

Risks and Opportunities

In identifying material issues for the Otsuka group, we analyzed and evaluated risks and opportunities for the group based on changes in the internal and external environment. We will continue to examine risks and opportunities, reflecting them in our initiatives to address each of the material issues we face and to promote our activities.

External environment	Risks	Opportunities	Response (specific initiatives)
<ul style="list-style-type: none"> Intensifying competition in core areas 	<ul style="list-style-type: none"> Delay or cancellation of R&D Shortening of exclusive license periods Emergence of competing products 	<ul style="list-style-type: none"> Responding to unmet needs with Otsuka's unique drugs created from our originality, which is free from fixed ideas 	<ul style="list-style-type: none"> Enhancing the pipeline in priority areas ▶P.32 Expanding the range of development items Properly managing the portfolio by appropriately reviewing the R&D policy
<ul style="list-style-type: none"> Changes such as in the business environment after an acquisition or forming an alliance Changes in potential needs of consumers Increased awareness of self-medication, prevention, and daily health 	<ul style="list-style-type: none"> Failure to generate synergies due to insufficient due diligence of partners or acquired companies Insufficient business management when engaging in an alliance or following an acquisition Failure of products to address customer needs 	<ul style="list-style-type: none"> Expanding the group's capabilities through prudent and purposeful strategies and post-merger integration, etc., and strengthening its ability to innovate through increased diversity Further developing social issue-driven business 	<ul style="list-style-type: none"> Conducting careful due diligence of target companies and assets Stronger business monitoring when engaging in an alliance or after an acquisition Monitoring and analyzing macro and micro trends Optimizing strategy from a long-term perspective based on product and regional characteristics Cooperating between relevant departments on effectively collecting and analyzing information, and strategizing
<ul style="list-style-type: none"> Global talent shortage 	<ul style="list-style-type: none"> Failure to secure sufficient human resources to execute high-level strategy Failure to develop talent 	<ul style="list-style-type: none"> Creative products and marketing based on scientific evidence in the Nutraceutical area 	<ul style="list-style-type: none"> Identifying and developing the next generation of human resources by establishing a program to develop management human resources ▶P.50 Promoting diversity and inclusion based on the Otsuka Group Global Code of Business Ethics, and providing relevant systems and mechanisms ▶P.51
<ul style="list-style-type: none"> Occurrence of fraud cases, such as discrepancies between applications for approval and actual manufacturing conditions 	<ul style="list-style-type: none"> Instability of supply and loss of brand value and credibility due to sales discontinuation or recall due to quality problems or non-compliance with related laws and regulations. 	<ul style="list-style-type: none"> Developing human resources based on our unique corporate culture and philosophy 	<ul style="list-style-type: none"> Ensuring manufacturing and quality control in compliance with regulations in each country ▶P.55 Periodically verifying and evaluating quality assurance systems at contract manufacturers and raw material suppliers
<ul style="list-style-type: none"> Increased awareness of the importance of supply chain transparency Supply chain fragmentation due to geopolitical risks, etc. 	<ul style="list-style-type: none"> Major non-compliance or misconduct (e.g., relating to human rights, labor, the environment, corruption) in the supply chain Unstable material procurement and supply 	<ul style="list-style-type: none"> Advancing innovation and globalization through promotion of diversity and inclusion Transitioning to decarbonization through planned introduction of renewable energy 	<ul style="list-style-type: none"> Implementing the Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines ▶P.54 Conducting due diligence when selecting suppliers Operating an ongoing monitoring system Diversifying procurement sources, such as by using multiple suppliers, and securing alternative raw materials Securing appropriate inventory and spreading production across multiple manufacturing sites
<ul style="list-style-type: none"> Climate change 	<ul style="list-style-type: none"> Risks related to laws and regulations, such as the introduction of a carbon tax Changing needs for products and services due to the transition to a decarbonized society 	<ul style="list-style-type: none"> Developing products adapted to environmental changes and that contribute to environmental protection 	<ul style="list-style-type: none"> Building a structure (e.g., establishing committees) for addressing environmental issues ▶P.58 Setting 2028 and 2030 targets for material environmental issues and promoting initiatives to achieve them ▶P.57 Joining the RE100 Initiative ▶P.60 Pursuing efficient and highly effective action through acquisition of ISO 14001 integrated certification (for environmental management systems)
<ul style="list-style-type: none"> Pandemics and major natural disasters 	<ul style="list-style-type: none"> Suspension of plant operations, etc., loss of human resources, and interruption or delay of product development due to a pandemic or major natural disaster 	<ul style="list-style-type: none"> Developing products that meet the lifestyle changes and increased health awareness caused by the pandemic Providing digitally-enabled healthcare products 	<ul style="list-style-type: none"> Formulating business continuity plans, including ongoing review and improvement Conducting regular drills and exercises Thorough implementation of COVID-19 pandemic prevention measures
<ul style="list-style-type: none"> Promotion of DX 	<ul style="list-style-type: none"> Decline in competitive ability due to slow or insufficient digital transformation 		<ul style="list-style-type: none"> Adopting state-of-the-art technologies, conducting proof-of-concept demonstrations and practical application Improving literacy and skills group-wide through seminars and information sharing ▶P.50