Overview of Corporate Governance Structure

The Board of Directors, which also includes outside directors, 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. The Company secures its soundness and establishes the solid corporate governance structure living up to social expectations by ensuring that the Audit & Supervisory Board and its members, which are independent from the Board of Directors, can audit the Directors' performance of their duties in collaboration with the Accounting Auditor, as well as the Internal Audit Department.

1. Corporate Organization

As a company with an audit and supervisory board as defined by the Companies Act, the Company has established a Board of Directors and an Audit & Supervisory Board, and also engages an accounting auditor. The Article of Incorporation stipulate that the number of directors shall not exceed 18, and that the number of Audit & Supervisory Board members shall not exceed five.

Goverance Structure

As of March 27, 2020

<table>
<thead>
<tr>
<th>Form of organization</th>
<th>Company with an Audit &amp; Supervisory Board</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (outside)</td>
<td>13 (4 independent directors)</td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (outside)</td>
<td>4 (3 independent directors)</td>
</tr>
</tbody>
</table>

Audit & Supervisory Board members: 4 (3 independent directors)

Accounting Auditor: Deloitte Touche Tohmatsu LLC

2. Board of Directors Meetings

The Board of Directors convenes regularly once a month and holds extraordinary meetings as necessary to make important business decisions and supervise the execution of operations.

3. Director Selection Criteria

The Company aims to become “an indispensable contributor to people’s health worldwide” by targeting sustainable growth and enhanced corporate value over the medium to long term. Toward this aim, the Company works to ensure the overall diversity of directors, and appoints people with the insight, expertise, and experience needed to realize and maintain appropriate and effective corporate governance. For internal directors in particular, we comprehensively evaluate the experience, expertise, insight, and other attributes of candidates to ensure that they have the qualities needed to implement the group’s corporate philosophy, Code of Business Ethics, and management strategies.

4. Corporate Governance Committee

In February 2017, the Company established the Corporate Governance Committee with the aim of increasing transparency and objectivity in management. As an advisory body to the Board of Directors, the committee discusses matters relating to corporate governance, including the nomination of directors and Audit & Supervisory Board members, and the remuneration system and standards for directors, and reports the results of its deliberations to the Board of Directors. The committee consists of the president, the director in charge of administration, and all four outside directors. The president serves as the chair of the committee.

Content of Deliberations

(1) Nomination

The Corporate Governance Committee discusses the validity and fairness of matters related to the appointment and dismissal of directors and Audit & Supervisory Board members, and reports to the Board of Directors. Regarding candidates for Audit & Supervisory Board members, the committee obtains approval from the Audit & Supervisory Board prior to reporting to the Board of Directors.

(2) Remuneration

The Corporate Governance Committee discusses matters related to the remuneration system and standards for directors and Audit & Supervisory Board members, and reports to the Board of Directors.

(3) Corporate Governance Structure

In addition, the Committee deliberates on matters related to the enhancement of the corporate governance structure, and reports to the Board of Directors as necessary.

5. Audit & Supervisory Board and Its Members

Audit & Supervisory Board members attend and express opinions at meetings of the Board of Directors, and monitor the performance of duties of directors in terms of legal compliance and soundness of management through audits. In striving to improve the effectiveness of audits, Audit & Supervisory Board members also share information and exchange opinions as appropriate with relevant departments, including the Internal Audit Department, Internal Control Department, Administration Department, and Finance and Accounting Department, as well as the accounting auditor.

6. Evaluation of Effectiveness of Board of Directors

From January through February every year, the Company conducts a questionnaire survey of all directors and Audit & Supervisory Board members. Results of the survey are reviewed by a company attorney, and then reviewed and evaluated at the Board of Directors meeting in March.

Questionnaire items are as follows:

(1) Composition of the Board of Directors

(2) Each director’s understanding and knowledge of business fields and specific management strategies and plans
(3) Cooperation with outside directors
(4) Cooperation with the Audit & Supervisory Board
(5) Operation of Board of Directors meetings
(6) Governance-related matters
  i. Function of the Board of Directors in determining the direction of management strategy
  ii. Monitoring of each business with respect to the execution of management strategy
  iii. Understanding of the perspectives of major investors and stakeholders
  iv. Risk management
  v. Cooperation and information sharing with each operating company
(7) Support system for outside directors
(8) Overall functioning of the Board of Directors from the perspective of effectiveness

Summary of Evaluation in Fiscal 2019
The results of the analysis and evaluation of the overall effectiveness of the Board of Directors in fiscal 2019 are summarized below.
There was an increase in opinions stating improvement from the previous year regarding the 12 items in the questionnaire. The opinions noted particular improvement in (3) Cooperation with outside directors, (4) Cooperation with the Audit & Supervisory Board, (6) i. Function of the Board of Directors in determining the direction of management strategy and (6) ii. Monitoring of each business with respect to the execution of management strategy.
With regard to (5) Operation of Board of Directors meetings, there was agreement that deliberations have improved. However, issues were identified, such as criteria for whether items should be deliberated by subsidiaries or be deliberated and subject to resolution of the Board of Directors, appropriate allocation of deliberation time, and early provision of reference materials. This confirms the need for further review matters relating to this item.
On the basis of this evaluation, we believe that the Company’s Board of Directors is functioning appropriately from the perspective of effectiveness. Nonetheless, we will strive to make further improvements on issues that have been identified through evaluation and review. In addition, we will work to strengthen corporate governance by discussing best practices in our role as a holding company, and in cooperating with and monitoring subsidiaries.

7. Independence Criteria for Independent Officers
When selecting outside directors and outside Audit & Supervisory Board members, the Company looks for individuals with a wealth of knowledge and extensive experience in various fields. The Company requires that candidates have the ability to adequately exercise management oversight functions through fair and objective monitoring, supervision, and auditing of management from a neutral and objective viewpoint. The Independence Standards for Outside Directors are defined in our Corporate Governance Guidelines, and form the basis for judgements on the independence of outside directors. In addition, we require that they have not previously been engaged in the execution of operations at any of our group companies. Furthermore, given that all outside directors and outside Audit & Supervisory Board members satisfy public requirements of independent directors/auditors prescribed by the Tokyo Stock Exchange (TSE), the Company has registered them as such with the TSE.

8. Internal Audit Department
The Company’s Internal Audit Department reports directly to the president. The department regularly conducts audits based on the Internal Audit Rules to verify that operations are being executed appropriately and efficiently with regard to the assets and business of the Company and its affiliated companies. The department submits audit reports to the president, directors, and Audit & Supervisory Board members. Where there is need for improvement, the department recommends remedial actions and later confirms their implementation, thereby contributing to the optimization of business execution. The department also shares information and cooperates in audits by Audit & Supervisory Board members and the accounting auditor.

9. Internal Control Department
The Company’s Internal Control Department handles internal controls regarding financial reporting by the Company and its affiliated companies. The department formulates rules and manuals pertaining to internal controls, provides training, and ensures that employees thoroughly understand operational rules. The department also works in cooperation with the Internal Audit Department to continuously monitor the status of operations. This is the basis of an internal control system under which management personnel can be reliably evaluated.

Our basic approach to the internal control system and its current status are described in the Corporate Governance Report that we submit to the TSE (available only in Japanese).

10. Accounting Audit
The Company has signed an auditing agreement with Deloitte Touche Tohmatsu LLC as the accounting auditor to audit its accounts from a fair and impartial standpoint. The certified public accountants that audited the Company’s accounts were Yukitaka Maruchi, Koichi Niki, and Hirofumi Otani. They were assisted by eight other certified public accountants that audited the Company’s accounts were Yukitaka Maruchi, Koichi Niki, and Hirofumi Otani. They were assisted by eight other certified public accountants and six other individuals. All of the certified public accountants that audited the Company’s accounts have done so for less than seven consecutive years, therefore that description is omitted.

11. Succession Plan
The Company continues to develop and implement human resource development programs to identify talented personnel early and systematically nurture next-generation management candidates equipped with the qualities and skills called on by the corporate philosophy. The status of these programs is regularly reported to the Board of Directors.

Skill Matrix for Directors and Audit & Supervisory Board Members
In order to establish an effective corporate governance structure that supports sustainable growth, the Company appoints individuals with wide-ranging business experience, advanced expertise in broad fields, and extensive knowledge, as directors and Audit & Supervisory Board members. The table below summarizes areas of experience and expertise of directors and Audit & Supervisory Board members.

| Director | Experience | Skills
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ichiro Otsuka</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Pharmaceutical, marketing, sales</td>
</tr>
<tr>
<td>Tatsuji Higuchi</td>
<td>•</td>
<td>Pharmaceuticals, Technical, accounting, legal, compliance, risk management, Company strategy</td>
</tr>
<tr>
<td>Yoshino Matsuoka</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Strategic, accounting, legal, management, risk management, Company strategy</td>
</tr>
<tr>
<td>Yoko Makino</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Shuichi Takagi</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Strategic, accounting, legal, compliance, risk management, Company strategy</td>
</tr>
<tr>
<td>Sedemobu Tojo</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Strategic, accounting, legal, compliance, risk management, Company strategy</td>
</tr>
<tr>
<td>Masayoshi Kobayashi</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Strategic, accounting, legal, compliance, risk management, Company strategy</td>
</tr>
<tr>
<td>Noriko Togo</td>
<td>•</td>
<td>Global business, Technology, R&amp;D, production, Strategic, accounting, legal, compliance, risk management, Company strategy</td>
</tr>
<tr>
<td>Makoto Inoue</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
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<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Ko Sekiguchi</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Yoshishika Aoki</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Masa Yoko</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Yocho Toba</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Hiroshi Suganuma</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Yoko Washi</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
<tr>
<td>Kazuo Takahashi</td>
<td>•</td>
<td>Healthcare, Administration, public health</td>
</tr>
</tbody>
</table>

Rationale for Selection of Outside Directors and Outside Audit & Supervisory Board Members

Summary of Evaluation in Fiscal 2019
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11. Succession Plan
The Company continues to develop and implement human resource development programs to identify talented personnel early and systematically nurture next-generation management candidates equipped with the qualities and skills called on by the corporate philosophy. The status of these programs is regularly reported to the Board of Directors.
Remuneration for Directors and Audit & Supervisory Board Members

The Company’s remuneration plan for directors and Audit & Supervisory Board members is designed to achieve sustainable growth and enhanced corporate value over the medium to long term for the group while also ensuring that functions such as business execution and management supervision are exercised appropriately, maintaining transparency and fairness. The Company’s basic approach to remuneration for directors and Audit & Supervisory Board members is as follows.

1. Remuneration Levels

Considering the need to acquire and motivate outstanding personnel who will take responsibility for the Company’s global business activities, the Company sets remuneration levels fully commensurate with the roles and responsibilities expected of such personnel.

2. Remuneration System

With regard to remuneration for directors responsible for business execution, the Company has formulated a remuneration system that is closely linked to performance in individual fiscal years, as well as over the medium to long term, while emphasizing sustainable enhancement of corporate value. In addition to cash remuneration, the Company also provides share-based payments more closely linked to shareholder value. Outside directors and Audit & Supervisory Board Members are paid fixed remuneration; they are not paid any remuneration that varies according to performance.

3. Governance of Remuneration-related Decisions (Activities of the Remuneration Committee and the Board of Directors)

Decisions related to remuneration for directors and Audit & Supervisory Board members are made by the Board of Directors based on a report from the Corporate Governance Committee, an advisory body to the Board of Directors. The committee deliberates on matters including the remuneration system and levels of remuneration. When deciding on remuneration, efforts are made to enhance objectivity through such means as utilizing external data. In determining remuneration for directors and Audit & Supervisory Board members in the current term, the Board of Directors and the Corporate Governance Committee deliberate a number of times. The Board of Directors makes final decisions after receiving the Corporate Governance Committee’s report that those decisions are appropriate.

In addition, following extensive study by the Board of Directors and the Corporate Governance Committee, the decision was made to design and implement a restricted stock-based compensation system starting fiscal 2019.

4. Composition of Remuneration

a) Remuneration for directors of Otsuka Holdings (holding company of the Otsuka group)

Remuneration for directors (excluding outside directors) of the Company consists of fixed remuneration according to title or position, bonuses linked to results of operations (short-term incentive), as well as stock-based compensation (medium-to-long-term incentive). Remuneration for outside directors and Audit & Supervisory Board members consists only of fixed remuneration.

b) Composition of remuneration for directors (excluding outside directors)

Performance-linked remuneration as a percentage of total remuneration varies according to the Company’s single-year and medium-to-long-term consolidated results of operations. The system emphasizes medium-to-long-term enhancement of corporate value. Performance-linked bonuses are designed to be variable over the range of 0–100% of fixed remuneration, and stock-based compensation over the range of 0–100% of fixed remuneration. Maximum performance-linked remuneration as a percentage of total remuneration is 66% (200% of total).

c) Remuneration for directors of subsidiaries (operating companies of the Otsuka group)

Remuneration for directors of subsidiaries that are operating companies is determined based on their duties and responsibilities (including execution of business of operating companies based on group strategies formulated by the Company, formulation of strategies for operating companies, and strengthening corporate governance) and is not to exceed the cap on director remuneration resolved at the General Meeting of Shareholders. It should be noted that the restricted stock-based compensation system newly implemented in fiscal 2019 will also apply to about 40 directors (excluding outside directors) of some of the group’s major subsidiaries.

Content of Remuneration to Directors

- Fixed remuneration
  - Remuneration for directors of the holding company is determined based on their duties and responsibilities including formulation of group strategies, monitoring group operations, and strengthening corporate governance.
  - Remuneration for Directors who serve concurrently as Directors of subsidiaries that are operating companies is determined based on their duties and responsibilities including execution of business based on group strategies formulated by Otsuka Holdings, formulation of strategies for the operating company, and strengthening corporate governance. (Remuneration shall not exceed the upper limit of remuneration resolved at the shareholders’ meeting.)

- Performance-linked bonus
  - Remuneration is determined based on (1) rate of achievement of the fiscal year’s targets for consolidated revenue, consolidated operating profit, and consolidated business profits before R&D expenses; (2) progress with respect to medium-to-long-term consolidated performance targets; and (3) appropriate business management in compliance with corporate governance, along with the individual’s personal performance.
  - The Corporate Governance Committee deliberates upon the above items and reports the results of its deliberations to the directors. Decisions are then made by the Board of Directors.

- Share-based payment
  - At a meeting of the Board of Directors held on February 13, 2019, the Company resolved to introduce a restricted stock remuneration plan as an incentive plan to sustainably improve the medium-to-long-term performance and corporate value of the Company.
  - The plan is designed to provide an effective remuneration system by combining multiple release conditions for the transfer restrictions, including a set performance evaluation period and performance achievement, and by in principle granting shares with transfer restrictions requiring evaluation of performance over several fiscal years simultaneously in the first fiscal year.
  - The shares with transfer restrictions issued under this plan are intended to comprise a remuneration system that reflects progress in achieving the medium-term management plan. To this end, the remuneration plan combines multiple performance achievement requirements based on performance indicators in the Third Medium-Term Management Plan announced on May 30, 2019.

Total Remuneration by Officer Category and by Type, and Number of Applicable Officers

<table>
<thead>
<tr>
<th>Total remuneration, etc. (¥ million)</th>
<th>Total remuneration, etc. by type (¥ million)</th>
<th>Eligible officers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed remuneration</td>
<td>Stock compensation</td>
<td>Bonus</td>
</tr>
<tr>
<td>Directors (excluding outside directors)</td>
<td>544 296 104 144 9</td>
<td></td>
</tr>
<tr>
<td>Audit &amp; Supervisory Board members (excluding outside Audit &amp; Supervisory Board members)</td>
<td>24 24 — — 1</td>
<td></td>
</tr>
<tr>
<td>Outside directors and Audit &amp; Supervisory Board members</td>
<td>54 54 — — 7</td>
<td></td>
</tr>
</tbody>
</table>

Regarding Directors’ Conflict of Interest

All operational judgements and decisions are not to be made in relation to the interests of individuals, but in the best interests of the Otsuka group. The Otsuka group has established the Otsuka Group Global Conflict of Interest Policy to prevent such conflicts of interest. It also applies to directors. ➪ Page 64, Compliance
Directors and Audit & Supervisory Board Members

As of March 27, 2020

Directors

Ishiro Otsuka
Chairman and Representative Director

Profile

Mar. 1975 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Dec. 2019 Chairman, Otsuka Pharmaceutical Co., Ltd.

Tatsuo Higuchi
President and Representative Director, T&D

Profile

Dec. 1997 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.

Yoshio Matsuo
Executive Director, Managing Director

Profile

Apr. 1995 Executive Director, Otsuka Pharmaceutical Co., Ltd. (current)

Outside Directors

Yukio Matsutani
Outside Director

Profile

Oct. 1959 Joined Toei Company Limited (now Toei Corporation)
Dec. 1992 Joined Toei Company Limited (now Toei Corporation) as an Audit & Supervisory Board Member

Masayuki Kobayashi
Outside Director

Profile

May 1999 President, Kansai Pharmaceutical Co., Ltd.
Dec. 2004 Executive Officer, Kansai Pharmaceutical Co., Ltd.

Noriko Take
Executive Director

Profile

Apr. 1987 Joined Otsuka Pharmaceutical Co., Ltd.
Apr. 1994 Executive Director, Otsuka Pharmaceutical Co., Ltd.

Outside Audit & Supervisory Board Members

Yoko Wachi
Outside Audit & Supervisory Board Member

Profile

Apr. 1989 Registered as a patent attorney at the Japan Patent Office
May 2018 Member of the Board, Corporate Service Department, Otsuka Holdings Co., Ltd.

Kazuo Takahashi
Outside Audit & Supervisory Board Member

Profile

Apr. 1975 United States Military Academy
Aug. 1986 President, United States Military Academy

Audit & Supervisory Board Members

Mai Mita
Outside Director

Profile

May 1996 Director, Corporate Service Department, Otsuka Holdings Co., Ltd.

Outside Directors

Shouichi Takagi
Outside Director

Profile

Dec. 1992 Executive Officer, Otsuka Pharmaceutical Co., Ltd.

Tadashi Ishii
Outside Director

Profile

Dec. 2014 Senior Advisor, Investment Banking Business Unit (Healthcare), Morgan Stanley Japan

Sadanobu Toba
Executive Director

Profile

Apr. 1997 President, Otsuka Holdings Co., Ltd.

Outside Directors

Satoshi Irie
Outside Director

Profile


Ko Sekiguchi
Outside Director

Profile

May 1976 United States Military Academy
May 1978 President, United States Military Academy

Outside Directors

Takashi Uchida
Outside Director

Profile

Apr. 1993 LDC, Member of the Board, Corporate Service Department, Otsuka Holdings Co., Ltd.

Makoto Inoue
Executive Director

Profile

Apr. 1983 United States Military Academy
Apr. 1987 President, United States Military Academy

Outside Directors

Takashi Uchida
Outside Director

Profile

Apr. 1993 LDC, Member of the Board, Corporate Service Department, Otsuka Holdings Co., Ltd.

Yusuke Jitsukawa
Executive Director

Profile

Apr. 1980 LDC, President, Corporate Service Department, Otsuka Holdings Co., Ltd.

Outside Directors

Takashi Uchida
Outside Director

Profile

Apr. 1993 LDC, Member of the Board, Corporate Service Department, Otsuka Holdings Co., Ltd.
Messages from Outside Directors

Enhancement and Expansion of Businesses Critical to Life through Stronger Governance

Each year, members of the Board of Directors are asked to evaluate the Board’s effectiveness and give a detailed account of the roles of the Board and each of its members. It is a robust assessment. As a medical doctor, I am expected to contribute opinions based on my broad expertise from many years of involvement in clinical medicine, public health, and healthcare administration, and I have strived to live up to those expectations.

Healthcare is an essential aspect of social infrastructure and everybody needs healthcare. Given that healthcare is critical to life, the level of quality must be paramount, while other requirements and demands are also significant. Healthcare costs rise year after year. It is therefore essential to make the most effective use of finite resources. In Otsuka’s Pharmaceutical Business, this entails the efficient creation of drugs, medical devices, and diagnostic agents that in turn supports their efficient provision to patients. In the Nutraceutical Business, it means creating products that help people to maintain or improve their well-being. Going forward, Otsuka Holdings must continue to offer value to society in both of these areas.

Yukio Matsutani
Outside Director

Meeting the Expectations of Stakeholders Worldwide Based on Sincerity

The provision of information prior to Board meetings has been enhanced, including its timing. Important information is shared at individual briefings, and explanations are provided regarding the status of group companies and other operational data. I feel that one of the strengths of Otsuka’s corporate culture is its embodiment of integrity and humility. This goes a long way to earning the trust of customers and business partners. Otsuka is committed to providing consumers and patients with the solid value that generates revenues and profits.

Results in the Pharmaceutical Business have been excellent, but from a medium-to-long-term perspective, a look at the drug pipeline indicates there is no room for complacency. It is also vital that Otsuka becomes a truly global company, and evolves to the next stage rather than simply operating as a collection of companies. Only by adopting this approach can Otsuka develop a clear roadmap for the future.

Ko Sekiguchi
Outside Director

High Expectations for Otsuka’s Contributions to a 100-Year Lifespan through Preventive Medicine

The chairman has ensured that Board meetings are a forum where members can discuss matters freely, which fosters meaningful discussions. Furthermore, I believe that the appointment of a new president at Otsuka Pharmaceutical has strengthened the governance framework.

In China, it has been a long-held belief that herbal medicines and a proper diet share similar principles, and today it is widely accepted everywhere that a balanced diet is the basis of good health. The Otsuka group’s strong footing in food and nutrition may be attributable to its belief in this philosophy. Otsuka is doing good work with respect to safety and security, and consumers appreciate that. We are approaching an age when it will be common for people to live to 100, and preventive medicine will play a vital role in that. Not many companies are able to offer solutions in both treatment and prevention solutions. Indeed, many businesses give up if they are unable to make a quick profit, but the Otsuka group is ready for the long haul; even if a product does not sell well initially, Otsuka has the patience and determination to go the distance. I hope that Otsuka will continue in this vein, because it will benefit society.

Yoshihisa Aoki
Outside Director

Sharing Otsuka’s Unique Corporate Story Will Build Broad Stakeholder Loyalty

My first impression of the Otsuka group was its uniqueness. Operating for many years in pharmaceuticals and healthcare, as well as food and nutrition, I expect it to sustain its operations long into the future. Indeed, with its centenary approaching in 2021, I look forward to seeing how Otsuka advances into its second century.

I see my role as a bridge between company management, and analysts, shareholders, and investors. As an outside director, I hope to support Otsuka’s development by pointing out opportunities to management and diligently raising concerns as necessary.

When an enterprise comprises such a broad range of businesses as Otsuka, I believe it is important to identify the common threads that unite them all. The key is how to effectively convey that story not only to shareholders and the investment market, but also to customers, consumers, and employees. If Otsuka is able to convey the story of its passion, it is sure to acquire many more long-term fans.

Mayo Mita
Outside Director
Guiding Principles: Synopsis

Adhering to Anti-Corruption Laws and Policies
We respect and uphold the letter and the spirit of all applicable anti-corruption laws, domestic and foreign.

Prohibiting Bribery
We never give or accept, directly or indirectly, “anything of value” (e.g., bribes, kickbacks, gifts or entertainment) to improperly influence any person to obtain or retain a financial, business or other advantage.

Working with Third-Party Suppliers
We require third-party suppliers to ensure compliance with this policy as well as relevant anti-corruption laws and regulations.

Conducting Due Diligence
We perform due diligence to obtain an informed assessment of the nature and extent of potential corruption risks associated with the retention of all third-party suppliers working on Otsuka’s behalf.

Refusing to Make Facilitating Payments
We will not make facilitating payments of any kind.

Providing Training
We provide annual training regarding this Policy and anti-corruption laws, incorporating them into Otsuka’s global compliance program.

Recording
We keep complete books and records in reasonable detail, accurately and fairly documenting and reflecting all transactions including expenses, disbursements, receipts and the disposition of assets.

Monitoring
We maintain internal controls focused on detecting and deterring improper business practices.

Reporting Concerns
We promptly report instances or activities that may violate or appear to violate this policy to our internal Legal/Compliance Department. We will not tolerate any form of retaliation against anyone for making a good faith report of a potential violation.

Universal compliance training participation rate: 98.4%

Approach
We have established the Otsuka Group Global Code of Business Ethics and we openly convey information about our stance on related initiatives on our website in the form of a message from the president of Otsuka Holdings. Furthermore, we have formulated the Otsuka Group Global Anti-Corruption Policy, which expresses our stance against corruption at all sites worldwide; the Otsuka Group Global Conflict of Interest Policy, aimed at maintaining objectivity in business; and the Otsuka Group Global Privacy Policy, which defines our stance and guiding principles on privacy protection. These policies form the basis for conducting our business with high ethical standards.

1. Otsuka Group Global Anti-Corruption Policy
The Otsuka Group Global Anti-Corruption Policy embodies and reiterates our steadfast commitment to conducting business with integrity and in compliance with all relevant anti-corruption laws. This Policy outlines how to prevent, detect and deter violations of anti-corruption laws. It sets forth our global minimum standards regarding the prevention of corruption and applies to all our worldwide business operations.

2. Otsuka Group Global Conflict of Interest Policy
The Otsuka group recognizes conflicts of interest between the group and individual employees as a matter that could impact the integrity of the organization, and one that has a great bearing on the group’s future. Based on this thinking, we formulated the Otsuka Group Global Conflict of Interest Policy to prevent such conflicts and we are working to instill the policy at a global level.

3. Otsuka Group Global Privacy Policy
In recent years, many countries have enacted privacy protection legislation, such as the European Union’s General Data Protection Regulation (GDPR) implemented in May 2018. The Otsuka group is working to strengthen privacy protection. In addition to formulating the Otsuka Group Global Privacy Policy to define our stance and guiding principles on privacy protection, we establish related rules and review management systems in accordance with the laws and regulations related to privacy protection in each country.

4. Training System
The Otsuka group conducts universal compliance training at least once annually based on the content of the Global Code of Business Ethics, the Global Anti-Corruption Policy, and the Global Conflict of Interest Policy. Employees at subsidiaries attend training, and materials are available in Japanese, English, Chinese, and Indonesian. Furthermore, the implementation status of training is regularly reported to the Board of Directors of Otsuka Holdings.

5. Monitoring
As a holding company whose role is to maximize the Otsuka group’s corporate value, Otsuka Holdings has established a system to ensure appropriate business operations from the perspective of the group as a whole. We have established a system for facilitating cooperation in the Otsuka group. Under this system, affiliated companies report to Otsuka Holdings as necessary regarding items specified in the Affiliated Company Management Regulations, and obtain approval on relevant important items. Examples of overseas initiatives include the appointment of compliance officers at each group company in Asia and the holding of regular meetings for sharing the status of progress in each country. The director in charge of compliance also visits companies to ascertain that operations are being executed appropriately and efficiently with regard to the assets and business in general of Otsuka Holdings and its affiliated companies. The department submits its audit reports to the president, directors, and Audit & Supervisory Board members. In cases where it finds the need for improvements, the department issues improvement advisories. It then follows up to check the implementation status of measures and ascertain that the execution of duties has been suitably improved. In addition, the department shares information with Audit & Supervisory Board members and the accounting auditor and coordinates a unified stance.

6. Whistleblowing Hotline
a) Internal Whistleblowing Hotline
At Otsuka Holdings and its major group companies, we have established an internal whistleblowing hotline within the group and at the offices of an attorney that can be accessed safely and anonymously. Through this hotline, we work to ensure that any improper acts, including acts of bribery, as well as violations of policies, laws and regulations, can be quickly uncovered and corrected. Rules for accepting reports extend beyond full-time employees to include contract, dispatched, and part-time employees. Information about whistleblowers and their reports is strictly managed in order to prevent any negative repercussions. Information on the operational status of the internal whistleblowing hotline at major group companies is regularly reported at meetings of the Board of Directors of Otsuka Holdings.

b) External Inquiries and External Whistleblowing Hotline
Otsuka Holdings and its major group companies have established a whistleblowing hotline that accepts inquiries and opinions from external stakeholders and general customers. Furthermore, certain channels of the hotline also accept anonymous consultations and reports.

7. Due Diligence
Each group company has established a due diligence policy and conducts due diligence for new business partners as needed to evaluate corruption-related risk.
We conduct risk-based and risk-focused due diligence. The due diligence process must be a fact-based inquiry closely tailored to the specific business operations of the third-party suppliers. We define the proper level of due diligence for each third-party supplier, depending on key risk factors (e.g., the industry, geographic location, reputation, beneficial ownership, professional capability, experience, financial standing and credibility of the third-party supplier and the history of that third-party supplier’s compliance with applicable anti-corruption laws and regulations, the scope of the services performed). Not intended to be a one-time event, due diligence should be considered an ongoing process. We must periodically re-examine our relationship with third-party suppliers. The frequency of the re-examination may depend on the level or risk presented by the party as well as the context in which they are engaged.

1. Correspondence with Tax Authorities
The Otsuka group engages in constructive relationships with tax authorities in the 31 countries/regions in which it operates. We will continue to improve the reliability of tax data and establish systems to provide it promptly.

2. Transfer Pricing Policy
The Otsuka group calculates transfer prices based on the OECD guidelines that were created for the prevention of double taxation and fair application of the transfer price tax system. As well as each country's transfer price tax system, and makes efforts to ensure proper transactions between related parties. In recent years, the OECD has issued an action plan on base erosion and profit shifting (BEPS), in which multinational companies engage in international transactions that lead to double non-taxation. We will properly execute our obligations to make submissions to relevant authorities. Also, when necessary, we make use of advance pricing agreements (APAs) to obtain ahead-of-time consensus from tax authorities.

3. Governance
We work to maintain and improve tax-related governance, recognizing that this contributes to the enhancement of corporate value. To this end, under the active involvement of the CEO, we are strengthening cooperation between departments and operating companies as well as securing and training capable human resources, thereby maintaining an appropriate system that enhances tax compliance and reduces tax risks. Furthermore, we have established reporting obligations to the Board of Directors and the Audit and Supervisory Committee regarding the above-mentioned policies and processes, as well as their ongoing implementation and maintenance.

Tax Compliance
The Otsuka group complies with the Otsuka Group Global Code of Business Ethics, the group’s tax policy, country-specific laws, regulations and tax treaties, as well as international taxation rules, and does not engage in transactions designed to evade the payment of taxes, but carries out the appropriate filing and payment of taxes in each country. We endeavor to appropriately disclose information and ensure a degree of transparency and trust when dealing with tax authorities in each country. The complexity of tax oversight increases as our businesses become more global. By continuously updating information and engaging in prior consultations with tax experts where necessary, we are appropriately responding in order to minimize tax risk.

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Anti-Corruption Due Diligence
Due diligence includes investigations into the third-party supplier’s background, reputation, financial records, codes of conduct and training, and business conduct as well as written agreements and monitoring controls. The following circumstances typically constitute anti-corruption due diligence: (a) engaging the services of a third-party supplier; (b) entering into a joint venture with another entity; and (c) merging with or acquiring another entity. We perform due diligence before and after proceeding with the proposed business transaction, continuously evaluating the third-party suppliers’ adherence to relevant anti-corruption laws.

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Risk Management System
In order to establish a risk management system for the Otsuka group, we have put in place the Risk Management Policy and set up a Risk Management Committee. The committee comprises the President and Representative Director as the chair, the Director in charge of administration as the vice chair, as well as the information disclosure officer and the internal control officer. Leveraging the controls operated by each risk management department, the Risk Management Committee assesses and comprehensively manages risks that could jeopardize the sustainable enhancement of group value.

Responsibilities of the Risk Management Committee
The Risk Management Committee examines group risk management policies, coordinates between all companies and departments and issues instructions when a risk manifests, reports risk information to the Board of Directors, issues instructions to all companies, and promotes compliance.

Approach
The Otsuka group individually assesses risks in each of its businesses. Risk management officers are responsible for analyzing and evaluating risk, and formulating and executing action plans so that each organization can meet its objectives and budgets. We also periodically implement employee training with reference to events that could pose a risk within the organization. Training related to topics such as corruption prevention and the protection of human rights based on the Otsuka Group Global Code of Business Ethics is another part of this approach. Furthermore, we regularly hold drills to prepare for unexpected events such as disasters.

1. Business Continuity Planning and Management
The Otsuka group has business continuity plans (BCPs) in place to ensure that the group continues to operate as effectively as possible in order to maintain the stable supply of products, even when large-scale earthquakes and disasters strike.

Risk Management
The Otsuka group carries out risk management under the supervision of top management based on the recognition that pursuing management efficiency and controlling the risks inherent in business activities is important to enhancing corporate value.

2. Risk Management Training
Risk management training is held annually for directors, Audit & Supervisory Board members, executive officers, and department heads of major group companies. Training includes simulation drills and lectures by outside experts, and involves discussions and reviews on the subject of domestic and overseas risks, referencing serious incidents and other matters. Topics include initial response and coordination of information among the group when a crisis occurs, measures to ensure business continuity, and corporate social responsibility.

3. Information Security
The Otsuka group has established the Otsuka Group Global Security Policy as its basic policy on information security. We endeavor to ensure shared awareness of the policy at all group companies, including overseas subsidiaries.

In striving to raise the level of, and constantly improve, comprehensive security across the group, we set up the Otsuka Group Information Security Committee to examine specific measures and to share up-to-date information with regard to information security based on the policy. In order to counter the risk of cyberattacks, the Otsuka group employs a number of measures, such as arranging system security audits by external specialists, diagnosing website vulnerabilities, conducting drills related to targeted email attacks, and monitoring posts on social media. The group also conducts regular emergency drills with a focus on the core systems that construct data. In addition, we have built capabilities for responding to cybersecurity emergency situations, including the establishment of the Computer Security Incident Response Center (CSIRC), which prevents the occurrence of damage from cyberattacks targeting personal information and trade secrets held by respective group companies.

We acquired additional certification for the stable supply of products, even when large-scale earthquakes and disasters strike.

Through collaboration mainly between Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taho Pharmaceutical, and Otsuka Warehouse, the Otsuka group is making every effort to strengthen its countermeasures and systems so that the group as a whole can effectively continue its business activities and thereby ensure stable product supply even during times of disaster. In 2018, major group companies jointly conducted a desktop simulation drill for the scenario of an earthquake with an epicenter directly below Tokyo. Then in 2019, they jointly conducted another desktop simulation drill; this time for the scenario of a typhoon passing directly over western Japan. These drills provided opportunities for testing cooperation systems under close-to-realistic conditions, with a focus on ensuring stable product supply.

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