(Translation)

> Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.
> The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

March 5, 2020

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

Notice for the Calling of the 12th Annual Shareholders Meeting (for FY2019)

Dear Shareholders,

You are cordially invited to attend the 12th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the "Company"). The meeting will be held as described below.

If you are unable to attend the meeting in person, you may exercise your voting rights by either of the following methods. Prior to voting, please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights so that your vote is received by 5:30 p.m. (the close of business hours) on Thursday, March 26, 2020 (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.

Details

1. **Date and Time:**
   Friday, March 27, 2020, 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 12th Fiscal Year (from January 1, 2019 to December 31, 2019)
   b. Financial Statements for the 12th Fiscal Year (from January 1, 2019 to December 31, 2019)

   Matter to be resolved:
   Proposal: Election of Thirteen (13) Directors

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/**

(Translation)

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–16).
You may exercise your voting rights using the following three methods.

1. 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 12th Annual Shareholders Meeting" (this document).
Date and time of the meeting: Friday, **March 27, 2020, at 10:00 a.m.**

2. 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 Thursday, **March 26, 2020, at 5:30 p.m.**

3. 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 Thursday, **March 26, 2020, at 5:30 p.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
- 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.

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.

(Translation)

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.

- Please scan QR code provided at the bottom right of the "Voting Form."
  *QR code is registered trademarks of DENSO WAVE INCORPORATED.
- 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 excising 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))

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: Election of Thirteen (13) Directors

The terms of office of all twelve (12) 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	11 years and 8 months	Chairman and Representative Director	100%
2	Reappointment	Tatsuo Higuchi	11 years and 8 months	President and Representative Director, CEO	100%
3	Reappointment	Yoshiro Matsuo	11 years and 8 months	Senior Managing Director	100%
4	Reappointment	Yuko Makino	2 years	Executive Director, CFO	100%
5	Reappointment	Shuichi Takagi	1 year	Executive Director, Business Portfolio Management	100%
6	Reappointment	Sadanobu Tobe	9 years and 8 months	Executive Director	100%
7	Reappointment	Masayuki Kobayashi	3 years	Executive Director	100%
8	Reappointment	Noriko Tojo	5 years and 10 months	Executive Director	100%
9	New appointment	Makoto Inoue	–	–	–
10	Reappointment Outside Independent	Yukio Matsutani	4 years	Outside Director	100%
11	Reappointment Outside Independent	Ko Sekiguchi	2 years	Outside Director	100%
12	Reappointment Outside Independent	Yoshihisa Aoki	1 year	Outside Director	100%
13	New appointment Outside Independent	Mayo Mita	–	–	–

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

(Translation)

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">1</td><td>Reappointment

Ichiro Otsuka
(February 15, 1965)

Position and areas of responsibility in the Company:
Chairman and Representative Director

Term of office as Director:
11 years and 8 months</td><td>April 1987 Joined Otsuka Pharmaceutical Factory, Inc.
June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.
June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.
December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.
May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.
December 2003 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
July 2008 Executive Director, Otsuka Holdings Co., Ltd.
June 2010 Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.
June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.
Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.
March 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)
Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)
Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
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.</td><td rowspan="2">7,057,704</td></tr>
<tr><td colspan="2">[Reason for nominating him as a candidate for Director]
Mr. Ichiro Otsuka is involved in all areas of wide-ranged management of the group and has a deep understanding of the characteristics and business strategies of each business. By promoting optimal coordination among group companies, businesses and areas as well as promoting creative business development in line with the group's corporate philosophy, he has 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.</td></tr>
</table>

(Translation)

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">2</td><td>Reappointment

Tatsuo Higuchi
(June 14, 1950)

Position and areas of responsibility in the Company:
President and Representative Director, CEO

Term of office as Director:
11 years and 8 months</td><td>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.
June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)
November 1998 Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.
June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.
June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.
July 2008 President and Representative Director, CEO, Otsuka Holdings Co., Ltd. (Current Position)
December 2011 Executive Director, Otsuka Chemical Co., Ltd.
February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
March 2020 Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd. (scheduled to assume the position)
[Significant concurrent positions outside the Company]
Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd. (scheduled to assume the position)</td><td rowspan="2">144,400</td></tr>
<tr><td colspan="2">[Reason for nominating him as a candidate for Director]
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, and has been driving the entire group to achieve its Third Medium-Term Management Plan aiming to advance globally as a unique total healthcare company. He has been focusing on management reforms including enhancing corporate governance, as well as on investment for future-oriented growth, achieving short- and mid-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.</td></tr>
</table>

(Translation)

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">3</td><td>Reappointment

Yoshiro Matsuo
(November 3, 1960)

Position and areas of responsibility in the Company:
Senior Managing Director

Term of office as Director:
11 years and 8 months</td><td>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.
January 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
June 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
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.
July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)
March 2019 Senior Managing Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Executive Director, Otsuka Medical Devices Co., Ltd.</td><td rowspan="2">53,160</td></tr>
<tr><td colspan="2">[Reason for nominating him as a candidate for Director]
Mr. Yoshiro Matsuo has abundant operational experience in all of the corporate departments, primarily in general affairs departments and human resources departments, and has been focusing on enhancing the functions thereof. 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.</td></tr>
<tr><td rowspan="2">4</td><td>Reappointment

Yuko Makino
(October 23, 1961)

Position and areas of responsibility in the Company:
Executive Director, CFO

Term of office as Director:
2 years</td><td>April 1982 Joined Otsuka Pharmaceutical Co., Ltd.
April 1996 Joined Baxter Limited
April 2000 Joined Otsuka Pharmaceutical Co., Ltd.
March 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
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.
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.
March 2018 Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.
March 2019 Executive Director, CFO, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
–</td><td rowspan="2">13,600</td></tr>
<tr><td colspan="2">[Reason for nominating her as a candidate for Director]
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, and has been promoting the enhancement of the management platform by optimizing the group’s corporate functions. 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.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
5	Reappointment  Shuichi Takagi (January 3, 1966) Position and areas of responsibility in the Company: Executive Director, Business Portfolio Management Term of office as Director: 1 year	April 1989 Joined TOBISHIMA CORPORATION September 1995 Joined Otsuka Pharmaceutical Co., Ltd. August 2002 Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd. July 2003 Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd. March 2015 Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc. May 2015 CEO, Claris Otsuka Private Limited (present day Otsuka Pharmaceutical India Private Limited) January 2019 Senior Vice President, President's Office, Otsuka Holdings Co., Ltd. March 2019 Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd. (Current Position) Executive Director, Business Portfolio Management, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd.	17,900
	[Reason for nominating him as a candidate for Director] 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 have made a great contribution to improving the quality of management 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.		

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">6</td><td>Reappointment

Sadanobu Tobe
(April 18, 1941)

Position and areas of responsibility in the Company:
Executive Director

Term of office as Director:
9 years and 8 months</td><td>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)
July 1993 Executive Deputy President and Representative Director, Otsuka Foods Co., Ltd.
November 2004 Executive Deputy President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)
May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.
July 2008 Executive Director, Otsuka Holdings Co., Ltd.
June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.
June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.
June 2012 Vice Chairman, Otsuka Foods Co., Ltd.
June 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.
November 2013 President and Representative Director, Otsuka Foods Co., Ltd.
June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)
March 2018 Chairman, Otsuka Foods Co., Ltd.
March 2019 Executive Director, Otsuka Foods Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Executive Director, Otsuka Foods Co., Ltd.</td><td rowspan="2">1,204,426</td></tr>
<tr><td colspan="2">[Reason for nominating him as a candidate for Director]
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. 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.</td></tr>
</table>

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
7	Reappointment  Masayuki Kobayashi (July 10, 1966) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 3 years	October 1993 Joined Taiho Pharmaceutical Co., Ltd. August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.) September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd. April 2010 President and CEO, Otsuka America, Inc. April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position) Executive Director, Taiho Pharma USA, Inc. April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position) March 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.	63,700
	[Reason for nominating him as a candidate for Director] 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 a corporate manager of Taiho Pharmaceutical Co., Ltd., such as expanding and globalizing its business, and is focusing on the development of the pharmaceutical business of the group as a whole. The Company deems that it can expect him to, by utilizing 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.		
8	Reappointment  Noriko Tojo (February 28, 1964) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 5 years and 10 months	April 1987 Joined Goldman Sachs (Japan) Corporation August 1991 Joined Shearson Lehman Brothers Holdings Inc. July 2002 Engagement Manager, McKinsey & Company, Japan Office June 2006 Director, Intel Capital Japan, Intel Corporation August 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd. February 2011 Executive Director, Otsuka Medical Devices Co., Ltd. April 2012 President and CEO, Otsuka America, Inc. August 2015 Executive Director and CEO, Pharmavite LLC January 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position) May 2017 Executive Director, Otsuka America, Inc. August 2017 Chairman, Pharmavite LLC March 2018 Executive Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] President and Representative Director, Otsuka Medical Devices Co., Ltd.	51,000
	[Reasons for nominating her as a candidate for Director] In 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 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.		

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">9</td><td>New appointment

Makoto Inoue
(August 9, 1958)

Position and areas of responsibility in the Company:
–

Term of office as Director:
–</td><td>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 Nutraceuticals Business Division, Otsuka Pharmaceutical Co., Ltd.
April 2015 Executive Director, Pharmavite LLC
March 2017 Managing Director, Nutraceuticals Business, Otsuka Pharmaceutical Co., Ltd.
September 2017 Executive Director, Daiya Foods Inc.
March 2018 Senior Managing Director, Nutraceuticals 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. (scheduled to assume the position)
[Significant concurrent positions outside the Company]
President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (scheduled to assume the position)</td><td rowspan="2">27,000</td></tr>
<tr><td colspan="2">[Reason for nominating him as a candidate for Director]
Mr. Makoto Inoue has abundant experience and a track record in both the pharmaceutical business and the nutraceutical business, which are the main businesses of the group. In the nutraceutical business, he has proven outstanding management capabilities while being in charge of promoting business reforms in Otsuka Pharmaceutical Co., Ltd. The Company deems that it can expect him to, by utilizing 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.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
10	Reappointment Candidate for Outside Director Candidate for Independent Officer  Yukio Matsutani (October 20, 1949) Position and areas of responsibility in the Company: Outside Director Term of office as Director: 4 years	April 1975 Intern, Pediatric Department, St. Luke's International Hospital October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare) August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare August 2007 Director, National Sanatorium Tama Zenshoen April 2012 President, National Institute of Public Health December 2015 Vice President, International University of Health and Welfare (Current Position) March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position) June 2019 President, Japan Public Health Association (Current Position) [Significant concurrent positions outside the Company] Vice President, International University of Health and Welfare President, Japan Public Health Association	0
	[Reason for nominating him as a candidate for Outside Director] Mr. Yukio Matsutani has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience and extensive knowledge in the healthcare and welfare field and high level of expertise in overall health care. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
11	Reappointment Candidate for Outside Director Candidate for Independent Officer  Ko Sekiguchi (May 4, 1948) Position and areas of responsibility in the Company: Outside Director Term of office as Director: 2 years	April 1973 Joined Mitsubishi Corporation May 1990 Joined The Boston Consulting Group January 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company) November 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K.K.) July 2009 Chairman and Director, Janssen Kyowa Co., Ltd. October 2009 Supreme Advisor, Janssen Kyowa Co., Ltd. January 2011 Representative Director, DIA Japan (present day SH DIA Japan) April 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation) (Current Position) March 2014 Outside Director, Kenedix, Inc. March 2018 Outside Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Outside Director, Solasto Corporation	0
	[Reason for nominating him as a candidate for Outside Director] Mr. Ko Sekiguchi has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience, track record, and extensive knowledge as a corporate manager and high level of expertise and network in pharmaceutical business. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
12	Reappointment Candidate for Outside Director Candidate for Independent Officer  Yoshihisa Aoki (January 17, 1952) Position and areas of responsibility in the Company: Outside Director Term of office as Director: 1 year	April 1974 Joined ITOCHU Corporation June 2003 Executive Officer, ITOCHU Corporation April 2009 Managing Executive Officer, President, Food Company, ITOCHU Corporation April 2010 Member of the Board, Senior Managing Executive Officer, President, Food Company, ITOCHU Corporation March 2017 Administrative Officer, ITOCHU Corporation (Current Position) June 2017 Outside Director, ARATA CORPORATION (Current Position) March 2019 Outside Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Outside Director, ARATA CORPORATION	0
	[Reason for nominating him as a candidate for Outside Director] Mr. Yoshihisa Aoki has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience, track record, and extensive knowledge as a corporate manager and abundant experience, expertise and network in the food industry. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
13	New appointment Candidate for Outside Director Candidate for Independent Officer  Mayo Mita (October 14, 1960) Position and areas of responsibility in the Company: – Term of office as Director: –	April 1983 Joined Morgan Stanley Japan Securities Co., Ltd. (present day Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.) January 1989 Equity Research Division (Healthcare), Morgan Stanley Japan Securities Co., Ltd. December 2000 Managing Director, Morgan Stanley Japan Securities Co., Ltd. December 2013 Senior Advisor, Investment Banking Business Unit (Healthcare), Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. [Significant concurrent positions outside the Company] –	0
	[Reason for nominating her as a candidate for Outside Director] 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 is expected to provide appropriate 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. Note: Ms. Mayo Mita's name on the family register is Ms. Mayo Nakatsuka.		

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 Yukio Matsutani, Ko Sekiguchi and Yoshihisa Aoki as Independent Officers as provided for under the rules of the Tokyo Stock Exchange. If the appointment of Mayo Mita is approved, the Company plans to register her as an Independent Officer with the 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 and Yoshihisa Aoki 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. If the appointment of Mayo Mita is approved, the Company will enter into the same agreement with her. 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.

<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.

(Translation)

Attached documents

Business Report

(From January 1, 2019 to December 31, 2019)

1. Business Progress and Achievement of the Group

(1) Overview of Business during the Current Fiscal Year

i) Business activity and results

For FY2019, the group recorded revenue of ¥1,396,240 million (up 8.1% year on year) with the increase primarily attributable to sales growth of the four global products (*ABILIFY MAINTENA*, *REXULTI*[*1]/*RXULTI*[*2], *Samsca*/*JINARC*[*3]/*JYNARQUE*[*4], and *LONSURF*) in our pharmaceutical business. Business profit before research and development expenses was ¥402,957 million (up 28.4%).On the other hand, the group recorded research and development expenses of ¥215,789 million (up 11.8%) due to the increase of development expenses for AVP-786, ultrasound renal denervation devices, centanafadine, *REXULTI*, TAS-120, and products developed by Visterra Inc., which resulted in business profit[*5] of ¥187,168 million (up 54.8%).

The group also recorded operating profit of ¥176,585 million (up 63.0%), profit for the year of ¥131,187 million (up 53.6%) and profit attributable to owners of the Company of ¥127,151 million (up 54.1%).

The impairment loss in FY2019 was ¥13,476 million (down 61.2%).

Results by business segment are as follows:

Revenue by business segment during FY2019 (Millions of yen)

	Pharmaceuticals	Nutraceuticals[*6]	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

*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: From FY2019, the group adopted "Business profit" as an indicator of earnings power, which is calculated by excluding "Impairment loss" and "Other income and expenses" from "Operating profit."
*6: Nutraceuticals = nutrition + pharmaceuticals

ii) Major business activities (as of December 31, 2019)

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 for FY2019 totaled ¥924,250 million (up 13.1% year on year), with business profit of ¥167,298 million (up 72.1%).

◆Four global products

The Company positions the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*/*RXULTI*, the vasopressin V_2-receptor antagonist *Samsca*/*JINARC*/*JYNARQUE*, and the anti-cancer agent *LONSURF* as its four global products. The sales of those products totaled ¥375,133 million (up 34.9%).

- Antipsychotic agent *ABILIFY MAINTENA*

Sales of *ABILIFY MAINTENA* was ¥101,779 million (up 15.7%) reflecting the continuous contribution of expanding prescriptions as a treatment for bipolar disorder, an indication was approved in the U.S. in 2017, in addition to promotion of the product's efficacy as a treatment for schizophrenia in global markets and growing awareness of the drug's ease of use.

- 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 has increased smoothly. In Japan, where the agent is sold for the treatment of schizophrenia, the number of prescriptions has sharply increased since the limit on the number of prescription days was removed in May 2019. *RXULTI* was launched sequentially in several European countries from April 2019. As a result, sales significantly increased to ¥89,822 million (up 29.3%).

- Vasopressin V_2-receptor antagonist *Samsca*

In Japan, high recommendation in various guidelines contributed to expanding its prescriptions for the treatments of cardiac edema and hepatic edema. The number of prescriptions also increased as a treatment for ADPKD, an intractable kidney disease, due to efforts to raise awareness of the disease as well as promote appropriate use of *Samsca* pursuant to the treatment guidelines. As a result, sales totaled ¥91,736 million (up 20.8%).

- Vasopressin V_2-receptor antagonist *JINARC*/*JYNARQUE*

Sales for this agent began in the U.S. in May 2018, as a treatment for ADPKD. Prescriptions have since increased smoothly in the country 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 patient users has been increasing in European markets. As a result, sales significantly increased to ¥57,315 million (up 300.0%).

- Anti-cancer agent *LONSURF*

In the U.S., enhanced activities to provide information as a therapy for unresectable advanced or recurrent colorectal cancer contributed to an increase in sales. In addition, approval was granted in February 2019 for the treatment of additional indications of adult patients with previously treated metastatic gastric or gastroesophageal junction adenocarcinoma. The number of prescriptions has also increased in Japan following the grant of approval in August 2019 for the additional indication of previously treated metastatic gastric or gastroesophageal junction adenocarcinoma. In Europe, sales slightly declined due to the timing of shipments to Servier, our licensing partner, but the prescriptions have steadily expanded. As a result, sales totaled ¥34,479 million (up 13.6%).

◆Other mainstay products

Antiepileptic drug *E Keppra* (sales of ¥46,751 million, up 16.1%) registered steady growth in prescriptions, reflecting strong support from medical specialists due to the drug's efficacy, safety and usability. For anti-cancer agent *Abraxane* (sales of ¥28,998 million, up 13.9%), prescriptions for the treatment of gastric cancer and lung cancer increased, contributing to an increase in sales. Sales of antiallergic agent *Bilanoa* increased significantly (sales of ¥12,225 million, up 84.3%), as the product has been highly evaluated by medical specialists and patients as a treatment option for pollen allergies.

Nutraceuticals

Revenue for FY2019 totaled ¥333,780 million (down 1.5% year on year), with business profit of ¥42,875 million (down 0.4%).

The Company positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. The sales of those brands totaled ¥200,124 million (down 5.0%). Total sales of its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥21,217 million (up 18.0%).

◆Three major brands

In Japan, sales in sports drink category declined, reflecting the prolonged poor weather in July 2019, the peak season for beverages, compared with 2018 when the summer weather was extremely hot.[*1] Due to such factors, sales of *POCARI SWEAT*, an electrolyte supplement drink, decreased in Japan compared with the previous fiscal year. On the other hand, in overseas markets, mainly in Asia, sales volume increased, particularly in Indonesia and Vietnam due to educational and promotional activities catered to the features and needs in each market, however, this was not enough to cover the decrease in sales in Japan, thus total sales of the *POCARI SWEAT* brand decreased compared with the previous fiscal year.

Sales of *Nature Made*, supplements of Pharmavite LLC, decreased compared with the previous fiscal year due to factors such as intensifying competition in the U.S. market for supplements.

At the Nutrition & Santé SAS brand, which sells nutrition and health food products in over 40 countries, mainly in Europe, sales of sugar-free products increased, but overall sales decreased compared with the previous fiscal year, affected by intensified competition in the nutrition food market and the impact of foreign exchange rates.

◆Three nurture brands

Sales of the plant-based foods of the Daiya Foods Inc. brand increased compared with the previous fiscal year due to the growth of cheese alternatives and new products in North America.

Sales of *EQUELLE*, a food and supplement brand containing equol that supports women's health and beauty, made from lactic acid fermented soy, sharply increased compared with the previous fiscal year due to increased recognition of the product through the wide ranging spread of information on the product and women's health.

As for *BODY MAINTÉ*, a protective beverage brand, containing plant-based lactic-acid bacteria B240[*2], in addition to *BODY MAINTÉ Jelly*, a conditioning nutritional food, we launched *BODY MAINTÉ CONDITIONING DRINK* nationwide in October 2018, and sales have steadily increased.

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

Consumer products

Revenue for FY2019 totaled ¥33,553 million (down 0.8% year on year), with business profit of ¥9,470 million (up 5.6%).

Sales volume for mineral water products increased, with main contributors being mainstay brand *CRYSTAL GEYSER*'s direct shipping to consumers and its 700-milliliter bottles, the largest size for personal use, which can be attributed to the success of proactive communication marketing activities for expanding the brand's user base, mainly targeting young people. Sales volume of *MATCH*, a carbonated electrolyte drink containing vitamins, decreased due to the effects of a cooler summer. However, jelly-type product *Match Jelly* was launched in April 2019 and its sales smoothly expanded in the market. Sales of the *Bon Curry* series increased compared to the previous fiscal year as a result of various initiatives for the 50th anniversary in 2018 since launch, as well as promotions featuring the ability to cook the product in a microwave oven without removing the cardboard packaging.

Others

Revenue for FY2019 totaled ¥143,833 million (up 1.8% year on year), with business profit of ¥9,045 million (down 5.2%).

Sales in the specialty chemical business declined slightly compared with the previous fiscal year due to a fall in shipments of tire additives and brake friction materials. Sales in the fine chemical business increased compared with the previous fiscal year mainly due to revenue from an active pharmaceutical ingredient-related business supplying cefixime to overseas licensees, which was acquired in June 2019.

In the transportation and warehousing business, sales increased compared to the previous fiscal year mainly due to the growth in handling volume of the group products and increase in new customers spurred by the “common distribution platform” in line with external customers.

iii) Research and development activities

Research and development expenses for FY2019 totaled ¥215,789 million.

Research and development expenses for the pharmaceutical business amounted to ¥205,102 million, those for the nutraceutical business amounted to ¥6,134 million, those for the consumer products business amounted to ¥577 million and those for the other businesses amounted to ¥3,974 million.

Pipeline information

Phase III or later stage of development as of December 31, 2019

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	*ABILIFY MAINTENA* *1 (aripiprazole)	Bipolar disorder / Long acting injectable		●				
	REXULTI/RXULTI (brexpiprazole) OPC-34712	Major depressive disorder / Oral	●				●	
		Agitation associated with Alzheimer-type dementia / Oral	●		●		●	
		Bipolar I disorder / 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			●*2			
	(centanafadine) EB-1020	Attention deficit hyperactivity disorder / Oral			●			
	(fremanezumab) TEV-48125	Migraine / Injection	●*2					

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	(tegafur, gimeracil, oteracil, folinate) TAS-118	Gastric cancer / Oral	●					
	(guadecitabine) SGI-110	Acute myeloid leukemia / Injection	●		●		●	
		Myelodysplastic syndrome / Injection	●		●		●	
	(decitabine, cedazuridine) ASTX727	Myelodysplastic syndrome / Oral				●		
	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	*Samsca* (tolvaptan) OPC-41061	Syndrome of inappropriate antidiuretic hormone secretion (SIADH) / Oral		●				
	(tolvaptan sodium phosphate) OPC-61815	Cardiac edema / Injection	●					
	(vadadustat) AKB-6548	Anemia associated with chronic kidney disease / Oral			●		●	
Other categories	*Deltyba* (delamanid) OPC-67683	Multidrug-resistant tuberculosis / Oral			●			
	(difamilast) OPA-15406	Atopic dermatitis / Ointment	●					
	(glucose, electrolyte, amino acid, fat and vitamin) OPF-105	Peripheral parenteral nutrition solution / Injection		●				
	(glucose, electrolyte, amino acid and vitamin) OPF-109	High-calorie total parenteral nutrition (“TPN”) solution for chronic renal failure / Injection	●					

*1: Brand name in Japan: *ABILIFY for extended-release injectable suspension, for intramuscular use*
*2: Phase II/ III

Research and development activities

Phase II or later stage of development as of December 31, 2019

Brand Name, (Generic Name), Development Code	Status
Psychiatry and neurology	
ABILIFY MAINTENA (aripiprazole)	<Japan> ・An application for the indication of bipolar disorder was filed in September 2019.
REXULTI/RXULTI (brexpiprazole) OPC-34712	<U.S.> ・Phase III trial for the treatment of PTSD was initiated in October 2019. ・Phase II trial for the treatment of borderline personality disorder was initiated in October 2019.
(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> ・Phase II/III trial for the treatment of negative symptoms of schizophrenia was initiated in March 2019.
(centanafadine) EB-1020	<U.S.> ・Phase III trials for the treatment of attention deficit hyperactivity disorder (ADHD) in adult patients were initiated in February 2019.
Selincro (nalmefene) Lu AA36143	<Japan> ・Approval was granted in January 2019 for the reduction of alcohol consumption in patients with alcohol dependence.
Lu AF20513	<Europe> ・Development was halted in line with development strategy.
Oncology	
LONSURF (trifluridine, tipiracil) TAS-102	<Japan, U.S. and Europe> ・Approval was granted in the U.S. in February 2019, in Japan in August 2019, and in Europe in September 2019 for the additional indications of gastric cancer.
(decitabine, cedazuridine) ASTX727	<U.S.> ・An application for the indication of myelodysplastic syndrome was filed in December 2019.
ASTX295	<U.S.> ・Phase I/ II trial for the treatment of solid cancer was initiated in July 2019.
TAS0313	<Japan> ・Phase II trial for the treatment of urothelial cancer was initiated in January 2019.
(fosnetupitant) Pro-NETU	<Japan> ・Phase III trial for the treatment of nausea and vomiting related to the administration of anti-cancer agents was initiated in February 2019.
TAS4464	<Japan, U.S. and Europe> ・Development was halted in line with development strategy.

Brand Name, (Generic Name), Development Code	Status
Cardiovascular and renal system	
Samsca (tolvaptan) OPC-41061	<Japan> ・An application for the indication of hyponatremia due to SIADH was filed in October 2019.
(tolvaptan sodium phosphate) OPC-61815	<Japan> ・Phase III trial for the treatment of cardiac edema was initiated in January 2019.
Other categories	
(difamilast) OPA-15406	<Japan> ・Phase III trial for the treatment of atopic dermatitis was initiated in April 2019.
(glucose, electrolyte, amino acid, fat and vitamin) OPF-105	<Japan> ・An application was filed as a peripheral parenteral nutrition solution in September 2019.
(glucose, electrolyte, amino acid and vitamin) OPF-109	<Japan> ・Phase III trial as a high-calorie total parenteral nutrition ("TPN") solution for chronic renal failure was initiated in November 2019.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during FY2019 amounted to ¥87,133 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥47,834 million. The figure includes investment in Tokushima Mima and Matsushige production facilities.

Capital investments in the nutraceutical business totaled ¥16,599 million, while those in consumer business totaled ¥2,191 million, other businesses totaled ¥13,717 million, and corporate investments (common) totaled ¥6,790 million.

(2) Key Issues to be Addressed

The 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 expensive medical treatments and new technologies are evolving as well. Under these circumstances, the consciousness for health including disease preventive measures is steadily increasing.

The Company 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.

<u>Progress of the Third Medium-Term Management Plan</u>

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. The group engages in new value creation and existing business value maximization in the two core businesses of the pharmaceutical business and the nutraceutical business. Furthermore, the group aims to achieve sustainable growth through pursuing capital cost-oriented business management.

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

・Achievement of targets through steady growth of mainstay products and brands in the

pharmaceutical business and the nutraceutical business (organic growth)
・Aggressive R&D investments and continuous development of new drugs that drive revenue growth on and beyond next medium-term management plan

Business Strategy: New value creation and existing business value maximization
i) 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 (*ABILIFY MAINTENA*, *REXULTI/RXULTI*, *Samsca/JINARC/JYNARQUE*, *LONSURF*), three major brands in the nutraceutical business (*POCARI SWEAT*, *Nature Made*, Nutrition & Santé SAS brand), three nurture brands in the nutraceutical business (Daiya Foods Inc. brand, *EQUELLE*, *BODY MAINTÉ*).
ii) Initiatives geared to next-generation business and products
・Launch and foster new products that spur sustainable growth in the pharmaceutical business and the nutraceutical business.

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

Progress of the plan's main initiatives
Revenue increased more than planned and the Company made steady progress toward maximizing the value of its products through initiatives such as additional indication and expanding sales areas with a focus on its four global products in the pharmaceutical business, and expanding sales areas with a focus on its three major brands in the nutraceutical business. Details are as follows: ● For *ABILIFY MAINTENA*, an application for the additional indication of bipolar disorder was filed in Japan in September 2019. ● With respect to *REXULTI/RXULTI*, in October 2019, Phase III trial for treatment of PTSD and Phase II trial for treatment of borderline personality disorder were initiated in the U.S. ● *Samsca/JINARC/JYNARQUE*'s value increased among medical specialists as an oral aquaretic agent, and it is helping patients in Japan, the U.S. and Europe as the world's first drug for ADPKD. Particularly in the U.S., the number of prescriptions for ADPKD has greatly increased. ● *LONSURF* received approval in China for the indication of colorectal cancer in August 2019 and its sales area expanded further. It has also been granted approval for the additional indication of gastric cancer in the U.S., Japan and Europe in February, August, and September 2019, respectively. ● *POCARI SWEAT* has been introduced to new geographic areas in Asia. ● Distribution reform in Europe with respect to the Nutrition & Santé SAS brand has been undertaken.

(3) Trends in Consolidated Operating Results and Assets for and at the End of the Current Fiscal Year and the Most Recent Three Fiscal Years

Item	The 9th fiscal year (Ended December 31, 2016)	The 10th fiscal year (Ended December 31, 2017)	The 11th fiscal year (Ended December 31, 2018)	The 12th fiscal year (Ended December 31, 2019)
Revenue (Millions of yen)	1,195,547	1,239,952	1,291,981	1,396,240
Operating profit (Millions of yen)	101,145	104,181	108,304	176,585
Profit attributable to owners of the Company (Millions of yen)	92,563	112,492	82,492	127,151
Basic earnings per share (Yen)	170.82	207.60	152.24	234.55
Total assets (Millions of yen)	2,478,290	2,480,256	2,477,363	2,581,309
Total equity (Millions of yen)	1,738,441	1,821,950	1,732,266	1,795,440
Equity attributable to owners of the Company per share (Yen)	3,156.83	3,309.55	3,145.71	3,257.17

Note: From the 9th fiscal year, consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

(4) **Significant Subsidiaries** (as of December 31, 2019)

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 inspections and medical devices, food and 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 asterisk (*) in Percentage of voting rights held by the Company includes the percentage of voting rights held indirectly.

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 ¥1,157,106 million at the current fiscal year-end.

(5) **Major Offices and Factories** (as of December 31, 2019)

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, 2019)

i) Employees of the group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	19,383	(1,730)	down 14	(up 446)
Nutraceuticals	7,935	(1,902)	up 79	(up 315)
Consumer products	541	(86)	–	(up 14)
Others	3,588	(723)	up 31	(down 84)
Corporate (Common)	1,545	(404)	down 39	(up 91)
Total	32,992	(4,845)	up 57	(up 782)

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
104 (16)	up 10 (down 112)	43.8	2.9

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, 2019)

(Millions of yen)

Creditor	Balance of borrowings
MUFG Bank, Ltd.	25,131
Mizuho Bank, Ltd.	22,700
Resona Bank, Limited	19,084
The Awa Bank, Ltd.	16,114
Sumitomo Mitsui Banking Corporation	5,659

2. Current Status of the Company

(1) Shares (as of December 31, 2019)

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: 62,219
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	57,815	10.66
The Master Trust Bank of Japan, Ltd. (trust account)	40,246	7.42
Otsuka Estate Co., Ltd.	23,296	4.29
Japan Trustee Services Bank, Ltd. (trust account)	22,991	4.23
Otsuka Group Employee Shareholding Fund	12,998	2.39
The Awa Bank, Ltd	10,970	2.02
Japan Trustee Services Bank, Ltd. (trust account 5)	7,728	1.42
Otsuka Asset Co., Ltd.	7,380	1.36
Japan Trustee Services Bank, Ltd. (trust account 9)	6,920	1.27
JP MORGAN CHASE BANK 385151	6,755	1.24

Notes:
1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,564,187 of its own shares, treasury shares are excluded from the above list.
3. Shareholding ratio is calculated after treasury shares are deducted.

(2) Status of Share Acquisition Rights

i) Status of share acquisition rights held by Directors and Audit & Supervisory Board Members of the Company granted as remuneration for their execution of duties at current fiscal year-end
No items to report.

ii) Status of share acquisition rights granted to employees, etc. as remuneration for their execution of duties during the current fiscal year
No items to report.

(3) Directors and Audit & Supervisory Board Members of the Company

i) Directors and Audit & Supervisory Board Members (as of December 31, 2019)

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 President 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	Atsumasa Makise	President and Representative 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	Yukio Matsutani	Vice President, International University of Health and Welfare President, Japan Public Health Association
Executive Director	Ko Sekiguchi	Outside Director, Solasto Corporation
Executive Director	Yoshihisa Aoki	Outside Director, ARATA CORPORATION
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:

1. Executive Directors, Yukio Matsutani, Ko Sekiguchi and Yoshihisa Aoki are Outside Directors.
2. Audit & Supervisory Board Members, Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi are Outside Audit & Supervisory Board Members.
3. Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
4. The Company appoints Executive Directors Yukio Matsutani, Ko Sekiguchi and Yoshihisa Aoki 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.
5. 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.
6. Changes in Directors during the current fiscal year are as follows:

   [Assumption of Office]
   Executive Director, Shuichi Takagi (assumed his office as of March 28, 2019)
   Outside Director, Yoshihisa Aoki (assumed his office as of March 28, 2019)

[Retirement]
Outside Director, Tadaaki Konose (retired from office due to expiration of his term of office as of March 28, 2019)

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, 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.

Remuneration system

With regard to remuneration for Directors responsible for business execution, the Company sets 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. In addition to cash remuneration, the Company also provides share-based payments more closely linked to shareholder value. Outside Directors and Audit & Supervisory Board Members are paid set amounts of fixed remuneration; they are not paid any remuneration that varies according to performance.

Governance of remuneration-related decisions

Decisions related to remuneration for Directors and Audit & Supervisory Board Members are made by the Board of Directors after the Corporate Governance Committee, an advisory body to the Board of Directors, has deliberated on matters including the remuneration system and levels of remuneration, and provided its report to the Board of Directors. When planning remuneration, efforts are made to enhance objectivity through such means as utilizing external data.

<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, remuneration of Directors, 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
Fixed remuneration	Cash/ Fixed	・Remuneration for Directors of the holding company is determined based on their duties and responsibilities including formulation of group strategies, monitoring group operations, and strengthening corporate governance. ・Remuneration for Directors who serve concurrently as Directors of subsidiaries that are operating companies is determined based on their duties and responsibilities including execution of business based on group strategies formulated by Otsuka Holdings, formulation of strategies for the operating company, and strengthening corporate governance. (Remuneration shall not to exceed the upper limit of remuneration resolved at the shareholders meeting.)
Performance-linked bonus	Cash/ Variable	・Remuneration is 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	Shares with transfer restrictions/ Variable	・At the meeting of the Board of Directors held on February 13, 2019, the Company resolved to introduce a restricted stock remuneration plan as an incentive plan to sustainably improve the medium- to long-term performance and corporate value of the Company. ・The plan 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 shares with transfer restrictions issued under this plan are intended to comprise a remuneration system that reflects progress in achieving the medium-term management plan. To this end, the remuneration plan combines multiple performance achievement requirements based on performance indicators in the Third Medium-Term Management Plan announced on May 30, 2019.

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.

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	Basic 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
Upper limit (Annual amount)	¥1,500 million	¥1,000 million	¥80 million

Note: Performance-linked bonus shall not be paid for Outside Directors.

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

Classification	Number of persons	Amount of remuneration (Millions of yen)
Directors (of which Outside Directors)	13 (4)	566 (21)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	4 (3)	56 (32)
Total (of which Outside Directors and Audit & Supervisory Board Members)	17 (7)	622 (54)

Notes:
1. There are no Directors of the Company who concurrently serve as employees.
2. The above amounts of remuneration to Directors include ¥144 million in bonuses for eight (8) Directors excluding Outside Directors and ¥104 million in remuneration provided through restricted stock remuneration plan for nine (9) Directors.
3. 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 Vice President of International University of Health and Welfare and President of Japan Public Health Association. The group has no transactions with each of the said organizations.

Executive Director, Ko Sekiguchi, serves as Outside Director of Solasto Corporation. 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 sixteen (16) 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 sixteen (16) 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 thirteen (13) meetings of the Board of Directors held since he assumed the office of Executive Director of the Company, and provided appropriate comments based on his extensive knowledge and experience gained in the food industry.

Audit & Supervisory Board Member, Hiroshi Sugawara attended all sixteen (16) meetings of the Board of Directors and all seventeen (17) 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 sixteen (16) meetings of the Board of Directors and all seventeen (17) 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 of overall legal knowledge.

Audit & Supervisory Board Member, Kazuo Takahashi attended all sixteen (16) meetings of the Board of Directors and all seventeen (17) 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.

(4) Accounting Auditor

i) Name of accounting auditor (Independent Auditor): Deloitte Touche Tohmatsu LLC

ii) Amount of remuneration

(Millions of yen)

	Payment
Total remuneration for the current fiscal year	109
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	386

Notes:
1. The Company compensates the accounting auditor for advice and guidance, etc. concerning international financial reporting standards, which is a service other than the services prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act.
2. The Audit & Supervisory Board gave its consent for the amount of remuneration 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 remuneration.
3. Of the Company’s principal subsidiaries, Otsuka America Pharmaceutical, Inc. and three other companies are audited by a certified public accountant or an audit corporation (including parties holding qualifications comparable to those of a certified public accountant or an audit corporation 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)).
4. As remuneration 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 remuneration for the accounting auditor in the current fiscal year represents the aggregate amount for these audits.

iii) 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 accounting auditor and the reason thereof at the first shareholders meeting convened after dismissal.

(5) 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 polices 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.

(6) 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 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.

In risk management training, drills based on the themes of potential legal risks behind overseas expansion were conducted for the senior management of the Company and key group companies in an effort to increase effectiveness of operations by enhancing understanding of contractual terms for joint ventures, alliances, M&A, etc. and how subsequent management should be performed.

The committee has also developed an Emergency Response Manual to ensure rapid responses to situations at overseas affiliates and conducts training based on various scenarios.

(ii) Information security

In addition to conducting security checks, the Company and every group company are continuingly 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.

(7) 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 14, 2020, 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 2, 2019, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 30, 2020.

(Translation)

Consolidated Statement of Financial Position

(As of December 31, 2019)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets		**Current liabilities**	
Cash and cash equivalents	334,040	Trade and other payables	166,801
		Bonds and borrowings	50,033
Trade and other receivables	401,418	Lease liabilities	14,796
		Other financial liabilities	2,424
Inventories	159,991	Income taxes payable	26,516
Income taxes receivable	2,807	Contract liabilities	12,407
		Other current liabilities	167,910
Other financial assets	48,232	**Total current liabilities**	**440,891**
Other current assets	40,321	**Non-current liabilities**	
		Bonds and borrowings	136,493
Subtotal	986,811	Lease liabilities	51,994
		Other financial liabilities	18,548
Assets held for sale	1,539	Net defined benefit liabilities	17,301
Total current assets	**988,351**	Provisions	981
		Contract liabilities	80,792
Non-current assets		Deferred tax liabilities	26,576
Property, plant and equipment	453,380	Other non-current liabilities	12,287
		Total non-current liabilities	**344,977**
Goodwill	274,761	**Total Liabilities**	**785,869**
		Equity	
Intangible assets	478,540	**Equity attributable to owners of the Company**	
Investments in associates	197,704		
		Share capital	81,690
Other financial assets	150,688	Capital surplus	505,520
Deferred tax assets	22,118	Treasury shares	(46,018)
		Retained earnings	1,304,569
Other non-current assets	15,763	Other components of equity	(79,490)
Total non-current assets	**1,592,957**	**Total equity attributable to owners of the Company**	**1,766,271**
		Non-controlling interests	**29,168**
		Total Equity	**1,795,440**
Total Assets	**2,581,309**	**Total Liabilities and Equity**	**2,581,309**

Consolidated Statement of Income

(From January 1, 2019 to December 31, 2019)

(Millions of yen)

Item	Amount
Revenue	1,396,240
Cost of sales	(451,297)
Gross profit	**944,943**
Selling, general and administrative expenses	(557,607)
Share of profit of associates	15,621
Research and development expenses	(215,789)
Impairment loss	(13,476)
Other income	8,694
Other expenses	(5,801)
Operating profit	**176,585**
Finance income	4,433
Finance costs	(7,502)
Profit before taxes	**173,515**
Income tax expenses	(42,328)
Profit for the year	**131,187**
Attributable to:	
Owners of the Company	127,151
Non-controlling interests	4,035
Total	131,187

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

(Millions of yen)

	Equity attributable to owners of the Company					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasure-ments 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**

(Continued)

(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**

(Concluded)

(Translation)

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, 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: 167

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: 27

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

Earth Chemical Co., Ltd., 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 Business Support Co., Ltd. and eleven other companies have been, for the first time, included within the scope of consolidation for the current fiscal year due to their incorporation in the year.
Otsuka Chemical do Brasil Ltda. and one other company, which had been the Company's consolidated subsidiaries, have been excluded from the scope of consolidation due to a sale of their shares.
Otsuka Chilled Foods Co., Ltd. and two other companies, which were previously consolidated subsidiaries of the Company, have been excluded from the scope of consolidation due to their liquidation.
BC BIO SAS and one other company, both of which were already the Company's consolidated subsidiaries, were merged by two other consolidated subsidiaries of the Company–Nutrition & Santé SAS and one other company.
PT INDONESIA DISTRIBUTION HUB was incorporated in the year and has been included within the scope of equity-method application.

(5) Fiscal Year End of Consolidated Subsidiaries, Etc.

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 the 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 their 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 their 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 respect to impairment of financial assets measured at amortized cost, the group recognizes an allowance for expected credit losses on such financial assets.
At the end of each fiscal year, the group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition.

If credit risk on a financial instrument has not increased significantly since the 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 the initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses.
The group considers that, as a rule-of-thumb, there has been a significant increase in credit risk when no payments have been made and more than 30 days have passed since the contractual due date. 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 historic information.
When the credit risk on a financial asset is considered to be low at the end of a fiscal year, the group determines that the credit risk on that financial asset has not increased significantly since its initial recognition.
However, with regards to trade receivables, etc., 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.
Expected credit losses of a financial instrument are measured using a methodology which reflects the following:

- An unbiased and probability-weighted loss that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The changes in these measurements are recognized in profit or loss. The amount of expected credit losses (or reversal) required to adjust the loss allowance at the end of the fiscal year to the amount that is required to be recognized is recognized as impairment gains or impairment losses.

(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 their initial recognition, financial liabilities are classified as (a) financial liabilities measured at amortized cost and (b) financial liabilities measured at fair value through profit or loss.
At the initial recognition, financial liabilities measured at amortized cost are measured at fair value net of transaction costs that are directly attributable to the financial liability.
Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Subsequent measurement
After their 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 liability when a financial liability is 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 their 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 using 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, intangible assets and right-of-use assets

A. Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

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 58 years
- Tools, furniture and fixtures: 2 to 20 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.

B. Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Separately acquired intangible assets are measured at cost at the time of the initial recognition.

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.

Amortization expense on each intangible asset with a finite useful life is recognized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible assets are as follows:

- Patents: 5 to 15 years
- Trademarks, distribution rights and others: 3 to 16 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. Leases

For the leases that the group has contracted as a lessee, right-of-use assets are measured at acquisition cost, and lease liabilities are measured at the present value of total lease payables. Right-of-use assets are depreciated by using the straight-line method over their estimated useful lives or lease terms, whichever are shorter.
Lease payments are recognized upon apportionment between the finance costs and the repayments of lease liabilities based on the interest method.
The group decides not to 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.

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

The group assesses whether there is any indication of impairment at the end of each fiscal year 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.
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 fiscal year. If there is any indication of reversal of impairment loss, the recoverable amounts of assets or cash-generating units are 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 the 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 the 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 respective functional currencies of the group companies 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 closing rate. 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 closing rate. 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.

The group has adopted the exemption of IFRS 1 and accordingly the cumulative amount of foreign currency translation reserve at the IFRS transition date (January 1, 2015) is deemed to be zero and the entire amount has been reclassified to retained earnings.

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 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, 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, revenue 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 is received primarily within one year from the time when the right is acquired based on the contract, and it does not include material financial factors.

viii) Other

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 Changes in Accounting Policies

Changes in Accounting Policies Required by IFRS

The group has adopted the following standard from the current fiscal year.

IFRS		Description of new standards, interpretations and amendments
IFRS 16	Leases	Amendment concerning accounting treatment for leases

Starting from the current fiscal year, the group adopted IFRS 16 “Leases” (issued in January 2016, hereinafter referred to as “IFRS 16”). On adoption of IFRS 16, leases previously classified as operating leases under the principles of IAS 17 “Leases” (hereinafter referred to as “IAS 17”) were recognized as right-of-use assets and lease liabilities as of the date of adoption of IFRS 16 (January 1, 2019). In addition, operating lease payments that were expensed in the consolidated statement of income as incurred under the previous accounting standards are recorded as depreciation expense for right-of-use assets and interest cost for lease liabilities.

Please refer to “1. Basis of Preparation of Consolidated Financial Statements” for further details about accounting policies for leases.

In accordance with the transitional measures under IFRS 16, the group retrospectively adopted IFRS 16 and recognized the cumulative effects of the application as an adjustment to the opening balance of retained earnings for the current fiscal year. In transitioning to IFRS 16, the group chooses the practical expedient detailed in IFRS 16 paragraph C3 and assesses whether contracts contain leases in accordance with IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease.”

Lease liabilities are measured at the present value of the remaining lease payments discounted using the lessee’s incremental borrowing rate at the date of initial application. The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 3.9%. Right-of-use assets are initially measured at the initial measurement amount of the lease liability adjusted by the amount of any prepaid or accrued lease payments.

As a result, compared with the application of the former accounting standard, as of the beginning of the current fiscal year, right-of-use assets increased by ¥59,324 million as property, plant and equipment in the consolidated statement of financial position, and retained earnings decreased by ¥23 million. The following is the reconciliation of lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

(Millions of yen)

	Amount
Operating lease contracts as of December 31, 2018	42,631
Operating lease contracts discounted using the incremental borrowing rate as of January 1, 2019	33,366
Finance lease contracts as of December 31, 2018	8,054
Lease contracts accounted for as short-term lease expenses	(213)
Cancellable operating lease contracts	28,339
Others	118
Lease liabilities as of January 1, 2019	69,665

The following practical expedients detailed in IFRS 16 paragraph C10 are used in the application of IFRS 16.

- A single discount rate is applied to portfolios of leases with reasonably similar characteristics.
- Leases for which the lease term ends within 12 months of the date of initial application are accounted for in the same way as short-term leases.
- Initial direct costs are excluded from the measurement of the right-of-use asset at the date of initial application.
- The group uses hindsight to calculate the lease term for lease contracts including options to extend or terminate the lease.

3. Notes to Changes in Presentation

(Consolidated Statement of Financial Position)
It has been decided that with the application of IFRS 16, “lease liabilities,” which was included in “other financial liabilities” in the previous fiscal year, is separately presented from the current fiscal year due to the increased materiality of the amount. In the consolidated statement of financial position for the previous fiscal year, “lease liabilities” that was included in “other financial liabilities” under “current liabilities” was ¥1,894 million, and “lease liabilities” that was included in “other financial liabilities” under “non-current liabilities” was ¥6,159 million.

(Consolidated Statement of Income)
It has been decided that impairment losses on in-process research and development that were included in “research and development expenses” and other impairment losses that were included in “selling, general and administrative expenses” in the previous fiscal year are separately presented, in aggregate, as “impairment loss” from the current fiscal year for the purpose of providing more useful and clearer information on future cash flow projection and others. In the consolidated statement of income for the previous fiscal year, impairment losses on in-process research and development that were included in “research and development expenses” were ¥23,208 million, and other impairment losses that were included in “selling, general and administrative expenses” were ¥11,533 million.

4. Notes to Consolidated Statement of Financial Position

(1) Allowance for Credit Losses Directly Deducted from Assets

		(Millions of yen)
Trade and other receivables	¥	1,945
Other financial assets (non-current assets)		100

(2) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Trade and other receivables	¥	279
Inventories		408
Property, plant and equipment		
Buildings and structures		478
Machinery and vehicles		810
Tools, furniture and fixtures		8
Land		727
Total	¥	2,713

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥848 million and bonds and borrowings (non-current liabilities) of ¥719 million.

(3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses) ¥704,573 million

(4) Contingent Liabilities
Outstanding guarantees given to financial institutions and others of associates and others:
¥111 million

5. Notes to Consolidated Statement of Changes in Equity

(1) Total Number of Issued Shares

Class of shares	Number of shares as of January 1, 2019	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, 2019
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, 2019	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, 2019
Ordinary shares	15,987 thousand shares	0 thousand shares	423 thousand shares	15,564 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares is due to the purchase of shares less than one share unit. The 423-thousand-share decrease in the number of treasury shares is due to the disposal of 83 thousand shares of treasury shares associated with exercise of stock options and disposal of 340 thousand shares 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 13, 2019	Ordinary shares	¥27,092 million	¥50	December 31, 2018	March 29, 2019
Meeting of the Board of Directors held on August 8, 2019	Ordinary shares	¥27,113 million	¥50	June 30, 2019	September 2, 2019

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 14, 2020	Ordinary shares	Retained earnings	¥27,113 million	¥50	December 31, 2019	March 30, 2020

6. 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 risks or interest rate risks 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 risks, B. Interest rate risks and C. Risk of fluctuations in equity instrument prices.

A. Foreign currency risks

- 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. More specifically, operating subsidiaries that continuously engage in export and import transactions reduce the frequency of exchanging foreign currencies by holding foreign currencies received as export proceeds without exchanging them for the local currency, and using them directly in payment for imports, in order to mitigate foreign currency risks.
- Forward exchange contracts and others
  With regard to management of derivative transactions, including forward exchange contracts, the group has established management rules for derivative transactions and limits derivative transactions to those made for the purpose of hedging risks.
  The group may enter into forward exchange contracts and other agreements to fix future cash flows related to lending and borrowing of funds within the group in association with

receivables and payables denominated in foreign currencies or to determine the amount of dividends within the group. In this case, the group also manages these contracts appropriately in accordance with the internal rules.

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. The group does not sell these investments actively. With regard to equity instruments, the group regularly assesses fair value and financial conditions of issuers.

iii) Credit risk management

Credit risks are risks that result in financial losses incurred by 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.
With respect to shares in securities and investment securities, the financial situation of issuers is assessed regularly in accordance with the management rules of each group company. With respect to public and corporate bonds, credit risk is insignificant because the group invests solely in highly rated bonds.
The group recognizes that there is little credit risk in the use of derivatives since it 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 after impairment 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 department prepare and update a cash flow management plan, maintaining a constant level of liquidity. A temporary shortage of cash funds due to the payment of dividends, bonuses and other items is covered by a loan from a bank or other financial institution.

(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)	557	538
Total financial assets	557	538

<Financial liabilities>		
Financial liabilities measured at amortized cost		
Borrowings	106,758	105,255
Bonds	79,768	80,207
Total financial liabilities	186,527	185,462

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

Other financial assets (bonds)

The fair value of bonds is determined based on the quoted price at the securities 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 determined 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 determined based on the observable price in the market.

7. Notes to per Share Information

(1) Equity Attributable to Owners of the Company per Share ¥3,257.17
(2) Basic Earnings per Share ¥234.55

8. Notes to Significant Subsequent Events

Not applicable.

9. Other Notes

(Business Combinations)
(Contingent considerations arising from business combination)
Contingent considerations arising from the business combination are included in other financial liabilities in the consolidated statement of financial position. Contingent considerations that were recorded as of the fiscal year end 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 125 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.
Of the gains and losses from the changes in the fair value of the contingent considerations, the portion derived from changes of time-value is recognized within finance costs, and the portion based on changes other than 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, 2019	16,526
Changes in fair value	1,853
Foreign currency translation adjustment	(101)
Balance as of December 31, 2019	18,279

(Translation)

Balance Sheet

(As of December 31, 2019)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets	**103,942**	**Current liabilities**	**98,923**
Cash and bank deposits	55,113	Lease obligations	20
Supplies	55	Accounts payable - other	5,746
Prepaid expenses	1,979	Accrued expenses	104
Short-term loans receivable from subsidiaries and affiliates	11,317	Income taxes payable	10,935
Income taxes receivable	2	Deposits received from subsidiaries and affiliates	81,909
Other current assets	35,709	Provision for bonuses	30
Allowance for doubtful accounts	(235)	Provision for directors' bonuses	48
		Other current liabilities	128
Non-current assets	**1,053,164**	**Long-term liabilities**	**81,083**
Property, plant and equipment	**411**	Bonds payable	80,000
Buildings	5	Deferred tax liabilities	1,083
Structures	39	**Total Liabilities**	**180,007**
Furniture and fixtures	75	**Net Assets**	
Leased assets	19	**Shareholders' equity**	**974,304**
Construction in progress	271	**Share capital**	**81,690**
Intangible assets	**6,154**	**Capital surplus**	**810,772**
Software	6,151	Additional paid-in capital	731,816
Trademark rights	2	Other capital surplus	78,955
Investments and other assets	**1,046,598**	**Retained earnings**	**127,859**
Investment securities	16,426	Other retained earnings	127,859
Shares of subsidiaries and affiliates	745,620	Retained earnings brought forward	127,859
Long-term loans receivable from subsidiaries and affiliates	285,220	**Treasury shares**	**(46,018)**
Other assets	31	**Valuation and translation adjustments**	**2,795**
Allowance for doubtful accounts	(700)	Unrealized gain on available-for-sale securities	2,795
		Total Net Assets	**977,099**
Total Assets	**1,157,106**	**Total Liabilities and Net Assets**	**1,157,106**

Statement of Income

(From January 1, 2019 to December 31, 2019)

(Millions of yen)

Item	Amount	
Operating revenues		**66,155**
Operating expenses		**9,110**
Operating income		**57,045**
Non-operating income		
Interest and dividend income	907	
Business consignment fees	938	
Other	332	**2,177**
Non-operating expenses		
Interest expenses	26	
Commission fees	8	
Provision of allowance for doubtful accounts	935	
Bond interests	175	
Bond issuance cost	261	**1,407**
Ordinary income		**57,815**
Extraordinary loss		
Loss on retirement of non-current assets	13	**13**
Income before income taxes		**57,802**
Income taxes - current		**(600)**
Income taxes - deferred		**27**
Net income		**58,375**

Statement of Changes in Net Assets

(From January 1, 2019 to December 31, 2019)

(Millions of yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
	Share capital	Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
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**

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(1) Valuation of Major Assets

i) Shares of subsidiaries and affiliates:
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.

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 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.

(4) Other

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.

2. Notes to Changes in Accounting Policies

(Application of accounting standard for revenue recognition and its guidance)
Effective from the beginning of the current fiscal year, the Company has early adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018), and it has recognized promised goods or services as revenue at the amount expected to be received upon exchange of said goods or services at the time the control of said goods or services is transferred to the customer.
There is no effect of this change.

3. Notes to Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment ¥562 million

(2) Monetary Assets from and Liabilities to Subsidiaries and Affiliates (Excluding Those Classified Separately in the Balance Sheet)

i) Short-term monetary assets ¥35,596 million
ii) Short-term monetary liabilities ¥3,837 million

4. Notes to Statement of Income

Transactions with Subsidiaries and Affiliates

i) Operating revenues ¥66,155 million
ii) Operating expenses ¥2,125 million
iii) Non-operating transactions ¥1,194 million

5. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2019	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, 2019
Ordinary shares	15,987 thousand shares	0 thousand shares	423 thousand shares	15,564 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares is due to the purchase of shares less than one share unit. The 423-thousand-share decrease in the number of treasury shares is due to the disposal of 83 thousand shares of treasury shares associated with exercise of stock options and disposal of 340 thousand shares of treasury shares as restricted stock remuneration.

6. Notes to Income Taxes

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

Deferred tax assets		(Millions of yen)
Provision for bonuses	¥	10
Accrued directors' salaries		29
Accrued business office taxes		1
Share-based remuneration expenses		31
Allowance for doubtful accounts		286
Amortization on intangible assets in excess of tax deductible amount		104
Other accounts payable, etc.		7
Loss on valuation of shares of subsidiaries and affiliates		2,837
Loss on extinguishment of tie-in shares		176
Adjustment of tax-basis book value of shares of subsidiaries and affiliates		886
Unused tax losses		1,521
Subtotal of deferred tax assets		5,893
Valuation allowance for unused tax losses		(1,521)
Valuation allowance for the total of deductible temporary differences, etc.		(4,223)
Subtotal of valuation allowance		(5,744)
Total of deferred tax assets	¥	149

Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(1,232)
Total of deferred tax liabilities		(1,232)
Net deferred tax liabilities	¥	(1,083)

7. Notes to Related Party Transactions

(1) Subsidiaries

Type	Company name	Percentage owned	Relationship: Interlocking directors and audit & supervisory board members	Relationship: Business relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Subsidiary	Otsuka Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	4	Investment in stock	Salaries of seconded employees (Note 1)	1,476	Accounts payable-other	348
							Accrued expenses	3
					Lending of funds (Note 2)	206,348	Short-term loans receivable from subsidiaries and affiliates (Note 2)	4,611
							Long-term loans receivable from subsidiaries and affiliates (Note 2)	268,720
					Receipt of interest (Note 3)	305	Other current assets (Accrued interest)	0
					Business consignment fees (Note 4)	365	Other current assets (Accounts receivable-other)	95
Subsidiary	Taiho Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	1	Investment in stock	Borrowing of funds (Note 2)	47,703	Deposits received from subsidiaries and affiliates	47,927
					Payment of interest (Note 3)	9		
Subsidiary	Otsuka Chemical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	1	Investment in stock	Borrowing of funds (Note 2)	22,708	Deposits received from subsidiaries and affiliates	22,547
					Payment of interest (Note 3)	10		
Subsidiary	Otsuka Medical Devices Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	3	Investment in stock	Lending of funds (Note 2)	13,552	Short-term loans receivable from subsidiaries and affiliates (Note 2)	4,810
					Receipt of interest (Note 3)	3	Long-term loans receivable from subsidiaries and affiliates (Note 2)	13,000

Terms and conditions of transactions and policy on determination thereof

Notes:

1. The amount is mutually agreed upon based on salaries of seconded employees.
2. 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.

3. The interest rate is mutually agreed upon based on market rates.
4. The Company's business support center (which was demerged as Otsuka Business Support Co., Ltd. in July 2019) performs certain indirect services for the group companies. Terms and conditions of the transactions are mutually agreed upon based on actual service costs incurred.

(2) Officers, Significant Individual Shareholders, Etc.

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 (Note)	24	–	–

Terms and conditions of transactions and policy on determination thereof

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

8. Notes to per Share Information

(1) Net Assets per Share ¥1,801.86

(2) Earnings per Share ¥107.68

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 12, 2020

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

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Koichi Niki [Seal]

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

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2019 of Otsuka Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries, and the consolidated statements of income and changes in equity for the fiscal year from January 1, 2019 to December 31, 2019, and the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above, 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 financial position of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of December 31, 2019, and the results of their operations for the year then ended.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 12, 2020

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

Deloitte Touche Tohmatsu LLC

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Koichi Niki [Seal]

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

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2019 of Otsuka Holdings Co., Ltd. (the "Company") and the related statements of income and changes in net assets for the 12th fiscal year from January 1, 2019 to December 31, 2019, and the related notes and the accompanying supplemental schedules.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements and the accompanying supplemental schedules 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. as of December 31, 2019, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

(TRANSLATION)

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 12th Fiscal Year from January 1, 2019 to December 31, 2019, 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 respect 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 respect 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 respect 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 respect 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 13, 2020

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]