

Governance

For more details about our governance-related initiatives, visit:

<https://www.otsuka.com/en/csr/governance/>



Corporate Governance

Basic Policy

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

Fiscal 2023 Targets

- Strengthen corporate governance for further effectiveness
- Establish a governance structure that responds to global business development and diverse changes
- Establish a system to strengthen compliance in the group

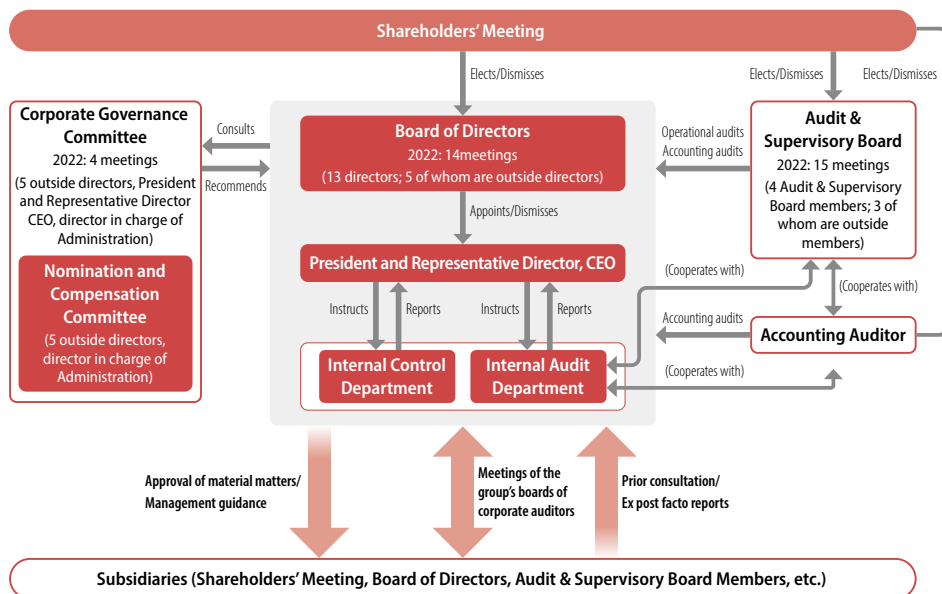
Corporate Governance Guidelines

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

Corporate Governance Report (May 30, 2023)

https://www.otsuka.com/en/csr/governance/pdf/governance_report2023.pdf

Corporate Governance Organizational Structure



Initiatives to Strengthen Corporate Governance

	Institutional design	Remuneration for directors	Other corporate governance measures
2008	Establishment of Otsuka Holdings. Term of directors set at one year. Appointment of outside Audit & Supervisory Board members begins.		
2010	Stock publicly listed in December.	Stock options as performance-linked remuneration introduced.	
2011			First Medium-Term Management Plan announced.
2013	Appointment of outside directors begins.		
2014			Second Medium-Term Management Plan announced. Otsuka Group Global Code of Business Ethics established. Otsuka Group Global Anti-Corruption Policy established.
2015			Corporate Governance Guidelines established. Internal whistleblowing system (for Otsuka Holdings and major group companies) established, with reporting to an independent body outside the Company.
2016		System for granting stock options conditional on progress with the medium-term management plan introduced.	Effectiveness of Board of Directors evaluated.
2017	Corporate Governance Committee established.		Corporate Governance Guidelines revised. Started to evaluate the effectiveness of the Board of Directors based on questionnaires completed by all directors and Audit & Supervisory Board members. Started to hold reporting meetings for outside directors and outside Audit & Supervisory Board members to improve their understanding of the group's management and business.
2018	First female directors appointed.		Corporate Governance Guidelines revised.
2019		Stock-based compensation plan with restriction on transfer	Third Medium-Term Management Plan announced.
2020			Otsuka Group Global Policy for Conflict of Interest established.
2021	Accounting auditors changed.		Corporate Governance Guidelines revised. Otsuka Group Global Anti-Fraud Policy established.
2022	Proportion of independent outside directors increased to more than one third.		Otsuka Group Global Speak-Up Policy established. Otsuka Group Global ERM Policy established. Otsuka Group Global ERM Implementation Guidelines established.
2023	Nominating and Compensation Committee established.		Corporate Governance Guidelines revised.

Governance

Corporate Governance

Board of Directors

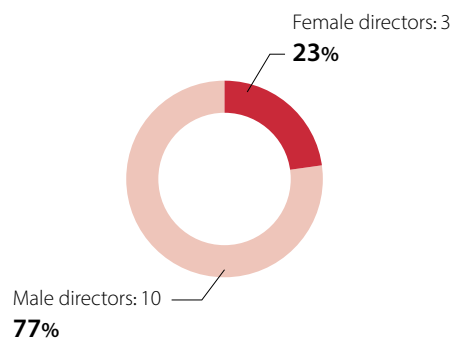
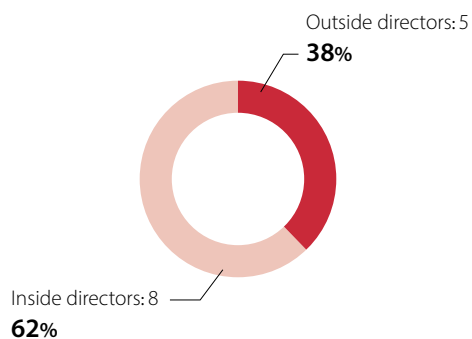
In line with the Board of Director regulations, the Board of Directors convenes regularly once a month and holds extraordinary meetings as necessary to make important business decisions and supervise the execution of operations.

The term of directors at Otsuka Holdings is set at one year to clarify executive responsibility for each fiscal year. Furthermore, the Company works to ensure the overall diversity of directors, and appoints people with the insight, expertise, and experience needed to realize and maintain appropriate and effective corporate governance. For internal directors, we comprehensively evaluate the experience, expertise, insight, and other attributes of candidates to ensure that they have the qualities needed to implement the group's corporate philosophy, Code of Business Ethics, and management strategies. For outside directors, the Company looks for individuals with a wealth of knowledge and extensive experience in various fields. The Company requires that candidates have the ability to adequately exercise management oversight functions through fair and objective monitoring, supervision, and auditing of management from a neutral and objective viewpoint.

Meetings Held in Fiscal 2022 (Average Attendance): 14 (100%)

Proportion of Outside directors: 38%

Proportion of Female directors: 23%



Director Skill Matrix

To establish an effective corporate governance structure for sustainable growth, the Company appoints Directors and Corporate Auditors with broad business experience and a wide range of highly specialized expertise and knowledge. The composition, experience, and expertise of the Company's directors are as follows.

	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.
Ichiro Otsuka	●	●	●					
Tatsuo Higuchi	●	●	●				●	
Yoshiro Matsuo					●			
Shuichi Takagi	●		●	●				
Yuko Makino				●				
Masayuki Kobayashi	●	●					●	
Noriko Tojo	●				●	●		
Makoto Inoue	●	●	●					
Yukio Matsutani							●	MD
Ko Sekiguchi			●			●		
Yoshihisa Aoki			●					
Mayo Mita						●		
Tatsuaki Kitachi				●		●		CPA

Director Selection Criteria/Independence Standards for Outside Directors

https://www.otsuka.com/en/csr/governance/governance_system.html

Please refer to the Notice of the 15th Ordinary General Meeting of Shareholders for the reasons for the election of each director.

https://www.otsuka.com/en/ir/stock/pdf/meeting/202212_01.pdf

Governance

The full text of messages from the outside directors is available on our website

https://www.otsuka.com/en/ir/management/message/outside_message.html



Corporate Governance

Major Matters Deliberated by the Board of Directors in 2022

Category	Number of times deliberated	Major reports and discussions
Business performance and plan	19	<ul style="list-style-type: none"> Monitoring of progress of consolidated results and plan Discussions on current conditions and issues regarding the performance of each operating company and business segment Monitoring of progress of Medium-Term Management Plan
Corporate governance	38	<ul style="list-style-type: none"> Identification of issues in improving the effectiveness of the Board of Directors Approval of officer election and remuneration Monitoring of subsidiary activities Confirmation of progress of measures to reinforce group governance Review of cross-shareholdings
Sustainability	3	<ul style="list-style-type: none"> Revised medium-term environmental objectives and plastics statement objectives Approval of plans to install demonstration facilities to reduce CO₂ Deliberations on promoting environmental investment globally
M&A and partnerships	9	<ul style="list-style-type: none"> Discussion on Taiho Pharmaceutical's acquisition of Cullinan Pearl and co-development agreement with Cullinan Oncology for TAS6417 Deliberations on the establishment of a joint venture company between Otsuka Chemical and Yokogawa Electric Corporation
Risk management	12	<ul style="list-style-type: none"> Approval of internal control reports, update on implementation of global training programs and on confirmation of conflicts of interest, and approval of activity reports and activity plans Annual reporting on internal whistleblowing system (whistleblowing system improvement status, number of reports and overview) and approval of action plan Approval of revision of whistleblower operation regulations Reporting on ERM monitoring activities Approval to issue Otsuka group Global ERM Policy and Implementation Guidelines Reporting on progress of initiatives to reinforce overseas crisis management Report on the reality of customer harassment and new measures to deal with customers
Financial strategy	3	<ul style="list-style-type: none"> Formulation of funding policy Discussions of new capital investments Formulation of dividend policy
IT	1	<ul style="list-style-type: none"> Reinforcement of cyber security measures

Evaluation of the Effectiveness of the Board of Directors

During January and February 2023, the Company conducted a questionnaire survey of all directors and Audit & Supervisory Board members. Results of the survey were reviewed by a company attorney, and then considered and evaluated at the Board of Directors meeting in March 2023.

Questionnaire items were as follows.

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

Achieving Overall Optimization while Maintaining the Uniqueness of Each Operating Company

Otsuka Holdings' Board of Directors' meetings are lively based on the philosophy of better decision-making through the free exchange of opinions among members with diverse experience and insight. Of all the discussions, opinions by outside directors probably make up about half. In one case, a proposal made by the company was improved based on the comments of an outside director, and the proposal was then put on the agenda again.

The unique innovations of group companies have been realized through the freedom and originality of each operating company to develop its own business. While these management styles should be preserved and not overly centralized, I feel it is necessary to further deepen discussions at the Board of Directors regarding the balance between the best business operations of each operating company and the best direction of the group. If Otsuka Holdings can take the initiative in advancing strategies for such things as overseas business development, while considering overall optimization, I believe that more synergies will be realized and the group as a whole will develop further.



Ko Sekiguchi
Outside Director

Governance

Corporate Governance

Corporate Governance Committee

Otsuka Holdings has had a Corporate Governance Committee since February 2017, and as a subcommittee of that committee, a Nominating and Compensation Committee since April 2023.

As an advisory body to the Board of Directors, the committee discusses the state of corporate governance at the Company, succession plans for the President and other executives, the development of management human resources, and other management issues of the group, and submits reports to the Board of Directors as necessary. The committee consists of the president, the director in charge of administration, and all outside directors (five as of the publication of this report). The president serves as the chair of the committee.

The Nomination and Compensation Committee, a subcommittee of the Corporate Governance Committee, is composed of the director in charge of administration and all five outside directors, and its chairman is elected by the outside directors. The Nomination and Compensation Committee deliberates on the following matters, and reports its deliberations and decisions to the Corporate Governance Committee, which in turn reports back to the Board of Directors.

Main Items Discussed by the Corporate Governance Committee

Corporate governance in general	<ul style="list-style-type: none"> The state of corporate governance Succession plan for the president and other senior management Development of management human resources Other group management issues
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Main Items Discussed by the Nominating and Compensation Committee

Evaluation of the president	
Nominations	The appropriateness and fairness of matters relating to the appointment and dismissal of directors and Audit and Supervisory Board members
Remuneration	Matters related to evaluation and individual remuneration of directors, remuneration systems, levels, etc.

Pursuing the value of Otsuka's unique approach with a high healthcare awareness

Otsuka Holdings provides outside directors with explanations about the businesses of each major company, such as Otsuka Pharmaceutical, and holds regular briefings on the progress of research and development, to provide us outside directors with the information we need to thoroughly discuss them at board of directors. Even so, it is difficult to look at all businesses, so to make discussions more efficient and cross-functional, it is necessary to decide on themes, such as the supply chain, ESG, and human resource development, and focus on them.

Otsuka's Pharmaceutical Business focuses on disease, while the Nutraceutical Business looks at consumers as a whole. The organic linkage between these two businesses, which operate on the same theme of "health," but in different fields, is the source of Otsuka's unique value, which cannot be found in a company specializing in prescription pharmaceuticals. I hope that Otsuka will continue to demonstrate its uniqueness with a high level of healthcare awareness in the future.



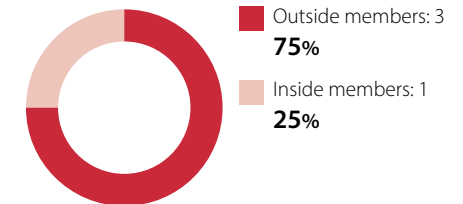
Yukio Matsutani
Outside Director

Audit & Supervisory Board

Audit & Supervisory Board members attend and express opinions at meetings of the Board of Directors, and monitor directors' performance of duties in terms of legal compliance and soundness of management through audits. To ensure the effectiveness of auditing by Audit & Supervisory Board members, systems have been established by which Audit & Supervisory Board members can interview directors and employees about the status of business execution, review internal consultation documents and other important documents pertaining to business execution, and promptly receive reports on the execution of operations when requested.

There is a Statutory Auditor's Office to assist the duties of Audit & Supervisory Board members. It convenes meetings of the Audit & Supervisory Board and is independent of directors' authority in its assistance in the duties of Audit & Supervisory Board members.

Proportion of Outside Audit & Supervisory Board members: 75%



Audit & Supervisory Board Member Skill Matrix

	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.
Yoza Toba	●			●				
Hiroshi Sugawara				●				CPA
Kanako Osawa					●			Attorney
Sachie Tsuji				●	●			CPA

Further discussion on executing strategies to maximize corporate value

In order to further advance corporate governance, I believe that we need to think about the magnitude of issues and the allocation of time for deliberations based on timing in order to better use time discussing how to maximize the corporate value of the Otsuka group. In order to achieve sustainable growth, we need to create synergies throughout the Otsuka group, which I believe can be further deepened through forward-looking initiatives.

In terms of dialogue with investors, I also feel that there is room for improvement in the dissemination of information to give them a deeper understanding of Otsuka's diverse business operations, which are the hallmark of the company. If we can come up with a management strategy that improves the asset and capital efficiency of the entire group, investors will be able to see the company's growth more clearly. I hope that the Fourth Medium-Term Management Plan, starting in the next fiscal year, will incorporate this perspective.



Mayo Mita
Outside Director

Governance

Corporate Governance

Internal Audit Department

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

Internal Control Department

The Company views internal controls as an integral component of corporate governance that functions together with compliance and risk management, and has an Internal Control Department as the department in charge of compliance and risk management to improve the internal control system. The Internal Control Department promotes the Otsuka Group Global Code of Business Ethics and other Otsuka group global rules at Otsuka Holdings and its affiliated companies. It also works to establish and promote compliance programs and risk management programs at each company. The status of the establishment and operation of those programs is regularly reported to the Board of Directors, the Audit & Supervisory Board, and the Accounting Auditor.

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

Expect flexibility throughout the group to adapt to a drastically changing environment

The composition of the Board of Directors has an appropriate ratio of internal and external directors, and the Board operates with the fine balance of the non-overlapping expertise of each outside director. In addition, the directors involved in each of the major operating companies and the medical device business, which is expected to grow in the future, participate in the Board and I believe they share the direction of the group as a whole. I believe that further improvement of governance can be expected in the future by increasing the number of foreign and female directors in light of global expansion and business expansion in the women's health field, and by deepening cooperation with corporate auditors who have different perspectives. At the same time, in light of the current business scale and future expansion of business domains, I have advised the Otsuka group to work with a sense of urgency on a review of the Group-wide risk management system at this time, after the 100th anniversary, in order to respond flexibly to drastic changes in the business environment. The Otsuka group is a group with the awareness to flexibly adapt to the environment, and I look forward to its further evolution.



Yoshihisa Aoki
Outside Director

Emphasize dialogue with medium- to long-term investors to raise awareness of the cost of capital

The Otsuka group supports society from both inside the healthcare system, which includes medical and social insurance, and from the healthcare field, which cannot be handled completely by just the healthcare system. It has a high awareness of compliance that has been cultivated over 100 years, and an exceptional commitment to the local community that is unique to Japan's corporate governance code, and a passionate commitment to diversity. On the other hand, this boundary between inside and outside changes depending on historical background, and with the system for dealing with stakeholders in each country. But, our involvement with contributing to investors who are open to the outside world to deal with these changes is still short, and our efforts to harmonize Otsuka's character with what is required by society have only just begun. For example, I feel the need to further raise awareness of the cost of capital. As a group that always contributes to healthcare in one way or another, it is important to have a dialogue with medium- to long-term investors. Recently, the Board of Directors has been actively discussing not only business growth, but also how to express and communicate corporate value, the cost of capital, and the evaluation of investments, and I recognize the importance of being more aware of this.



Tatsuaki Kitachi
Outside Director

Governance

Remuneration for Directors and Audit & Supervisory Board Members

Basic Policy

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

Remuneration Levels

Considering the need to acquire and motivate outstanding personnel who will take responsibility for the Company's global business activities, the Company sets remuneration levels fully commensurate with the roles and responsibilities expected of such personnel, while also considering levels at companies that the Company considers benchmarks based on the scale, industry, and business model.

Remuneration System

With regard to remuneration for directors responsible for business execution, the Company has formulated a remuneration system that is closely linked to performance in individual fiscal years, as well as over the medium to long term, while emphasizing sustainable enhancement of corporate value. Remuneration consists of fixed remuneration as basic remuneration, performance-linked bonuses, and share-based payments, emphasizing the link to shareholder value. Remuneration for outside directors and Audit & Supervisory Board members comprises only fixed remuneration as basic remuneration in light of their duties.

Total Amount of Remuneration for Directors and Audit and Supervisory Board Members in 2022

	Total amount of remuneration (¥ million)	Total amount by type of remuneration (¥ million)			Number of eligible officers
		Fixed remuneration	Performance-linked bonus	Share-based payment	
Directors [of which Outside Directors]	774 [51]	350 [51]	150 [—]	273 [—]	14 [5]
Audit & Supervisory Board Members [of which Outside Audit & Supervisory Board Members]	56 [32]	56 [32]	—	—	6 [5]
Total [of which Outside Directors and Outside Audit & Supervisory Board Members]	830 [83]	407 [83]	150 [—]	273 [—]	20 [10]

Includes directors and auditors who retired during 2022.

Total Amount of Consolidated Remuneration, etc. of People Whose Total Consolidated Remuneration, etc. is 100 Million Yen or More

Name	Executive classification/position	Company classification	Amounts, by type of remuneration (¥ million)				Total remuneration (¥ million)
			Fixed remuneration	Performance-linked bonus	Share-based payment	Allowance for retirement benefits, etc.	
Ichiro Otsuka	Chairman and Representative Director	Otsuka Holdings	66	33	42	—	242
	Director	Otsuka Pharmaceutical	36	18	—	—	
	Representative Director	Otsuka Pharmaceutical Factory	31	7	—	7	
Tatsuo Higuchi	President and Representative Director, CEO	Otsuka Holdings	72	36	59	—	284
	Chairman and Representative Director	Otsuka Pharmaceutical	66	33	—	—	
	Advisor and Consultant	Otsuka Pharmaceutical Factory	9	—	—	—	
	Advisor and Consultant	Otsuka Chemical	9	—	—	—	
Yoshiro Matsuo	Executive Deputy President and Director	Otsuka Holdings	48	24	34	—	128
	Executive Deputy President and Representative Director	Otsuka Pharmaceutical	20	—	—	—	
	Executive Director	Otsuka Medical Devices	2	—	—	—	
Masayuki Kobayashi	Executive Director	Otsuka Holdings	12	6	25	—	139
	President and Representative Director	Taiho Pharmaceutical	51	23	—	21	
Makoto Inoue	Executive Director	Otsuka Holdings	16	9	38	—	154
	President and Representative Director	Otsuka Pharmaceutical	64	27	—	—	

Governance

Remuneration for Directors and Audit & Supervisory Board Members

Content of Remuneration to Directors (Excluding Outside Directors)

The content of remuneration to directors (excluding outside directors) is as follows:

Remuneration type	Payment method Fixed/Variable	Remuneration content (Including policy for determining timing or conditions of remuneration)
Fixed remuneration	Cash/ Fixed	<ul style="list-style-type: none"> 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 operating companies, 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 time every fiscal year, with the amount or calculation method determined based on (1) rate of achievement of the fiscal year's targets for consolidated revenue, consolidated operating profit, and consolidated business profit before R&D expenses; (2) progress with respect to medium-to-long-term consolidated performance targets; and (3) appropriate business management in compliance with corporate governance, along with the individual's personal performance.
Share-based payment	Non-cash (restricted stock)*/ Variable	<ul style="list-style-type: none"> The Company has introduced a share-based payment plan that reflects progress in achieving the targets in the Third Medium-Term Management Plan covering the period from fiscal 2019 to fiscal 2023. Under the plan, restricted stock allocation agreements stipulating conditions including transfer restrictions for a set period are concluded with the grantees. The plan is designed to function as an effective remuneration system by combining multiple release conditions for the transfer restrictions, including a set performance evaluation period and performance achievement, and by, in principle, granting restricted stock requiring evaluation of performance over several fiscal years at the same time in the first fiscal year. Specifically, stock is granted each fiscal year for items requiring evaluation of performance in a single fiscal year, and at the same time in the first fiscal year of the evaluation period for items requiring evaluation of performance over several fiscal years.

Non-Cash Remuneration (Restricted Stock-Based Compensation)

Overview of non-cash remuneration (restricted stock): To determine the number of shares to be allocated to grantees of restricted stock, a standard number of shares is set for each fiscal year for each individual, giving consideration to his or her performance of duties, responsibilities, and the weighting versus fixed remuneration as basic remuneration. Based on this standard number of shares, shares are allotted for each series each fiscal year or at the same time in the first fiscal year of an evaluation period of several fiscal years, according to the specified release conditions.

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

Note: The restricted stock allocation agreements concluded with the grantees stipulate that in certain cases, the transfer restrictions on restricted stock shall not be released and the Company shall acquire all of the restricted stock without paying compensation. For example,

- 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 restricted stock upon the retirement of the director, except when the Company recognizes a just reason, such as completion of the term of office or death;
- 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 of restricted stock to be released and the timing of the release shall be reasonably adjusted as necessary, and the Company shall acquire without paying compensation all of the shares for which it has decided that the transfer restriction is not to be released; or
- if the performance-based release conditions have not been met, the Company shall acquire without paying compensation all of the shares for which it has decided that the transfer restriction is not to be released.

For details and the latest information on corporate governance and officer remuneration, visit the Sustainability section of the Otsuka Holdings website:

<https://www.otsuka.com/en/csr/governance/officer-compensation.html>

You can also refer to the Consolidated Financial Statements

<https://www.otsuka.com/en/ir/library/securities.html>

Composition of Outside Director Remuneration

Remuneration for outside directors comprises only fixed remuneration, with no variable components based on business performance.

Composition of Audit & Supervisory Board Member Remuneration

Remuneration for Audit & Supervisory Board members comprises only fixed remuneration, with no variable components based on business performance.

Governance

Directors and Audit & Supervisory Board Members

(As of March 30, 2023)

Directors



Ichiro Otsuka
Chairman and Representative Director

Profile
Apr. 1987 Joined Otsuka Pharmaceutical Factory, Inc.
Jun. 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.
Jun. 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.
Dec. 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.
May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.
Dec. 2003 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
Dec. 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
Jul. 2008 Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2010 Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc. Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.
Mar. 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (current) Chairman, Otsuka Pharmaceutical Factory, Inc. Chairman and Representative Director, Otsuka Holdings Co., Ltd. (current)
Mar. 2022 Representative Director, Otsuka Pharmaceutical Factory, Inc. (current)



Tatsuo Higuchi
President and Representative Director, CEO

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



Yoshiro Matsuo
Executive Deputy President and Director

Profile
Apr. 1985 Joined Otsuka Pharmaceutical Co., Ltd.
Jan. 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Jun. 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Nov. 2007 Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.
Jul. 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Mar. 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Jan. 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (current)
Mar. 2022 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (current) Executive Deputy President and Director, Otsuka Holdings Co., Ltd. (current)
Mar. 2023 Executive Director, Otsuka Foods Co., Ltd. (current)



Shuichi Takagi
Managing Director, CSO

Profile
Apr. 1989 Joined Tobishima Corporation
Sep. 1995 Joined Otsuka Pharmaceutical Co., Ltd.
Aug. 2002 Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.
Jul. 2003 Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Mar. 2015 Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc.
May 2015 CEO, Claris Otsuka Private Limited (now Otsuka Pharmaceutical India Private Limited)
Jan. 2019 Senior Vice President, President's Office, Otsuka Holdings Co., Ltd.
Mar. 2019 Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd. Executive Director, Business Portfolio Management, Otsuka Holdings Co., Ltd.
Oct. 2021 President, Otsuka America, Inc.
Mar. 2022 Managing Director (Business Strategy), Otsuka Pharmaceutical Co., Ltd. Managing Director, CSO, Otsuka Holdings Co., Ltd. (current)
Feb. 2023 Chairman and Director, Otsuka America, Inc. (current)
Mar. 2023 Managing Director (Business Strategy), Otsuka Pharmaceutical Co., Ltd. (current) Executive Director, Otsuka Pharmaceutical Factory, Inc. (current)



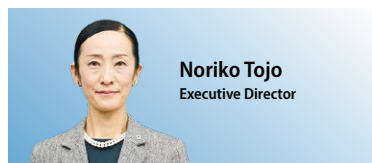
Yuko Makino
Executive Director, CFO

Profile
Apr. 1982 Joined Otsuka Pharmaceutical Co., Ltd.
Apr. 1993 Joined Deloitte&Touche LLC, Seattle Office (present day Deloitte Touche Tohmatsu LLC)
Apr. 1996 Joined Baxter Limited
Apr. 2000 Joined Otsuka Pharmaceutical Co., Ltd.
Mar. 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Sep. 2016 Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Apr. 2017 Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd. Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Mar. 2018 Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.
Mar. 2019 Executive Director, CFO, Otsuka Holdings Co., Ltd. (current)
Mar. 2022 Executive Director (Finance), Otsuka Pharmaceutical Co., Ltd. (current)



Masayuki Kobayashi
Executive Director

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



Noriko Tojo
Executive Director

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



Makoto Inoue
Executive Director

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

Governance

Directors and Audit & Supervisory Board Members

Outside Directors



Yukio Matsutani
Outside Director

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



Ko Sekiguchi
Outside Director

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



Yoshihisa Aoki
Outside Director

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



Mayo Mita
Outside Director

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



Tatsuaki Kitachi
Outside Director

Profile
Oct. 1985 Joined Sanwa Tokyo Marunouchi Office Audit Corporation (now Deloitte Touche Tohmatsu LLC)
Apr. 1989 Registered as a certified public accountant
Jul. 1996 Partner, Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)
Apr. 2010 Commissioner, Public Interest Corporation Commission, Cabinet Office
Oct. 2012 Leader of Advisory Development Division, Deloitte Touche Tohmatsu LLC
Nov. 2013 Member of the Board, Deloitte Touche Tohmatsu LLC
Jun. 2017 Leader of Industry Service Division, Advisory Service Headquarters, Deloitte Touche Tohmatsu LLC
Jun. 2019 Thought Leader, Deloitte Tohmatsu LLC
Sep. 2021 Special Adviser to the Governor of Kanagawa Prefecture (current)
Mar. 2022 Outside Director, Otsuka Holdings Co., Ltd. (current)

Audit & Supervisory Board Members



Yozo Toba
Standing Audit & Supervisory Board Member

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



Hiroshi Sugawara
Outside Audit & Supervisory Board Member

Profile
Oct. 1997 Joined Chuo Audit Corporation
Oct. 2000 Joined Deloitte Touche Tohmatsu (now Deloitte Touche Tohmatsu LLC)
Apr. 2002 Registered as a certified public accountant
Feb. 2006 Vice President, Will Capital Management Co., Ltd. (current)
Jun. 2010 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Jun. 2012 Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
Oct. 2013 Outside Director, Nippon Parking Development Co., Ltd.
Mar. 2016 Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. (current)



Kanako Osawa
Outside Audit & Supervisory Board Member

Profile
Apr. 1998 Registered as an attorney at law (Dai-ichi Tokyo Bar Association) Joined KAJITANI LAW OFFICES (current)
Oct. 2005 Admitted to the bar of the State of New York
Jun. 2015 Outside Director (Audit & Supervisory Committee Member), LINTEC Corporation (current)
Apr. 2021 Committee Member for Reform of Collateral Law, Legislative Council of the Ministry of Justice (current)
May 2021 Director, Japanese Association for Business Recovery (current)
Jun. 2021 External Director, TPR Co., Ltd. (current)
Mar. 2022 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Jun. 2022 Outside Audit & Supervisory Board Member, Toshiba Tec Corporation (current)



Sachie Tsuji
Outside Audit & Supervisory Board Member

Profile
Oct. 1996 Joined Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC)
Apr. 1999 Registered as a certified public accountant
Jul. 2015 Representative Director, SPLUS Corporation (now Biz-suppli Corporation) (current)
Jun. 2016 Director, Association of Certified Fraud Examiners (current)
Mar. 2021 Outside Director (Audit & Supervisory Board Member), SBS Holdings, Inc. (current)
Jun. 2021 Outside Audit & Supervisory Board Member, Shindengen Electric Manufacturing Co., Ltd. (current)
Mar. 2022 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)

Governance

The full text of the message is posted on our website

 https://www.otsuka.com/en/ir/management/message/outside_message.html



Messages from Outside Audit & Supervisory Board Members



Kanako Osawa

Outside Audit & Supervisory Board Member

Background

In 1998, admitted as an attorney at law. She has extensive experience in negotiating with foreign companies through this expertise as a lawyer and through work, which she utilizes in the Company's audits.

What role should Otsuka Holdings play in realizing the growth of the entire Otsuka group in an era of increasing complexity and rapid change?

Supply Chain Compliance is Now a Question of Compliance

Global supply chains are rapidly changing due to the spread of COVID-19 and the Russia-Ukraine conflict. The shift is from global supply chains that collect inexpensive goods from around the world to reduce costs to regional supply chains that ensure a stable supply of products by securing supply chains in each region. In addition, increasing awareness of human rights and other factors have raised the issue of compliance in the supply chain, and new laws and regulations are being created one after another in response to these changes.

Japanese companies are also rushing to respond, and although they have organized sustainability committees and other bodies, it is still difficult to get results for the resources allocated, due to operational issues such as a lack of a clear sense of purpose. In this situation, Otsuka Holdings' internal audits and Sustainability Promotion Committee reports are of a high quality and are written responsibly by experienced staffs, indicating that the company is devoting sufficient resources to governance and risk management. The report is also a good indication that the company is devoting adequate resources to governance and risk management.

I have been attending board meetings as an Outside Audit & Supervisory Board Member since 2022. At the Board of Directors meetings, outside directors with diverse backgrounds always express their

opinions actively based on their respective knowledge, and I feel that the executive side has the capacity to accept diverse opinions, giving me the impression that viewpoints from the outside are quite important. In order for the company to further evolve, I think it is worth considering the participation of a person with a U.S. background on the board of directors in the future, since approximately 40% of revenue comes from North America. I believe that this would bring in a more global perspective and further enhance the effectiveness of the Board of Directors.

To Grow as an Innovative Organization

The Otsuka group's corporate philosophy and vision are to contribute to the better health of people worldwide, and there is an affinity with creating shared value in the business itself. Furthermore, not only does top management regularly communicate a clear direction regarding the company's raison d'être and corporate philosophy, but employees are also highly committed, which I feel is linked to the dissemination of substantial information on sustainability-related initiatives, audits, and other activities.

However, while the philosophy and direction are clear, there appear to be certain issues with the complexity of the group's organization. With many operating companies in Japan and overseas, and some businesses are overlapping among operating companies, the group's overall business and organizational hierarchy is create a complex structure. From the perspective of an Outside Audit & Supervisory Board Member, I feel that there is room for further pursuit of a corporate organization that is rational and efficient enough to embody the corporate culture and make the most of its employees.

For example, as mentioned at the beginning of this message, regulations on corporate activities are becoming stricter in foreign countries, and compliance with soft law is also required. However, due to the scale of business and the issue of securing staff, it does not seem realistic to require all group companies to respond individually. In the future, I think it will be necessary to establish a system that allows some degree of centralized management, such as by organizing a specialized back office under the leadership of Otsuka Holdings to handle intermediate tasks such as laws, regulations, etc. By taking a flexible approach that is tailored to business and regional realities, each group company will be able to focus on its own business activities and grow into a more innovative organization.

I believe that what I, as an Audit & Supervisory Board Member, can contribute to Otsuka group's growth as a total healthcare company is to continue to ask questions from a purely outside perspective, from the standpoint of a lawyer, such as, "Is this okay? Or, why is this the way it is?" I will continue to raise questions with an awareness of the problems so that I can continue to contribute to the clarification of issues, and improve governance.



Governance

Messages from Outside Audit & Supervisory Board Members



Sachie Tsuji
Outside Audit & Supervisory Board Member

Background
Registered as a certified public accountant in 1999. She is well versed in internal control, internal auditing, and risk management and brings her experience and expertise to our audits.

Contribute to improving the quality of management from the perspective of compliance and internal control for the next 100 years

The role of auditing is to improve the quality of braking in management

I became an Outside Audit & Supervisory Board Member in 2022 and, as a certified public accountant and a certified fraud examiner, I bring expertise in areas related to internal control and compliance to my audits. What has been particularly impressive over the past year has been the number of informational opportunities. Business briefings by major operating companies, regular business reporting meetings, and monitoring meetings for each business segment often provide a lot of information that leads to lively discussions among outside directors and auditors, and this undoubtedly contributes to the corporate governance of the entire group.

Another significant feature of Otsuka's corporate philosophy is that its top management, starting with CEO Higuchi, very clearly and proactively communicates it. At various occasions, such as events commemorating the 100th anniversary of the company's founding, the top management spends a great deal of time communicating to employees in their own words, quoting "Otsuka-people creating new products for better health worldwide." I feel that having a clear vision of what the company is aiming for has a significant positive impact on the Otsuka group, which has a diverse range of operating

companies, and on the company's ability to carry out its business with a sense of unity.

If we think of actively conducting business as the gas pedal, then compliance and internal controls serve as the brakes, so to speak. In order to be able to step on the accelerator with confidence in management, good brakes are necessary. It is very easy to say "compliance is important" or "internal control is important" in normal times. It is precisely when a problem arises that you can tell how a company is dealing with compliance by the kind of discussions that take place at meetings of the board of directors and board of auditors. As one example, when something occurred at a subsidiary in 2022 that could become a future risk, the board of directors repeatedly discussed the issue with an awareness of the structural problems behind it. This sincere response demonstrated the high level of awareness of compliance and internal controls within the Otsuka group.

From a governance perspective, I believe that one of the roles of auditors is to check whether efforts are being made to improve the quality of important brakes. It is important for the entire Otsuka group, with Otsuka Holdings taking the lead, to be aware of and think about how to apply both the gas pedal and quality brakes on a daily basis.

What's Needed for Sustainable Management for the Next 100 Years

The Audit & Supervisory Board has identified the initiatives to sustainable management as one of the main audit themes for 2023. Since it is an important management theme, it is naturally a key theme in our audits as well. The Otsuka group has a strong awareness of sustainability, given its corporate philosophy of "contributing to better health" and the fact that it does business in many countries. Going forward, we will need to upgrade our efforts and explain them to our many stakeholders.

And it is important to continue to emphasize compliance in order to strengthen corporate sustainability. A compliance-oriented stance itself does not directly lead to business performance. On the other hand, failure to take action could result in a loss of trust with stakeholders. To avoid such a situation, it is important for Otsuka Holdings as well as the top management of each operating company to continue to demonstrate a serious commitment to compliance. I would like to continue to audit such efforts in cooperation with the auditors of the group companies.

I believe that a good company is one in which the people who work there are proud of their company, and by extension, the stakeholders feel that the company is indispensable. For the Otsuka group to achieve sustainable growth as a good company over the next 100 years, I would like to contribute to improving the quality of management by discussing and cooperating with other auditors and improving the quality of the brakes of compliance and internal control.



Governance

Compliance

Basic Policy

The Otsuka group seeks to earn the trust of stakeholders and to achieve sustained growth by contributing to people's health worldwide, acting in good faith and with the highest level of ethics in accordance with the corporate philosophy: "Otsuka-people creating new products for better health worldwide." That commitment is encapsulated in the Otsuka Group Global Code of Business Ethics, which outlines the standards of behavior expected of everyone involved in our work. This is reinforced with a range of global policies that reflect our behavioral standards in core areas. Regular training helps ensure that our compliance stance is thoroughly embedded into employees' thinking.

For more details about our various global policies and compliance-related initiatives, visit our website:

<https://www.otsuka.com/en/csr/governance/compliance2.html>



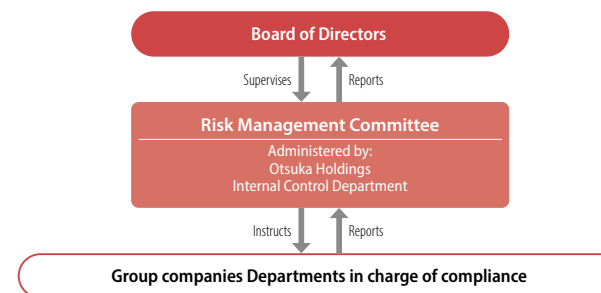
Compliance Promotion System

As a holding company whose role is to maximize the group's corporate value, Otsuka Holdings has established a system for appropriate business operations from the perspective of the group as a whole. We have established a system for facilitating cooperation in the Otsuka group. Under this system, group companies report to Otsuka Holdings as necessary regarding items specified in the Affiliated Company Management Regulations, and obtain approval on relevant important items. The Board of Directors has built a group-wide risk management system, which has a Risk Management Committee (chaired by the President and Representative Director), and oversees the system's operation. The Board of Directors receives regular reports on compliance and risk management action plans and results from the Risk Management Committee. These reports and plans form the basis for discussion of issues and additional measures.

To instill thorough compliance at group companies, the Otsuka group conducts universal training based on policies such as the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy and the Otsuka Group Global Policy for Conflict of Interest. Training materials (available in English, French, Chinese, Korean, Indonesian, and other languages) are distributed to group companies, and executives and employees attend related training at least once annually. Depth and breadth of compliance understanding among employees is evaluated through a test during training, awareness surveys, and other measures. Trainees are required to submit a signed declaration that they will observe the regulations, and the results of training and the status of submission of declaration forms are regularly reported at meetings of the Board of Directors. The operational status of the internal

reporting systems and internal audits at group companies is likewise reported. Each group company has a compliance officer to share the status of progress of each company's compliance. In Asia, for instance, the director in charge of compliance visits companies to gather information and offer suggestions on how improvements can be made.

Compliance Promotion System



Monitoring System

The Company's Internal Audit Department reports directly to the president. The department conducts regular audits based on the Internal Audit Rules to verify that operations are being executed appropriately and efficiently with regard to the assets and business in general of Otsuka Holdings and Otsuka group companies. Audit reports are submitted to the president, directors, and Audit & Supervisory Board members. Where there is need for improvement, the department recommends remedial actions and later confirms their implementation, thereby contributing to the optimization of business execution. The department also shares information and works in cooperation with Audit & Supervisory Board members and the Accounting Auditor.

The Otsuka group operates a crisis management system that enables a swift, cohesive response if a risk event demanding an urgent response occurs in or outside Japan. When a critical or time-sensitive event does occur, the group company immediately shares information with the main operating companies and Otsuka Holdings, and the relevant departments mount a coordinated response to mitigate impact. Otsuka Holdings maintains and updates regulations, manuals, and other documentation setting out fundamental approaches to risk management and response, and enhances group-wide readiness through regular training and exercises.

Governance

Compliance

Number of participants who took global compliance training in 2022

Name of training (excerpt)	# of targeted participants	Attendance
Otsuka Group Global Code of Business Ethics	40,013*	98.5%
Otsuka Group Global Anti-Corruption Policy		
Otsuka Group Global Policy for Conflict of Interest		
Otsuka Group Global Anti-Fraud Policy		
Otsuka Group Global Speak-Up Policy		
Otsuka Group Human Rights Policy		
Otsuka Group Global Information Security Policy		
Otsuka Group Global Privacy Policy		

*The number of people covered by the Otsuka Group Global Code of Business Ethics training when it was deployed. In addition to directors and employees, the number of participants includes temporary employees.

Number of consultations received from employees, etc.

Item	2021	2022
Inquiries about internal rules, etc.	127	148
Contents related to business	138	239
Contents related to human resources, diversity, and the workplace	88	93
Others	103	100
Total*	456	580

*The number of cases reported to the Internal Control Department of Otsuka Holdings on an annual basis, covering all companies in the Otsuka group.

the process of reporting to local tax authorities will become more complex and far-reaching. We will continue to improve the reliability of tax data and establish systems to provide it promptly.

Transfer Pricing Policy

The Otsuka group calculates transfer prices based on the OECD guidelines that were created for the prevention of double taxation and fair application of the transfer price tax system, as well as each country's transfer price tax system, and makes efforts to ensure proper transactions between related parties. Also, when necessary, we make use of advance pricing agreements to obtain ahead-of-time consensus with tax authorities.

Governance

We work to maintain and improve tax-related governance, recognizing that this contributes to the enhancement of corporate value. To this end, we are strengthening cooperation with operating companies as well as securing and training capable human resources, thereby maintaining an appropriate system that enhances the group's tax compliance and reduces tax risks. Furthermore, we have established reporting obligations to the Board of Directors and the Audit & Supervisory Board regarding the abovementioned policies and processes, as well as their ongoing implementation and maintenance.

Tax Compliance

Basic Policy

The Otsuka group operates around the world and recognizes that the appropriate payment of taxes in accordance with relevant laws and regulations in each country and region contributes to the local economy in those countries and regions. The group complies with the Otsuka Group Global Code of Business Ethics, the group's tax policy, country-specific laws, regulations and tax treaties, as well as international taxation rules, and does not engage in transactions designed to evade the payment of taxes, but carries out the appropriate filing and payment of taxes in each country. We endeavor to appropriately disclose information and ensure a degree of transparency and trust when dealing with tax authorities in each country. The globalization of business makes tax oversight more complex, but by continuously updating information and consulting tax experts where necessary, we are appropriately responding in order to minimize tax risk.

Correspondence with Tax Authorities

The Otsuka group remains committed to building constructive relationships with tax authorities in the countries and regions in which it operates. As economies become more global and digital, the Organization for Economic Co-operation and Development (OECD) and other organizations have been reviewing the basic rules of international taxation. The shift toward a system in which even enterprises without permanent facilities in a location are liable for tax on income earned in that market means that

Risk Management

Basic Policy

The Otsuka group recognizes that pursuing management efficiency and controlling the risks inherent in business activities are important to enhancing corporate value. To that end, it is vital to establish a group-wide system that enables all executives and employees to uncover, identify, and deal with risks related to their work swiftly. The Otsuka group manages risk via the initiatives outlined below under the supervision of top management.

Risk Management System

Otsuka Group introduced Enterprise Risk Management (ERM) in July 2020 to further enhance company-wide risk management at the Company and its major operating companies, including the recognition and evaluation of risks from a company-wide perspective and the prioritization of management

Governance

Risk Management

resources to control important risks. The Otsuka Group Global ERM Policy was established in 2022.

As part of ERM, we define uncertainties that could have a major impact on our ability to fulfill our corporate philosophy and achieve business strategy goals as “risks,” and have established a group-wide risk management framework and a system for risk assessment to effectively and efficiently manage significant risks faced by the group. Under this framework and system, we perform risk assessments to identify and gauge the significant risks faced by the group’s main operating companies; determine whether to mitigate, transfer, avoid, or accept risks; develop and implement risk management policies, and conduct monitoring activities on an ongoing basis.

At Otsuka Holdings, the Risk Management Committee oversees the group’s ERM as a whole. The committee participates in deliberations on significant risks and reports on them at meetings of the Board of Directors, formulates and monitors the implementation of policies for the management of significant risks, and provides instructions and support to the main operating companies when needed. The Board of Directors receives reports on committee activities, issues instructions as necessary, and oversees the efficacy of the group’s ERM structure.

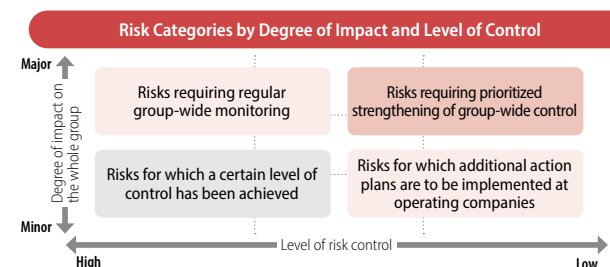
Details of Risk Management Activities

Identification of significant risks begins with the sharing of risk awareness by senior management through interviews at Otsuka Holdings and its main operating companies (top-down approach), as well as assessments of risks and controls by front-line employees (bottom-up approach). This enables us to comprehensively identify the risks that exist in the group. Each group company develops risk management policies and risk management action plans for the risks that are judged to be its significant risks, and regularly monitors and reviews the status of those risks and the progress of action plans.

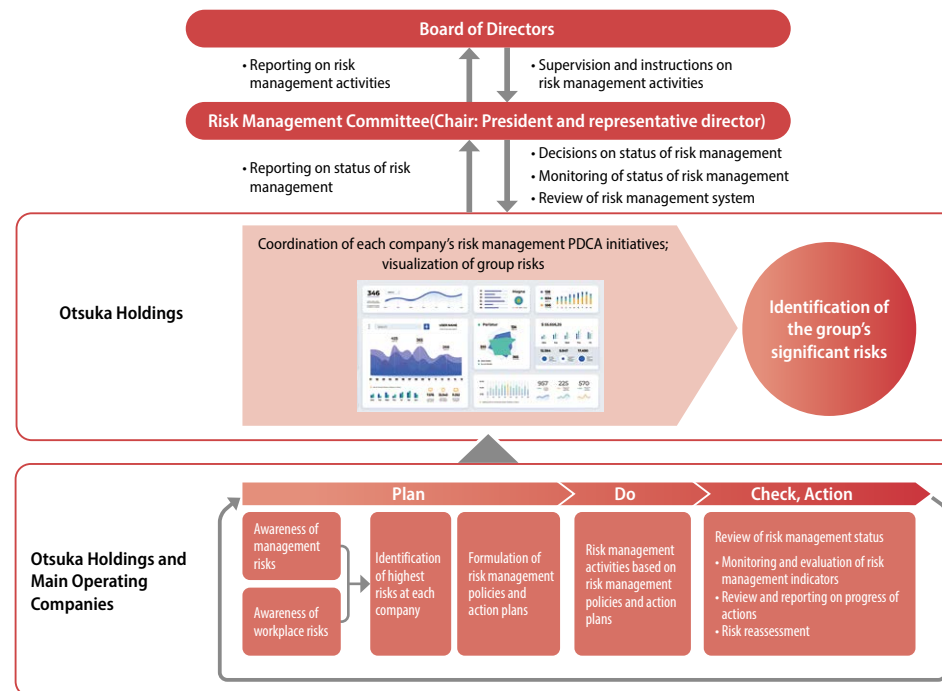
Otsuka Holdings and its main operating companies develop and implement countermeasures to each significant risk based on its characteristics and risk tolerance. Otsuka Holdings provides the necessary guidance and support to group companies, which submit reports and seek advice from Otsuka Holdings as appropriate. In these activities, the whole group coordinates closely to promote and practice ERM. Moreover, Otsuka Holdings and group companies work to prevent risks from realizing by regularly monitoring them and confirming that they are within their respective tolerance levels.

Otsuka Holdings and its main operating companies develop and implement countermeasures to each significant risk based on its characteristics and risk tolerance. Otsuka Holdings provides the necessary guidance and support to group companies, which submit reports and seek advice from Otsuka Holdings as appropriate. In these activities, the whole group coordinates closely to promote and practice ERM. Moreover, Otsuka Holdings and group companies work to prevent risks from realizing by regularly monitoring them and confirming that they are within their respective tolerance levels.

Risk Map



Risk Management System



Governance

Please visit our website for all message.

https://www.otsuka.com/en/csr/governance/risk_management.html




Risk Management

FY2022 Policy and Initiatives Based on the Policy

"Otsuka Group Global ERM Policy" has been established by developing ERM-related regulations and expanding the number of companies that have introduced ERM in 2022 in order to further strengthen the risk management system in Otsuka group. Otsuka group's ERM standards have been documented to share them throughout the group with discussion with the group companies that have already completed the introduction of ERM. In addition, the toolkit has been developed and the process has been optimized for the ERM introduction process and subsequent monitoring activities to be implemented more efficiently. For the group companies that have already introduced ERM, the feedback on monitoring activities has been provided and ERM study sessions have been conducted with the aim of strengthening risk management.

Here are some comments from the field that promoted the initiative.



Naoki Yamamoto
Manager
Internal Control Department
Otsuka Holdings

Selection and review of significant risks for the Otsuka group

We summarize the monitoring results of each group company and the progress of action plans for top risks every six months, and analyze risk trends. Furthermore, in consideration of changes in the market environment and future management strategies, we review significant risks for Otsuka group on an annual basis, and work to strengthen risk management in cooperation with the group companies.



Michael Thigpen
Director, Internal Audit
Internal Audit
Otsuka America

Incorporating ERM in strategic decisions


Aligned Enterprise Risk Management programs have been launched across our key operating companies supporting management of key risks and growth of our businesses.



Aman Sandhu
Senior Director, Head of Internal Audit & Risk
Group Internal Audit & Risk, Europe
Otsuka Holdings Europe

The role of ERM in shifting landscapes

The profile of each enterprise risk is constantly evolving due to geopolitical and regulatory changes, market disruptors such as AI and ESG commitments. Our focus has been on developing effective mitigation strategies in response.



Suhari Mukti
Vice President
PT Otsuka Indonesia

Benefit of ERM implementation

By introducing ERM, we were able to take an enterprise-level overview of the risks identified by each department and select the top risks based on impact and priority. It led to the establishment of a common recognition by management, and implemented appropriate countermeasures based on the KPIs of each department.

Significant Risks We are Aware of

Otsuka Holdings and its major operating companies have conducted company-wide risk assessments, and has identified the significant risks listed on the right, and we are implementing measures to reduce these risks.

For more details about our business risks, visit:

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



Significant Risks in Core Business Areas	Significant Risks Common to All Business Areas	
<p>Significant Risks in Pharmaceutical Business</p> <ul style="list-style-type: none"> Healthcare Cost Containment Measures Uncertainty of New Drug Development Side Effects Quality <p>Significant Risks in Nutraceutical Business</p> <ul style="list-style-type: none"> Expansion into New Categories and New Regions Food Safety and Quality (also applies to Consumer Products Business) 	<ul style="list-style-type: none"> Securing and Developing Human Resources and Instilling Corporate Culture and Philosophy Environmental Issues Supply Chain Transparency Group Governance and Management Corporate Brand Management Business Alliances and Acquisitions Digitalization 	<ul style="list-style-type: none"> Natural Disasters and Pandemics Stable Supply Soaring Raw Material Prices Patent Infringement Litigation IT Security and Information Management Global Business Operations