

(Translation)

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March 8, 2021
Tatsuo Higuchi
President and Representative Director
Otsuka Holdings Co., Ltd.
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

Notice for the Calling of the 13th Annual Shareholders Meeting **(for FY2020)**

Dear Shareholders,

We are pleased to announce the 13th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the “Company”), which will be held as indicated below.

As concerns remain regarding the spread of the novel coronavirus (COVID-19), we ask shareholders to avoid attending in person if possible, regardless of their state of health, and to exercise their voting rights in writing (by post) or via the Internet.

To exercise your voting rights in writing (by post) or via the Internet, please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights following the procedure described below so that your vote is received by the designated time, 5:30 p.m. (the close of business hours) on Monday, March 29, 2021 (JST).

To exercise your voting rights in writing (by post)

Please indicate on the enclosed “Voting Form” whether you approve or disapprove of the proposal and return the completed form by the designated time above. → Please refer to page 3.

To exercise your voting rights via the Internet

Please access to the Website for Exercising Voting Rights designated by the Company (<https://evote.tr.mufg.jp/>) and follow the instructions on the screen to input your approval or disapproval for the proposal by the designated time above. → Please refer to pages 3 and 4.

* If future developments necessitate significant changes in the way, etc. the Annual Shareholders Meeting will be run, shareholders will be informed via [our website](#).

Details

1. Date and Time:

Tuesday, March 30, 2021, at 10:00 a.m.

2. Place:

ANA InterContinental Tokyo, B1F, Prominence

1-12-33 Akasaka, Minato-ku, Tokyo

3. Purpose of the Meeting

Matters to be reported:

- a. Business Report and Consolidated Financial Statements, as well as the audit reports of the Accounting Auditors and the Audit & Supervisory Board for Consolidated Financial Statements, for the 13th Fiscal Year (from January 1, 2020 to December 31, 2020)
- b. Financial Statements for the 13th Fiscal Year (from January 1, 2020 to December 31, 2020)

Matters to be resolved:

Proposal 1: Election of Thirteen (13) Directors

Proposal 2: Election of Accounting Auditor

Notes:

- * You are kindly requested to present the enclosed "Voting Form" to the receptionist when you attend the meeting.
- * You may designate one other shareholder with voting rights as your proxy to exercise your voting rights in accordance with the Articles of Incorporation. In such a case, your proxy will be required to submit documentation indicating his/her authority in advance to act as your proxy.
- * If any changes have been made to items in the Reference Documents for Shareholders Meeting, Business Report, Financial Statements, or Consolidated Financial Statements, such changes will be posted on our website.

Our website <https://www.otsuka.com/>

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–19).

You may exercise your voting rights using the following three methods.

1. To exercise your voting rights in writing (by post)

Please indicate on the enclosed “Voting Form” whether you approve or disapprove of the proposal, and return it by the voting deadline below.

Deadline: to be received on Monday, **March 29, 2021, at 5:30 p.m.**

2. To exercise your voting rights via the Internet

You can exercise your voting rights using a personal computer (PC), a cellular phone or a smartphone.

Please refer to the following page for details.

Deadline: to be exercised on Monday, **March 29, 2021, at 5:30 p.m.**

3. To exercise your voting rights by attending the Shareholders Meeting

Please submit the enclosed “Voting Form” to the receptionist.

Please also bring with you “Notice for the Calling of the 13th Annual Shareholders Meeting” (this document).

Date and time of the meeting: Tuesday, **March 30, 2021, at 10:00 a.m.**

[How to fill out the “Voting Form”]

Please indicate whether you approve or disapprove of the proposal.

(When neither “Approve” nor “Disapprove” is circled on a Proposal, that proposal will be deemed to indicate approval.)

Proposal 1

- To mark your approval for all candidates → Circle “Approve.”
- To mark your disapproval for all candidates → Circle “Disapprove.”
- To mark your disapproval for certain candidates → Circle “Approve” and write the number of the candidate(s) you wish to disapprove.

Proposal 2

- To mark your approval → Circle “Approve.”
- To mark your disapproval → Circle “Disapprove.”

Please note that your online vote will prevail should you exercise your voting rights both in writing (by post) and via the Internet. If you exercise your voting rights more than once via the Internet, only the last vote shall be deemed effective.

Guidance for Exercising Voting Rights via the Internet

How to scan QR code

You can log in the Website for Exercising Voting Rights by scanning the QR code® without entering your login ID and password.

1. Please scan QR code provided at the bottom right of the “Voting Form.”
*QR code is registered trademarks of DENSO WAVE INCORPORATED.
2. Please follow the directions that appear on the screen to input approval or disapproval to the proposal.

Exercising voting rights by scanning the QR code is available only once.

If you need to change your votes after exercising your voting rights, please log in the Website for Exercising Voting Rights for a personal computer by using your login ID and provisional password provided on the “Voting Form” and exercise your voting rights again.

*If you rescan the QR code, you can access the Website for Exercising Voting Rights for a personal computer.

How to enter login ID and password

Website for Exercising Voting Rights: <https://evote.tr.mufg.jp/>

1. Please access the Website for Exercising Voting Rights.
2. Please enter the login ID and provisional password provided on the “Voting Form.”
3. If you log in the website by using the provisional password, you will be asked to change your password on the screen. Please change it to any password of your choosing.
4. Please follow the directions that appear on the screen to input approval or disapproval to the proposal.

If you have any inquiries about the operation of a PC, a cellular phone or a smartphone regarding the exercise of voting rights via the Internet, contact the following:

Corporate Agency Division (Help Desk), Mitsubishi UFJ Trust and Banking Corporation Phone: 0120-173-027 (9:00 to 21:00 (JST); toll free (Japan only))
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Institutional investors may use the platform for electronic exercise of voting rights for institutional investors, operated by ICJ, Inc.

Reference Documents for Shareholders Meeting


Proposal 1: Election of Thirteen (13) Directors

The terms of office of all thirteen (13) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect thirteen (13) Directors.


The candidates for Directors are as follows:

Candidate No.	Name	Term of office as Director*	Current position and areas of responsibility in the Company	Attendance rate at meetings of the Board of Directors
1	Reappointment Ichiro Otsuka	12 years and 8 months	Chairman and Representative Director	100%
2	Reappointment Tatsuo Higuchi	12 years and 8 months	President and Representative Director, CEO	100%
3	Reappointment Yoshiro Matsuo	12 years and 8 months	Senior Managing Director	100%
4	Reappointment Yuko Makino	3 years	Executive Director, CFO	100%
5	Reappointment Shuichi Takagi	2 years	Executive Director, Business Portfolio Management	100%
6	Reappointment Sadanobu Tobe	10 years and 8 months	Executive Director	100%
7	Reappointment Masayuki Kobayashi	4 years	Executive Director	100%
8	Reappointment Noriko Tojo	6 years and 10 months	Executive Director	100%
9	Reappointment Makoto Inoue	1 year	Executive Director	100%
10	Reappointment Outside Independent Yukio Matsutani	5 years	Outside Director	100%
11	Reappointment Outside Independent Ko Sekiguchi	3 years	Outside Director	100%
12	Reappointment Outside Independent Yoshihisa Aoki	2 years	Outside Director	100%
13	Reappointment Outside Independent Mayo Mita	1 year	Outside Director	100%

*: The term of office as director represents the total period including their past term of office.


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
1	<p data-bbox="295 264 475 297">Reappointment</p>  <p data-bbox="295 566 491 633">Ichiro Otsuka (February 15, 1965)</p> <p data-bbox="295 667 491 813">Position and areas of responsibility in the Company: Chairman and Representative Director</p> <p data-bbox="295 846 491 925">Term of office as Director: 12 years and 8 months</p>	<p data-bbox="518 264 1225 297">April 1987 Joined Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 297 1225 365">June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="518 365 1225 443">June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="518 443 1225 510">December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 510 1225 566">May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 566 1225 622">December 2003 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 622 1225 678">December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 678 1225 712">July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="518 712 1225 768">June 2010 Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="518 768 1225 824">June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 824 1225 880">Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="518 880 1225 936">March 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p data-bbox="518 936 1225 992">Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)</p> <p data-bbox="518 992 1225 1048">Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="518 1048 1225 1081">[Significant concurrent positions outside the Company]</p> <p data-bbox="518 1081 1225 1115">Chairman, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="518 1115 1225 1149">Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="518 1149 1225 1182">President and Representative Director, Otsuka Estate Co., Ltd.</p> <p data-bbox="518 1182 1225 1216">President and Representative Director, Otsuka Asset Co., Ltd.</p>	7,061,704
<p data-bbox="295 1227 850 1261">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="295 1261 1185 1509">Mr. Ichiro Otsuka is involved in all areas of management of the Company and its subsidiaries (hereinafter referred to as the "Group") and has a deep understanding of the characteristics and business strategies of each business. From a higher perspective on the Group's businesses, by planning optimal coordination and collaboration among Group companies, businesses and areas, as well as promoting creative business development eyeing medium- to long-term growth in line with the corporate philosophy, he has achieved a proven track record of enhancing corporate value. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			

(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
2	<div data-bbox="296 262 480 295" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 331 488 528" style="text-align: center;">  </div> <p data-bbox="296 564 480 629">Tatsuo Higuchi (June 14, 1950)</p> <p data-bbox="296 665 480 808">Position and areas of responsibility in the Company: President and Representative Director, CEO</p> <p data-bbox="296 844 480 922">Term of office as Director: 12 years and 8 months</p>	<p data-bbox="523 262 1233 288">March 1977 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 293 1233 342">June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)</p> <p data-bbox="523 347 1233 396">November 1998 Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 400 1233 450">June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 454 1233 504">June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 508 1233 557">June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 562 1233 611">July 2008 President and Representative Director, CEO, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="523 616 1233 665">December 2011 Executive Director, Otsuka Chemical Co., Ltd.</p> <p data-bbox="523 669 1233 719">February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 723 1233 772">March 2020 Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p data-bbox="523 777 1233 826">[Significant concurrent positions outside the Company] Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p>	150,000
	<p data-bbox="296 934 847 960">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="296 965 1193 1261">Mr. Tatsuo Higuchi, in line with the Group's corporate philosophy, has contributed greatly to increasing the corporate value of the Group through outstanding leadership, has been driving the entire Group with a view towards achieving its Third Medium-Term Management Plan and subsequent growth, aiming to advance globally as a unique total healthcare company, and has been steadily achieving results. He has been focusing on enhancing corporate governance, as well as on investment for future growth, achieving short- and medium-term business performance, and development of human resources, and he has a proven track record in the globalization and diversification of the Group businesses. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
3	<div style="border: 1px solid black; padding: 2px; width: fit-content;">Reappointment</div>  <p>Yoshiro Matsuo (November 3, 1960)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director</p> <p>Term of office as Director: 12 years and 8 months</p>	<p>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>January 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>November 2007 Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.</p> <p>March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.</p> <p>January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)</p> <p>March 2019 Senior Managing Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Executive Director, Otsuka Medical Devices Co., Ltd.</p>	55,960
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Yoshiro Matsuo has abundant operational experience in all of the corporate departments, primarily in general affairs departments and human resources departments. He has been focusing on enhancing the functions of corporate departments required as a holdings company in managing a number of subsidiaries, and has been achieving results. He has in-depth knowledge in Group operations and corporate governance. The Company deems that it can expect him to, by making use of his expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		
4	<div style="border: 1px solid black; padding: 2px; width: fit-content;">Reappointment</div>  <p>Yuko Makino (October 23, 1961)</p> <p>Position and areas of responsibility in the Company: Executive Director, CFO</p> <p>Term of office as Director: 3 years</p>	<p>April 1982 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>April 1996 Joined Baxter Limited</p> <p>April 2000 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>March 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.</p> <p>September 2016 Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>April 2017 Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd. Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>March 2018 Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.</p> <p>March 2019 Executive Director, CFO, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] -</p>	15,700
	<p>[Reasons for nominating her as a candidate for Director]</p> <p>Ms. Yuko Makino has a high level of expertise in finance and a proven track record in formulating and implementing financial strategies for the Company. She has been promoting the enhancement and sophistication of the management platform by optimizing the Group's corporate functions, and has been achieving results. The Company deems that it can expect her to, by making use of her broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</p>		

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Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
5	<div data-bbox="296 264 478 295" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 331 488 528" style="text-align: center;">  </div> <p data-bbox="296 564 478 627">Shuichi Takagi (January 3, 1966)</p> <p data-bbox="296 663 478 806">Position and areas of responsibility in the Company: Executive Director, Business Portfolio Management</p> <p data-bbox="296 842 478 918">Term of office as Director: 2 years</p>	<p data-bbox="520 259 1235 286">April 1989 Joined TOBISHIMA CORPORATION</p> <p data-bbox="520 295 1235 322">September 1995 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 331 1235 376">August 2002 Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 385 1235 430">July 2003 Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 439 1235 483">March 2015 Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="520 492 1235 537">May 2015 CEO, Claris Otsuka Private Limited (present day Otsuka Pharmaceutical India Private Limited)</p> <p data-bbox="520 546 1235 591">January 2019 Senior Vice President, President's Office, Otsuka Holdings Co., Ltd.</p> <p data-bbox="520 600 1235 680">March 2019 Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p data-bbox="520 689 1235 743">Executive Director, Business Portfolio Management, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 752 1235 784">[Significant concurrent positions outside the Company]</p> <p data-bbox="520 792 1235 837">Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd.</p>	20,000
<p data-bbox="296 927 849 958">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="296 967 1225 1149">Mr. Shuichi Takagi has experience and a proven track record in the fields of finance and accounting and several overseas subsidiaries (including management experience). His abundant experience, expertise and insight regarding management are indispensable in improving the quality of management, including portfolio management and monitoring, of the overall Group, which consists of many subsidiaries and promotes global business. The Company deems that it can expect him to ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			

(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointment</div>	<p>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)</p> <p>July 1993 Executive Deputy President and Representative Director, Otsuka Foods Co., Ltd.</p> <p>November 2004 Executive Deputy President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)</p> <p>May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.</p> <p>June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.</p> <p>June 2012 Vice Chairman, Otsuka Foods Co., Ltd.</p> <p>June 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.</p> <p>November 2013 President and Representative Director, Otsuka Foods Co., Ltd.</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>March 2018 Chairman, Otsuka Foods Co., Ltd.</p> <p>March 2019 Executive Director, Otsuka Foods Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Executive Director, Otsuka Foods Co., Ltd.</p>	1,206,426
	 <p>Sadanobu Tobe (April 18, 1941)</p> <p>Position and areas of responsibility in the Company: Executive Director</p> <p>Term of office as Director: 10 years and 8 months</p>		
<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Sadanobu Tobe has broad experience in corporate management, as well as wealthy insight on the businesses of the overall Group, and has a deep understanding particularly of the overall value chain, including research and development, manufacturing, and marketing centered on consumer products business. The Company deems that it can expect him to, by making use of his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
7	<p>Reappointment</p>  <p>Masayuki Kobayashi (July 10, 1966)</p> <p>Position and areas of responsibility in the Company: Executive Director</p> <p>Term of office as Director: 4 years</p>	<p>April 1989 Joined The Daiwa Bank, Ltd. (present day Resona Bank, Limited)</p> <p>October 1993 Joined Taiho Pharmaceutical Co., Ltd.</p> <p>August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.)</p> <p>September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd.</p> <p>April 2010 President and CEO, Otsuka America, Inc.</p> <p>April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position)</p> <p>Executive Director, Taiho Pharma USA, Inc.</p> <p>April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position)</p> <p>March 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.</p>	66,100
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Masayuki Kobayashi has broad experience and a track record in corporate management, including the management of overseas subsidiaries. He has a proven track record as the president of Taiho Pharmaceutical Co., Ltd., such as expanding and globalizing its business, has been focusing on the development of the pharmaceutical business of the Group as a whole, and has been steadily achieving results. The Company deems that it can expect him to, by utilizing his managerial skills, broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		
8	<p>Reappointment</p>  <p>Noriko Tojo (February 28, 1964)</p> <p>Position and areas of responsibility in the Company: Executive Director</p> <p>Term of office as Director: 6 years and 10 months</p>	<p>April 1987 Joined Goldman Sachs (Japan) Corporation</p> <p>August 1991 Joined Shearson Lehman Brothers Holdings Inc.</p> <p>July 2002 Engagement Manager, McKinsey & Company, Japan Office</p> <p>June 2006 Director, Intel Capital Japan, Intel Corporation</p> <p>August 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.</p> <p>February 2011 Executive Director, Otsuka Medical Devices Co., Ltd.</p> <p>April 2012 President and CEO, Otsuka America, Inc.</p> <p>August 2015 Executive Director and CEO, Pharmavite LLC</p> <p>January 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position)</p> <p>May 2017 Executive Director, Otsuka America, Inc.</p> <p>August 2017 Chairman, Pharmavite LLC</p> <p>March 2018 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Medical Devices Co., Ltd.</p>	53,000
	<p>[Reasons for nominating her as a candidate for Director]</p> <p>As the president of Otsuka Medical Devices Co., Ltd., Ms. Noriko Tojo has actively promoted business and organizational reform and has a proven track record after managing the corporate development department at the Company and overseas subsidiaries. The Company deems that it can expect her to, by making use of her managerial skills, broad experience, expertise, management knowledge and experience in corporate analysis, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</p>		


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned																																				
9	<div data-bbox="296 264 488 297" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 331 488 528" style="text-align: center;">  </div> <p data-bbox="296 566 488 629">Makoto Inoue (August 9, 1958)</p> <p data-bbox="296 667 488 763">Position and areas of responsibility in the Company: Executive Director</p> <p data-bbox="296 801 488 875">Term of office as Director: 1 year</p>	<table border="0"> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">1983</td> <td>Joined Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">June</td> <td style="vertical-align: top;">2008</td> <td>Vice President, General Manager of Diagnostic Division, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">June</td> <td style="vertical-align: top;">2009</td> <td>Senior Vice President, Deputy General Manager of Pharmaceutical Business Division, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2015</td> <td>Executive Director, Executive Vice President, General Manager of Nutraceutical Business Division, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">2015</td> <td>Executive Director, Pharmavite LLC</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2017</td> <td>Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">September</td> <td style="vertical-align: top;">2017</td> <td>Executive Director, Daiya Foods Inc.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2018</td> <td>Senior Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">October</td> <td style="vertical-align: top;">2018</td> <td>Chairman, Nardobel SAS</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2019</td> <td>Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2020</td> <td>President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2020</td> <td>Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</td> </tr> </table> <p data-bbox="520 898 1222 958">[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p>	April	1983	Joined Otsuka Pharmaceutical Co., Ltd.	June	2008	Vice President, General Manager of Diagnostic Division, Otsuka Pharmaceutical Co., Ltd.	June	2009	Senior Vice President, Deputy General Manager of Pharmaceutical Business Division, Otsuka Pharmaceutical Co., Ltd.	March	2015	Executive Director, Executive Vice President, General Manager of Nutraceutical Business Division, Otsuka Pharmaceutical Co., Ltd.	April	2015	Executive Director, Pharmavite LLC	March	2017	Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.	September	2017	Executive Director, Daiya Foods Inc.	March	2018	Senior Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.	October	2018	Chairman, Nardobel SAS	March	2019	Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.	March	2020	President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)	March	2020	Executive Director, Otsuka Holdings Co., Ltd. (Current Position)	35,400
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March	2020	Executive Director, Otsuka Holdings Co., Ltd. (Current Position)																																					
<p data-bbox="296 965 850 992">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="296 999 1230 1214">Mr. Makoto Inoue has abundant experience and a track record in both the pharmaceutical business and the nutraceutical business, which are the core businesses of the Group, and also has a proven track record as the president of Otsuka Pharmaceutical Co., Ltd. He has outstanding management capabilities and has made huge contribution to business development through collaboration with the Group's main businesses. The Company deems that it can expect him to, by making use of his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>																																							


(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
10	<div data-bbox="296 264 488 297" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 309 488 365" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="296 376 488 432" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div>  <p data-bbox="296 701 488 757">Yukio Matsutani (October 20, 1949)</p> <p data-bbox="296 790 488 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="296 925 488 1003">Term of office as Outside Director: 5 years</p>	<p data-bbox="520 253 1228 309">April 1975 Intern, Pediatric Department, St. Luke's International Hospital</p> <p data-bbox="520 320 1228 376">October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)</p> <p data-bbox="520 387 1228 443">August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare</p> <p data-bbox="520 454 1228 510">August 2007 Director, National Sanatorium Tama Zenshoen</p> <p data-bbox="520 521 1228 577">April 2012 President, National Institute of Public Health</p> <p data-bbox="520 589 1228 645">December 2015 Vice President, International University of Health and Welfare</p> <p data-bbox="520 656 1228 712">March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 723 1228 779">June 2019 President, Japan Public Health Association (Current Position)</p> <p data-bbox="520 790 1228 846">[Significant concurrent positions outside the Company] President, Japan Public Health Association</p>	0
	<p data-bbox="296 1014 488 1070">[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p data-bbox="296 1081 488 1189">Mr. Yukio Matsutani has abundant experience and extensive knowledge in the healthcare and welfare field, as well as 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. Therefore, the Company nominated him as a candidate for Outside Director.</p>		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
11	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Reappointment</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Independent Officer</div>  <p>Ko Sekiguchi (May 4, 1948)</p> <p>Position and areas of responsibility in the Company: Outside Director</p> <p>Term of office as Outside Director: 3 years</p>	<p>April 1973 Joined Mitsubishi Corporation</p> <p>May 1990 Joined The Boston Consulting Group</p> <p>January 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company)</p> <p>November 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K.K.)</p> <p>July 2009 Chairman and Director, Janssen Kyowa Co., Ltd.</p> <p>October 2009 Supreme Advisor, Janssen Kyowa Co., Ltd.</p> <p>January 2011 Representative Director, DIA Japan (present day SH DIA Japan)</p> <p>April 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation)</p> <p>March 2014 Outside Director, Kenedix, Inc.</p> <p>March 2018 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company]</p> <p>—</p>	0
	<p>[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p>Mr. Ko Sekiguchi has abundant experience, a track record, and extensive knowledge as a corporate manager and 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. Therefore, the Company nominated him as a candidate for Outside Director.</p>		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
12	<div data-bbox="296 264 488 297" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 309 488 360" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="296 371 488 423" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div> <div data-bbox="296 461 488 656" style="text-align: center;">  </div> <p data-bbox="296 696 488 757">Yoshihisa Aoki (January 17, 1952)</p> <p data-bbox="296 792 488 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="296 927 488 1003">Term of office as Outside Director: 2 years</p>	<p data-bbox="520 255 1228 288">April 1974 Joined ITOCHU Corporation</p> <p data-bbox="520 293 1228 327">June 2003 Executive Officer, ITOCHU Corporation</p> <p data-bbox="520 331 1228 383">April 2009 Managing Executive Officer, President, Food Company, ITOCHU Corporation</p> <p data-bbox="520 387 1228 461">April 2010 Member of the Board, Senior Managing Executive Officer, President, Food Company, ITOCHU Corporation</p> <p data-bbox="520 465 1228 517">March 2017 Administrative Officer, ITOCHU Corporation (Current Position)</p> <p data-bbox="520 521 1228 573">June 2017 Outside Director, ARATA CORPORATION (Current Position)</p> <p data-bbox="520 577 1228 629">March 2019 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 633 1228 696">[Significant concurrent positions outside the Company] Outside Director, ARATA CORPORATION</p>	0
	<p data-bbox="296 1010 488 1061">[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p data-bbox="296 1066 488 1189">Mr. Yoshihisa Aoki has abundant experience, a track record, and extensive knowledge as a corporate manager and abundant experience, expertise and 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. Therefore, the Company nominated him as a candidate for Outside Director.</p>		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
13	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Reappointment</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Independent Officer</div>  <p>Mayo Mita (October 14, 1960)</p> <p>Position and areas of responsibility in the Company: Outside Director</p> <p>Term of office as Outside Director: 1 year</p>	<p>April 1983 Joined Morgan Stanley Japan Securities Co., Ltd. (present day Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)</p> <p>January 1989 Equity Research Division (Healthcare), Morgan Stanley Japan Securities Co., Ltd.</p> <p>December 2000 Managing Director, Morgan Stanley Japan Securities Co., Ltd.</p> <p>December 2013 Senior Advisor, Investment Banking Business Unit (Healthcare), Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.</p> <p>March 2020 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] -</p>	0
	<p>[Reason for nominating her as a candidate for Outside Director and overview of the role expected of her]</p> <p>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. Therefore, the Company nominated her as a candidate for Outside Director.</p> <p>Note: Ms. Mayo Mita's name on the family register is Ms. Mayo Nakatsuka.</p>		

Notes:

1. The candidates have no special interests in the Company.
2. The numbers of the Company's shares owned by Ichiro Otsuka and Sadanobu Tobe are those actually held, including shares in the Otsuka Founders Shareholding Fund Trust Account.
3. Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita are candidates for Outside Directors. The four conform with the following Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines, and the Company has registered them as Independent Officers as provided for under the rules of the Tokyo Stock Exchange.
4. Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into agreements with Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita which limit their liabilities for damages under Article 423, paragraph (1) of the same Act. If their reappointments are approved, the Company plans to continue these agreements. The maximum amount of liabilities under the said agreement shall be the minimum amounts set forth in laws and regulations. The limitation of liability specified in these agreements shall be limited to times when the Outside Directors are without knowledge and not grossly negligent in performing the duties as Outside Director that cause liability.
5. Pursuant to Article 430-3 of the Companies Act, the Company has entered into executive liability limitation insurance agreements whose content is summarized below. The candidates for Directors are already covered by the insurance agreements and will continue to be covered by them after reelection. The insurance agreements are scheduled to be renewed in July 2021.

Summary of the Insurance Agreements

(1) Scope of insured persons

The Directors and Audit & Supervisory Board Members of the Company and the Directors and Audit & Supervisory Board Members of the Company's major subsidiaries in Japan (including those appointed after the agreement was concluded)

(2) Actual portion of insurance premium borne by insured persons

Insurance premiums are borne by the Company, and the insured persons do not bear any of the premiums.

(3) Summary of insurance incidents subject to cover

The insurance covers damages caused by claims for damage compensation arising from the performance of duties by the insured persons (legally mandated damage compensation and legal expenses)

(Translation)

- (4) Measures to ensure that the propriety of the duties of executives, etc., is not impaired
The insurance agreement includes an exclusion clause that excludes coverage for liability arising from certain acts by the insured persons, such as intentional behavior, unlawful personal profit or remuneration and violations of law.

<Independence Criteria for Outside Directors>

The Company deems that an Outside Director has independence when not falling under any of the items below.

- (1) The Outside Director in question has any close relative within the second degree of kinship who is currently or has in the past three years served as an executive director, executive officer (*shikkoyaku*), vice president (*shikkoyakuin*), or important employee (collectively, hereinafter “Executive”) of the Company or one of the Company’s subsidiaries.
- (2) The company at which the Outside Director in question currently serves as an Executive has transactions with Group companies, and the amount of those transactions between the company and any of the Group companies in the past three fiscal years is more than 2% of the consolidated net sales of any of the respective companies.
- (3) The Outside Director in question, in any one fiscal year in the past three fiscal years, has received remuneration in excess of ¥5 million as an expert or consultant in law, accounting, or tax, directly from Group companies (excluding the remuneration as Director of the Company).
- (4) Contributions to a non-profit organization at which the Outside Director in question serves as an Executive total more than ¥10 million in the past three fiscal years, and, exceed 2% of the gross income of the organization in question.

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[For Reference]

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				●		●			

Proposal 2: Election of Accounting Auditor

The term of office of Deloitte Touche Tohmatsu LLC as accounting auditor of the Company will expire at the conclusion of this meeting. Accordingly, the Company proposes the election of the new accounting auditor based on determination by the Audit & Supervisory Board.

In addition to being able to expect auditing from a new viewpoint with appointment of KPMG AZSA LLC, the Audit & Supervisory Board took into consideration of the consecutive years of service of the current accounting auditor and the fact that the rotation system of the audit firm has been introduced in other countries, and determined the suitability of KPMG AZSA LLC by conducting an examination of its independence, expertise, quality control system, global auditing structure, etc.

The name of the candidate for accounting auditor, along with the location of its main office and its history, etc. are as follows.

(As of December 31, 2020)

Name	KPMG AZSA LLC		
Address	Headquarters: 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo		
History	July	1969	Asahi & Co. was established.
	July	1985	Merged with Shinwa Audit Corporation (established in December 1974) to form Asahi Shinwa & Co.
	October	1993	Merged with Inoue Saito Eiwa Audit Corporation (established in April 1978) and changed its name to Asahi & Co.
	January	2004	Merged with AZSA & Co. (established in February 2003) and was named as KPMG AZSA & Co.
	July	2010	KPMG AZSA & Co. became a limited liable company and changed its name to KPMG AZSA LLC.
Outline	Capital		¥3,000 million
	Personnel		
	No. of CPA:		3,159
	No. of Newly certified and Junior CPA:		1,011
	No. of Professionals:		1,094
	No. of Administrations:		754
	Total:		6,018
No. of Audit clients:		3,669	

Attached documents

Business Report

(From January 1, 2020 to December 31, 2020)

1. Business Progress and Achievement of the Group**(1) Overview of Business during the Current Fiscal Year**

i) Business activity and results

Operating results

The Company and its subsidiaries (hereinafter referred to as the “Group”) adopted “Business profit” as an indicator of ordinary earnings power, which is calculated as follows:

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of associates

(Millions of yen)

	FY2019 (Fiscal year ended December 31, 2019)	FY2020 (Fiscal year ended December 31, 2020)	Change	% Change
Revenue	1,396,240	1,422,826	26,585	1.9%
Business profit before research and development expenses	402,957	433,729	30,771	7.6%
Business profit	187,168	216,887	29,719	15.9%
Operating profit	176,585	198,582	21,997	12.5%
Profit before tax	173,515	189,988	16,472	9.5%
Profit for the year	131,187	151,733	20,546	15.7%
Profit attributable to owners of the Company	127,151	148,137	20,986	16.5%
Research and development expenses	215,789	216,841	1,051	0.5%
Impairment losses	13,476	26,110	12,634	93.8%

Based on the concept of total health care, the Group has been promoting corporate activities to maintain and promote health and diagnose and treat disease. Now is the time to demonstrate the Group’s true value as a total healthcare provider, and harness the opportunities presented by a growing awareness of health in the new normal in order to continue to move toward the realization of sustainable growth.

For FY2020, the Group recorded consolidated revenue of ¥1,422,826 million (up 1.9% year on year), although the Group’s business activities were affected to a certain extent by the spread of COVID-19. The revenue in the pharmaceutical business increased primarily driven by sales growth of the four global products (*ABILIFY MAINTENA*, *REXULTI*^{*1}/*RXULTI*^{*2}, *JINARC*^{*3}/*JYNARQUE*^{*4} and *LONSURF*) although intravenous solutions and some other therapeutic businesses were affected by decreases in the number of patient visits and operations and in bed occupancy rate. In the nutraceutical business^{*5}, although beverage consumption was affected by fewer occasions to go out and unfavorable weather in Japan, sales of *Nature Made*, the Daiya Foods Inc. brand and *EQUELLE* grew in line with a rising awareness toward self-management of health, and revenue was maintained at the same level as that for the previous fiscal year even under the condition of the spread of COVID-19.

Business profit before research and development expenses was ¥433,729 million (up 7.6%) as a result of further cost efficiency improvement. The Group recorded research and development expenses of ¥216,841 million (up 0.5%) due to an increase in development expenses for *REXULTI/RXULTI*, futibatinib, centanafadine and VIS649, which resulted in business profit of

(Translation)

¥216,887 million (up 15.9%).

The Group also recorded operating profit of ¥198,582 million (up 12.5%), profit for the year of ¥151,733 million (up 15.7%) and profit attributable to owners of the Company of ¥148,137 million (up 16.5%).

Impairment losses for intangible assets (in-process research and development) were recorded for guadecitabine and vadadustat. As a result, impairment losses for FY2020 were ¥26,110 million.

Results by segment are as follows:

- *1: Brand name for the antipsychotic agent in the U.S.
- *2: Brand name for the antipsychotic agent in Europe
- *3: Brand name for autosomal dominant polycystic kidney disease (“ADPKD”) treatment in multiple regions outside Japan
- *4: Brand name for ADPKD treatment in the U.S.
- *5: Nutraceuticals = nutrition + pharmaceuticals

Revenue and business profit by business segment during FY2020 (Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Consolidated
Revenue	955,159	334,088	31,356	140,115	(37,893)	1,422,826
Business profit	197,185	41,988	10,641	10,453	(43,381)	216,887

(Reference - FY2019) (Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Consolidated
Revenue	924,250	333,780	33,553	143,833	(39,176)	1,396,240
Business profit	167,298	42,875	9,470	9,045	(41,521)	187,168

ii) Major business activities (as of December 31, 2020)

Business segment	Business activities
Pharmaceuticals	Manufacture, purchase, and sale of pharmaceutical products Consignment of research and development of new drugs Manufacture and sale of analytical and measurement equipment Manufacture, sale, and consigned analysis of reagents for research use Development and sale of therapeutic systems
Nutraceuticals	Manufacture, purchase, and sale of functional foods, etc., functional beverages, etc., quasi-pharmaceuticals, nutritional supplements, and others
Consumer products	Manufacture, purchase, and sale of consumer products
Others	Warehousing and transport business Liquid crystal and spectroscope business Manufacture and sale of printing and packaging goods Manufacture and sale of resin compound Manufacture and sale of chemical products

Pharmaceuticals

Revenue in the pharmaceutical business for FY2020 totaled ¥955,159 million (up 3.3% year on year), with business profit of ¥197,185 million (up 17.9%).

◆ Four global products

The Company positions the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI/RXULTI*, the vasopressin V₂-receptor antagonist *Samsca/JINARC/JYNARQUE*, and the anti-cancer agent *LONSURF* as its four global products. The sales of those products totaled ¥429,714 million (up 14.5%).

● Long acting antipsychotic agent *ABILIFY MAINTENA*

ABILIFY MAINTENA has continuously expanded prescriptions due to promotion of the product's efficacy as a treatment for schizophrenia in global markets, growing awareness of the drug's ease of use, and the approval of an additional indication as a treatment for bipolar disorder in the U.S. in 2017, and it contributed to sales. In Japan, approval was granted for an additional indication for the suppression of recurrence and relapse of mood episodes in bipolar I disorder in

September 2020. As a result, sales totaled ¥116,028 million (up 14.0%).

- Antipsychotic agent *REXULTI/RXULTI*

Antipsychotic agent *REXULTI* has been highly evaluated in the U.S. for its efficacy and safety as a new treatment option for adjunctive therapy in major depressive disorder and a treatment for schizophrenia, and its sales have increased. In Japan, where the agent is sold for the treatment of schizophrenia, the number of prescriptions, particularly for the acute phase of treatment for schizophrenia in adults, has sharply increased since the limit on the number of prescription days was removed in May 2019, and new prescriptions have also expanded. As a result, sales totaled ¥104,634 million (up 16.5%).

- Vasopressin V₂-receptor antagonist *Samsca*

In Japan, while prescriptions continue to expand for treatments of ADPKD, there was a negative impact due to the significant drug price reduction from repricing measures for market expansion in association with the NHI price revisions in April 2020, and a decrease in the number of hospitalized patients due to the spread of COVID-19, which impacted prescriptions for the treatment of cardiac edema. Meanwhile in the U.S., where the drug is sold as a treatment for hyponatremia, generics were launched after the expiry of the exclusive sales period. As a result, sales totaled ¥88,335 million (down 3.7%).

- Vasopressin V₂-receptor antagonist *JINARC/JYNARQUE*

In the U.S., the number of prescriptions for ADPKD has increased smoothly as efforts to raise awareness of the disease and provide information about clinical data helped more people recognize the disease and the product. In addition, the number of prescriptions has been increasing in European markets. As a result, sales totaled ¥79,989 million (up 39.6%).

- Anti-cancer agent *LONSURF*

In Japan, in addition to the increased number of prescriptions for the treatment of colorectal cancer, the number of prescriptions also increased for the treatment of previously treated metastatic gastric or gastroesophageal junction adenocarcinoma, approved in August 2019. In the U.S., sales increased since at-home care and the use of oral anti-cancer agents^{*1, 2} are recommended due to the spread of COVID-19. In Europe, sales increased due to steady prescription sales and an increased number of country approvals. As a result, sales totaled ¥40,726 million (up 18.1%).

*1: Pelin Cinar et al., Safety at the Time of the COVID-19 Pandemic: How to Keep our Oncology Patients and Healthcare Workers Safe. *J Natl Compr Canc Netw*, Apr 15, 2020; 1-6.

*2: ASCO. COVID-19 Patient Care Information, Cancer Treatment and Supportive Care. <https://www.asco.org/asco-coronavirus-resources/care-individuals-cancer-during-covid-19/cancer-treatment-supportive-care>. Updated July 23, 2020. Accessed July 31, 2020.

Nutraceuticals

Revenue in the nutraceutical business for FY2020 totaled ¥334,088 million (up 0.1% year on year), with business profit of ¥41,988 million (down 2.1%).

The Company positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. The sales of those brands totaled ¥199,584 million (down 2.1%). Total sales of its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥27,162 million (up 28.0%).

- ◆ Three major brands

Sales of *POCARI SWEAT*, an electrolyte supplement drink, decreased year on year as a result of decreased consumer activities due to the spread of COVID-19, unfavorable weather during the summer months, the peak season for beverages, and the suppressed number of influenza cases leading to less occasions for drinking the beverage. On the other hand, regarding new health issues arising under the new normal, there were ongoing efforts to provide information and actively educate in various ways for preventive measures against indoor heatstroke due to people staying at

home and the importance of hydration and replenishment of electrolytes (ions) for health management.

Amid a growing awareness of physical conditioning among consumers, consumers once again recognized the trustworthiness of the brand and its quality of *Nature Made*, supplements by Pharmavite LLC, and their sales increased as a result of an increase in demand, primarily for vitamin supplements, along with the contribution from sales of new products.

Sales decreased for the Nutrition & Santé SAS brand, which sells health food products mainly in Europe, significantly affected by city lockdowns and stay-at-home orders, etc. However, sales have been steady recently due to household consumption of vegetal nutrition products and other developments in response to the new normal.

◆ Three nurture brands

Sales of plant-based foods of the Daiya Foods Inc. brand saw a significant increase in North America, due to increased household consumption, in addition to the growth of the dairy alternatives market.

Sales of *EQUELLE*, a food and supplement brand containing equol that supports women's health and beauty, grew steadily due to increased recognition of the product through the wide-ranging spread of information on the product.

As for *BODY MAINTÉ*, a protective beverage brand containing the plant-based lactic-acid bacteria B240*, sales significantly increased due to rising awareness regarding health and body conditioning and increasing demand.

*: *Lactobacillus pentosus* ONRICb0240: Strain isolated by Tokyo University of Agriculture, for which Otsuka Pharmaceutical Co., Ltd. has confirmed efficacy.

Consumer products

Revenue in the consumer product business for FY2020 totaled ¥31,356 million (down 6.5%) with business profit of ¥10,641 million (up 12.4%) owing to an increase in share of profit from investment accounted for using the equity method and increased cost efficiency in response to the new normal.

In mineral water products, sales volume declined overall for the mainstay brand *CRYSTAL GEYSER*, particularly for the vending machine distribution channel due to fewer occasions to go out, etc., although the sales volume of the 700-milliliter bottle, the largest size for personal use, remained strong. Sales volume of *MATCH*, a carbonated electrolyte drink containing vitamins, decreased due to the impact of unfavorable weather, fewer occasions to go out, etc. Sales volumes of retort pouch food products such as *Bon Curry* increased in response to a rise in occasions for dining at home.

Others

Revenue for FY2020 totaled ¥140,115 million (down 2.6%) with business profit of ¥10,453 million (up 15.6%) owing to increased cost efficiency in response to the new normal.

Sales in the specialty chemical business decreased as a result of a fall in shipments of foaming agents, titanates, compound materials, etc. due to the impact of the spread of COVID-19 on the automobile and housing industries. Sales in the fine chemical business increased mainly due to sales from the active pharmaceutical ingredient-related business supplying cefixime to overseas licensees, which was acquired in June 2019.

In the transportation and warehousing business, the handling volume of business partners' products decreased due to the effect of the spread of COVID-19, and sales decreased despite an increase in the number of new external customers in line with the promotion of a "common distribution platform."

iii) Research and development activities

Research and development expenses for FY2020 totaled ¥216,841 million.

Research and development expenses for the pharmaceutical business amounted to ¥205,762 million, those for the nutraceutical business amounted to ¥6,767 million, those for the consumer products business amounted to ¥566 million and those for the other businesses amounted to ¥3,745 million.

Pipeline information

Phase III or later stage of development as of December 31, 2020

The Group conducts research and development with a primary focus on the areas of the psychiatry and neurology and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, etc.

Category	Brand name (Generic name) Development Code	Indication / Dosage form	Development status						
			JP		U.S.		EU		
			Phase III	Filed	Phase III	Filed	Phase III	Filed	
Psychiatry and neurology	REXULTI/RXULTI (brexpiprazole) OPC-34712	Major depressive disorder / Oral	•					•	
		Agitation associated with Alzheimer-type dementia / Oral	•		•		•		
		Post-traumatic stress disorder (PTSD) / Oral			•				
	(deuterium-modified dextromethorphan, quinidine) AVP-786	Agitation associated with Alzheimer-type dementia / Oral			•		•		
		Negative symptoms of schizophrenia / Oral			•*				
	(centanafadine) EB-1020	Attention deficit hyperactivity disorder / Oral			•				
	(fremanezumab) TEV-48125	Migraine / Injection		•					
	(pizuglanstat) TAS-205	Duchenne muscular dystrophy / Oral	•						

(Translation)

Category	Brand name (Generic name) Development Code	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Oncology	<i>INQOVI</i> (decitabine, cedazuridine) ASTX727	Acute myeloid leukemia / Oral					•	
	(pamufetinib) TAS-115	Osteosarcoma / Oral	•					
	(pimipitespib) TAS-116	Gastrointestinal stromal tumor / Oral	•					
	(fosnetupitant) Pro-NETU	Nausea and vomiting related to the administration of anti-cancer agents / Injection	•					
Cardiovascular and renal system	(tolvaptan sodium phosphate) OPC-61815	Cardiac edema / Injection	•					
	(vadadustat) AKB-6548	Anemia associated with chronic kidney disease / Oral			•		•	
Other categories	<i>Deltyba</i> (delamanid) OPC-67683	Multidrug-resistant tuberculosis / Oral			•			
	(difamilast) OPA-15406	Atopic dermatitis / Ointment		•				
	(glucose, electrolyte, amino acid and vitamin) OPF-109	High-calorie total parenteral nutrition ("TPN") solution for chronic renal failure / Injection	•					

*: Phase II/ III

Research and development activities
Phase II or later stage of development as of December 31, 2020

<i>Brand name</i> (Generic name) Development Code	Status
Psychiatry and neurology	
<i>ABILIFY MAINTENA</i> (aripiprazole)	<Japan> • An additional indication of treatment for the suppression of recurrence and relapse of mood episodes in bipolar I disorder was approved in September 2020.
<i>REXULTI/RXULTI</i> (brexpiprazole) OPC-34712	<U.S. and Europe> • Development for the treatment of bipolar I disorder was halted due to development strategy.
OPC-64005	<Japan> • Phase II trial for the treatment of major depressive disorder was initiated in April 2020. <U.S.> • Development for the treatment of attention-deficit hyperactivity disorder (ADHD) was halted due to development strategy.
(fremanezumab) TEV-48125	<Japan> • An application for the indication of preventive treatment of migraine was filed in July 2020.
(pizuglanstat) TAS-205	<Japan> • Phase III trial for the treatment of duchenne muscular dystrophy was initiated in December 2020.
Oncology	
(guadecitabine) SGI-110	<Japan, U.S. and Europe> • Development for all indications was halted based on a comprehensive review of the results of the Phase III trial for acute myeloid leukemia and myelodysplastic syndromes.
<i>INQOVI</i> (decitabine, cedazuridine) ASTX727	<U.S.> • Approval was granted for the treatment of myelodysplastic syndrome and chronic myelomonocytic leukemia in July 2020. <Europe> • Phase III trial for the treatment of acute myeloid leukemia was initiated in January 2020.
(pamufetinib) TAS-115	<Japan> • Phase III trial for the treatment of osteosarcoma was initiated in August 2020.
TAS-118	<Japan> • Development for the treatment of gastric cancer was halted due to development strategy.
(futibatinib) TAS-120	<U.S. and Europe> • Phase II trial for the treatment of breast cancer was initiated in February 2020. <Japan, U.S. and Europe> • Phase II trial for the treatment of cancers with FGFR aberrations was initiated in August 2020.
<i>Busulfex</i> (busulfan)	<Japan> • Approval for a publicly known application was granted in March 2020 for the additional indication as a conditioning regimen prior to autologous hematopoietic stem cell transplantation for patients with malignant lymphoma

(Translation)

<i>Brand name</i> (Generic name) Development Code	Status
Cardiovascular and renal system	
<i>Samsca</i> (tolvaptan) OPC-41061	<Japan> • An additional indication of treatment for hyponatremia due to the syndrome of inappropriate antidiuretic hormone secretion (SIADH) was approved in June 2020.
VIS649	<Japan, U.S. and Europe> • Phase II trial for the treatment of IgA nephropathy was initiated in August 2020.
Other categories	
OPS-2071	<Japan> • Development for the treatment of clostridium difficile infection and enteric infection was halted due to development strategy.
(difamilast) OPA-15406	<Japan> • An application as a treatment for atopic dermatitis was filed in September 2020.
<i>ENEFLUID Injection</i> (glucose, electrolyte, amino acid, fat and vitamin) OPF-105	<Japan> • Approval was granted as a peripheral parenteral nutrition solution in September 2020.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during FY2020 amounted to ¥122,797 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥82,344 million. The figure includes payments for acquisition of intangible assets, including an upfront payment for a co-promotion agreement in Japan for angiotensin receptor neprilysin inhibitor, *Entresto*[®] tablet, (generic name: sacubitril valsartan sodium hydrate), in addition to investment in Tokushima Mima production facility of Otsuka Pharmaceutical Co., Ltd.

Capital investments in the nutraceutical business totaled ¥12,503 million, while those in consumer business totaled ¥2,712 million, other businesses totaled ¥17,317 million, and corporate investments (common) totaled ¥7,918 million.

(2) Key Issues to be Addressed

In 2020, the Group's business activities were affected to a certain extent due to restrictions on sales activities and a decline in consumption opportunities resulting from the spread of COVID-19. On the other hand, the Group strives to continue business activities while ensuring the safety of employees, and maintains a system that is able to stably supply products. The Group will continue to pay close attention to the impact on future business and business results assuming that the situation will be prolonged.

The fundamental healthcare industry is experiencing a period of changing environment. An aging society, the introduction of expensive drugs, outbreaks of communicable disease, etc. are contributing an ever-increasing health care budget and making governments of Japan, the U.S. and those in the Europe become more aware of costs for medical treatments. Facing limited financial resources, those governments are weighing the balance between benefits and costs of medical treatments. The NHI pricing system reforms and the penetration of generic drugs are progressing while new technologies such as artificial intelligence, machine learning and gene therapy are evolving as well. Under these circumstances, the consciousness for health including disease preventive measures is steadily increasing. The Group will continue to contribute to a new society that "Only Otsuka Can Do," and will take this heightened health consciousness as a growth opportunity and proceed toward the realization of sustainable growth.

The Group has been creating new value, underpinned by its corporate philosophy of "Otsuka-people creating new products for better health worldwide" and driven by the management spirit of "Ryukan-godo" (Commitment), "Jissho" (Actualization), and "Sozosei" (Creativity). Integral to this value creation have been (1) new concepts created from the organic fusion of unique and diverse businesses, insights into the world's true needs, and technological and scientific knowhow; (2) synergies and derivation of diverse operations; and (3) cultivation of niche areas of business. The Group continues to operate with the aim of becoming an "indispensable contributor to people's health worldwide" by offering original products of the pharmaceutical business and the nutraceutical business to address both unmet medical needs and yet-to-be-imagined needs as a total healthcare provider which supports daily maintenance and improvement of health and extends from the diagnosis through to treatment of disease.

In the pharmaceutical business, the Group has been engaging in various solution-oriented initiatives that involve addressing the challenge of expanding into new frontiers that "Only Otsuka Can Do," providing solutions to unmet medical needs and generating innovation from original and diverse research platforms. The Group aims to create innovative new drugs drawing on its unique approach of leveraging synergies of its various businesses, with a focus on the areas of psychiatry, neurology, oncology, and cardiovascular and renal system with respect to which there are still many diseases for which treatment remains unsatisfactory. The Group will also take on challenges involving systematic solutions for optimizing medical care. Moreover, the Group aims to sustainably evolve and grow by strengthening its drug discovery platform through alliances, open innovation and partnerships with venture capital, and by taking steps to diversify its drug discovery modalities.

In the nutraceutical business, amid a growing awareness of health, the Group aims to make use of the expertise developed in the pharmaceutical business, proposes new conceptual solutions for latent needs and social issues, and contributes to the extension of healthy life expectancy by maintaining and promoting the health of people worldwide. In anticipation of various changes in the global business environment, the Group will combine the state-of-the-art science and technology with our unique business models, to create new concepts and expand into new product categories and new geographic areas. For various social issues surrounding health, the Group will continue to conduct enlightenment activities from the point of view of issues, and continue to propose solutions from each brand. The Group will also strengthen collaboration with external institutions to promote these activities.

The current situation and potential management risks for the Group regarding the spread of COVID-19 have been identified as follows:

- Sales:** In the pharmaceutical business, official requests to stay at home and urban lockdowns have led to a decrease in outpatient numbers in hospitals but there is an upward trend for long-term prescriptions for patients with chronic diseases. If the current situation were to be prolonged or become more serious, there may be further decline in the number of new prescriptions and decline in prescriptions such as injections as part of hospital treatment due to restrictions on visits to health care facilities and the voluntary restraint on efforts to raise awareness of diseases, which may affect revenue. In the non-pharmaceutical businesses, on one hand, demand for some products is increasing owing to heightened health awareness and increases in at-home consumption and online shopping. On the other hand, a decline in consumption opportunities is being observed due to the limits on outdoor activities resulting from people refraining from leaving their homes. If the spread of COVID-19 were to be prolonged or become more serious, due to a decline in acquiring new customers and the loss of consumption opportunities resulting from voluntary restraint and other restrictions on sales activities, revenue may be affected.
- Manufacturing:** With regard to the procurement of raw materials, the purchasing channels overall are secure, although delays are occurring for some import items. Manufacturing had been temporarily suspended for some line items due to employees staying at home, but all manufacturing has been restored. The manufacturing operations are adequately staffed and proceeding smoothly. If the spread of COVID-19 were to be prolonged or become more serious causing stoppages in the procurement of raw materials, or if a cluster of infections occurred at a manufacturing plant, a delay in the supply of certain products also needs to be taken into account.
- Research and Development:** Plans to launch clinical trial facilities and register patients had been put on hold for some products in development undergoing clinical trials, but they are gradually resuming. If the situation concerning the interruption or delay of patient registration were to become more serious, there may also be changes in the progress of clinical trials or the development strategy, such as the timing of applications for manufacturing and marketing approval. In research activities, along with the impact of stay-at-home order, etc., if the current situation were to be prolonged or become more serious, there may be delays in research activities and in the timeline for new product launches in the medium to long term.

As stated above, although the Group anticipates a wide range of impacts on the Group's business due to the spread of COVID-19, the Group will continue to fully recognize management risks in advance and take all possible measures to improve corporate value and achieve the Third Medium-Term Management Plan.

<Positioning of Third Medium-Term Management Plan and Main Initiatives>

The Company has chosen the statement, "Advance in the Global Market as a Unique Total Healthcare Company ~ Five-Year Growth Phase ~" to describe the positioning of the Third Medium-Term Management Plan. Through pursuing "New value creation" and "Existing business value maximization" in the two core businesses of the Pharmaceutical business and the Nutraceutical business, and "Capital cost-oriented business management," the Company aims to achieve sustainable growth.

Performance Targets: Business profit growth of more than 10% compound annual growth rate (CAGR)

The Company aims to achieve business profit growth of more than 10% CAGR through steady growth of products and brands in the pharmaceutical business and the nutraceutical business.

Business Strategy: New value creation and existing business value maximization

- **Accelerate growth through strategic initiatives geared to mainstay products and brands**

Enhance strategic initiatives upon designating the following products and brands as growth drivers: four global products in the pharmaceutical business, three major brands in the nutraceutical business, three nurture brands in the nutraceutical business.

- **Initiatives geared to next-generation business and products**

In the pharmaceutical business, the Company will address the challenges of “Existing business value maximization,” and expanding into new frontiers that “Only Otsuka Can Do,” responding to unmet medical needs and generating innovation from original and diverse research platforms. In the nutraceutical business, the Company will create new concepts informed by changes in the business environment and address challenges of expanding into new categories and new areas.

Financial Policy: Business management with a corporate wide awareness of capital costs

- Balancing investment for future growth and shareholder return
- Focusing on acquiring funds for growth investment and shareholder returns
- Establishing a management platform to support rapid global expansion aimed at realizing disciplined management in practice

(3) Financial Data for the Current Fiscal Year and the Most Recent Three Fiscal Years

Item	The 10th fiscal year (ended December 31, 2017)	The 11th fiscal year (ended December 31, 2018)	The 12th fiscal year (ended December 31, 2019)	The 13th fiscal year (Current fiscal year) (ended December 31, 2020)
Revenue (Millions of yen)	1,239,952	1,291,981	1,396,240	1,422,826
Operating profit (Millions of yen)	104,181	108,304	176,585	198,582
Profit attributable to owners of the Company (Millions of yen)	112,492	82,492	127,151	148,137
Basic earnings per share (Yen)	207.60	152.24	234.55	273.15
Total assets (Millions of yen)	2,480,256	2,477,363	2,581,309	2,627,807
Total equity (Millions of yen)	1,821,950	1,732,266	1,795,440	1,883,432
Equity attributable to owners of the Company per share (Yen)	3,309.55	3,145.71	3,257.17	3,415.54

(4) Significant Subsidiaries (as of December 31, 2020)

Company name	Country	Capital	Percentage of voting rights held by the Company	Major business activities
Otsuka Pharmaceutical Co., Ltd.	Japan	20,000 million yen	100.00%	Manufacture and sale of pharmaceutical products, clinical testing, medical devices, food, beverages and cosmetic products
Otsuka Pharmaceutical Factory, Inc.	Japan	80 million yen	100.00%	Manufacture and sale of pharmaceutical products
Taiho Pharmaceutical Co., Ltd.	Japan	200 million yen	100.00%	Manufacture and sale of pharmaceutical products
Otsuka Warehouse Co., Ltd.	Japan	800 million yen	100.00%	Warehousing and transport business
Otsuka Chemical Co., Ltd.	Japan	5,000 million yen	100.00%	Manufacture and sale of chemical products
Otsuka Foods Co., Ltd.	Japan	1,000 million yen	100.00%	Manufacture and sale of food and beverages, sale of alcoholic drinks (wine)
Otsuka America Pharmaceutical, Inc.	U.S.	50,000 thousand U.S. dollars	*100.00%	Manufacture and sale of pharmaceutical products
Pharmavite LLC	U.S.	1,032 thousand U.S. dollars	*100.00%	Manufacture and sale of nutritional products
Otsuka Pharmaceutical Europe Ltd.	U.K.	140,652 thousand euro	*100.00%	Manufacture and sale of pharmaceutical products
Nutrition & Santé SAS	France	65,145 thousand euro	*100.00%	Manufacture and sale of food products

Notes:

1. The percentage of voting rights held by the Company with an asterisk (*) includes the percentage of voting rights held indirectly.

(Translation)

2. Specified wholly owned subsidiaries as of the current fiscal year-end are as follows:

Name of specified wholly owned subsidiary	Address of specified wholly owned subsidiary	Book value of specified wholly owned subsidiary at current fiscal year-end (Millions of yen)
Taiho Pharmaceutical Co., Ltd.	1-27 Kanda Nishikicho, Chiyoda-ku, Tokyo	275,447

Note: The Company's total assets amounted to ¥1,208,485 million at the current fiscal year-end.

(5) Major Offices and Factories (as of December 31, 2020)

The Company

Head Office	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo
Tokyo Headquarters	2-16-4 Konan, Minato-ku, Tokyo

Significant subsidiaries

Company name	Location
Otsuka Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Pharmaceutical Factory, Inc.	Naruto City, Tokushima
Taiho Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Warehouse Co., Ltd.	Minato-ku, Osaka
Otsuka Chemical Co., Ltd.	Chuo-ku, Osaka
Otsuka Foods Co., Ltd.	Chuo-ku, Osaka
Otsuka America Pharmaceutical, Inc.	Maryland, U.S.
Pharmavite LLC	California, U.S.
Otsuka Pharmaceutical Europe Ltd.	Buckinghamshire, U.K.
Nutrition & Santé SAS	Occitanie, French Republic

(6) Employees (as of December 31, 2020)

i) Employees of the Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	19,431	(1,972)	up 48	(up 242)
Nutraceuticals	8,009	(1,873)	up 74	(down 29)
Consumer products	610	(122)	up 69	(up 36)
Others	3,638	(666)	up 50	(down 57)
Corporate (Common)	1,463	(436)	down 82	(up 32)
Total	33,151	(5,069)	up 159	(up 224)

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

ii) Employees of the Company

Number of employees	Increase / Decrease from the previous fiscal year	Average age	Average service years
111 (17)	up 7 (up 1)	44.1	3.6

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

(7) Major Creditors (as of December 31, 2020)

(Millions of yen)

Creditor	Balance of borrowings
MUFG Bank, Ltd.	18,113
Mizuho Bank, Ltd.	17,738
The Awa Bank, Ltd.	12,156
Resona Bank, Limited	11,070
Sumitomo Mitsui Banking Corporation	3,745

(Translation)

2. Current Status of the Company

(1) Shares (as of December 31, 2020)

- i) Total number of authorized shares: 1,600,000,000 shares
- ii) Total number of issued shares: 557,835,617 shares
- iii) Number of shareholders: 72,774
- iv) Principal shareholders (top 10 shareholders):

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	57,827	10.66%
The Master Trust Bank of Japan, Ltd. (trust account)	49,826	9.18
Custody Bank of Japan, Ltd. (trust account)	23,823	4.39
Otsuka Estate Co., Ltd.	23,296	4.29
Otsuka Group Employee Shareholding Fund	13,116	2.41
The Awa Bank, Ltd.	10,970	2.02
JP MORGAN CHASE BANK 385632	7,850	1.44
Otsuka Asset Co., Ltd.	7,380	1.36
JPMorgan Securities Japan Co., Ltd.	6,965	1.28
Custody Bank of Japan, Ltd. (trust account 5)	6,595	1.21

Notes:

1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,499,157 of its own shares, treasury shares are excluded from the above list.
3. Shareholding ratio is calculated after treasury shares are deducted.
4. Japan Trustee Services Bank, Ltd. merged with Trust & Custody Services Bank, Ltd. and JTC Holdings, Ltd. on July 27, 2020 and changed its trade name to Custody Bank of Japan, Ltd.

(2) Directors and Audit & Supervisory Board Members of the Company**i) Directors and Audit & Supervisory Board Members (as of December 31, 2020)**

Position in the Company	Name	Areas of responsibility and significant concurrent positions outside the Company
Chairman and Representative Director	Ichiro Otsuka	Chairman, Otsuka Pharmaceutical Factory, Inc. Executive Director, Otsuka Pharmaceutical Co., Ltd. President and Representative Director, Otsuka Estate Co., Ltd. President and Representative Director, Otsuka Asset Co., Ltd.
President and Representative Director	Tatsuo Higuchi	CEO Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Senior Managing Director	Yoshiro Matsuo	Executive Director, Otsuka Medical Devices Co., Ltd.
Executive Director	Yuko Makino	CFO
Executive Director	Shuichi Takagi	Business Portfolio Management Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd.
Executive Director	Sadanobu Tobe	Executive Director, Otsuka Foods Co., Ltd.
Executive Director	Masayuki Kobayashi	President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.
Executive Director	Noriko Tojo	President and Representative Director, Otsuka Medical Devices Co., Ltd.
Executive Director	Makoto Inoue	President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Executive Director	Yukio Matsutani	President, Japan Public Health Association
Executive Director	Ko Sekiguchi	
Executive Director	Yoshihisa Aoki	Outside Director, ARATA CORPORATION
Executive Director	Mayo Mita	
Standing Audit & Supervisory Board Member	Yozo Toba	Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd
Audit & Supervisory Board Member	Hiroshi Sugawara	Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. Vice President, Will Capital Management Co., Ltd.
Audit & Supervisory Board Member	Yoko Wachi	Attorney at law, KAJITANI LAW OFFICES Outside Director, NICHIAS Corporation
Audit & Supervisory Board Member	Kazuo Takahashi	

Notes:

- Executive Directors, Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita are Outside Directors.
- Audit & Supervisory Board Members, Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi are Outside Audit & Supervisory Board Members.
- Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
- The Company appoints Executive Directors Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita as well as Audit & Supervisory Board Members Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi as Independent Officers as provided for under the rules of the Tokyo Stock Exchange and have registered them with the Exchange.
- Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into agreements with each of Outside Directors and each of Audit & Supervisory Board Members which limit their liabilities for damages under Article 423, paragraph (1) of the same Act. The maximum amount of liabilities under the said agreements shall be the minimum amounts set forth in laws and regulations.
- Changes in Directors during the current fiscal year are as follows:
[Assumption of Office]
Executive Director, Makoto Inoue (assumed his office as of March 27, 2020)
Outside Director, Mayo Mita (assumed her office as of March 27, 2020)

[Retirement]

Executive Director, Atsumasa Makise (retired from office due to expiration of his term of office as of March 27, 2020)

7. Ms. Mayo Mita's name on the family register is Ms. Mayo Nakatsuka.

ii) Policy on determining remuneration amounts, etc. for Directors and Audit & Supervisory Board Members and calculation method thereof

(i) Basic approach to remuneration plan for Directors and Audit & Supervisory Board Members of the Company

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 in line with the Group's corporate philosophy, 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 plan for Directors and Audit & Supervisory Board Members is as follows:

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, referencing remuneration levels at corporations the Company selected as benchmark based on business scale, fields and formats.

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, consisting of fixed remuneration as the 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 the basic remuneration in light of their duties.

Method of determining the content of remuneration, etc. for individual Directors

The Board of Directors determines the individual remuneration for Directors as follows, having received a recommendation on the appropriateness of the remuneration system and level, and the performance evaluation, etc., for performance-linked bonuses and share-based payments from the Corporate Governance Committee, which comprises the President and Representative Director, the Director in charge of Corporate Administration, and all Outside Directors.

- For the individual fixed remuneration as basic remuneration for Directors and the individual performance-linked bonuses for each Director (excluding Outside Directors), the President and Representative Director is delegated to decide the specific payment amounts based on a resolution of the Board of Directors, then in accordance with this delegation, determines the final remuneration amounts based on the deliberation and report by the Corporate Governance Committee regarding remuneration levels.
- The individual share-based payments for each Director (excluding Outside Directors) are resolved by the Board of Directors based on the report on the performance evaluation and so forth by the Corporate Governance Committee.

<Corporate Governance Committee>

As an advisory body to the Board of Directors, the Corporate Governance Committee deliberates on the nomination of Directors and Audit and Supervisory Board Members (appointment, dismissal, etc.), remuneration of Directors (remuneration system, remuneration levels, etc.) and other corporate governance issues, and then reports to the Board of Directors. The committee consists of the President, the Director in charge of Corporate Administration,

and all Outside Directors. The President serves as the chair of the committee.

(ii) Remuneration plan for Directors and Audit & Supervisory Board Members

a. Content of remuneration, etc. to Directors (excluding Outside Directors)

Content of remuneration, etc. to Directors (excluding Outside Directors) is as follows:

Type of remuneration	Payment method Fixed/variable	Content of remuneration (Including the policy regarding determination of timing or conditions for granting remuneration, etc.)
Fixed remuneration	Cash/Fixed	<ul style="list-style-type: none"> 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 to exceed the upper limit of remuneration resolved at the shareholders meeting.) 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 (Shares with transfer restrictions)/ Variable	<ul style="list-style-type: none"> The Company has introduced a share-based payment system that reflects progress in achieving the Third Medium-Term Management Plan that covers the period from fiscal year 2019 to 2023. The plan specifies that each person eligible for allocation must enter into a restricted stock allocation agreement with the Company, which contains provisions on restrictions, etc. on transfer for a fixed term, and 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 specific timing for granting is every fiscal year for items that are subject to performance evaluation of a single fiscal year, and simultaneously in the first fiscal year of the evaluation period for items subject to a performance evaluation over several fiscal years.

Overview of non-cash remuneration (shares with transfer restrictions)

To determine the number of shares to be allocated for persons eligible for allocation of shares with transfer restrictions, the standard number of shares for each fiscal year for each eligible recipient, giving consideration to their performance of duties, responsibility, and

balance of their fixed remuneration as basic remuneration. Based on this standard number of shares, the shares are allocated simultaneously for each series each fiscal year or in the first fiscal year of an evaluation period of several fiscal years, according to the following release conditions.

Moreover, under the restricted stock allocation agreements concluded with the persons eligible for allocation of shares, it is stipulated that where certain reasons arise, the transfer restriction of the shares with transfer restrictions shall not be released and the Company shall acquire all of them without paying compensation. For example,

- i) if a Director of the Company retires before the end of the transfer restriction period, the Company shall acquire without paying compensation all of the Director's shares with transfer restrictions upon the retirement of the Director, except in the case where the Company recognizes a just reason, such as completion of the term of office or death;
- ii) if a Director retires before the end of the transfer restriction period due to a just reason, such as completion of the term of office or death, the number of shares whose transfer restriction is to be released and the timing of the release shall be rationally adjusted as necessary and the Company shall acquire without paying compensation all of the shares for which it is decided that the transfer restriction is not to be released; and
- iii) if the release conditions based on performance have not been met, the Company shall acquire without paying compensation all of the shares for which it is decided that the transfer restriction is not to be released.

	Allocation ratio	Fiscal year for evaluation and allocation timing	Overview of release conditions
Series A (Incumbent condition)	40% of the standard number of shares	Allocation 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 consolidated operating profit target achievement rate is less than 80%)
Series B (Achievement of medium-term performance target)	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 simultaneously at the start Evaluation period (2) is the two fiscal years from fiscal 2022 through fiscal 2023, with the shares for the two years allocated simultaneously at the start	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 simultaneously at the start Evaluation period (2) is the two fiscal years from fiscal 2022 through fiscal 2023, with the shares for the two years allocated simultaneously at the start	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

Reason for selection of the indicators

For the performance indicators for performance-linked bonus, by combining consolidated revenue, consolidated operating profit, and consolidated business profit before

R&D expenses, it is possible to evaluate the results of business management for a single fiscal year from multiple perspectives.

For the performance indicators for share-based payment, by selecting incumbency contribution for achievement of single-fiscal year financial results, consolidated business profit before R&D expenses from a medium-term perspective, and consolidated cost of capital as evaluation items, it is possible to comprehensively evaluate the level of contribution to increasing corporate value.

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.

As a rough guide for ratio of remuneration by remuneration types, performance-linked bonuses are designed to be variable over the range of 0%–100% of fixed remuneration, and share-based payment over the range of 0%–100% of fixed remuneration. Performance-linked bonus and share-based payment combined, as a percentage of total remuneration, is 66% (200% of 300% total) at maximum.

b. Content of remuneration to Outside Directors

The Company pays only fixed remuneration to Outside Directors; no component of the remuneration varies according to performance.

c. Content of remuneration to Audit and Supervisory Board Members

The Company pays only basic remuneration to Audit and Supervisory Board Members; no component of the remuneration varies according to performance.

(iii) Matters concerning the resolution of the Annual Shareholders' Meeting regarding remuneration, etc.

The upper limit of remuneration for Directors and Audit & Supervisory Board Members were approved by resolution of shareholders meeting, as detailed below.

Eligible recipients	Directors	Directors (excluding Outside Directors)	Audit & Supervisory Board Members
Content of remuneration	Fixed remuneration /Performance-linked bonus	Restricted stock remuneration	Fixed remuneration
Resolution of shareholders' meeting	2nd Annual Shareholders Meeting held on June 29, 2010	11th Annual Shareholders Meeting held on March 28, 2019	2nd Annual Shareholders Meeting held on June 29, 2010
Content of resolution	Upper limit: ¥1,500 million (annual amount)	Upper limit: ¥1,000 million (annual amount) and Number of the Company's ordinary shares newly issued or disposed: 160,000 shares (per year)	Upper limit: ¥80 million (annual amount)
Number of eligible officers	11	9	4

iii) Total remuneration to Directors and Audit & Supervisory Board Members

Classification	Total amount of remuneration (Millions of yen)	Total amount by type of remuneration (Millions of yen)			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)

Notes:

1. There are no Directors of the Company who concurrently serve as employees.
2. 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.

iv) Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

(i) Significant concurrent positions at other companies and relationships between the Company and such other companies

Executive Director, Yukio Matsutani, serves as President of Japan Public Health Association. The Group has no transactions with the said organization.

Executive Director, Yoshihisa Aoki, serves as Outside Director of ARATA CORPORATION. The group has no transactions with the said organization.

Audit & Supervisory Board Member, Hiroshi Sugawara, serves as Audit & Supervisory Board Member of Otsuka Pharmaceutical Co., Ltd., and Vice President at Will Capital Management Co., Ltd. Otsuka Pharmaceutical Co., Ltd. is a wholly-owned subsidiary of the Company. The Group has no transactions with Will Capital Management Co., Ltd.

Audit & Supervisory Board Member, Yoko Wachi, serves as an attorney at law of KAJITANI LAW OFFICES as well as Outside Director of NICHIAS Corporation. The Group has no transactions with the said firms.

(ii) Major activities during the current fiscal year

Executive Director, Yukio Matsutani attended all fourteen (14) meetings of the Board of Directors held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights gained in the healthcare and welfare field.

Executive Director, Ko Sekiguchi attended all fourteen (14) meetings of the Board of Directors held during the current fiscal year, and provided appropriate comments based on his extensive knowledge and experience gained in the pharmaceutical business.

Executive Director, Yoshihisa Aoki attended all fourteen (14) meetings of the Board of Directors held during the current fiscal year, and provided appropriate comments based on his extensive knowledge and experience gained in the food industry.

Executive Director, Mayo Mita attended all eleven (11) meetings of the Board of Directors held since she assumed the office of Executive Director of the Company, and

provided appropriate comments based on her extensive experience and high-level insights gained in corporate analysis as a securities analyst.

Audit & Supervisory Board Member, Hiroshi Sugawara attended all fourteen (14) meetings of the Board of Directors and all fifteen (15) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his expertise as a certified public accountant.

Audit & Supervisory Board Member, Yoko Wachi attended all fourteen (14) meetings of the Board of Directors and all fifteen (15) meeting of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on her broad experience cultivated as an attorney at law and high-level insights of overall legal knowledge.

Audit & Supervisory Board Member, Kazuo Takahashi attended all fourteen (14) meetings of the Board of Directors and all fifteen (15) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights gained through many years in corporate management.

(3) Accounting Auditor

i) Amount of audit fees

(Millions of yen)

	Payment
Total audit fees for the current fiscal year	95
Total of amount of cash and other property benefits, which the Company and its subsidiaries shall pay to the accounting auditor	352

Notes:

1. The Audit & Supervisory Board gave its consent for the amount of audit fees for the accounting auditor after the verification necessary to determine whether the following matters were appropriate; the content of the accounting auditor's audit plans, the status of execution of duties by the accounting auditor, and the basis for calculating the estimate of audit fees.
2. Of the Company's significant subsidiaries, Otsuka America Pharmaceutical, Inc. and three other companies are audited by a certified public accountant or an audit firm (including parties holding qualifications comparable to those of a certified public accountant or an audit firm in a country besides Japan) other than the accounting auditor of the Company (provided, however, that such parties fall under the provisions of the Companies Act or the Financial Instruments and Exchange Act (or foreign laws comparable to the said Acts)).
3. As audit fees for audits based on the Companies Act and that based on the Financial Instruments and Exchange Act are not clearly distinguished under the audit agreement concluded between the Company and the accounting auditor nor can they be classified in practice, the amount of audit fees for the accounting auditor in the current fiscal year represents the aggregate amount for these audits.

ii) Policy for determining dismissal or non-reappointment of accounting auditor

In the event any deficiency is found in the execution of duties by the accounting auditor, or if judging the necessity thereof, the Audit & Supervisory Board will submit a resolution related to the dismissal or non-reappointment of the accounting auditor. Based on that submission, the Board of Directors will call a shareholders meeting to discuss the resolution.

The Audit & Supervisory Board shall, if finding that the accounting auditor falls under any of the items in Article 340, paragraph (1) of the Companies Act, and judging that there is no prospect of improvement, dismiss the accounting auditor based on the unanimous consent of all Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report the dismissal of the accounting auditor and the reason thereof at the first shareholders meeting convened after the dismissal.

(4) System to Ensure Appropriate Operations

At a meeting on April 13, 2015, the Board of Directors approved a resolution to partially revise its basic policies on internal control to ensure the appropriateness of operations (internal control system) in light of revisions to the Companies Act and the Regulation for Enforcement of the Companies Act that came into effect on May 1, 2015. The revised basic policies are as follows:

- i) System to ensure that the execution of the duties by the Directors and employees complies with the laws and regulations and the Articles of Incorporation

The Otsuka group adopts a pure holding company system within the Company to further strengthen corporate governance by separating the group's management supervisory function from the business execution function.

The Company formulates the Otsuka Group Global Code of Business Ethics in order to ensure compliance with laws and regulations, the Articles of Incorporation, and other relevant rules and the underlying concepts, and to ensure corporate activities are carried out based on high ethical standards. The Company establishes the Otsuka Holdings Compliance Program as the specific guidelines of the Otsuka Group Global Code of Business Ethics, and leads efforts to promote establishment, maintenance, and improvement of the compliance system thorough education for employees under the Risk Management Committee.

While promoting the establishment of an internal control system to perform appropriate accounting processes and ensure reliability of financial reporting based on the Financial Instruments and Exchange Act and other relevant laws and regulations, the Company continually assesses whether or not the said system is functioning appropriately, and implements necessary corrective action when it is inadequate.

The Company is resolute in its stance toward all anti-social forces and organizations that threaten social order and corporate soundness and has zero tolerance toward relations with such forces and organizations.

An Internal Audit Department established under the direct reporting line to the President shall periodically perform internal audits of the assets and the overall operations of the Company based on Internal Audit Regulations, and report the results to the President. Should a need for improvement be found, the Internal Audit Department provides comments on such improvement and subsequently follows up the status of such improvement.

- ii) System for preserving and managing information regarding the execution of duties by Directors

The Company shall appropriately and securely retain and manage records of meetings of the Board of Directors and circulars for managerial approval, etc., in accordance with Corporate Document Control Regulations and maintain a system to allow such records and circulars to be accessed as necessary.

- iii) Regulations and other systems for the management of risk of loss

To establish a risk management system for the Company and each of the group companies, a Risk Management Committee along with Risk Management Rules shall be established. The Risk Management Committee shall evaluate and comprehensively manage risks that may impair improving the sustainable value of the Otsuka group by managing each of the risk management departments within the organization.

In the event of an unforeseen situation, the Company shall promptly implement responsive measures to minimize any damage caused by the emergent situation.

- iv) System to ensure efficient execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting shall be held on a monthly basis and an extraordinary meeting whenever deemed necessary to discuss and determine important matters such as management policies and strategies.

A Corporate Officer system shall be put in place that defines the roles of Corporate Officers executing business operations based on resolutions passed by the Board of Directors, which serves as the management decision-making and supervisory function, to ensure the transparency of management and prompt execution of business operations.

- v) System to ensure appropriate operations in the business group comprising the Company and its subsidiaries

The Company, as the holding company that undertakes the role of maximizing the corporate value of the Otsuka group, shall put in place a system to secure the appropriateness of operations from the viewpoint of the entire Otsuka group. The Company will maintain a

reporting system comprising subsidiary Directors, Corporate Officers, employees responsible for executing operations, and individuals responsible for conducting duties defined in Article 598, paragraph (1) of the Companies Act, or individuals with authority over those employees (hereinafter “Directors, etc.”) and ensure that the Directors, etc. of subsidiaries always conduct their duties efficiently and appropriately.

Subsidiaries and affiliates shall report matters provided for in the Affiliate Management Regulations to the Company as necessary, and seek approval from the Company for any significant matters under the framework to establish a collaborative system within the Otsuka group.

The Company shall oversee or conduct audits of subsidiaries and affiliates and promote the development of risk management and compliance systems across the group in accordance with the Internal Audit Regulations to ensure appropriate operations integrally.

- vi) Matters concerning employees in the event where Audit & Supervisory Board Members issue requests for employees to take charge of assisting them with their duties

The Company establishes an Audit & Supervisory Board Member’s Office responsible for administering the convocation of meetings of the Audit & Supervisory Board and supporting the duties of Audit & Supervisory Board Members independently from the supervision of Directors.

- vii) Matters concerning the independence of employees referred to in the previous item from Directors and ensuring the effectiveness of instructions issued to them by Audit & Supervisory Board Members

Employees referred to in the previous item will be assigned exclusively to the Audit & Supervisory Board Member’s Office, follow the instructions of the Audit & Supervisory Board Members and carry out assigned duties. Personnel transfers and evaluations relating to the Audit & Supervisory Board Member’s Office shall be determined by the Board of Directors based on prior approval obtained from the Audit & Supervisory Board and shall secure independence from Directors.

- viii) Systems for reporting to Audit & Supervisory Board Members by Directors, employees, and executives or employees of subsidiaries (including Directors, etc., Audit & Supervisory Board Members and individuals involved in accounting), and other systems for reporting to Audit & Supervisory Board Members

The Company shall ensure that specific means, including a system to have Directors and employees report to Audit & Supervisory Board Members, which allow Audit & Supervisory Board Members to collect information concerning the execution of duties by Directors, in any of the following events take place.

- (i) Any incident that has caused or may cause material damage to the Company
- (ii) Any violation of laws and regulations, or the Articles of Incorporation and any other important compliance matter
- (iii) Progress of business execution by the Company and each of the group companies
- (iv) Implementation status of internal audits
- (v) Matters to be resolved at important meetings

The Company shall establish a system that allows executives or employees of any company in the Otsuka group, or individuals who have received reports from those executives or employees, to report matters related to (i) through (v) above to the Company’s Audit & Supervisory Board Members.

The system shall also ensure that individuals who have submitted reports shall not be treated unfavorably for their actions.

- ix) Policy for treating expenses incurred by Audit & Supervisory Board Members in the course of executing their duties

The Company shall establish a system to ensure advance payments or reimbursement procedures for expenses incurred by Audit & Supervisory Board Members in the course of their duties, or the payment and reimbursement of expenses incurred by other duties, are

conducted smoothly upon request from the Audit & Supervisory Board Members.

- x) Other systems to ensure effective audits by Audit & Supervisory Board Members
- Audit & Supervisory Board Members may attend meetings of the Board of Directors and other important meetings to understand the process whereby important decisions are made and the status of Directors' and employees' performance of duties, question Directors and employees on the status of their performance of duties, and access important records relating to the business operations such as circulars for managerial approval.
- Directors and employees, if so requested by Audit & Supervisory Board Members, shall promptly report matters relating to business executions.
- Internal Audit Department, Administration Department, Finance & Accounting Department, Internal Control Department and any other relevant department shall provide Audit & Supervisory Board Members with information as necessary and cooperate in ensuring and improving the effectiveness of audits performed by Audit & Supervisory Board Members.

(5) Overview of Current Status of System to Ensure the Appropriateness of Operations

The Company, in accordance with its basic policies on system to ensure the appropriateness of operations, works to improve the system and ensure it functions appropriately.

Below is an overview of the status of the system in the current fiscal year, based on the Corporate Governance Guidelines established by the Company.

- i) Overview of internal control system
- In accordance with regulations to ensure the appropriateness of operations in the Otsuka group, the Company's Board of Directors, Audit & Supervisory Board and relevant departments receive reports, depending on the level of importance, from the Directors and Audit & Supervisory Board Members of the Company and affiliates with respect to operations, earnings, risk and the status of legal compliance, supporting the operation of the internal control system. The Company also regularly holds Group Internal Control Meetings. By sharing information, it makes efforts to conduct and manage operations in a consistent manner across the group. The Internal Audit Department, which is under the direct reporting line to the President, conducts internal audits of the internal control system structure and status of operation, including at affiliates, in accordance with audit plans approved by the President.
- Internal control systems related to financial reporting at the Company and each of the group companies were also evaluated at the account settlement period of each fiscal year to strengthen systems to ensure the preparation of appropriate financial documents.
- ii) Compliance efforts
- (i) The Otsuka Group Global Code of Business Ethics and the Otsuka Group Global Anti-Corruption Policy
- Under its corporate philosophy, "Otsuka-people creating new products for better health worldwide," the Otsuka group has formulated the Otsuka Group Global Code of Business Ethics to promote compliance in the group. Tatsuo Higuchi, the President and Representative Director of the Company, widely communicates the group's stance for the Code of Business Ethics as the President's message, and the Company's Directors, the internal audit department and Audit & Supervisory Board Members confirm that the group's stance is being implemented.
- The Company and each of the group companies have also formulated ethics regulations to make the Code of Business Ethics more tangible. At subsidiaries in regions including Asia, the Company and each of the group companies are implementing a project to support the promotion of compliance, and all group companies are working to ensure adherence to compliance rules through their Compliance Officers.
- (ii) Compliance training
- In accordance with the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy, the Otsuka Group Conflict of Interest Policy and the ethics regulations of each group company, the Company conducts training programs for

executives and employees to educate them and ensure awareness about compliance. Compliance forums are also held as part of training for directors and employees at group companies.

iii) Reinforcing risk management system

(i) Risk management system

Meetings of the Risk Management Committee are held and risk management training is conducted to discuss and raise awareness of business continuity plans and measures to mitigate different types of risk in the Company's and the group's business environment, including product quality risk, environmental risk and pharmacovigilance (PV) risk. Furthermore, to further enhance companywide risk management at the Company and its main operating companies, in July 2020 the Company introduced Enterprise Risk Management ("ERM"), which aims to recognize and evaluate risks from a companywide perspective and prioritize allocation of management resources to the control of important risks. Within the Company's ERM activities, it has built a companywide risk management framework and risk assessment structure, and now recognizes major risks to the Group through risk assessments at its main operating companies, and formulates countermeasures for them. These risk management activities are reported to the Risk Management Committee, which is chaired by the Group's President and Representative Director. The Risk Management Committee monitors the major risks, reviews the risk management activities and studies improvement proposals, and periodically reviews the risk management structure.

In its risk management training, the executive teams of the Company and its major Group companies conducted exercises on the themes of "work responsibilities of directors and points to bear in mind during the COVID-19 pandemic" and "cyber security risks and duties of officers," and deepened their understanding of responsibilities to bear in mind especially during the COVID-19 pandemic.

The committee also developed the emergency response manual to ensure rapid responses to situations at overseas affiliates, and simulation exercises for emergency responses to situations overseas are conducted annually.

(ii) Information security

In addition to conducting security checks, the Company and every group company are continually raising their levels of defense against risks, by such means as conducting periodic drills related to targeted e-mail attacks.

The Company and group companies also participate in regular group information security meetings, which involve information sharing about the latest technologies and other training.

Furthermore, a system capable of responding to computer-related emergencies has been established by setting up the CSIRT (Computer Security Incident Response Team), a team to respond, on the assumption of damage occurrence, to cyberattacks that seek personal information or trade secrets owned by the Company and group companies.

The Otsuka Group Global Privacy Policy has been established to clarify stance and guidelines for privacy protection of the Company and group companies, and the Company and group companies have adjusted the relevant rules and reviewed the management system, responding to information security regulations in each country.

iv) Management of affiliates

In accordance with the Affiliate Management Regulations, the Company's Board of Directors or principle departments received reports about decision-making at affiliates and approved decisions, issued instructions or took other steps.

v) Execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting

was held each month. At the meetings, the Board of Directors made decisions on important matters stipulated by laws and regulations or in the Articles of Incorporation and conducted oversight of Directors using reports about the execution of their duties. The Board of Directors makes important decisions for the Company and each of the group companies with respect to business trends, investment projects and other areas, and fulfills its business oversight functions through sufficient discussion of reported matters by using business analysis reports, documents on specialist fields and other materials.

vi) Execution of duties by Audit & Supervisory Board Members

In accordance with the Regulations of the Audit & Supervisory Board and the Audit Standards of the Audit & Supervisory Board, the Audit & Supervisory Board Members conducted the following audits.

Through attendance at meetings of the Board of Directors and other important meetings, the Audit & Supervisory Board Members gave their opinion as needed, inspected documents, such as circulars for managerial approval, requested explanations from Directors, etc., and provided guidance as necessary.

The Audit & Supervisory Board Members also receive information, including regular reports, and secure opportunities to view documents. Meetings of the Audit & Supervisory Board were held monthly and at other times when needed to work to improve the effectiveness and efficiency of audits through reporting the audit activities of individual Audit & Supervisory Board Members, and exchanging opinions and information.

The Audit & Supervisory Board Members received reports required by laws and regulations from Representative Directors, Directors and other individuals of the Company and each of the group companies, received information about earnings, business operations, the status and operation of the internal control system and implementation status of internal audits on a regular basis and at other times when necessary, and provided guidance as necessary.

Audit & Supervisory Board Members regularly hold a meeting of the group's Audit & Supervisory Board as well as regularly receive reports from, exchange opinions with, and share information with the accounting auditor. In addition, Audit & Supervisory Board Members visited and inspected the group companies and received reports from Representative Directors and other individuals at those companies to gain understandings of business issues, risk and other matters, and provided guidance as necessary.

(6) Policy on Decisions on Dividends

The Company recognizes returning profits to shareholders to be one of the key management measures. The Company adopts a basic policy of continuously distributing profits to shareholders in line with the growth of profits while securing adequate internal reserves necessary to support future corporate growth and respond to changes in the business environment.

Based on this policy, in accordance with a resolution of the Board of Directors meeting held on February 12, 2021, the Company has resolved to pay a year-end dividend of ¥50 per share for the current fiscal year. Combined with the interim dividend of ¥50 per share that was paid on September 7, 2020, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 31, 2021.

(Translation)

Consolidated Statement of Financial Position

(As of December 31, 2020)

(Millions of yen)

Item	(Reference) FY2019	Amount	Item	(Reference) FY2019	Amount
Assets			Liabilities		
Current assets			Current liabilities		
Cash and cash equivalents	334,040	356,851	Trade and other payables	166,801	164,950
Trade and other receivables	401,418	379,107	Bonds and borrowings	50,033	28,690
Inventories	159,991	173,827	Lease liabilities	14,796	15,511
Income taxes receivable	2,807	3,283	Other financial liabilities	2,424	1,987
Other financial assets	48,232	44,920	Income taxes payable	26,516	14,744
Other current assets	40,321	44,488	Contract liabilities	12,407	12,644
Subtotal	986,811	1,002,479	Other current liabilities	167,910	177,350
Assets held for sale	1,539	1,247	Subtotal	440,891	415,878
Total current assets	988,351	1,003,727	Liabilities directly associated with assets held for sale	–	334
Non-current assets			Total current liabilities	440,891	416,213
Property, plant and equipment	453,380	462,131	Non-current liabilities		
Goodwill	274,761	262,914	Bonds and borrowings	136,493	124,564
Intangible assets	478,540	457,192	Lease liabilities	51,994	57,314
Investments in associates	197,704	208,146	Other financial liabilities	18,548	16,737
Other financial assets	150,688	187,221	Net defined benefit liabilities	17,301	16,724
Deferred tax assets	22,118	21,531	Provisions	981	904
Other non-current assets	15,763	24,941	Contract liabilities	80,792	69,164
Total non-current assets	1,592,957	1,624,079	Deferred tax liabilities	26,576	25,457
			Other non-current liabilities	12,287	17,294
			Total non-current liabilities	344,977	328,161
			Total Liabilities	785,869	744,374
			Equity		
			Equity attributable to owners of the Company		
			Share capital	81,690	81,690
			Capital surplus	505,520	506,295
			Treasury shares	(46,018)	(45,781)
			Retained earnings	1,304,569	1,402,644
			Other components of equity	(79,490)	(92,474)
			Total equity attributable to owners of the Company	1,766,271	1,852,375
			Non-controlling interests	29,168	31,057
			Total Equity	1,795,440	1,883,432
Total Assets	2,581,309	2,627,807	Total Liabilities and Equity	2,581,309	2,627,807

(Translation)

Consolidated Statement of Income

(From January 1, 2020 to December 31, 2020)

(Millions of yen)

Item	(Reference) FY2019	Amount
Revenue	1,396,240	1,422,826
Cost of sales	(451,297)	(439,749)
Gross profit	944,943	983,076
Selling, general and administrative expenses	(557,607)	(562,434)
Share of profit of associates	15,621	13,087
Research and development expenses	(215,789)	(216,841)
Impairment losses	(13,476)	(26,110)
Other income	8,694	11,436
Other expenses	(5,801)	(3,631)
Operating profit	176,585	198,582
Finance income	4,433	3,661
Finance costs	(7,502)	(12,256)
Profit before tax	173,515	189,988
Income tax expenses	(42,328)	(38,254)
Profit for the year	131,187	151,733
Attributable to:		
Owners of the Company	127,151	148,137
Non-controlling interests	4,035	3,596
Total	131,187	151,733

(Translation)

[For Reference]

Consolidated Statement of Comprehensive Income

(From January 1, 2020 to December 31, 2020)

(Millions of yen)

Item	(Reference) FY2019	Amount
Profit for the year	131,187	151,733
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	3,353	4,260
Financial assets measured at fair value through other comprehensive income	(645)	18,798
Share of other comprehensive income of associates	296	390
Subtotal	3,005	23,450
Items that may be reclassified to profit or loss		
Foreign currency translation reserve	(10,634)	(34,088)
Cash flow hedges	(2)	(4)
Share of other comprehensive income of associates	(4,800)	1,499
Subtotal	(15,437)	(32,593)
Total other comprehensive income	(12,432)	(9,143)
Total comprehensive income for the year	118,754	142,590
Attributable to:		
Owners of the Company	115,124	139,321
Non-controlling interests	3,629	3,268
Total comprehensive income for the year	118,754	142,590

(Translation)

Consolidated Statement of Changes in Equity
(From January 1, 2019 to December 31, 2019) [For Reference]

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2019	81,690	505,894	(47,268)	1,229,360	–	23,344
Changes in accounting policies	–	–	–	(23)	–	–
Restated balance	81,690	505,894	(47,268)	1,229,336	–	23,344
Profit for the year	–	–	–	127,151	–	–
Other comprehensive income	–	–	–	–	3,414	(423)
Comprehensive income	–	–	–	127,151	3,414	(423)
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(54,205)	–	–
Share-based payment transactions	–	(752)	1,005	–	–	–
Exercise of stock options	–	(245)	245	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	625	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	2,286	(3,414)	1,127
Total transactions with owners, etc.	–	(373)	1,250	(51,919)	(3,414)	1,127
Balance as of December 31, 2019	81,690	505,520	(46,018)	1,304,569	–	24,047

(Translation)

(Millions of yen)

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Other components of equity			Total		
	Foreign currency translation reserve	Cash flow hedges	Total			
Balance as of January 1, 2019	(88,521)	0	(65,177)	1,704,499	27,766	1,732,266
Changes in accounting policies	–	–	–	(23)	–	(23)
Restated balance	(88,521)	0	(65,177)	1,704,475	27,766	1,732,242
Profit for the year	–	–	–	127,151	4,035	131,187
Other comprehensive income	(15,015)	(2)	(12,026)	(12,026)	(405)	(12,432)
Comprehensive income	(15,015)	(2)	(12,026)	115,124	3,629	118,754
Purchase of treasury shares	–	–	–	(1)	–	(1)
Dividends	–	–	–	(54,205)	(1,354)	(55,560)
Share-based payment transactions	–	–	–	252	–	252
Exercise of stock options	–	–	–	0	–	0
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	625	(873)	(248)
Transfer from other components of equity to retained earnings	–	–	(2,286)	–	–	–
Total transactions with owners, etc.	–	–	(2,286)	(53,328)	(2,227)	(55,556)
Balance as of December 31, 2019	(103,537)	(1)	(79,490)	1,766,271	29,168	1,795,440

(Translation)

(From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2020	81,690	505,520	(46,018)	1,304,569	–	24,047
Profit for the year	–	–	–	148,137	–	–
Other comprehensive income	–	–	–	–	4,431	18,986
Comprehensive income	–	–	–	148,137	4,431	18,986
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(54,230)	–	–
Share-based payment transactions	–	789	238	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	(14)	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	4,167	(4,431)	264
Decrease in consolidated subsidiaries - non-controlling interests	–	–	–	–	–	–
Total transactions with owners, etc.	–	774	237	(50,062)	(4,431)	264
Balance as of December 31, 2020	81,690	506,295	(45,781)	1,402,644	–	43,298

(Translation)

(Millions of yen)

	Equity attributable to owners of the Company			Total	Non-controlling interests	Total equity
	Other components of equity					
	Foreign currency translation reserve	Cash flow hedges	Total			
Balance as of January 1, 2020	(103,537)	(1)	(79,490)	1,766,271	29,168	1,795,440
Profit for the year	–	–	–	148,137	3,596	151,733
Other comprehensive income	(32,229)	(4)	(8,815)	(8,815)	(327)	(9,143)
Comprehensive income	(32,229)	(4)	(8,815)	139,321	3,268	142,590
Purchase of treasury shares	–	–	–	(1)	–	(1)
Dividends	–	–	–	(54,230)	(1,482)	(55,713)
Share-based payment transactions	–	–	–	1,028	–	1,028
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	(14)	8	(6)
Transfer from other components of equity to retained earnings	–	–	(4,167)	–	–	–
Decrease in consolidated subsidiaries - non-controlling interests	–	–	–	–	94	94
Total transactions with owners, etc.	–	–	(4,167)	(53,218)	(1,379)	(54,598)
Balance as of December 31, 2020	(135,766)	(5)	(92,474)	1,852,375	31,057	1,883,432

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Accounting Principles for Preparing Consolidated Financial Statements

The consolidated financial statements of the Company, its subsidiaries and interests in its associates (hereinafter collectively referred to as the “Group”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 120, paragraph (1) of the Ordinance on Accounting of Companies. Pursuant to the provisions of the second sentence of the same paragraph, some disclosure items required under IFRS are omitted.

(2) Scope of Consolidation

i) Number of consolidated subsidiaries: 168

ii) Names of principal consolidated subsidiaries:

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd., Otsuka Electronics Co., Ltd., Otsuka Chemical Co., Ltd., Otsuka Foods Co., Ltd., Otsuka America, Inc., Otsuka America Pharmaceutical, Inc., Pharmavite LLC, P.T. Amerta Indah Otsuka, Otsuka Pharmaceutical Europe Ltd. and Nutrition & Santé SAS

(3) Application of the Equity Method

i) Number of associates accounted for by the equity method: 25

ii) Names of principal companies accounted for by the equity method:

Earth Corporation, ALMA S.A., CG Roxane LLC, China Otsuka Pharmaceutical Co., Ltd. and Nichiban Co., Ltd.

(4) Changes in the Scope of Consolidation and the Scope of Equity-Method Application

Otsuka Pharmaceuticals (Malaysia) Sdn. Bhd. and three other companies have been included within the scope of consolidation for the current fiscal year due to their establishment. Higashiyama film (Taiwan) tech Co., Ltd. and two other companies, which were previously consolidated subsidiaries of the Company, were excluded from the scope of consolidation due to their liquidation.

Ribomic, Inc. was excluded from the scope of equity-method application because the percentage of voting rights held by the Company fell below 20% due to the issuance through third-party allotment of share acquisition rights with an exercise price amendment clause.

(5) Fiscal Year End of Consolidated Subsidiaries and Associates

For consolidated subsidiaries and associates accounted for by the equity method whose fiscal year end differs from the consolidated fiscal year end, financial statements based on the provisional settlement of accounts as of December 31 have been used for the purpose of consolidation.

(6) Accounting Policies

i) Valuation of major assets

A. Financial assets

(i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At initial recognition, all financial assets, except for those measured at fair value through profit or loss, are measured at fair value plus directly attributable transaction costs.

Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

At initial recognition, financial assets are classified as (a) Financial assets measured at

amortized cost, (b) Debt instruments measured at fair value through other comprehensive income, (c) Equity instruments measured at fair value through other comprehensive income or (d) Financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

For investments in some equity instruments, the Group has chosen an irrevocable option to present subsequent changes in the fair value of investments that are neither 'held for trading' nor 'contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combinations applies,' in other comprehensive income. The Group classifies such investments as equity instruments measured at fair value through other comprehensive income.

(d) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and equity instruments measured at fair value through other comprehensive income stated above, are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement

After initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Equity instruments measured at fair value through other comprehensive income

Equity instruments measured at fair value through other comprehensive income are measured at fair value. Any changes in fair value are recognized in other comprehensive income. When such financial assets are derecognized, the accumulated other comprehensive income is transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Impairment

With regard to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

At each reporting date, the Group evaluates whether the credit risk on financial instruments has increased significantly since initial recognition.

If credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for that instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses.

The Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due. The assessment of whether or not credit risk has increased significantly takes into account all relevant current information that is reasonably available to the Group, as well as past due information.

However, with regard to trade receivables that do not contain a significant financing component, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition.

(iv) Derecognition

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers substantially all the risks and rewards of ownership of the financial assets.

B. Financial liabilities

(i) Initial recognition and measurement

Bonds and borrowings are initially recognized on the date when they are issued or incurred. All other financial liabilities are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At initial recognition, financial liabilities are classified as (a) financial liabilities measured at amortized cost or (b) financial liabilities measured at fair value through profit or loss.

At initial recognition, financial liabilities measured at amortized cost are measured at fair value net of transaction costs that are directly attributable to the financial liabilities.

Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Subsequent measurement

After initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes the financial liabilities when financial liabilities are extinguished, that is, the obligations specified in a contract are discharged, cancelled or expired.

C. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

D. Derivatives and hedge accounting

Derivatives are initially recognized at fair value. After initial recognition, derivatives continue to be measured at fair value.

The Group utilizes forward foreign exchange contracts, currency swap agreements, currency option transactions, interest rate swap agreements and other derivatives to hedge foreign currency risk and interest rate risk.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. The Group assesses whether the

hedging relationship meets the hedge effectiveness requirements, both at inception and on an ongoing basis. Ongoing assessments are performed at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

The Group applies hedge accounting to cash flow hedges which meet the criteria for hedge accounting and such hedges are accounted for as follows:

The portions of the gain or loss on the hedging instrument that are determined to be effective hedges are recognized in other comprehensive income, while the remaining ineffective portions are recognized in profit or loss. The amounts associated with the hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the hedged transactions affect profit or loss. However, in cases where the hedged forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging relationship ceases to meet the qualifying criteria, or the hedging instrument expires or is sold, terminated or exercised, the application of hedge accounting is discontinued prospectively. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognized in equity through other comprehensive income are reclassified to profit or loss.

The Group does not undertake any fair value hedges or any hedges of net investment in foreign operations.

E. Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined mainly by the weighted-average cost formula. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

- ii) Depreciation or amortization methods of property, plant and equipment, and intangible assets
The cost model is applied in measurement of property, plant and equipment and intangible assets. Property, plant and equipment and intangible assets are carried at cost less any accumulated depreciation, amortization and impairment losses.

A. Property, plant and equipment

The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, the initial estimated costs of dismantling and removing the assets and restoration costs.

Depreciation expense for assets except for land and construction in progress is recognized mainly by the straight-line method over the respective estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 65 years
- Machinery and vehicles: 2 to 63 years
- Tools, furniture and fixtures: 2 to 25 years

The estimated useful lives, residual values and depreciation methods of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

Right-of-use assets are included in “Property, plant and equipment” in the consolidated statement of financial position.

For the leases that the Group has contracted as a lessee, right-of-use assets are measured at cost, and lease liabilities are measured at the present value of total lease payments.

Right-of-use assets are depreciated by the straight-line method over the estimated useful lives or lease terms, whichever is shorter. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 50 years
- Machinery and vehicles: 2 to 15 years
- Tools, furniture and fixtures: 2 to 6 years
- Land: 2 to 50 years

The Group does not recognize right-of-use assets and lease liabilities for leases on intangible assets and short-term leases within 12 months. The Group recognizes the total lease payments associated with short-term leases on either a straight-line method or another systematic basis over the lease term.

B. Intangible assets

Separately acquired intangible assets are measured initially at cost.

Intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Internally generated intangible assets, other than development expenses that meet the requirements for capitalization, are recognized as an expense when incurred.

Intangible assets with finite useful lives are amortized by the straight-line method over the estimated useful lives. The estimated useful lives of major intangible assets are as follows:

- Patents: 5 to 15 years
- Trademarks, distribution rights and others: 2 to 20 years
- Software: 2 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

Intangible assets with indefinite useful lives consist mainly of brands and trademarks acquired separately or in business combinations, and are included in intangible assets as “Trademarks, distribution rights and others.” Intangible assets with indefinite useful lives are reviewed at the end of each fiscal year to determine whether the indefinite useful life assessment remains appropriate. If it is no longer appropriate, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate. In-process research and development acquired separately or in business combinations are included in intangible assets as “In-process research and development.” Because these assets are intangible assets that are not yet available for use, they are not amortized and are tested for impairment. An asset in “In-process research and development” is transferred to “Trademarks, distribution rights and others” when the asset becomes available for use by obtaining permits and approvals from regulatory authorities in a subsequent period, and begins to be amortized by the straight-line method over the estimated useful life from that time.

C. Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any indication of impairment at the end of each reporting period for property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amounts are estimated at the end of each fiscal year, regardless of whether there is any indication of impairment.

The recoverable amount of an individual asset or a cash-generating unit is measured at the higher of its fair value less cost of disposal or its value in use. The value in use is calculated by discounting the estimated future cash flows to the present value using a pre-tax discount

rate that reflects the time value of money and the risks specific to the asset.

The corporate assets do not independently generate cash inflows. When there is an indication of impairment of the corporate assets, the recoverable amount of the cash-generating unit to which the corporate assets belong is calculated.

An impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

For an impairment loss recognized in prior periods, the Group assesses whether there is any indication of a decrease or disappearance of the impairment loss at the end of each reporting period. If there is any indication of reversal of the impairment loss, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount or the carrying amount less any depreciation and amortization costs that would have been determined had no impairment loss been recognized.

iii) Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred in business combination, the amount of non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In case the identifiable net asset exceeds the aggregate of the consideration and others, such excess is immediately recognized in profit or loss.

The consideration transferred is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The consideration transferred includes any assets or liabilities resulting from a contingent consideration arrangement. The amount of non-controlling interests in the acquiree is measured for each business combination either at fair value or as the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. After initial recognition, the amount is recorded at its cost less any accumulated impairment losses.

Goodwill is allocated to each of the cash-generating units or groups of cash-generating units (hereinafter referred to as the "Cash-Generating Units") that is expected to benefit from the synergies of the business combination. Cash-Generating Units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of Cash-Generating Units is less than their carrying amounts, an impairment loss is recognized in profit or loss. With regard to allocation of impairment losses recognized in association with Cash-Generating Units, first the carrying amount of goodwill that has been allocated to the unit is reduced, and then the remaining amount of impairment loss is allocated to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. For impairment losses recognized on goodwill, no reversal is made in subsequent periods.

iv) Provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

The amount recognized as provisions is the best estimate taking into account the risks and uncertainties of the expenditure required to settle the present obligations on each reporting date. When the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

v) Post-employment benefits

The Group's post-employment benefit plans for its employees include defined benefit plans and defined contribution plans.

The Group uses the projected unit credit method to determine the present value of the defined

benefit obligations, the related current service cost and the past service cost.

The discount rate is determined based on market yields on high quality corporate bonds at the end of the fiscal year that are consistent with the discount period, which is set for the projected period until the expected date of benefit payment in each fiscal year.

Net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. If the defined benefit plan has surplus, the defined benefit asset is limited to the asset ceiling that is the present value of any future economic benefits available in the form of reductions in the future contributions to the plan or cash refunds.

Service costs and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss.

The remeasured amount of a defined benefit plan is recognized at once in other comprehensive income when it occurs, and immediately transferred to retained earnings.

Contributions to the defined contribution retirement benefits are recognized as expenses when employees have rendered service.

vi) Foreign currency translation

A. Foreign currency transactions

Foreign currency transactions are translated to the functional currencies at exchange rates on the transaction dates or exchange rates which are close to the actual rate on the transaction dates. Foreign currency monetary assets and liabilities are translated to the functional currency at the exchange rate on each reporting date. Foreign currency monetary assets and liabilities that are measured at fair value are translated into the functional currency using the exchange rate at the date of measurement.

Translation differences arising from translations or settlements are recognized as profit or loss; provided, however, that translation differences arising from financial assets measured through other comprehensive income as well as from cash flow hedges are recognized as other comprehensive income.

B. Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen at the exchange rate on each reporting date. The revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate for the reporting period. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. The foreign currency translation reserve is recognized in profit or loss for periods in which foreign operations are disposed.

vii) Revenue

A. Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products because legal title, physical possession, significant risks and rewards of ownership of the products are transferred to a customer upon delivery, and the customer obtains control over the products.

Products may be sold with a rebate based upon the achievement of a defined sales volume and amount. In such a case, the transaction price is recognized as the consideration promised in the contract with a customer, less estimated rebates and other items. Rebates are measured by the 'most likely amount' method based on historical performance. Revenue is recognized only to the extent that it is highly probable that significant reversal will not occur.

The majority of the consideration for sales is received within one year from the date of delivery. Therefore, the promised amount of consideration does not include a significant financing component.

B. License and royalty income

License income is up-front and milestone payments that the Group receives based on license agreements, etc., which the Group and a third party enter into for development and

distribution right of developing and finished products. Under license agreements, etc., if contractual obligations are fulfilled at a specific point in time, up-front payments are recognized as revenue once development and distribution rights are granted. If contractual obligations are fulfilled over a period of time, such payments are recorded as contract liabilities and recognized as revenue over a period (estimated contract term, etc.) in accordance with the method of measuring progress towards complete satisfaction of performance obligations determined by each contract. Income from milestone payments received under license agreements is recognized as revenue from the point when the conditions are met to avoid future reversal of revenues.

Royalty income is the income from license agreements, etc., calculated based on the sales, etc., of counterparties and its revenue is recognized at the later point of either the counterparty's revenue recognition, etc., or satisfaction of performance obligations.

License and royalty income are received primarily within one year from the time when the rights are acquired based on the agreements. Therefore, the agreements do not include significant financing components.

viii) Others

A. Accounting method for consumption taxes

Consumption taxes are excluded from revenues and expenses.

B. Application of the consolidated taxation system

The Company and certain domestic subsidiaries apply the consolidated taxation system.

2. Notes to Consolidated Statement of Financial Position

(1) Allowance for Expected Credit Losses Directly Deducted from Assets

		(Millions of yen)
Trade and other receivables	¥	1,865
Other financial assets (non-current assets)		161

(2) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Trade and other receivables	¥	116
Inventories		487
Property, plant and equipment		
Buildings and structures		346
Machinery and vehicles		910
Tools, furniture and fixtures		5
Land		505
Total	¥	2,372

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥383 million and bonds and borrowings (non-current liabilities) of ¥288 million.

(3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses) ¥733,497 million

(4) Contingent Liabilities

Outstanding guarantees given to financial institutions of associates and others:

¥101 million

3. Notes to Consolidated Statement of Changes in Equity

(1) Total Number of Issued Shares

(Translation)

Class of shares	Number of shares as of January 1, 2020	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2020
Ordinary shares	557,835 thousand shares	–	–	557,835 thousand shares

(2) Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2020	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2020
Ordinary shares	15,564 thousand shares	15 thousand shares	80 thousand shares	15,499 thousand shares

Note: The 15-thousand-share increase in the number of treasury shares is due to the acquisition without contribution of some ordinary shares that were allotted as restricted stock remuneration and the purchase of shares less than one share unit. The 80-thousand-share decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration.

(3) Dividends

i) Payment of dividends

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 14, 2020	Ordinary shares	¥27,113 million	¥50	December 31, 2019	March 30, 2020
Meeting of the Board of Directors held on August 7, 2020	Ordinary shares	¥27,116 million	¥50	June 30, 2020	September 7, 2020

ii) Dividends whose record date is in the current fiscal year but whose effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 12, 2021	Ordinary shares	Retained earnings	¥27,116 million	¥50	December 31, 2020	March 31, 2021

4. Notes to Financial Instruments

(1) Matters Concerning Conditions of Financial Instruments

i) Financial risk management

The Group is exposed to financial risks (market risk, credit risk and liquidity risk) in the course of operating activities and conducts risk management in accordance with certain policy to mitigate these financial risks. The Group uses derivative transactions to avoid foreign currency risk or interest rate risk and, in accordance with its policy, does not carry out any speculative transactions.

ii) Market risk management

The Group's activities are mainly exposed to risks of changes in economic circumstances and financial market circumstances. Specifically, the risks of changes in financial market circumstances include A. Foreign currency risk, B. Interest rate risk and C. Risk of fluctuations in equity instrument prices.

A. Foreign currency risk management

The Group engages in business globally, and fluctuations in exchange rates of the US dollar

and euro, principally, affect its operating results.

With regard to settlement of receivables and payables arising from ongoing operating activities, the Group's policy is to balance foreign exchange receipts and payments as much as possible with three major currencies, namely, the US dollar, euro and yen.

In addition, the Group has established management rules for derivative transactions and limits derivative transactions, including forward foreign exchange contracts, to those for the purpose of hedging risks.

B. Interest rate risk management

The Group is exposed to various interest rate risks in its business activities, and especially subject to fluctuations in interest rates associated with borrowings. However, the effect of interest rate fluctuations on borrowing costs is offset by income arising from assets that are affected by the interest rate fluctuations.

The Group monitors fluctuations in interest rates arising from these assets and liabilities, and manages interest rate risks through refinancing and other means when interest rates drastically fluctuate.

C. Management of risk of fluctuations in equity instrument prices

The Group is exposed to risk of fluctuations in share prices arising from equity instruments (shares). The Group has no equity instruments held for short-term trading and owns equity instruments to smoothly execute business strategies. With regard to equity instruments, the Group regularly assesses fair value and financial conditions of issuers.

iii) Credit risk management

Credit risk is the risk that causes financial loss to the Group when a customer goes into default for contractual obligations. The Group has the sales department and the accounting and finance department monitor the status of business partners in terms of trade receivables, etc., regularly and manage due dates and balances for each business partner while working to early identify and mitigate any concerns about collections due to deterioration in each business partner's financial position and other factors. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be a default.

The Group recognizes that there is little credit risk in the use of derivatives since the Group only deals with financial institutions with high credit ratings.

The Group does not have any credit risk overly concentrated in a specific counterparty or a group to which the counterparty belongs.

The carrying amounts presented in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of financial assets.

iv) Liquidity risk management

The Group manages liquidity risk by having the accounting and finance departments prepare and update cash flow management plans, and maintaining a constant level of liquidity.

(Translation)

(2) Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments at the end of the fiscal year are as follows:

	(Millions of yen)	
	Carrying amount	Fair value
<Financial assets>		
Financial assets measured at amortized cost		
Other financial assets (bonds)	562	587
Total financial assets	562	587
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Borrowings	73,449	73,796
Bonds	79,805	80,123
Total financial liabilities	153,254	153,919

Note: Information on financial instruments measured at fair value is omitted, since the carrying amount is equal to the fair value. Information on financial instruments measured at amortized cost whose carrying amount approximates to the fair value is also omitted.

Other financial assets (bonds)

The fair value of bonds is calculated based on the quoted price at the stock exchange.

Borrowings

The fair value of borrowings with floating interest rates reflects market interest rates in the short term, and the carrying amount approximates to that fair value. The fair value of borrowings with fixed interest rates is calculated by the method in which future cash flows are discounted, using an interest rate which approximates to when funds are borrowed under the same terms and conditions with the same remaining borrowing period.

Bonds

The fair value of bonds is calculated based on the observable price in the market.

5. Notes to per Share Information

(1) Equity Attributable to Owners of the Company per Share	¥3,415.54
(2) Basic Earnings per Share	¥273.15

6. Notes to Significant Subsequent Events

Not applicable.

7. Other Notes

(Business Combinations)

(Contingent considerations arising from business combination)

Contingent considerations arising from business combination are included in other financial liabilities in the consolidated statement of financial position. Contingent considerations recorded at the end of the fiscal year arose from the business combination of Neurovance, Inc. (“Neurovance”) and ReCor Medical Inc. (“ReCor Medical”).

The contingent considerations from the acquisition of Neurovance consist of the milestones to be paid based on the progress of the development of centanafadine, which is a compound under development as a treatment of ADHD, obtained when the Group acquired Neurovance in March 2017, and the ones to be paid based on the revenue after the launch of centanafadine. The maximum potential amounts of the milestones will be USD 75 million and USD 750 million, respectively.

The contingent considerations from the acquisition of ReCor Medical are the milestones to be paid based on the progress of the development of the ultrasound renal denervation device obtained by the Group at its acquisition in June 2018. The maximum potential amount of the milestones will be USD 125 million.

The fair value of the contingent considerations is estimated based on the probability-weighted present value of the potential amount to be paid to the counterparty.

The fair value changes of the contingent considerations attributable to time value are recognized in

(Translation)

“Finance costs,” and the one attributable to changes of non-time-value is recognized in either “Other income” or “Other expenses.”

Changes in the fair value of the contingent considerations for the current fiscal year are as follows:

(Millions of yen)

	Amount
Balance as of January 1, 2020	18,279
Changes in fair value	(1,296)
Foreign currency translation adjustment	(517)
Balance as of December 31, 2020	16,465

(Translation)

Balance Sheet
(As of December 31, 2020)

(Millions of yen)

Item	(Reference) FY2019	Amount	Item	(Reference) FY2019	Amount
Assets			Liabilities		
Current assets	103,942	134,440	Current liabilities	98,923	110,722
Cash and bank deposits	55,113	70,368	Lease obligations	20	–
Supplies	55	59	Accounts payable - other	5,746	6,558
Prepaid expenses	1,979	1,991	Accrued expenses	104	84
Short-term loans receivable from subsidiaries and associates	11,317	10,347	Income taxes payable	10,935	145
Income taxes receivable	2	996	Deposits received from subsidiaries and associates	81,909	103,795
Other current assets	35,709	50,836	Provision for bonuses	30	31
Allowance for doubtful accounts	(235)	(159)	Provision for directors' bonuses	48	48
Non-current assets	1,053,164	1,074,045	Other current liabilities	128	60
Property, plant and equipment	411	1,080	Non-current liabilities	81,083	80,798
Buildings	5	4	Bonds payable	80,000	80,000
Structures	39	118	Deferred tax liabilities	1,083	742
Machinery and equipment	–	859	Provision for retirement benefits for directors (and other officers)	–	38
Tools, furniture and fixtures	75	36	Other non-current liabilities	–	17
Leased assets	19	–	Total Liabilities	180,007	191,520
Construction in progress	271	61	Net Assets		
Intangible assets	6,154	6,782	Shareholders' equity	974,304	1,014,753
Software	6,151	6,782	Share capital	81,690	81,690
Trademark rights	2	–	Capital surplus	810,772	810,836
Investments and other assets	1,046,598	1,066,182	Additional paid-in capital	731,816	731,816
Investment securities	16,426	15,583	Other capital surplus	78,955	79,019
Shares of subsidiaries and associates	745,620	750,984	Retained earnings	127,859	168,007
Long-term loans receivable from subsidiaries and associates	285,220	299,800	Other retained earnings	127,859	168,007
Prepaid pension costs	–	160	Reserve for tax purpose reduction entry of non-current assets	–	108
Other assets	31	53	Retained earnings brought forward	127,859	167,898
Allowance for doubtful accounts	(700)	(400)	Treasury shares	(46,018)	(45,781)
Total Assets	1,157,106	1,208,485	Valuation and translation adjustments	2,795	2,210
			Unrealized gain on available-for-sale securities	2,795	2,210
			Total Net Assets	977,099	1,016,964
			Total Liabilities and Net Assets	1,157,106	1,208,485

(Translation)

Statement of Income
(From January 1, 2020 to December 31, 2020)

(Millions of yen)

Item	(Reference) FY2019	Amount
Operating revenues	66,155	102,708
Operating expenses	9,110	10,846
Operating income	57,045	91,862
Non-operating income	2,177	2,224
Interest and dividend income	907	1,005
Business consignment fees	938	1,038
Other	332	181
Non-operating expenses	1,407	613
Interest expenses	26	29
Commission fees	8	42
Provision of allowance for doubtful accounts	935	324
Bond interests	175	213
Bond issuance cost	261	-
Other	-	2
Ordinary income	57,815	93,473
Extraordinary loss	13	16
Loss on retirement of non-current assets	13	16
Income before income taxes	57,802	93,456
Income taxes - current	(600)	(839)
Income taxes - deferred	27	(82)
Net income	58,375	94,378

(Translation)

Statement of Changes in Net Assets

(From January 1, 2019 to December 31, 2019) [For Reference]

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
					Retained earnings brought forward			
Beginning balance as of January 1, 2019	81,690	731,816	78,400	810,216	123,690	123,690	(47,268)	968,329
Changes in the year								
Dividends					(54,205)	(54,205)		(54,205)
Share-based payment transactions			454	454			1,005	1,460
Exercise of stock options			101	101			245	347
Purchase of treasury shares							(1)	(1)
Net income					58,375	58,375		58,375
Net changes other than shareholders' equity								
Total changes in the year	-	-	555	555	4,169	4,169	1,250	5,975
Ending balance as of December 31, 2019	81,690	731,816	78,955	810,772	127,859	127,859	(46,018)	974,304

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments		
Beginning balance as of January 1, 2019	2,123	2,123	359	970,812
Changes in the year				
Dividends				(54,205)
Share-based payment transactions				1,460
Exercise of stock options				347
Purchase of treasury shares				(1)
Net income				58,375
Net changes other than shareholders' equity	671	671	(359)	311
Total changes in the year	671	671	(359)	6,286
Ending balance as of December 31, 2019	2,795	2,795	-	977,099

(Translation)

(From January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings
				Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward		
Beginning balance as of January 1, 2020	81,690	731,816	78,955	810,772	–	127,859	127,859
Changes in the year							
Dividends						(54,230)	(54,230)
Share-based payment transactions			63	63			
Purchase of treasury shares							
Net income						94,378	94,378
Net changes other than shareholders' equity					108	(108)	–
Total changes in the year	–	–	63	63	108	40,039	40,148
Ending balance as of December 31, 2020	81,690	731,816	79,019	810,836	108	167,898	168,007

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments	
Beginning balance as of January 1, 2020	(46,018)	974,304	2,795	2,795	977,099
Changes in the year					
Dividends		(54,230)			(54,230)
Share-based payment transactions	238	302			302
Purchase of treasury shares	(1)	(1)			(1)
Net income		94,378			94,378
Net changes other than shareholders' equity		–	(584)	(584)	(584)
Total changes in the year	237	40,449	(584)	(584)	39,864
Ending balance as of December 31, 2020	(45,781)	1,014,753	2,210	2,210	1,016,964

Notes to Financial Statements

1. Summary of Significant Accounting Policies

- 1) Valuation of Major Assets
 - i) Shares of subsidiaries and associates:
Stated at cost, determined by the moving-average method.
 - ii) Other securities
 - Marketable securities classified as available-for-sale:
Stated at fair value based on the quoted market price at the end of the fiscal year, with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving-average method.
 - Non-marketable securities classified as available-for-sale:
Stated at cost, determined by the moving-average method.
 - iii) Valuation of inventories
 - Supplies:
Stated at the lower of cost or net selling value, determined by the first-in, first-out method.

- 2) Depreciation and Amortization of Non-Current Assets
 - i) Property, plant and equipment (excluding leased assets):
The Company uses the straight-line method.
The estimated useful lives of major items are as follows:
 - Buildings: 3 to 15 years
 - Structures: 10 to 20 years
 - Machinery and equipment: 13 years
 - Tools, furniture and fixtures: 2 to 20 years
 - ii) Intangible assets:
The Company uses the straight-line method over their estimated useful lives. Software for internal use is amortized by the straight-line method based on internal guidelines (5 to 10 years).
 - iii) Leased assets:
The Company uses the straight-line method over the terms of its leases with zero residual value for leased assets related to finance leases that do not transfer ownership.

- 3) Reserves
 - i) Allowance for doubtful accounts:
In order to prepare for losses from bad debt, the Company sets up a provision for uncollectible amounts estimated by either using the historical rate of credit loss for general receivables, or based on individual considerations of collectability for specific doubtful receivables.
 - ii) Provision for bonuses:
To account for the accrued bonus expense, the Company recognizes a reserve for the estimated bonus payable to employees, which is attributable to the corresponding fiscal year.
 - iii) Provision for directors' bonuses:
To account for the accrued directors' bonus expense, the Company recognizes a reserve for the estimated bonus payable to directors, which is attributable to the corresponding fiscal year.
 - iv) Provision for retirement benefits for directors (and other officers):
In order to cover payment of retirement benefits to corporate officers, the Company sets up a provision in the amount required to be paid at year-end in accordance with the internal rules.
 - v) Provision for retirement benefits:
In order to cover payment of retirement benefits to employees, the Company sets up a provision based on the amount of estimated retirement benefit obligations and estimated plan assets at the end of the corresponding fiscal year. For the calculation of provision for retirement benefits and retirement benefit expenses, the Company has adopted a simplified method in which the actuarial obligations in the most recent pension funding calculation are used for the retirement benefit obligations.

(Translation)

- 4) Accounting policy for recognition of revenues and expenses
Accounting policy for recognition of revenues:
The Company applies “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018), and except for interest, dividend income, etc., recognizes revenue from contracts with customers based on the following five-step model.
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
- 5) Others
- i) Accounting method for consumption taxes:
Consumption taxes are excluded from revenues and expenses.
- ii) Adoption of the consolidated taxation system
The Company applies the consolidated taxation system.
The amounts of deferred tax assets and deferred tax liabilities were calculated in accordance with the provisions of the tax law prior to enactment of the “Act Partially Amending the Income Tax Act” (Act No. 8 of 2020), as allowed by the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020).

2. Notes to Balance Sheet

- (1) Accumulated Depreciation on Property, Plant and Equipment ¥616 million
- (2) Monetary Assets from and Liabilities to Subsidiaries and Associates (Excluding Those Classified Separately in the Balance Sheet)
- i) Short-term monetary assets ¥50,295 million
- ii) Short-term monetary liabilities ¥4,443 million

3. Notes to Statement of Income

Transactions with Subsidiaries and Associates

- i) Operating revenues ¥102,708 million
- ii) Operating expenses ¥1,490 million
- iii) Non-operating transactions
- Interest income ¥551 million
- Interest expenses ¥29 million
- Other non-operating income ¥1,023 million

4. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2020	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2020
Ordinary shares	15,564 thousand shares	15 thousand shares	80 thousand shares	15,499 thousand shares

Note: The 15-thousand-share increase in the number of treasury shares is due to the acquisition without contribution of some ordinary shares that were allotted as restricted stock remuneration and the purchase of shares less than one share unit.
The 80-thousand-share decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration.

5. Notes to Income Taxes

Major components of deferred tax assets and liabilities are as follows:

		(Millions of yen)
Deferred tax assets		
Provision for retirement benefits for directors (and other officers)	¥	11
Provision for bonuses		9
Accrued directors' salaries		29
Accrued enterprise tax		42
Share-based remuneration expenses		160
Allowance for doubtful accounts		171
Loss on valuation of shares of subsidiaries and associates		2,837
Loss on extinguishment of tie-in shares		176
Adjustment of tax-basis book value of shares of subsidiaries and associates		886
Unused tax losses		1,406
Other		158
<hr/>		
Subtotal of deferred tax assets		5,890
Valuation allowance for unused tax losses		(1,406)
Valuation allowance for the total of deductible temporary differences, etc.		(4,155)
<hr/>		
Subtotal of valuation allowance		(5,561)
<hr/>		
Total of deferred tax assets	¥	329
(Millions of yen)		
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	¥	(974)
Prepaid pension costs		(49)
Reserve for tax purpose reduction entry of non-current assets		(48)
<hr/>		
Total of deferred tax liabilities		(1,071)
<hr/>		
Net deferred tax liabilities	¥	(742)

(Translation)

6. Notes to Related Party Transactions

(1) Subsidiaries

Type	Company name	Percentage owned	Relationship		Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
			Interlocking directors and audit & supervisory board members	Business relationship				
Subsidiary	Otsuka Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct	5	Investment in stock	Lending of funds ^{*1}	281,590	Long-term loans receivable from subsidiaries and associates ^{*1}	268,720
		(Held by the subsidiary) None			Payment of interest ^{*2}	0	Deposits received from subsidiaries and associates ^{*1}	3,237
					Receipt of interest ^{*2}	501		
Subsidiary	Taiho Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct	1	Investment in stock	Borrowing of funds ^{*1}	46,607	Deposits received from subsidiaries and associates ^{*1}	64,440
		(Held by the subsidiary) None			Payment of interest ^{*2}	16		
Subsidiary	Otsuka Chemical Co., Ltd.	(Held by the Company) 100.0% direct	1	Investment in stock	Borrowing of funds ^{*1}	22,796	Deposits received from subsidiaries and associates ^{*1}	22,399
		(Held by the subsidiary) None			Payment of interest ^{*2}	10		
Subsidiary	Otsuka Medical Devices Co., Ltd.	(Held by the Company) 100.0% direct	3	Investment in stock	Lending of funds ^{*1}	26,228	Short-term loans receivable from subsidiaries and associates ^{*1}	6,548
		(Held by the subsidiary) None			Receipt of interest ^{*2}	38	Long-term loans receivable from subsidiaries and associates ^{*1}	26,100

Terms and conditions of transactions and policy on determination thereof

*1 The Group utilizes an intercompany cash management process for efficient use of its funds. The transaction amount represents the average balance during the fiscal year.

*2 The interest rate is mutually agreed upon based on market rates.

(2) Officers and Significant Individual Shareholders

Type	Company name or individual's name	Percentage owned	Relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Close family member of Director	Yujiro Otsuka	(Held by the close family member of Director) 0.0% direct	Close family member of Director of the Company	Payment of consulting fee*	24	-	-

Terms and conditions of transactions and policy on determination thereof

* Payment of consulting fee is decided by agreement between the two parties based on the details of the consulting agreement.

(Translation)

7. Notes to per Share Information

(1) Net Assets per Share	¥1,875.15
(2) Earnings per Share	¥174.03

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 9, 2021

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi [Seal]

Designated Engagement Partner,
Certified Public Accountant:
Hirofumi Otani [Seal]

Opinion

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries (the "Group"), namely, the consolidated statement of financial position as of December 31, 2020, and the consolidated statement of income and consolidated statement of changes in equity for the fiscal year from January 1, 2020 to December 31, 2020, and the related notes.

In our opinion, the accompanying consolidated financial statements, prepared with the omission of a part of the disclosures required under International Financial Reporting Standards pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2020, and its consolidated financial performance for the year then ended.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

(Translation)

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting Standards, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(Translation)

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Companies Act of Japan for the conveniences of the reader.

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 9, 2021

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi [Seal]

Designated Engagement Partner,
Certified Public Accountant:
Hirofumi Otani [Seal]

Opinion

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements of Otsuka Holdings Co., Ltd. (the "Company"), namely, the nonconsolidated balance sheet as of December 31, 2020 and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 13th fiscal year from January 1, 2020 to December 31, 2020, and the related notes and the accompanying supplemental schedules.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements section of our report. We are independent of the Company in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Nonconsolidated Financial Statements

Management is responsible for the preparation and fair presentation of the nonconsolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of nonconsolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the nonconsolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over

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the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Nonconsolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the nonconsolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these nonconsolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the nonconsolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the nonconsolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the nonconsolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the nonconsolidated financial statements, including the disclosures, and whether the nonconsolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Companies Act of Japan for the conveniences of the reader. "The accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

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Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 13th Fiscal Year from January 1, 2020 to December 31, 2020, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

1. Auditing Methods and Content of Audits

- (1) The Audit & Supervisory Board established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding the status of his or her audit and the results thereof, as well as reports from the Directors and independent auditors regarding performance of their duties, and sought explanations as necessary.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Audit & Supervisory Board Member endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and audits were implemented as follows:
 - i) Each Audit & Supervisory Board Member attended the meeting of the Board of Directors and other important meetings to receive reports regarding performance of duties from Directors and other employees, and sought explanations as necessary. Each Audit & Supervisory Board Member also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices. With regard to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
 - ii) With regard to contents of resolutions of the Board of Directors regarding the development of the system to ensure that the performance of duties by the Directors conforms to the laws and regulations and the Articles of Incorporation and other systems that are stipulated in Article 100 (1) and (3) of the Ordinance for Enforcement of the Companies Act as being necessary to ensure appropriateness of operations of a joint stock company and business group comprising its subsidiaries, and also the systems (internal control systems) developed based on such resolutions, which are described in the Business Report, we periodically received reports from the Directors and other relevant personnel, sought explanations as necessary and made opinions, on the establishment and management of such systems.
 - iii) Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and received reports from the independent auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the independent auditors that the system for ensuring that duties are performed properly (matters set forth in each Item of Article 131 of the Corporate Accounting Rules) is organized in accordance with the product quality management standards regarding audits (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and the accompanying supplementary schedules, the financial statements (Balance Sheet, Statement of Income, Statement of Changes in Net Assets, and Notes to Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Changes in Equity and Notes to Consolidated Financial Statements) related to the relevant fiscal year.

2. Results of Audit

- (1) Results of Audit of the Business Report, etc.
 - i) In our opinion, the Business Report and the accompanying supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.
 - ii) With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with regard to the Articles of Incorporation.
 - iii) In our opinion, resolutions of the Board of Directors for internal control systems are fair and reasonable. And there is no problem with the contents of the Business Report and the performance of duties by the Directors with regard to internal control systems.
- (2) Results of Audit of Financial Statements and the Accompanying Supplementary Schedules
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.
- (3) Results of Audit of Consolidated Financial Statements
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 10, 2021

Audit & Supervisory Board, Otsuka Holdings Co., Ltd.

Standing Audit & Supervisory Board Member	Yozo Toba	[Seal]
Outside Audit & Supervisory Board Member	Hiroshi Sugawara	[Seal]
Outside Audit & Supervisory Board Member	Yoko Wachi	[Seal]
Outside Audit & Supervisory Board Member	Kazuo Takahashi	[Seal]