



Corporate Governance

Otsuka Holdings Co., Ltd. (“the Company”) is committed to promoting sustainable increase of its corporate value over the medium to long term by realizing its corporate philosophy, “Otsuka-people creating new products for better health worldwide.” To meet this commitment, it adopts a basic policy of making transparent, fair and timely decisions, and fulfilling its corporate social responsibility by living up to the expectations of all stakeholders, including customers, business partners, employees, local communities, and shareholders, through ongoing dialogue.

The Company discloses its basic approach to corporate governance in its Corporate Governance Guidelines, available on the corporate website.

Corporate Governance Guidelines

https://www.otsuka.com/en/csr/governance/pdf/governance_guideline.pdf



Corporate Governance Report (April 5, 2021)

https://www.otsuka.com/jp/csr/governance/pdf/governance_report2021.pdf (available only in Japanese)



Overview of Corporate Governance Structure

With the aim of promoting the sustainable growth of the Company and increasing corporate value over the medium to long term, the Board of Directors, which also includes outside directors, advances the execution of management plans and supervises the Company's management in order to enhance profitability and capital investment efficiency. The Company secures its soundness and has established a solid corporate governance structure that lives up to social expectations by ensuring that the Audit & Supervisory Board and its members, which are independent from the directors, can audit the directors' performance of their duties in collaboration with the accounting auditor, as well as the Internal Audit Department.

Initiatives to Strengthen Corporate Governance

2008	<ul style="list-style-type: none"> Establishment of Otsuka Holdings Term of directors set at one year Decision not to adopt a directors' retirement benefits system Corporate officer system adopted Two outside Audit & Supervisory Board members
2010	<ul style="list-style-type: none"> Three outside Audit & Supervisory Board members Stock options as performance-linked remuneration introduced Stock publicly listed in December
2011	<ul style="list-style-type: none"> First Medium-Term Management Plan announced
2013	<ul style="list-style-type: none"> Two outside directors; three outside Audit & Supervisory Board members
2014	<ul style="list-style-type: none"> Second Medium-Term Management Plan announced Three outside directors; two outside Audit & Supervisory Board members Otsuka Group Global Code of Business Ethics established Otsuka Group Global Anti-Corruption Policy established
2015	<ul style="list-style-type: none"> Corporate Governance Guidelines established Internal whistleblowing system (for Otsuka Holdings and major group companies) established, with reporting to an independent body outside the Company

Governance Structure (As of March 30, 2021)

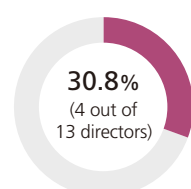
Form of organization	Company with an Audit & Supervisory Board
Directors [Outside directors]	13 [4 (independent directors)]
Term of directors	1 year
Audit & Supervisory Board members [Outside Audit & Supervisory Board members]	4 [3 (independent directors)]
Accounting auditor	KPMG AZSA LLC

Note: Deloitte Touche Tohmatsu LLC's term of office as the Company's accounting auditor expired with the conclusion of the annual Shareholders' Meeting held on March 30, 2021. At the same meeting, KPMG AZSA LLC was elected as the new accounting auditor.

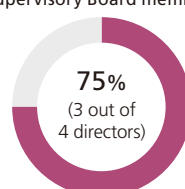
2016	<ul style="list-style-type: none"> Three outside directors; three outside Audit & Supervisory Board members Effectiveness of Board of Directors evaluated System for granting stock options conditional on progress with the medium-term management plan introduced
2017	<ul style="list-style-type: none"> Corporate Governance Guidelines revised Corporate Governance Committee established Started to evaluate the effectiveness of the Board of Directors based on questionnaires completed by all directors and Audit & Supervisory Board members Started to hold reporting meetings for outside directors and outside Audit & Supervisory Board members to improve their understanding of the group's management and business
2018	<ul style="list-style-type: none"> Two female directors Corporate Governance Guidelines revised
2019	<ul style="list-style-type: none"> Third Medium-Term Management Plan announced Restricted stock-based compensation plan introduced
2020	<ul style="list-style-type: none"> Four outside directors; three female directors Otsuka Group Global Policy for Conflict of Interest established

Composition of the Board of Directors and Committees

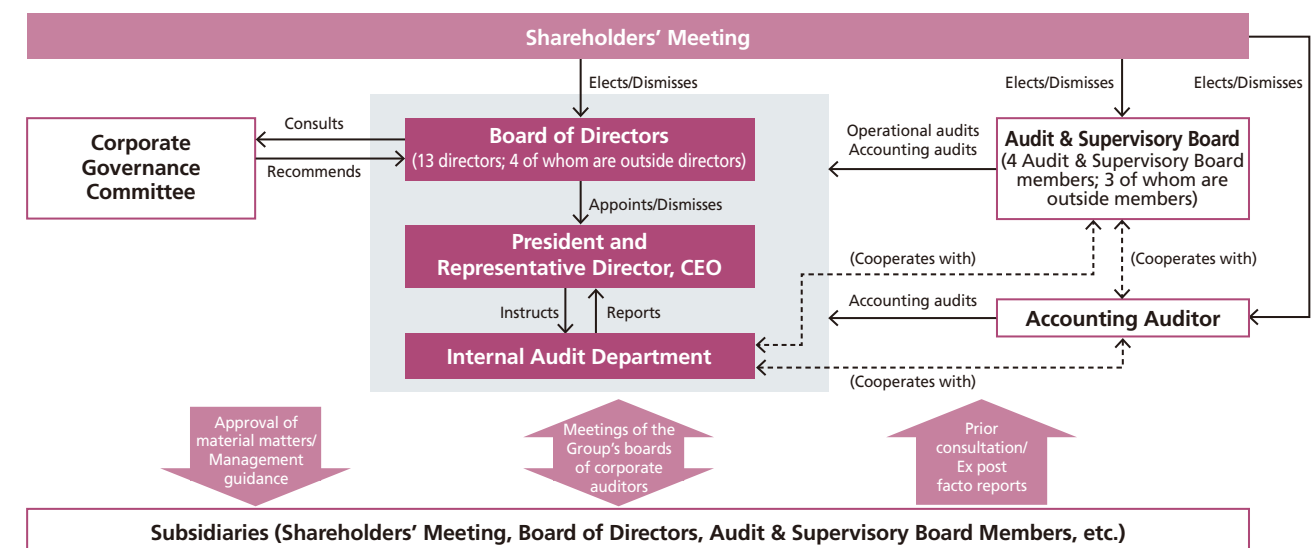
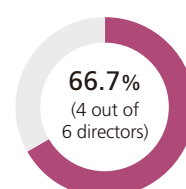
Board of Directors:
Ratio of independent outside directors



Audit & Supervisory Board:
Ratio of independent outside Audit & Supervisory Board members



Corporate Governance Committee:
Ratio of independent outside directors



Board of Directors

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. To clarify executive responsibility for each fiscal year, the term of directors is set at one year.

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 remuneration 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 outside directors (four as of March 30, 2021). 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.

Candidates are those put forward by the representative director(s).

(2) Remuneration

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

(3) 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.

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.

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.

Internal Control Department

The Company views internal controls as an integral component of corporate governance that functions together with compliance and risk management, and has established the Internal Control Department as the department in charge of compliance and risk management to improve the internal control system.

The Internal Control Department promotes the Otsuka Group Global Code of Business Ethics and other Otsuka group global rules at Otsuka Holdings and its affiliated companies. It also works to establish and promote compliance programs and risk management programs at each company. The status of the establishment and operation of those programs is regularly reported to the Board of Directors, the Audit & Supervisory Board and the accounting auditor.

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.

		Global business	Technology, R&D, production	Strategic planning, marketing, sales	Finance, accounting	Legal, compliance, risk management	Company analysis	Healthcare administration, public health	Major qualifications, etc.
Directors	Ichiro Otsuka	●	●	●					
	Tatsuo Higuchi	●	●	●				●	
	Yoshiro Matsuo					●			
	Yuko Makino				●				
	Shuichi Takagi	●		●	●				
	Sadanobu Tobe			●					
	Masayuki Kobayashi	●	●					●	
	Noriko Tojo	●				●	●		
	Makoto Inoue	●	●	●					
	Yukio Matsutani							●	MD
	Ko Sekiguchi			●			●		
	Yoshihisa Aoki			●					
	Mayo Mita						●		
Audit & Supervisory Board members	Yozo Toba	●			●				
	Hiroshi Sugawara				●				CPA
	Yoko Wachi					●			Attorney
	Kazuo Takahashi			●		●			

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

Rationale for selection*			Attendance rate	
			Board of Directors meeting	Audit & Supervisory Board meeting
Outside directors	Yukio Matsutani	Mr. Yukio Matsutani has abundant experience and extensive knowledge in the healthcare and welfare field, as well as a high level of expertise in overall health care. He also has provided appropriate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint.	100% (14 of 14)	—
	Ko Sekiguchi	Mr. Ko Sekiguchi has abundant experience, a track record, and extensive knowledge as a corporate manager and a high level of expertise and network in pharmaceutical business. He also has provided appropriate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint.	100% (14 of 14)	—
	Yoshihisa Aoki	Mr. Yoshihisa Aoki has abundant experience, a track record, and extensive knowledge as a corporate manager and abundant experience, expertise and a network in the food industry. He also has provided appropriate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint.	100% (14 of 14)	—
	Mayo Mita	Ms. Mayo Mita, as a securities analyst, has abundant experience in corporate analysis and based on that, a high level of insight in objectively observing and analyzing companies. She has been providing appropriate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint.	100% (11 of 11)	—
Outside Audit & Supervisory Board Members	Hiroshi Sugawara	Mr. Hiroshi Sugawara has specialized knowledge as a certified public accountant, and has abundant experience in and knowledge of many businesses and other areas.	100% (14 of 14)	100% (15 of 15)
	Yoko Wachi	Ms. Yoko Wachi is well-versed in corporate legal affairs, and has specialized knowledge and insights based on abundant experience as an attorney.	100% (14 of 14)	100% (15 of 15)
	Kazuo Takahashi	Mr. Kazuo Takahashi has held major positions in IT and internal control departments for many years, and has abundant experience and knowledge in corporate management.	100% (14 of 14)	100% (15 of 15)

* For all outside directors and outside Audit & Supervisory Board members, given no risk of conflict of interest with general shareholders, the Company believes each outside officer qualifies as an independent director/auditor.

The 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.

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 2020

The overall opinion was that improvements have been made from the previous year, and we believe that the Board of Directors is functioning appropriately from the standpoint of effectiveness. Nonetheless, the results confirmed the need for further improvement in areas such as the role of the Company as a holding company, methodologies used for monitoring subsidiaries, and approaches to cooperation with group companies.

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 based on the corporate philosophy, while also ensuring that functions such as business execution and management supervision are exercised appropriately, maintaining transparency and fairness.

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, while also considering levels at companies that the Company considers benchmarks based on the scale, industry and business model.

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. Remuneration consists of fixed remuneration as basic remuneration, performance-linked bonuses, and share-based payments emphasizing the link to shareholder value. Remuneration for outside directors and Audit & Supervisory Board members comprises only fixed remuneration as basic remuneration in light of their duties.

Method of Determining the Content of Remuneration of Individual Directors

The Board of Directors receives recommendations on the appropriateness of the remuneration system and remuneration levels, and the performance evaluation for performance-linked bonuses and share-based payments from the Corporate Governance Committee, which consists of the president, the director in charge of administration, and all outside directors. Based on these recommendations, the Board determines the individual remuneration for directors as follows.

- The president is delegated with deciding the specific payment amounts of individual fixed remuneration as basic remuneration to directors and individual performance-linked bonuses for each director (excluding outside directors) pursuant to resolution of the Board of Directors. In accordance with this delegation, the president makes the final decision on remuneration amounts based on deliberation and reports by the Corporate Governance Committee regarding remuneration levels.
- Individual share-based payments for each director (excluding outside directors) are determined by resolution of the Board of Directors based on reports on performance evaluation, etc. by the Corporate Governance Committee.

Content of Remuneration to Directors (Excluding Outside Directors)

The Content of remuneration to directors (excluding outside directors) is as listed below.

Remuneration type	Payment method Fixed/variable	Remuneration content (including policy for determining timing or conditions of remuneration)
Fixed remuneration	Cash Fixed	<ul style="list-style-type: none">Fixed 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.) *3 Fixed remuneration is paid out equally every month.
Performance-linked bonus	Cash Variable	<ul style="list-style-type: none">Remuneration is paid in a lump sum at a certain timing every fiscal year, with the amount or calculation method determined based on (1) rate of achievement of the fiscal year's targets for consolidated revenue, consolidated operating profit, and consolidated business profit 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.
Share-based payment	Non-cash* (restricted stock) Variable	<ul style="list-style-type: none">The Company has introduced a share-based payment plan that reflects progress in achieving the targets in the Third Medium-Term Management Plan covering the period from fiscal 2019 to fiscal 2023.Under the plan, restricted stock allocation agreements stipulating conditions including transfer restrictions for a set period are concluded with the grantees. The plan is designed to function as 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 restricted stock requiring evaluation of performance over several fiscal years at the same time in the first fiscal year.The specific timing for granting restricted stock is each fiscal year for items requiring evaluation of performance in a single fiscal year, and at the same time in the first fiscal year of the evaluation period for items requiring evaluation of performance over several fiscal years.

* Overview of non-cash remuneration (restricted stock): To determine the number of shares to be allocated to grantees of restricted stock, a standard number of shares is set for each fiscal year for each individual, giving consideration to his or her performance of duties, responsibilities, and the weighting versus fixed remuneration as basic remuneration. Based on this standard number of shares, shares are allotted for each series each fiscal year or at the same time in the first fiscal year of an evaluation period of several fiscal years, according to the release conditions in the table below.
The restricted stock allocation agreements concluded with the grantees stipulate that the transfer restrictions on the restricted stock shall not be removed and the Company shall acquire all of the shares without paying compensation if certain events occur.

Composition of Remuneration to Directors (Excluding Outside Directors)

The remuneration plan emphasizes medium-to-long-term enhancement of corporate value, and is designed so that performance-linked remuneration as a percentage of total remuneration varies according to the Company's single-year and medium-to-long-term consolidated performance.

As a rough guide to the ratio of remuneration by remuneration type, performance-linked bonuses are designed to be variable over the range of 0%–100% of fixed remuneration, and share-based payments over the range of 0%–100% of fixed remuneration. Performance-linked bonuses and share-based payments combined are roughly a maximum of 66% of total remuneration (200% of 300% total).

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 shall not exceed the upper limit of remuneration resolved at the Shareholders' Meeting.

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 certain major subsidiaries of the group.

	Allotment ratio (%)	Fiscal year for evaluation and allocation timing	Summary of release conditions
Series A (Incumbency condition)	40% of the standard number of shares	Allocated each year, taking a single fiscal year as the evaluation period	On condition of incumbency in the subject fiscal year (single fiscal year) (However, the shares will not be released if the combined consolidated revenue and operating profit target achievement rate is less than 80%)
Series B (Achievement of medium-term performance targets)	30% of the standard number of shares	Evaluation period 1 is the three fiscal years from fiscal 2019 through fiscal 2021, with the shares for the three years allocated at the same time at the start of the period. Evaluation period 2 is the two fiscal years from fiscal 2022 through fiscal 2023, with the shares for the two years allocated at the same time at the start of the period.	In each evaluation period, the value of (2) below may not fall below the value of (1) (1) The cumulative amount of the planned value of "consolidated business profit before R&D expenses" of the Third Medium-Term Management Plan (2) The cumulative amount of the actual value of "consolidated business profit before R&D expenses" for the evaluation period
Series C (Satisfaction of the medium-term cost of capital condition)	30% of the standard number of shares	Evaluation period 1 is the three fiscal years from fiscal 2019 through fiscal 2021, with the shares for the three years allocated at the same time at the start of the period. Evaluation period 2 is the two fiscal years from fiscal 2022 through fiscal 2023, with the shares for the two years allocated at the same time at the start of the period.	In each evaluation period, the value of (2) below may not fall below the value of (1) (1) The cumulative amount of the "consolidated cost of capital" calculated in accordance with the consolidated capital cost ratio for the evaluation period (2) The cumulative amount of the actual value of "consolidated net operating profit after tax" for the evaluation period

Total Remuneration to Directors and Audit & Supervisory Board Members

Classification	Total amount of remuneration (Millions of yen)	Total amount by type of remuneration (¥ Million)			Number of eligible officers
		Fixed remuneration	Share-based payment	Bonus	
Directors (of which Outside Directors)	895 [27]	329 [27]	421 [—]	144 [—]	14 [4]
Audit & Supervisory Board members (of which Outside Audit & Supervisory Board Members)	56 [32]	56 [32]	—	—	4 [3]
Total (of which Outside Directors and Audit & Supervisory Board Members)	951 [59]	385 [59]	421 [—]	144 [—]	18 [7]

* There are no Directors of the Company who concurrently serve as employees..
During the current fiscal year, Outside Directors and Audit & Supervisory Board Members received total remuneration of ¥2 million from the Company's subsidiaries for their services as Directors and Audit & Supervisory Board Members.

Sustainability Management Structure at Otsuka Holdings

The Otsuka Group Sustainability Promotion Committee was established in 2018 and is chaired by the director in charge of sustainability promotion at Otsuka Holdings. The committee promotes sustainability for the entire Otsuka Group, acting as an engine for discussions and decision-making regarding the direction of sustainability-related activities, plans, and other measures. Committee meetings are held regularly to discuss direction and evaluate activities,

develop systems in each area of sustainability promotion, and update promotion plans, as necessary. Committee members comprise group officers in charge of areas relating to sustainability, such as supply chain, environment, human resources, corporate governance, compliance risk management, and public relations, with the Sustainability Promotion, IR and Corporate Planning Departments of Otsuka Holdings functioning as the secretariat.



Directors and Audit & Supervisory Board Members

(As of March 30, 2021)

Directors



Profile	
Apr. 1987	Joined Otsuka Pharmaceutical Factory, Inc.
Jun. 1997	Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.
Jun. 1998	Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.
Dec. 2001	Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.
May 2002	Representative Director, Otsuka Pharmaceutical Factory, Inc.
Dec. 2003	Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
Dec. 2004	President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
Jul. 2008	Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2010	Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2014	Representative Director, Otsuka Pharmaceutical Factory, Inc. Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.
Mar. 2015	Executive Director, Otsuka Pharmaceutical Co., Ltd. (current) Chairman, Otsuka Pharmaceutical Factory, Inc. (current) Chairman and Representative Director, Otsuka Holdings Co., Ltd. (current)



Profile	
Mar. 1977	Joined Otsuka Pharmaceutical Co., Ltd.
Jun. 1998	Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)
Nov. 1998	Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.
Jun. 1999	Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.
Jun. 2000	President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Jun. 2008	Executive Director, Otsuka Pharmaceutical Co., Ltd.
Jul. 2008	President and Representative Director, CEO, Otsuka Holdings Co., Ltd. (current)
Dec. 2011	Executive Director, Otsuka Chemical Co., Ltd.
Feb. 2015	President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Mar. 2020	Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd. (current)



Profile	
Apr. 1985	Joined Otsuka Pharmaceutical Co., Ltd.
Jan. 2003	Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Jun. 2006	Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Nov. 2007	Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.
Jul. 2008	Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Mar. 2016	Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Jan. 2017	Executive Director, Otsuka Medical Devices Co., Ltd. (current)
Mar. 2019	Senior Managing Director, Otsuka Holdings Co., Ltd. (current)



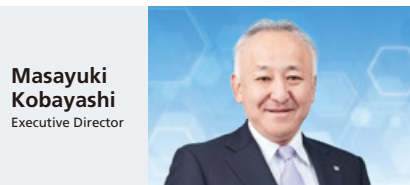
Profile	
Apr. 1982	Joined Otsuka Pharmaceutical Co., Ltd.
Apr. 1996	Joined Baxter Limited
Apr. 2000	Joined Otsuka Pharmaceutical Co., Ltd.
Mar. 2015	Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Sep. 2016	Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Apr. 2017	Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd. Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Mar. 2018	Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.
Mar. 2019	Executive Director, CFO, Otsuka Holdings Co., Ltd. (current)



Profile	
Apr. 1989	Joined Tobishima Corporation
Sep. 1995	Joined Otsuka Pharmaceutical Co., Ltd.
Aug. 2002	Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.
Jul. 2003	Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Mar. 2015	Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc.
May 2015	CEO, Claris Otsuka Private Limited (present Otsuka Pharmaceutical India Private Limited)
Jan. 2019	Senior Vice President, President's Office, Otsuka Holdings Co., Ltd.
Mar. 2019	Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd. (current) Executive Director, Business Portfolio Management, Otsuka Holdings Co., Ltd. (current)



Profile	
Apr. 1976	Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present Otsuka Foods Co., Ltd.)
Jul. 1993	Executive Deputy President and Representative Director, Otsuka Foods Co., Ltd.
Nov. 2004	Executive Deputy President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present Otsuka Chemical Co., Ltd.)
May 2006	President and Representative Director, Otsuka Chemical Holdings Co., Ltd.
Jul. 2008	Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2009	Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.
Jun. 2011	Chairman and Representative Director, Otsuka Chemical Co., Ltd.
Jun. 2012	Vice Chairman, Otsuka Foods Co., Ltd.
Jun. 2013	Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.
Nov. 2013	President and Representative Director, Otsuka Foods Co., Ltd.
Jun. 2014	Executive Director, Otsuka Holdings Co., Ltd. (current)
Mar. 2018	Chairman, Otsuka Foods Co., Ltd.
Mar. 2019	Executive Director, Otsuka Foods Co., Ltd. (current)



Profile	
Apr. 1989	Joined The Daiwa Bank, Ltd. (present Resona Bank, Limited)
Oct. 1993	Joined Taiho Pharmaceutical Co., Ltd.
Aug. 2002	President, Taiho Pharma USA, Inc. (present Taiho Oncology, Inc.)
Sep. 2003	Executive Director, Taiho Pharmaceutical Co., Ltd.
Apr. 2010	President and CEO, Otsuka America, Inc.
Apr. 2012	President and Representative Director, Taiho Pharmaceutical Co., Ltd. (current) Executive Director, Taiho Pharma USA, Inc.
Apr. 2014	Chairman, Taiho Oncology, Inc. (current)
Mar. 2017	Executive Director, Otsuka Holdings Co., Ltd. (current)

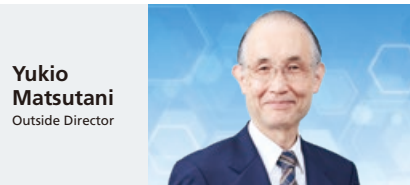


Profile	
Apr. 1987	Joined Goldman Sachs (Japan) Corporation
Aug. 1991	Joined Shearson Lehman Brothers Holdings Inc.
Jul. 2002	Engagement Manager, McKinsey & Company, Japan Office
Jun. 2006	Director, Intel Capital Japan, Intel Corporation
Aug. 2008	Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.
Feb. 2011	Executive Director, Otsuka Medical Devices Co., Ltd.
Apr. 2012	President and CEO, Otsuka America, Inc.
Aug. 2015	Executive Director and CEO, Pharmavite LLC
Jan. 2017	President and Representative Director, Otsuka Medical Devices Co., Ltd. (current)
May 2017	Executive Director, Otsuka America, Inc.
Aug. 2017	Chairman, Pharmavite LLC
Mar. 2018	Executive Director, Otsuka Holdings Co., Ltd. (current)



Profile	
Apr. 1983	Joined Otsuka Pharmaceutical Co., Ltd.
Jun. 2008	Vice President, General Manager of Diagnostic Division, Otsuka Pharmaceutical Co., Ltd.
Jun. 2009	Senior Vice President, Deputy General Manager of Pharmaceutical Business Division, Otsuka Pharmaceutical Co., Ltd.
Mar. 2015	Executive Director, Executive Vice President, General Manager of Nutraceuticals Business Division, Otsuka Pharmaceutical Co., Ltd.
Apr. 2015	Executive Director, Pharmavite LLC
Mar. 2017	Managing Director, Nutraceuticals Business, Otsuka Pharmaceutical Co., Ltd.
Sep. 2017	Executive Director, Daiya Foods Inc.
Mar. 2018	Senior Managing Director, Nutraceuticals Business, Otsuka Pharmaceutical Co., Ltd.
Oct. 2018	Chairman, Nardobel SAS
Mar. 2019	Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.
Mar. 2020	President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (current) Executive Director, Otsuka Holdings Co., Ltd. (current)

Outside Directors



Profile	
Apr. 1975	Intern, Pediatric Department, St. Luke's International Hospital
Oct. 1981	Joined Ministry of Health and Welfare (present Ministry of Health, Labour and Welfare)
Aug. 2005	Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare
Aug. 2007	Director, National Sanatorium Tama Zenshoen
Apr. 2012	President, National Institute of Public Health
Dec. 2015	Vice President, International University of Health and Welfare
Mar. 2016	Outside Director, Otsuka Holdings Co., Ltd. (current)
Jun. 2019	President, Japan Public Health Association (current)

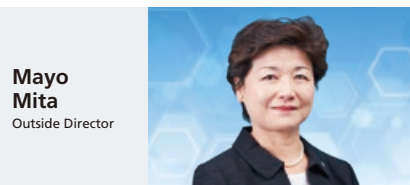


Profile	
Apr. 1973	Joined Mitsubishi Corporation
May 1990	Joined the Boston Consulting Group
Jan. 1996	General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present Johnson & Johnson K. K. Medical Company)
Nov. 1998	President and Representative Director, Janssen Kyowa Co., Ltd. (present Janssen Pharmaceutical K.K.)
Jul. 2009	Chairman and Director, Janssen Kyowa Co., Ltd.
Oct. 2009	Supreme Advisor, Janssen Kyowa Co., Ltd.
Jan. 2011	Representative Director, DIA Japan (present SH DIA Japan)
Apr. 2012	Outside Director, N.I.C. Corporation (present Solasta Corporation)
Mar. 2014	Outside Director, Kenedix, Inc.
Mar. 2018	Outside Director, Otsuka Holdings Co., Ltd. (current)



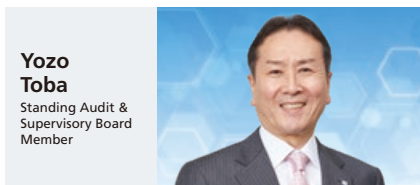
Profile	
Apr. 1974	Joined Itochu Corporation
Jun. 2003	Executive Officer, Itochu Corporation
Apr. 2009	Managing Executive Officer, President, Food Company, Itochu Corporation
Apr. 2010	Member of the Board, Senior Managing Executive Officer, President, Food Company, Itochu Corporation
Mar. 2017	Administrative Officer, Itochu Corporation (current)
Jun. 2017	Outside Director, Arata Corporation (current)
Mar. 2019	Outside Director, Otsuka Holdings Co., Ltd. (current)

Outside Directors



Profile	
Apr. 1983	Joined Morgan Stanley Japan Securities Co., Ltd. (present Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
Jan. 1989	Equity Research Division (Healthcare), Morgan Stanley Japan Securities Co., Ltd.
Dec. 2000	Managing Director, Morgan Stanley Japan Securities Co., Ltd.
Dec. 2013	Senior Advisor, Investment Banking Business Unit (Healthcare), Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
Mar. 2020	Outside Director, Otsuka Holdings Co., Ltd. (current)

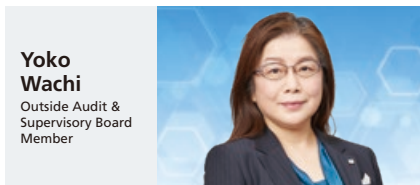
Audit & Supervisory Board Members



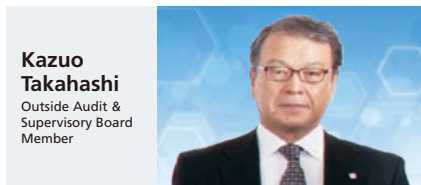
Profile	
Apr. 1979	Joined Otsuka Chemical Holdings Co., Ltd. (present Otsuka Chemical Co., Ltd.)
Jan. 1995	Director, Information Center, Otsuka Chemical Holdings Co., Ltd.
Jan. 2006	CFO, Trocenen GmbH
May 2009	Operating Officer, Information System Department, Otsuka Chemical Holdings Co., Ltd. (present Otsuka Chemical Co., Ltd.)
Jun. 2009	Corporate Officer, Director of IT, Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Dec. 2011	Executive Director, Corporate Administration, Accounting and IT, Otsuka Chemical Co., Ltd.
Mar. 2015	Executive Vice President, Corporate Finance & Accounting and Corporate Service Department, Otsuka Holdings Co., Ltd.
Mar. 2018	Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Mar. 2019	Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd. (current)



Profile	
Oct. 1997	Joined Chuo Audit Corporation
Oct. 2000	Joined Deloitte Touche Tohmatsu (present Deloitte Touche Tohmatsu LLC)
Feb. 2006	Vice President, Will Capital Management Co., Ltd. (current)
Jun. 2010	Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Jun. 2012	Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
Oct. 2013	Outside Director, Nippon Parking Development Co., Ltd.
Mar. 2016	Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. (current)



Profile	
Apr. 1989	Registered as an attorney at law (Dai-ichi Tokyo Bar Association) Joined Kajitani Law Offices (current)
Jun. 2015	Corporate Auditor, Nichias Corporation
Mar. 2016	Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Jun. 2019	Outside Director, Nichias Corporation (current)



Profile	
Apr. 1975	Joined Ebara-Udylite Co., Ltd. (present JCU Corporation)
Mar. 1986	Executive Director, Strategic Planning, RA Institute Co., Ltd.
Nov. 1992	Executive Director, General Manager of the System Division, Sunkus & Associates, Inc.
Oct. 2004	Executive Director, Head of the Information System Division, Circle K Sunkus Co., Ltd.
May 2006	Executive Director, Chief of the Management Strategy Office, the Customer & Franchisee Relations Office, and the Internal Control & Environmental Management Office, Circle K Sunkus Co., Ltd.
May 2008	Executive Director, Head of Area Franchise, Circle K Sunkus Co., Ltd.
May 2010	Executive Director, Head of Information Systems Division, Circle K Sunkus Co., Ltd.
Mar. 2018	Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)

Discussion on Corporate Governance

Four outside directors and two inside directors discuss corporate governance at Otsuka Holdings.



Yukio Matsutani
Outside Director
Member of Corporate Governance Committee



Ko Sekiguchi
Outside Director
Member of Corporate Governance Committee



Yoshihisa Aoki
Outside Director
Member of Corporate Governance Committee



Mayo Mita
Outside Director
Member of Corporate Governance Committee

Corporate Governance System

How effective is corporate governance at Otsuka Holdings?

Aoki
Otsuka Holdings’ current structure is that of a company with a Board of Directors that executes business and an Audit & Supervisory Board. I feel that this structure is working well. It results in an environment where both Audit & Supervisory Board members and outside directors can exchange candid opinions without reserve, and I think our opinions are respected in decision making. As things stand, this has helped to maintain the effectiveness of corporate governance in practical terms, but society is increasingly calling for greater separation between supervision and execution. We must closely monitor this trend and work toward improving our system. Moreover, I think that cultivating management personnel is the most important factor in properly maintaining governance. In addition to training for management skills, I think Otsuka should conduct training that places more emphasis on management morality, or in other words, cultivating a sense of ethics to maintain sound management.

Mita
Three female directors out of 13 provides an adequate gender

balance, and the fact that two of the female directors are inside directors is significant. On the other hand, with the growing importance of overseas operations, the Company should be more proactive in promoting human resources who are familiar with overseas business. When conducting a variety of businesses, even though people may share a long-term vision as a group, ascertaining the changing conditions and status of each business in detail is not easy. I therefore feel that it is important for the Company to create a system for setting KPIs for each business, so that it can track business targets and their level of achievement for reliable oversight. I believe this will make business monitoring and management more effective.

Sekiguchi
When considering the significance of corporate governance, and the purpose and mission of a holding company, I think Otsuka Holdings must ask itself what it can do to raise the collective strength of the Otsuka group to the highest level. From that perspective, I think we should fully discuss and examine the optimal structure for the Otsuka group’s sales composition and what it should aim to be going forward. The business environment is changing at a tremendous speed, brought on by factors including the COVID-19 pandemic and



Yoshiro Matsuo
Senior Managing Director
In charge of Otsuka Group Sustainability Promotion
Head of Otsuka Group Global Environmental Council
Member of Risk Management Committee
Member of Corporate Governance Committee



Shuichi Takagi
Executive Director
Business Portfolio Management



the adoption of digital technologies. Just keeping up is difficult, but that alone is no way to succeed. Going forward, it will be increasingly important to establish a forum for suggesting and discussing what Otsuka must prioritize in taking action. The forum should bring together everyone's abilities, acting as a stage for people to openly talk about how to demonstrate the collective strength of the group, how to stay ahead of the times, and how to bring Otsuka's advantages to the fore.

Takagi

The Board of Directors of the Company operates under a system of executive directors, where multiple directors serve concurrently on the management teams of operating companies. Bringing together critical external perspectives and

expertise from the front lines enables expeditious discussions at Board meetings. On the other hand, I think we must consider whether the current system is acceptable as it stands, or whether functions of a different order should be adopted for the Company in the future.

Matsuo

In the 10 years since the Company's stock listing, although the group's collective strength and a corporate governance system appropriate for a listed company have been enhanced and put on a firm footing, there are nevertheless issues remaining before Otsuka can be considered a truly global company. We have had ongoing animated discussions among directors about the ideal form of corporate governance, and we have received various insightful opinions from our four outside directors, who have diverse backgrounds. To move to the next stage, the Otsuka group must further strengthen its corporate functions. We have achieved some results in increasing corporate value to maximize group synergies. However, amid the dizzying changes in the operating environment, a company will not grow by simply playing catch-up, so it is necessary to accelerate our evolution. Looking ahead over the medium to long term, a key function of Otsuka Holdings is to lead the entire group. To do so, we understand the importance of cultivating human resources for management and opening the Company to external human resources. We must aim to maximize corporate value premised on being accepted by society and having a social impact. I believe that this generation of management must establish a system that enables Otsuka to compete on a global level as a global company.

Corporate Governance Committee



The Company has established the Corporate Governance Committee as an advisory body to the Board of Directors to deliberate on the nomination of directors and Audit & Supervisory Board members, the remuneration system and standards for directors, and other corporate governance matters. Please describe the status and effectiveness of the committee.

Matsutani

I think the committee is effective and there is no problem with the current system at this stage. I also believe its processes are appropriate and ensure transparency and objectivity. On the other hand, overseas businesses account for more than half of sales in real terms, and the system may not be sufficient to control overseas operations that have grown to such an extent.

Mita

There is a high degree of transparency. We receive reference materials on the remuneration system, comparisons with other companies and other information, all of which facilitates lively exchanges of opinions during deliberations. On the other hand, I have the impression that there is a slight lack of speed in incorporating opinions from outside directors in structuring systems and businesses. The topic of "Diversity and Inclusion" is becoming more important in society, and my impression is that women are very active in taking the lead in actual business execution at Otsuka. Is it a coincidence that women have been able to play more active roles, or has this been supported by special mechanisms such as promoting women to higher positions, improving motivation, role sharing between women or mutual support systems? I would like to discuss these points.

Matsuo

The Corporate Governance Committee, which comprises all outside directors, the president, and the director in charge of administration, was organized to hold wide-ranging discussions on the nomination and remuneration of directors and



Audit & Supervisory Board members as well as on corporate governance. The role of the committee changes according to the business and social environment. I believe that the role of Otsuka Holdings should also evolve.

Global Governance of Operating Companies

The Otsuka group conducts its management with respect for the diversity and originality of its operating companies as it promotes further global expansion to achieve medium-to-long-term growth. What are your thoughts on the issues management faces in sustainably maintaining a unified and consistent overall direction as it manages diversified businesses?

Matsutani

Otsuka started expanding overseas from an early stage, and while it has solidified its business foundation over its long history, its governance is still developing. Since the business environment is completely different for each region and country, I think governance is very difficult to coordinate. Fortunately, due to efforts on the front lines, each business has stayed aligned with Otsuka's philosophy, but it will be necessary to strengthen the mechanism by which that is achieved.

Aoki

I have a sense that the global governance of Otsuka's operating companies has been driven by the excellent management skills and leadership of successive management teams. However, now that the group has grown to its current scale, I feel there is a need to reconfigure the system between Otsuka Holdings

and operating companies, and between respective operating companies themselves, into a new form with a mechanism to "Trust, but verify." The creation of a mechanism that can weather further group expansion should help maintain governance and enable sound group development. To that end, I think the cultivation and diversification of management personnel is essential.

Sekiguchi

Decentralized management also requires a unifying force because it will fall apart if the centrifugal force is too strong. I think Otsuka has reached a stage where it should strengthen governance, or in other words, controls. The Global Business Support Department has been established at Otsuka Holdings and I feel it is making progress toward strengthening global governance. Risk management is also very important in global governance. I would like to see that function further enhanced going forward.

Takagi

The management of each operating company has been allowed a certain degree of freedom to encourage independence and the creation of innovative ideas. Also, as previously pointed out, Otsuka has proactively promoted globalization from quite an early stage. At the start there were restrictions on foreign



investment and circumstances made it difficult to import Japan-based management. Globalization has progressed in various countries in recent years, and Otsuka's governance system is at last evolving. Group-wide asset-sharing is under way in various therapeutic areas, such as oncology and the

Otsuka's Social Role in the New Normal and Achieving a Sustainable Society

The worldwide COVID-19 pandemic has had a major impact on society and people's lifestyles. What are your thoughts on opportunities and risks in the "new normal" going forward, and Otsuka's role and future issues as "a unique total healthcare company"?

In addition, in recent years there have been increasing calls for contributions to sustainability, and greater demands for corporate social responsibility. Now as ever, Otsuka aims to achieve sustainable growth and contribute to a healthy and sustainable society, based on its corporate philosophy and through its business activities that help resolve social issues. What are your thoughts on the direction Otsuka should take and its issues going forward?

Matsutani

The COVID-19 pandemic has had a substantial impact on companies, and there is still no end in sight. Even once the pandemic subsides, individual lifestyles and social conditions will be completely different, and companies will be required

central nervous system. The IV solutions business is also making progress through cooperation between Otsuka Pharmaceutical and Otsuka Pharmaceutical Factory. I am aware that we are at a stage where we should step up group governance for the sustainable growth of the Otsuka group. We are strengthening the monitoring function and building a system in collaboration with operating companies.

Matsuo

No matter how much its businesses expand or diversify, Otsuka must continue to uphold its approach to business and its systems for the unwavering actualization of creativity, as passed down by successive management teams. Organization and reproducibility are important for the group's future. Rather than sticking to what was successful in the past, it must build a structure that can reproduce its vision for itself as an organization.

I also believe that the structure of the Board of Directors needs to evolve and change in line with the Otsuka group's stage and direction from the perspectives of management supervision, maximization of group synergies, and global governance.

to change accordingly.

One of the greatest changes is increased use of information technology. There have been advances, but I think the largest impact has been rapid uptake by everyone from the elderly to children. This affects the entire corporate supply chain, making it essential for companies to prepare for any situation. Although every company is already dealing with visible primary impacts, each will also need to develop a flexible system to respond to secondary and tertiary impacts.

Aoki

I find the phrase "a unique total healthcare company" very appealing. I think most people want to lead healthy, long, enjoyable and beautiful lives. Otsuka has been operating in line with that perspective, and I think it should continue in that direction as it achieves sustainability. Otsuka's strength is in the solid business structure and profit of the Pharmaceutical Business, as well as its culture of tenaciously engaging in the creation of products that benefit people



worldwide, such as *POCARI SWEAT* and *Calorie Mate*. I think there will be greater demand for products that take a preventive approach to maintaining health in the future, so I would like Otsuka to focus on creating such products in the Nutraceutical Business.

Mita

Amid the growing social trend of health awareness, I believe that the Otsuka group's wide-ranging portfolio and long-term product and brand development are its core strengths. It is one of the few companies in the unique position of being able to provide comprehensive healthcare solutions. Even if the Company's strategy is aligned to a sustainable approach, keeping all products and businesses going indefinitely will surely be difficult in this era of rapid change. What will Otsuka focus on in the short term, the medium term and the long term? While making decisive investments with a view to the future, it may be necessary to sort out what is no longer in demand due to the changing times. This does not mean that Otsuka Holdings should have a short-term orientation, but rather a vision and strategy that looks ahead.

Sekiguchi

Otsuka's scope of business as a total healthcare company will be extremely important in this new era, and the concepts of prevention and pre-symptomatic healthcare, and measures for individual health management also apply in the control of infectious diseases.

In addition, in the wake of the COVID-19 pandemic, a considerable amount of both business operations and

opportunities have now shifted to the digital realm. The crucial questions will be how Otsuka can best make use of this shift and how it can develop products and services that use digital technology, not just to improve efficiency in areas such as promotion and new product development, but to capture the needs of this new era.

Matsuo

Our digital technology strategy is not a passive one. We view it as something we must do ahead of other companies to proceed to our next stage. We must set forth our digital technology strategy as one of the core strategies of the next medium-term management plan. Sustainability should be recognized as an intrinsic aspect of business activities. This view led Otsuka to become a signatory to the United Nations Global Compact in 2016. People will not rally to Otsuka unless it is an appealing company that fulfills its corporate responsibilities for a sustainable society. However, we cannot take a long-term perspective without an earnings base, so we intend to invest in medium-to-long-term growth while staying committed to maintaining our current business performance. Otsuka is capable of identifying and overcoming issues, and looking to the future with ideas unlike those of other companies. We will continue to strive to be a vibrant, active company. Opinions may differ among diverse types of business and diverse management personnel, but the alternative, one in which everyone has the same opinion, would be senseless. Through a lively exchange of opinions, I would like to lay the groundwork for the next stage and create an organization with reproducibility.




Compliance

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 Policy for Conflict of Interest, 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.

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.

 https://www.otsuka.com/en/csr/governance/pdf/OtsukaGroupGlobalAnti-CorruptionPolicy_IR.pdf



Otsuka Group Global Policy for Conflict of Interest


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 Policy for Conflict of Interest to prevent such conflicts and we are working to instill the policy at a global level.

 https://www.otsuka.com/en/csr/governance/pdf/OtsukaGroupGlobalPolicyforConflictofInterest_IR.pdf



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.

 https://www.otsuka.com/en/csr/governance/pdf/OtsukaGroupGlobalPrivacyPolicy_IR.pdf



Compliance Promotion System

To instill compliance at group companies, the Otsuka group conducts universal training based on the content of the above policies. Training materials, distributed to each operating company, and officers, employees, contract employees, and dispatched employees at each operating company attend related training at least once annually and submit a signed declaration to observe the regulations. The levels of understanding of compliance and its penetration among employees are evaluated through a test during training, awareness surveys, and other measures, and the results of training and the status of submission of declaration forms are regularly reported at meetings of the Board of Directors. Each operating company has also established related regulations in accordance with the laws of its country and conducts legal compliance. In addition, the operational status of the internal reporting systems and internal audits at major group companies is regularly reported at meetings of the Board of Directors of Otsuka Holdings.

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 gather information and offer suggestions on how improvements may be made.

In addition, an Internal Audit Department under the direct authority of the president has been established. It conducts regular audits based on the Internal Audit Rules to verify 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.

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.

Correspondence with Tax Authorities

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

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 corporations 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 with tax authorities.

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 CFO, 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 & Supervisory Committee regarding the above-mentioned policies and processes, as well as their ongoing implementation and maintenance.

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.

Risk Management System

To further enhance risk management at Otsuka Holdings and its main operating companies, the Company introduced enterprise risk management (ERM) in July 2020 for the purpose of recognizing and assessing group-wide risks, and prioritizing allocation of resources to the control of principal risks.

As part of ERM activities, we have established a group-wide risk management framework and a system for risk assessment, and are identifying principal risks through risk assessments at the main operating companies, and formulating countermeasures against those risks.

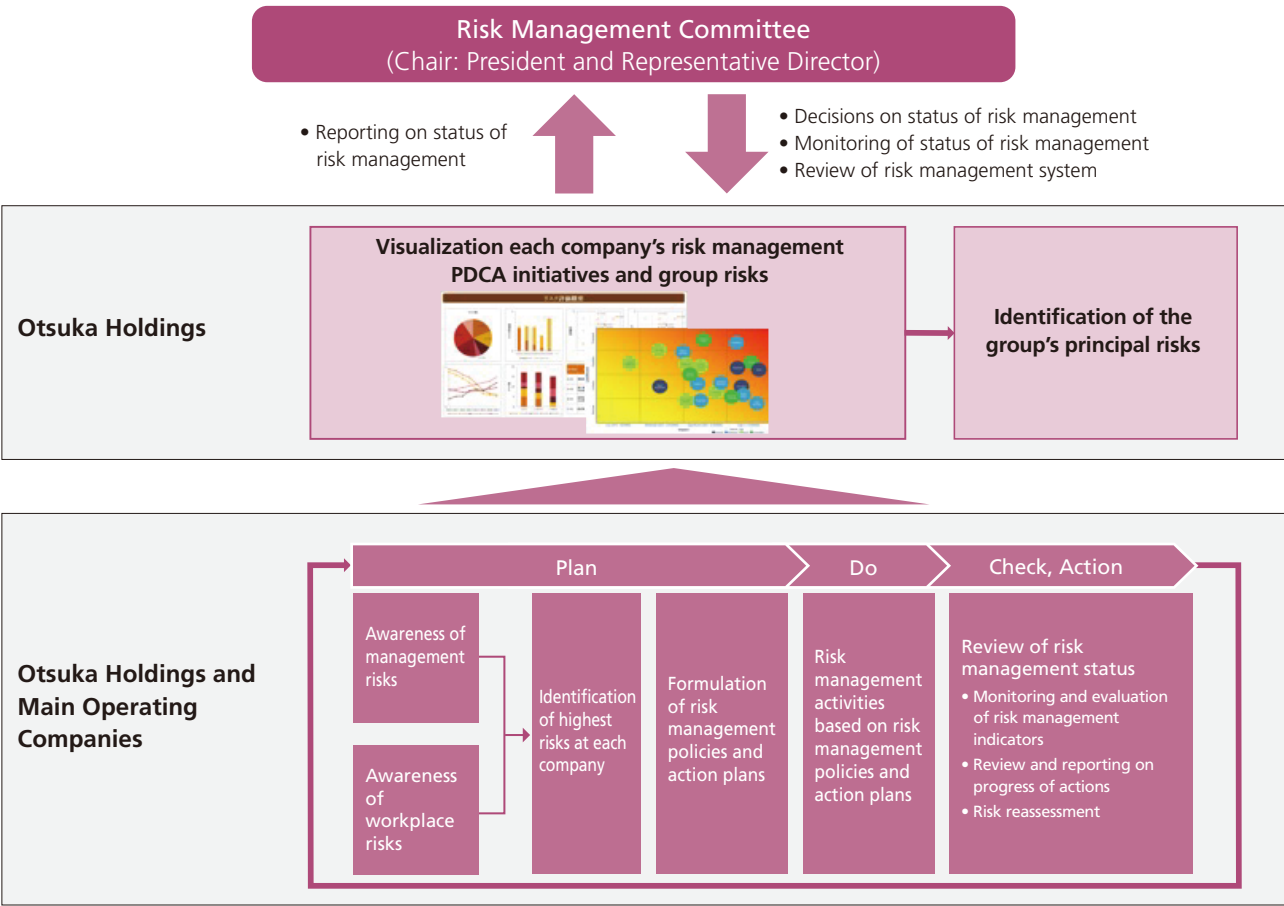
These risk management activities are reported to the Risk Management Committee, which is chaired by the President and Representative Director of the Company. The Risk Management Committee monitors principal risks, examines past risk management activities and considers proposals for their improvement, and regularly reviews the risk management system.

Details of Risk Management Activities

In conducting risk assessments, risk awareness in management is shared through management interviews at Otsuka Holdings and its main operating companies (top-down approach), and assessments and risk control are conducted by front-line employees (bottom-up approach). This enables us to comprehensively identify the risks that exist in the group. Each company formulates risk management policies and risk management action plans for risks that are judged to be its principal risks, and regularly reviews the risk situation and the progress of action plans.

In addition, Otsuka Holdings aggregates and visualizes the results of each group company's assessments to gain a comprehensive understanding of the risks that exist and the control situation in the group. Based on these results, Otsuka Holdings has identified the group's principal risks.

Risk Management System



Principal Risks

Through group-wide risk assessments, the Otsuka group recognizes the following principal risks in Otsuka Holdings and key operating companies, and is taking steps to mitigate them.

Business Risks
<https://www.otsuka.com/en/ir/management/risk.html>

	Item	Response
Risks related to management based on corporate philosophy	Talent recruitment and development risk	<ul style="list-style-type: none">Establishing the Otsuka Global AcademyDeclaring diversity promotion in the Otsuka Group Global Code of Business Ethics, and providing relevant systems and mechanisms
	Risk related to corporate social responsibility	<ul style="list-style-type: none">Determining materiality and resolving social issues through business activitiesEstablishing the Otsuka Group Sustainability Promotion Committee
Risks related to business strategy	Risk as a holding company	<ul style="list-style-type: none">Strategic allocation of managerial resources to measures in each businessEstablishing the Otsuka Group Global Code of Business Ethics and related global policiesUpgrading the internal monitoring framework and establishing a group-wide internal reporting systemEnsuring financial soundness
	Risk related to corporate brand management and reputation	<ul style="list-style-type: none">Establishing the CI Management CommitteeIn-house trainingFormulating the Otsuka Group PR Guidelines

	Item	Response
Risks related to business strategy	Risk related to uncertainty of new drug development	<ul style="list-style-type: none">Decision-making at the Board of DirectorsReview of research and development directions as appropriateEnhancing pipelinesImplementation of monitoring and risk reduction measures
	Risk related to business alliances and acquisitions	<ul style="list-style-type: none">Forming appropriate strategic alliances and making acquisitionsDetailed due diligence and valuation of target companies or assets, extensive discussion by the Board of Directors, and business operation monitoring after investmentDeveloping in-house talent
	Risk related to digitalization	<ul style="list-style-type: none">Adopting state-of-the-art technologies and conducting proof-of-concept, demonstrations and practical applicationHolding seminars to improve IT literacy
	Risk related to healthcare cost containment measures	<ul style="list-style-type: none">Providing products at appropriate prices and demonstrating the value of new drugsContributing to the control of soaring healthcare costs as a total healthcare company
Risks related to production and marketing of products	Risk related to side effects	<ul style="list-style-type: none">Establishing a global safety management structureCentralized management of safety informationEstablishing a system for implementing safety measures
	Risk related to food safety	<ul style="list-style-type: none">Compliance with legal and regulatory requirements, and governmental and industry standardsAcquisition of certifications and specification of monitoring indicatorsEncouraging acquisition of international standard certification
	Risk related to natural disasters and pandemics	<ul style="list-style-type: none">Formulating business continuity plansConducting regular drillsConducting simulated desktop simulation drills jointly among group companiesPromotion of measures against COVID-19Establishing and enhancing work-from-home system and web conferencing systems
	Risk related to supply chain disruption	<ul style="list-style-type: none">Fair, equitable and transparent procurement, and building good relationships with suppliersEnsuring the stable procurement and supply of raw materialsConducting risk assessmentsEstablishing systems to ensure business continuity in the event of the COVID-19 pandemic
	Risk related to raw material price increases	<ul style="list-style-type: none">Purchasing raw materials from multiple companiesGathering information such as market trends and securing alternative raw materialsMaintaining appropriate inventoriesReducing costs by improving productivity
	Risk related to expiration of patent protection	<ul style="list-style-type: none">Focusing on research and development of new products that will drive sustainable growthInitiatives to extend the lifecycle of products
	Risk related to patent infringement	<ul style="list-style-type: none">Establishing a management system for intellectual property rightsConducting investigations and gathering information
Other risks related to business management	Risk related to litigation	<ul style="list-style-type: none">Establishing an internal reporting systemCooperation with outside counsels, etc.
	Risk related to information management	<ul style="list-style-type: none">Establishing the Otsuka Group Global Information Security PolicyEducation and training for executives and employeesEstablishing the Group Information Security Committee
	Risk related to global business operations	<ul style="list-style-type: none">Appropriate management and support for business operations based on the local operating environment
	Risk related to foreign exchange and stock prices	<ul style="list-style-type: none">Use of forward exchange contractsDiversified and periodic review of portfolio