pension Fund.
- (2) The Otsuka Pharmaceutical Corporate Pension Fund consists of the Delegation Committee, the Board of Directors and the Asset Management Committee members with related expertise are from the Financial and Human Resources Departments of the group.
- (3) Regular monitoring is conducted of the investment status of pension assets and the Asset Management Committee reviews the structure of pension assets as necessary.
- (4) Comprehensive evaluation and monitoring of investment management institutions is conducted, taking into consideration investment performance, investment policies, operation process, etc.

20. Guidelines Revisions and Discontinuation

These guidelines may be revised or discontinued by resolution of the Board.

(Supplementary Provisions)

These Guidelines were enacted on November 13, 2015.

Revisions were on March 15, 2017; May 11, 2018; and December 12, 2018.