Message from the CFO

Progress in the Third Medium-Term Management Plan

Overview of the Plan

The period of the Third Medium-Term Management Plan is positioned as a five-year growth phase to "Advance in the Global Market as a Unique Total Healthcare Company." In the Pharmaceutical Business and the Nutraceutical Business, we will maximize existing business value and create new value, and conduct business management with a corporate-wide awareness of capital cost, and thereby maintain sustainable growth while at the same time making investments for growth and ensuring returns to shareholders.

Progress in the Middle Year (Fiscal 2021) of the Third Medium-Term Management Plan

In fiscal 2021, our business was impacted by a variety of events such as the COVID-19 pandemic, soaring raw material prices, and supply chain disruptions, but we have been able to overcome these issues by harnessing our strengths in conducting broad-ranging business as a unique total healthcare company.

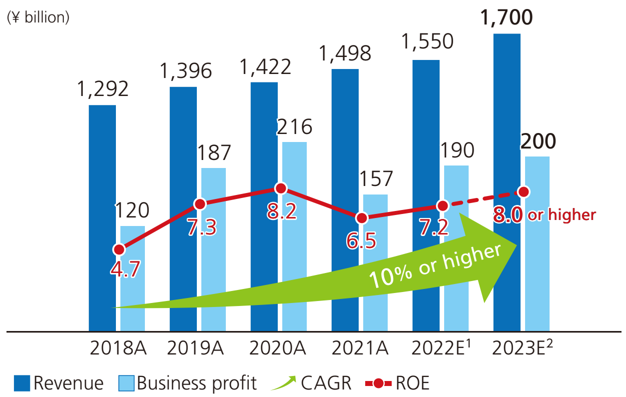
We achieved revenue of 1,498.3 billion yen for the year, an increase of 75.5 billion yen from the previous year mainly from an increase of around 90 billion yen in revenue from the four Global Products in the Pharmaceutical Business and the three Major Brands and three Nurture Brands of the Nutraceutical Business, overcoming loss of revenue due to the expiration of major co-promotion agreements. Business profit was 157.1 billion yen, a decrease of 59.8 billion yen from the previous year, as solid growth in existing businesses was outweighed by an increase in expenses due to one-time factors and the early deployment of investments for growth. ROE was 6.5% and ROIC was 5.6%.

Our initial targets for the middle year of the Third Medium-Term Management Plan were 1,500 billion yen in revenue, 160 billion yen in business profit, and ROE of 6.0% or higher. Excluding the aforementioned expenses due to one-time factors, revenue would be 99.9% of the target, business profit 15.8% above target, and ROE on target.

Results under the Third Medium-Term Management Plan

Fiscal 2023 Targets

- Revenue ¥1,700 billion
- Business profit ¥200 billion (CAGR 10.0% or more)
- ROE 8.0% or higher



1. Announced February 2022
2. Announced May 2019

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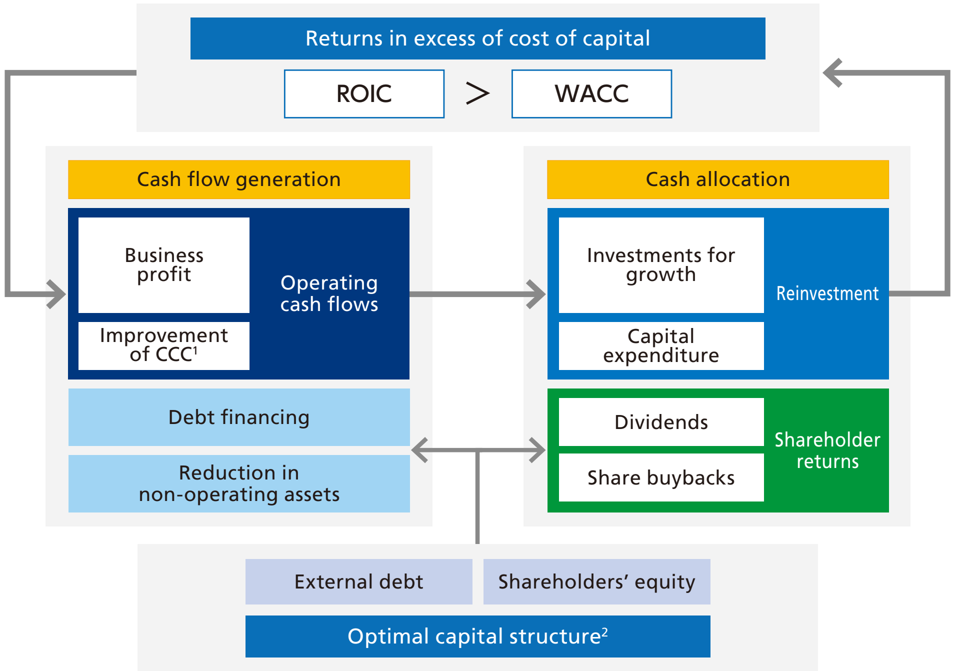
However, a variety of risks—including those relating to geopolitics, interest rates, and exchange rate fluctuation—continue to make for an unpredictable operating environment in fiscal 2022 and beyond. We will keep a close eye on their potential impact on our business and respond flexibly in a timely manner to meet the targets of the Medium-Term Management Plan.

Plan for Fiscal 2022

As we made upfront investments in the period up to and including fiscal 2021, we foresee further growth in the four Global Products of the Pharmaceutical Business, as well as *POCARI SWEAT* and supplements in the Nutraceutical Business. Therefore, for fiscal 2022 we forecast revenue of 1,550 billion yen, a year-on-year increase of 51.7 billion yen. We forecast business profit of 190 billion yen, a year-on-year increase of 32.9 billion yen, led by ongoing growth in existing businesses and increased revenue from new product launches. Our forecast is ROE of 7.2%, a year-on-year increase of 0.7 points, and ROIC of 6.6%, a year-on-year increase of 1.0 points. We will pursue progress toward these targets in line with the Third Medium-Term Management Plan.

Framework of Financial Strategies



1. Cash Conversion Cycle
2. The optimal mix between external borrowing and shareholders' equity

Measures for Enhancing Corporate Value

(1) Maximizing Existing Business Value through ROIC Management

One aim of the Third Medium-Term Management Plan is to embed a commitment throughout the group to focus on: maximization of existing business value as well as new value creation in our core businesses of pharmaceuticals and nutraceuticals while being conscious of capital costs in our business operations. This commitment will lead to maximizing cash returns from existing business, allocating that generated cash to reinvest in future growth areas, and to appropriately making stable and ongoing shareholder returns.

During the Third Medium-Term Management Plan, will work to implement a corporate-wide awareness of capital cost, and as such we have set the weighted average cost of capital (WACC) benchmark for the Otsuka group at 5.5%.

We are focusing on embedding ROIC management during the Third Medium-Term Management Plan in order to secure stable returns on business activities in excess of the cost of capital. In addition to pursuing maximization of revenues, we will aim to achieve better cost management, improved business management tailored to each business and product, and more efficient asset and liability management that is closely aligned to the balance sheet—one of the major factors for ROIC management. Thoroughly implementing this approach will lead to higher cash returns from businesses. Specific measures aimed at establishing ROIC management are outlined below.

Maximizing Revenues from Existing Businesses

We will maximize revenues from our two core businesses: the Pharmaceutical Business and the Nutraceutical Business. In the Pharmaceutical Business, we are two years ahead of schedule, having achieved our final year revenue targets for the four Global Products under the Medium-Term Management Plan. In the Nutraceutical Business, we are aiming for faster growth through a further major expansion of the three Major Brands and by better conveying the value provided by the three Nurture Brands. In the supplement business in particular, higher

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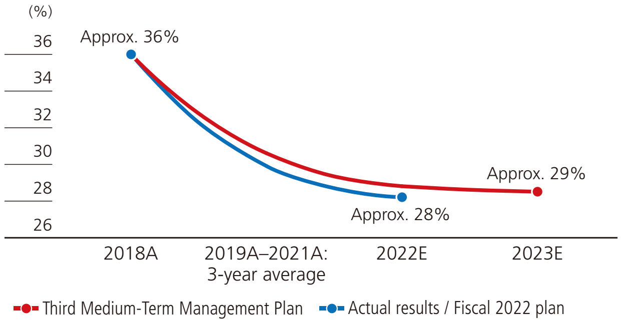
levels of health consciousness and greater trust in our brands and quality are generating revenue growth.

Cost Efficiency in Existing Businesses

As to launched pharmaceutical products, we have set selling, general and administrative (SG&A) expense ratio targets and seek to make efficient use of costs by carefully controlling expenses. Our goal for the SG&A expense ratio in the final year of the Third Medium-Term Management Plan is approximately 29%, which we aim to achieve ahead of time.

In the Nutraceutical Business, amid aggressive investment by competitors, we are striving for efficient, disciplined control of costs through unique methods of communicating product value.

SG&A Expense Ratio of Pharmaceutical Products Already on the Market



Corporate Department Initiatives

The corporate department supports cost efficiency at indirect departments and smooth business operations by enhancing the business foundation group-wide. While strengthening governance through a management structure that encompasses our operations in multiple regions—Japan, North America, Europe, Asia, and China—we are also looking to expand shared services, strengthen our IT platform, promote intragroup financing, and optimize procurement functions. One example of intragroup financing is our adoption of a cash management system for each region. This system leads to more efficient funding among Otsuka group companies in each region, reduces the need for external borrowing, reduces interest payments, and contributes to our ability to generate cash.

Corporate Department Initiatives in Each Region

Initiatives in each region	
Japan	Established Otsuka Business Support in 2019. Standardization and efficiency initiatives in human resources, IT, and accounting.
North America	Standardization and efficiency initiatives in human resources, procurement, finance, and IT, centered on Otsuka America.
Europe	Established Otsuka Holdings Europe in Germany in 2021; began standardization and efficiency initiatives for work processes.
Asia	Standardization and sharing initiatives for finance work processes.
China	Efficiency initiatives for human resources, finance, IT, audit, and compliance work processes, centered on Otsuka (China) Investment.

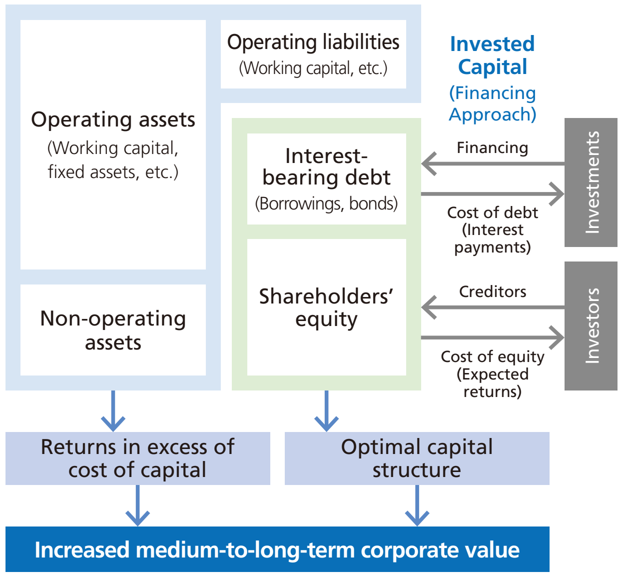
A Close Eye on the Balance Sheet

Looking at invested capital from the assets perspective, we will emphasize efficient management of operating assets, strive to maintain appropriate inventory levels, control working capital, strengthen management of fixed assets, and periodically review shares held for business strategic purposes. Meanwhile, we will continue to address the issue of non-operating assets including idle fixed assets, either by finding ways to make effective use of them in our businesses or by selling them off.

From the financing perspective, we will stabilize our financial base and improve capital efficiency by reducing interest-bearing debt. If external financing is required, we will do so on a case-by-case basis based on a comprehensive assessment of the cost and time required to access the funds, balance in terms of debt-to-equity ratio and other metrics, and credit rating. In this way, we ensure the optimal balance between interest-bearing debt and shareholders' equity in our capital structure.

To embed thorough ROIC management group-wide, we must improve not only short-term capital efficiency, but medium-to-long-term corporate value as well. From a financial standpoint, we must build a stable financial base in order to continue doing what only Otsuka can do. Such

ROIC Management from an Invested Capital Perspective



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a base will in turn help us contribute to society by paving the way for innovation.

(2) Framework of Financial Strategies to Support New Value Creation

Source of Funds for Investments for Growth

In principle, investments for growth are funded through the reinvestment of cash returns generated from businesses, and through effective use of funds from the cash management system established within the Otsuka group in Europe, North America, and Japan. Where external procurement of cash is required, we are always prepared to implement the full range of options, including commercial paper, corporate bonds, bank loans, and share issues. When selecting the optimal approach, we take into account factors such as credit rating, financial security, and the cost and time required, thereby ensuring our ability to act in a timely manner on business opportunities when they arise.

Allocation of Funds for Growth Investments

At the Otsuka group, we see investment as a vehicle for pursuing innovation that enables us to contribute to society. We will continue to pursue investments with the potential to increase corporate value and our social contribution. When reallocating funds for investment, our position continues to be that funds need not necessarily be allocated within their original portfolio segment (such as to a specific business, product, or region within the Pharmaceutical Business or Nutraceutical Business), but that different segments should help each other out with cash for investment.

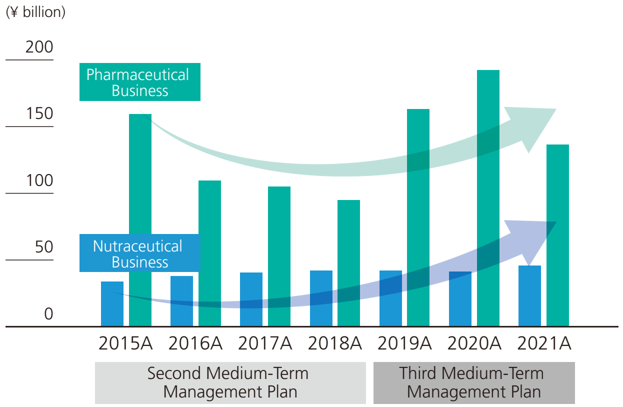
For instance, *ABILIFY* generated large-scale revenues. Cash from *ABILIFY* was used not only to diversify the Pharmaceutical Business's revenue structure and promote globalization of our business so as to avert the risk of impending patent expiration during the Second Medium-Term Management Plan period, but also to fund investments for organic growth in the Nutraceutical Business.

By business segment, in the Pharmaceutical Business we are directing funds toward ongoing investments in R&D aimed at enhancing our products and pipelines in core areas such as the psychiatry and neurology area, the oncology area, and the cardiovascular and renal area. In addition, investments are targeted at creating new value to meet unmet medical needs, including diseases with no existing therapeutic drugs; in new concepts that integrate drugs with digital technologies, such as *ABILIFY MYCITE*; and in medical devices that apply new approaches such as ultrasound renal denervation treatment. By refining manufacturing technologies, enhancing product quality, and implementing rationalization measures, the clinical nutrition business has achieved stable cash generation in the Japanese market. To link this to success in overseas growth markets, we are allocating funds not only by business area, but also by regional market.

In the Nutraceutical Business, we are reallocating cash earned from the three Major Brands to the creation of new categories and expanding into new regions. We will build brands and strengthen manufacturing and marketing structures for the three Nurture Brands by making proactive investments that will better convey the value of our products.

Through aggressive investments in the Pharmaceutical and Nutraceutical Businesses we have established a structure in which the two businesses are both inseparable—like two wheels of a cart—but also capable of supporting each other in terms of revenues and profit during the period of the Third Medium-Term Management Plan. While the Pharmaceutical Business is susceptible to ups and downs in revenues and profits due to factors such as the expiration of exclusive licenses, the Nutraceutical Business's steady generation of profits has enabled the group as a whole to sustain stable growth.

Business Profits in the Pharmaceutical and Nutraceutical Businesses



(3) Shareholder Returns Policy

Our basic policy for shareholder returns is to maintain stable dividends. While emphasizing the continuity and stability of dividends, we carefully consider the amount of dividends, comprehensively weigh issues such as appropriate levels of retained cash for investments for growth, maintaining a solid financial standing, and achieving the optimal capital structure.

As a core tenet of our financial strategy, we have continued to issue stable dividends during the Third Medium-Term Management Plan period, despite short-term fluctuations in performance. Moving forward, we will consider further shareholder returns depending on circumstances, which include the outlook of investments for growth targeting increased profit under subsequent medium-term management plans, and the group's overall financial situation.