

(Translation)

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March 8, 2022
Tatsuo Higuchi
President and Representative Director
Otsuka Holdings Co., Ltd.
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

Notice for the Calling of the 14th Annual Shareholders Meeting **(for FY2021)**

Dear Shareholders,

We are pleased to announce the 14th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the “Company”), which will be held as indicated below.

Instead of attending the meeting in person, you may exercise your voting rights either in writing (by post) or via the Internet. Please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights following the procedure described below so that your vote is received by the designated time, **5:30 p.m. (the close of business hours) on Tuesday, March 29, 2022 (JST)**.

To exercise your voting rights in writing (by post)

Please indicate on the enclosed “Voting Form” whether you approve or disapprove of each 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 each proposal by the designated time above. → Please refer to pages 3 and 4.

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

Details

1. Date and Time:

Wednesday, March 30, 2022, 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 14th Fiscal Year (from January 1, 2021 to December 31, 2021)
- b. Financial Statements for the 14th Fiscal Year (from January 1, 2021 to December 31, 2021)

Matters to be resolved:

Proposal 1: Amendment to the Articles of Incorporation

Proposal 2: Election of Fourteen (14) Directors

Proposal 3: Election of Four (4) Audit & Supervisory Board Members

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, Consolidated Financial Statements, or Financial Statements, such changes will be posted on our website.

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

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–26).

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

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

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

Deadline: to be received on Tuesday, **March 29, 2022, at 5:30 p.m.**

2. To exercise your voting rights via the Internet

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

Please refer to the following page for details.

Deadline: to be exercised on Tuesday, **March 29, 2022, at 5:30 p.m.**

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

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

Please also bring with you “Notice for the Calling of the 14th Annual Shareholders Meeting” (this document).

Date and time of the meeting: Wednesday, **March 30, 2022, at 10:00 a.m.**

[How to fill out the “Voting Form”]

Please indicate whether you approve or disapprove of each proposal.

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

Proposal 1

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

Proposal 2 and Proposal 3

- 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.

Guidance for Exercising Voting Rights via the Internet

How to scan QR code

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

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

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

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

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

How to enter login ID and password

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

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

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

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

Reference Documents for Shareholders Meeting

Proposal 1: Amendment to the Articles of Incorporation

1. Reasons for proposal

- (1) Following the enforcement of the “Act for Partially Amending the Act on Strengthening Industrial Competitiveness and Other Related Laws” (Act No. 70 of 2021) and “Ministerial Order on General Meetings of Shareholders Without a Designated Location Pursuant to the Act on Strengthening Industrial Competitiveness” (Order of the Ministry of Justice and Ministry of Economy, Trade and Industry No. 1 of 2021) on June 16, 2021, the Company proposes to add paragraph 2 to Article 12 of the Articles of Incorporation to enable a shareholders meeting without a designated location to be held when circumstances of an infectious disease outbreak or natural disaster leads the Board of Directors to determine that holding a shareholders meeting with a designated location is not appropriate, considering the interests of shareholders.
- (2) Since the revised provisions provided for in a proviso to Article 1 of the Supplementary Provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) are to be enforced on September 1, 2022, the Company proposes to make the following changes to its Articles of Incorporation in preparation for the introduction of the system for providing informational materials for the shareholders meeting in electronic format.
 - (i) Article 15, paragraph 1 in “Proposed Amendments” below will stipulate that the Company shall take measures for providing information that constitutes the content of reference documents for shareholders meeting, etc. in electronic format.
 - (ii) Article 15, paragraph 2 in “Proposed Amendments” below will establish the provision to limit the scope of the items to be stated in the paper-based documents to be delivered to shareholders who requested the delivery of paper-based documents.
 - (iii) Since the provisions for Internet Disclosure and Deemed Provision of Reference Documents for Shareholders Meeting, Etc. (Article 15 of the current Articles of Incorporation) will no longer be required, they will be deleted.
 - (iv) Accompanying the aforementioned new establishment and deletion, supplementary provisions regarding the effective date, etc. will be established.

2. Details of the amendments

The details of the amendments are as follows:

(Underlined portions indicate the proposed amendments.)

Current Articles of Incorporation	Proposed Amendments
Article 12. (Convocation of Shareholders Meeting) An annual shareholders meeting of the Company shall be convened in March every year. An extraordinary shareholders meeting shall be convened whenever necessary. (Newly established)	(Unchanged) <u>2. The Company may hold a shareholders meeting without a designated location when circumstances of an infectious disease outbreak or natural disaster leads the Board of Directors to determine that holding a shareholders meeting with a designated location is not appropriate, considering the interests of shareholders.</u>
<u>Article 15. (Internet Disclosure and Deemed Provision of Reference Documents for Shareholders Meeting, Etc.)</u>	(Deleted)

Current Articles of Incorporation	Proposed Amendments
<p><u>When the Company convenes a shareholders meeting, if it discloses information that is to be stated or presented in the reference documents for shareholders meeting, business report, financial statements and consolidated financial statements through the internet in accordance with the provisions prescribed by the Ministry of Justice Order, it may be deemed that the Company has provided this information to shareholders.</u></p> <p>(Newly established)</p> <p>(Newly established)</p>	<p><u>Article 15. (Measures for Providing Information in Electronic Format, Etc.)</u></p> <p><u>1. When the Company convenes a shareholders meeting, it shall take measures for providing information that constitutes the content of reference documents for shareholders meeting, etc. in electronic format.</u></p> <p><u>2. Among items for which the measures for providing information in electronic format will be taken, the Company may exclude all or some of those items designated by the Ministry of Justice Order from statements in the paper-based documents to be delivered to shareholders who requested the delivery of paper-based documents by the record date of voting rights.</u></p> <p><u>(Supplementary Provisions)</u></p> <p><u>1. The deletion of Article 15 (Internet Disclosure and Deemed Provision of Reference Documents for Shareholders Meeting, Etc.) of the Articles of Incorporation before amendments and the new establishment of Article 15 (Measures for Providing Information in Electronic Format, Etc.) of the Articles of Incorporation after amendments shall be effective from September 1, 2022, which is the date of enforcement of the revised provisions provided for in the proviso to Article 1 of the Supplementary Provisions of the Act Partially Amending the Companies Act (Act No. 70 of 2019) (hereinafter referred to as the “Date of Enforcement”).</u></p> <p><u>2. Notwithstanding the provision of the preceding paragraph, Article 15 of the Articles of Incorporation before amendments shall remain effective regarding any shareholders meeting held on a date within six months from the Date of Enforcement.</u></p> <p><u>3. These Supplementary Provisions shall be deleted on the date when six months have elapsed from the Date of Enforcement or three months have elapsed from the date of the shareholders meeting in the preceding paragraph, whichever is later.</u></p>

(Translation)

Proposal 2: Election of Fourteen (14) Directors


The terms of office of all thirteen (13) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect fourteen (14) Directors, increasing the number of Outside Directors by one (1) from the perspective of strengthening corporate governance.

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	13 years and 8 months	Chairman and Representative Director	100%
2	Reappointment	Tatsuo Higuchi	13 years and 8 months	President and Representative Director, CEO	100%
3	Reappointment	Yoshiro Matsuo	13 years and 8 months	Senior Managing Director	100%
4	Reappointment	Yuko Makino	4 years	Executive Director, CFO	100%
5	Reappointment	Shuichi Takagi	3 years	Executive Director, Business Portfolio Management	100%
6	Reappointment	Sadanobu Tobe	11 years and 8 months	Executive Director	100%
7	Reappointment	Masayuki Kobayashi	5 years	Executive Director	100%
8	Reappointment	Noriko Tojo	7 years and 10 months	Executive Director	100%
9	Reappointment	Makoto Inoue	2 years	Executive Director	100%
10	Reappointment Outside Independent	Yukio Matsutani	6 years	Outside Director	100%
11	Reappointment Outside Independent	Ko Sekiguchi	4 years	Outside Director	100%
12	Reappointment Outside Independent	Yoshihisa Aoki	3 years	Outside Director	100%
13	Reappointment Outside Independent	Mayo Mita	2 years	Outside Director	100%
14	New appointment Outside Independent	Tatsuaki Kitachi	—	—	—

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


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
1	<p data-bbox="300 271 475 297">Reappointment</p>  <p data-bbox="300 573 491 629">Ichiro Otsuka (February 15, 1965)</p> <p data-bbox="300 674 491 808">Position and areas of responsibility in the Company: Chairman and Representative Director</p> <p data-bbox="300 853 491 920">Term of office as Director: 13 years and 8 months</p>	<p data-bbox="523 259 1225 286">April 1987 Joined Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 293 1225 360">June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 367 1225 434">June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 441 1225 508">December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 515 1225 560">May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 566 1225 611">December 2003 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 618 1225 663">December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 669 1225 714">July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="523 721 1225 766">June 2010 Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="523 772 1225 817">June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 824 1225 891">Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.</p> <p data-bbox="523 898 1225 943">March 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p data-bbox="523 949 1225 994">Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)</p> <p data-bbox="523 1001 1225 1046">Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="523 1052 1225 1075">[Significant concurrent positions outside the Company]</p> <p data-bbox="523 1081 1225 1104">Chairman, Otsuka Pharmaceutical Factory, Inc.</p> <p data-bbox="523 1111 1225 1133">Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="523 1140 1225 1162">President and Representative Director, Otsuka Estate Co., Ltd.</p> <p data-bbox="523 1169 1225 1191">President and Representative Director, Otsuka Asset Co., Ltd.</p>	7,065,704
<p data-bbox="300 1227 850 1249">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="300 1256 1193 1424">Mr. Ichiro Otsuka is involved in all areas of management of the Company and its subsidiaries (hereinafter referred to as the "Group") and has a deep understanding of the characteristics and business strategies of each business. From a higher perspective on the Group's businesses, by planning optimal coordination and collaboration to maximize Group synergies based on the Group's corporate philosophy, as well as promoting creative business development eyeing medium- to long-term growth, he has achieved a proven track record of enhancing corporate value.</p> <p data-bbox="300 1431 1169 1547">The Company deems that it can expect him to, by making use of his broad experience, network, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
2	<div data-bbox="296 264 480 297" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 331 488 528" style="text-align: center;">  </div> <p data-bbox="296 566 448 629">Tatsuo Higuchi (June 14, 1950)</p> <p data-bbox="296 667 480 808">Position and areas of responsibility in the Company: President and Representative Director, CEO</p> <p data-bbox="296 846 480 920">Term of office as Director: 13 years and 8 months</p>	<p data-bbox="520 259 1233 286">March 1977 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 293 1233 342">June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)</p> <p data-bbox="520 349 1233 398">November 1998 Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 405 1233 454">June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 461 1233 510">June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 517 1233 544">June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 551 1233 600">July 2008 President and Representative Director, CEO, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 607 1233 633">December 2011 Executive Director, Otsuka Chemical Co., Ltd.</p> <p data-bbox="520 640 1233 689">February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p data-bbox="520 696 1233 745">March 2020 Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p data-bbox="520 752 1233 815">[Significant concurrent positions outside the Company] Chairman and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p>	155,600
<p data-bbox="296 931 847 958">[Reasons for nominating him as a candidate for Director]</p> <p data-bbox="296 965 1174 1182">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 with a view towards achieving its Third Medium-Term Management Plan, aiming to advance globally as a unique total healthcare company, and achieving subsequent sustainable and original growth. He has been focusing on enhancing corporate governance, as well as on investment for future growth, achieving short- and medium-term business performance, generating innovation for business development, and development of human resources who can lead the next generation, and he has a proven track record in the globalization and diversification of the Group businesses.</p> <p data-bbox="296 1189 1174 1305">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 essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
3	<p>Reappointment</p>  <p>Yoshiro Matsuo (November 3, 1960)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director</p> <p>Term of office as Director: 13 years and 8 months</p>	<p>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>January 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>November 2007 Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.</p> <p>March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.</p> <p>January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)</p> <p>March 2019 Senior Managing Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Executive Director, Otsuka Medical Devices Co., Ltd.</p>	58,760
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Yoshiro Matsuo has abundant operational experience in all of the corporate departments. He has been working to enhance the functions of corporate departments required as a holdings company in managing a number of subsidiaries, as well as playing a central role in promoting the sustainability of the Group, and has achieved results. He has in-depth knowledge in Group operations and corporate governance. The Company deems that it can expect him to, by making use of his expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned																														
4	<div style="border: 1px solid black; padding: 2px;">Reappointment</div>	<table border="0"> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">1982</td> <td style="vertical-align: top;">Joined Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">1996</td> <td style="vertical-align: top;">Joined Baxter Limited</td> </tr> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">2000</td> <td style="vertical-align: top;">Joined Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2015</td> <td style="vertical-align: top;">Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">September</td> <td style="vertical-align: top;">2016</td> <td style="vertical-align: top;">Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">April</td> <td style="vertical-align: top;">2017</td> <td style="vertical-align: top;">Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd. Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2018</td> <td style="vertical-align: top;">Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.</td> </tr> <tr> <td style="vertical-align: top;">March</td> <td style="vertical-align: top;">2019</td> <td style="vertical-align: top;">Executive Director, CFO, Otsuka Holdings Co., Ltd. (Current Position)</td> </tr> <tr> <td colspan="3" style="vertical-align: top;">[Significant concurrent positions outside the Company]</td> </tr> <tr> <td colspan="3" style="vertical-align: top;">-</td> </tr> </table>	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]			-			17,800
	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.																															
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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]																																	
-																																	
 <p>Yuko Makino (October 23, 1961)</p> <p>Position and areas of responsibility in the Company: Executive Director, CFO</p> <p>Term of office as Director: 4 years</p>																																	
<p>[Reasons for nominating her as a candidate for Director]</p> <p>Ms. Yuko Makino has a high level of expertise in finance and a track record in formulating and implementing financial strategies for the Company. She has been promoting the enhancement and sophistication of the management platform and the increase of capital efficiency by optimizing the Group's corporate functions, and has been achieving results in strengthening the financial foundation and management in general. 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 essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</p>																																	

(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
5	<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Reappointment</div>  <p>Shuichi Takagi (January 3, 1966)</p> <p>Position and areas of responsibility in the Company: Executive Director, Business Portfolio Management</p> <p>Term of office as Director: 3 years</p>	<p>April 1989 Joined TOBISHIMA CORPORATION</p> <p>September 1995 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>August 2002 Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2003 Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>March 2015 Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc.</p> <p>May 2015 CEO, Claris Otsuka Private Limited (present day Otsuka Pharmaceutical India Private Limited)</p> <p>January 2019 Senior Vice President, President's Office, Otsuka Holdings Co., Ltd.</p> <p>March 2019 Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>Executive Director, Business Portfolio Management, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>October 2021 President, Otsuka America, Inc. (Current Position)</p> <p>[Significant concurrent positions outside the Company]</p> <p>Executive Director, Finance and Business Portfolio Management, Otsuka Pharmaceutical Co., Ltd.</p> <p>President, Otsuka America, Inc.</p>	22,000
<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Shuichi Takagi has management experience in the fields of finance and accounting and several overseas subsidiaries, and has achieved steady results in strengthening the monitoring system for subsidiaries. His abundant experience, expertise and insight regarding management are indispensable in building management strategies, including portfolio management and monitoring, of the overall Group, which consists of many subsidiaries and promotes global business. The Company deems that it can expect him to ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			

(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointment</div>	April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)	1,208,426
		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)			
Position and areas of responsibility in the Company: Executive Director Term of office as Director: 11 years and 8 months	[Significant concurrent positions outside the Company] Executive Director, Otsuka Foods Co., Ltd.		
[Reasons for nominating him as a candidate for Director]	Mr. Sadanobu Tobe has broad experience in corporate management gained through management at multiple companies, as well as abundant insight on the overall business of the Group, and has a deep understanding particularly of the overall value chain, including research and development, manufacturing, and marketing centered on the consumer products business. The Company deems that it can expect him to, by making use of his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
7	<p>Reappointment</p>  <p>Masayuki Kobayashi (July 10, 1966)</p> <p>Position and areas of responsibility in the Company: Executive Director</p> <p>Term of office as Director: 5 years</p>	<p>April 1989 Joined The Daiwa Bank, Ltd. (present day Resona Bank, Limited)</p> <p>October 1993 Joined Taiho Pharmaceutical Co., Ltd.</p> <p>August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.)</p> <p>September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd.</p> <p>April 2010 President and CEO, Otsuka America, Inc.</p> <p>April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position) Executive Director, Taiho Pharma USA, Inc.</p> <p>April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position)</p> <p>March 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.</p>	68,500
<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Masayuki Kobayashi has broad experience and a track record in corporate management, including the management of overseas subsidiaries. Based on his insight and expertise in the pharmaceutical business, particularly oncology, he has been focusing on the development of the pharmaceutical business of the Group, and has been steadily achieving results. He has a track record as the president of Taiho Pharmaceutical Co., Ltd., such as expanding and globalizing its business. The Company deems that it can expect him to, by making use of his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>			
8	<p>Reappointment</p>  <p>Noriko Tojo (February 28, 1964)</p> <p>Position and areas of responsibility in the Company: Executive Director</p> <p>Term of office as Director: 7 years and 10 months</p>	<p>April 1987 Joined Goldman Sachs (Japan) Corporation</p> <p>August 1991 Joined Shearson Lehman Brothers Holdings Inc.</p> <p>July 2002 Engagement Manager, McKinsey & Company, Japan Office</p> <p>June 2006 Director, Intel Capital Japan, Intel Corporation</p> <p>August 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.</p> <p>February 2011 Executive Director, Otsuka Medical Devices Co., Ltd.</p> <p>April 2012 President and CEO, Otsuka America, Inc.</p> <p>August 2015 Executive Director and CEO, Pharmavite LLC</p> <p>January 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position)</p> <p>May 2017 Executive Director, Otsuka America, Inc.</p> <p>August 2017 Chairman, Pharmavite LLC</p> <p>March 2018 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Medical Devices Co., Ltd.</p>	55,000
<p>[Reasons for nominating her as a candidate for Director]</p> <p>Ms. Noriko Tojo has experience in the management of the corporate planning department of the Company and overseas subsidiaries as well as expertise in company analysis, and is carrying out a business strategy to grow the Group's medical devices business into a new core business. Moreover, as the president of Otsuka Medical Devices Co., Ltd., she has actively promoted business and organizational reform and has a track record. 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 essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</p>			


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
9	<div style="border: 1px solid black; padding: 2px; display: inline-block;">Reappointment</div>	April 1983 Joined Otsuka Pharmaceutical Co., Ltd. June 2008 Vice President, General Manager of Diagnostic Division, Otsuka Pharmaceutical Co., Ltd.	39,000
		June 2009 Senior Vice President, Deputy General Manager of Pharmaceutical Business Division, Otsuka Pharmaceutical Co., Ltd.	
		March 2015 Executive Director, Executive Vice President, General Manager of Nutraceutical Business Division, Otsuka Pharmaceutical Co., Ltd.	
	Makoto Inoue (August 9, 1958) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 2 years	April 2015 Executive Director, Pharmavite LLC	
		March 2017 Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.	
		September 2017 Executive Director, Daiya Foods Inc.	
		March 2018 Senior Managing Director, Nutraceutical Business, Otsuka Pharmaceutical Co., Ltd.	
		October 2018 Chairman, Nardobel SAS	
		March 2019 Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.	
		March 2020 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)	
Executive Director, Otsuka Holdings Co., Ltd. (Current Position)			
[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Pharmaceutical Co., Ltd.			
[Reasons for nominating him as a candidate for Director] Mr. Makoto Inoue has abundant experience and a track record as a leader in both the pharmaceutical business and the nutraceutical business, which are the core businesses of the Group. He is demonstrating outstanding leadership in business development, such as collaboration between the Group's main businesses in various value chains and alliance management, and is achieving results. In addition, as the president of Otsuka Pharmaceutical Co., Ltd., he has a track record in expanding its business. The Company deems that it can expect him to, by making use of his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is essential for seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.			


(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
10	<div data-bbox="296 264 488 295" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 309 488 362" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="296 376 488 430" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div>  <p data-bbox="296 698 488 757">Yukio Matsutani (October 20, 1949)</p> <p data-bbox="296 792 488 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="296 927 488 1003">Term of office as Outside Director: 6 years</p>	<p data-bbox="520 255 1228 309">April 1975 Intern, Pediatric Department, St. Luke's International Hospital</p> <p data-bbox="520 318 1228 371">October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)</p> <p data-bbox="520 380 1228 434">August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare</p> <p data-bbox="520 443 1228 474">August 2007 Director, National Sanatorium Tama Zenshoen</p> <p data-bbox="520 483 1228 515">April 2012 President, National Institute of Public Health</p> <p data-bbox="520 524 1228 577">December 2015 Vice President, International University of Health and Welfare</p> <p data-bbox="520 586 1228 640">March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 649 1228 703">June 2019 President, Japan Public Health Association (Current Position)</p> <p data-bbox="520 712 1228 766">[Significant concurrent positions outside the Company] President, Japan Public Health Association</p>	0
	<p data-bbox="296 1012 488 1066">[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p data-bbox="296 1075 488 1187">Mr. Yukio Matsutani has abundant experience and extensive knowledge in the healthcare and welfare field, as well as high level of expertise in overall health care. He also has provided accurate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint. Therefore, the Company nominated him as a candidate for Outside Director.</p>		


(Translation)


Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
11	<div data-bbox="300 264 491 297" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="300 309 491 365" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="300 376 491 432" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div>  <p data-bbox="300 701 491 757">Ko Sekiguchi (May 4, 1948)</p> <p data-bbox="300 790 491 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="300 925 491 1003">Term of office as Outside Director: 4 years</p>	<p data-bbox="523 264 1233 297">April 1973 Joined Mitsubishi Corporation</p> <p data-bbox="523 297 1233 331">May 1990 Joined The Boston Consulting Group</p> <p data-bbox="523 331 1233 409">January 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company)</p> <p data-bbox="523 409 1233 488">November 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K.K.)</p> <p data-bbox="523 488 1233 521">July 2009 Chairman and Director, Janssen Kyowa Co., Ltd.</p> <p data-bbox="523 521 1233 555">October 2009 Supreme Advisor, Janssen Kyowa Co., Ltd.</p> <p data-bbox="523 555 1233 611">January 2011 Representative Director, DIA Japan (present day SH DIA Japan)</p> <p data-bbox="523 611 1233 667">April 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation)</p> <p data-bbox="523 667 1233 701">March 2014 Outside Director, Kenedix, Inc.</p> <p data-bbox="523 701 1233 757">March 2018 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="523 757 1233 790">[Significant concurrent positions outside the Company]</p> <p data-bbox="523 790 1233 824">-</p>	0
<p data-bbox="300 1014 491 1070">[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p data-bbox="300 1070 491 1189">Mr. Ko Sekiguchi has abundant experience, a track record, and extensive knowledge as a corporate manager and high level of expertise and network in pharmaceutical business. He also has provided accurate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint. Therefore, the Company nominated him as a candidate for Outside Director.</p>			

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
12	<div data-bbox="296 264 488 293" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 309 488 360" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="296 376 488 427" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div>  <p data-bbox="296 696 488 757">Yoshihisa Aoki (January 17, 1952)</p> <p data-bbox="296 795 488 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="296 929 488 1003">Term of office as Outside Director: 3 years</p>	<p data-bbox="520 257 1228 286">April 1974 Joined ITOCHU Corporation</p> <p data-bbox="520 293 1228 322">June 2003 Executive Officer, ITOCHU Corporation</p> <p data-bbox="520 329 1228 380">April 2009 Managing Executive Officer, President, Food Company, ITOCHU Corporation</p> <p data-bbox="520 387 1228 461">April 2010 Member of the Board, Senior Managing Executive Officer, President, Food Company, ITOCHU Corporation</p> <p data-bbox="520 468 1228 519">March 2017 Administrative Officer, ITOCHU Corporation (Current Position)</p> <p data-bbox="520 526 1228 577">June 2017 Outside Director, ARATA CORPORATION (Current Position)</p> <p data-bbox="520 584 1228 636">March 2019 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 642 1228 694">[Significant concurrent positions outside the Company] Outside Director, ARATA CORPORATION</p>	0
		<p data-bbox="520 1010 1228 1061">[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p data-bbox="520 1068 1228 1187">Mr. Yoshihisa Aoki has abundant experience, a track record, and extensive knowledge as a corporate manager and abundant experience, expertise and network in the food industry. He also has provided accurate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint. Therefore, the Company nominated him as a candidate for Outside Director.</p>	

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
13	<div data-bbox="296 264 488 295" style="border: 1px solid black; padding: 2px;">Reappointment</div> <div data-bbox="296 309 488 362" style="border: 1px solid black; padding: 2px;">Candidate for Outside Director</div> <div data-bbox="296 376 488 430" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div> <div data-bbox="296 465 488 658" style="text-align: center;">  </div> <p data-bbox="296 698 488 757">Mayo Mita (October 14, 1960)</p> <p data-bbox="296 792 488 891">Position and areas of responsibility in the Company: Outside Director</p> <p data-bbox="296 927 488 1003">Term of office as Outside Director: 2 years</p>	<p data-bbox="520 259 1225 331">April 1983 Joined Morgan Stanley Japan Securities Co., Ltd. (present day Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)</p> <p data-bbox="520 344 1225 398">January 1989 Equity Research Division (Healthcare), Morgan Stanley Japan Securities Co., Ltd.</p> <p data-bbox="520 412 1225 465">December 2000 Managing Director, Morgan Stanley Japan Securities Co., Ltd.</p> <p data-bbox="520 479 1225 555">December 2013 Senior Advisor, Investment Banking Business Unit (Healthcare), Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.</p> <p data-bbox="520 568 1225 622">March 2020 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p data-bbox="520 636 1225 667">[Significant concurrent positions outside the Company] -</p>	0
		<p data-bbox="296 1012 1225 1066">[Reason for nominating her as a candidate for Outside Director and overview of the role expected of her]</p> <p data-bbox="296 1079 1225 1191">Ms. Mayo Mita, as a securities analyst, has abundant experience in corporate analysis and based on that, a high level of insight in objectively observing and analyzing companies. She has been providing accurate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint. Therefore, the Company nominated her as a candidate for Outside Director.</p> <p data-bbox="296 1205 1225 1227">Note: Ms. Mayo Mita's name on the family register is Ms. Mayo Nakatsuka.</p>	

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
14	<div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">New appointment</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Outside Director</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 2px;">Candidate for Independent Officer</div>  <p>Tatsuaki Kitachi (April 23, 1956)</p> <p>Position and areas of responsibility in the Company: —</p> <p>Term of office as Outside Director: —</p>	<p>October 1985 Joined Sanwa Tokyo Marunouchi Office Audit Corporation (present day Deloitte Touche Tohmatsu LLC)</p> <p>April 1989 Registered as a certified public accountant</p> <p>July 1996 Partner, Tohmatsu & Co. (present day Deloitte Touche Tohmatsu LLC)</p> <p>April 2010 Commissioner, Public Interest Corporation Commission, Cabinet Office</p> <p>October 2012 Leader of Advisory Development Division, Deloitte Touche Tohmatsu LLC</p> <p>November 2013 Member of the Board, Deloitte Touche Tohmatsu LLC</p> <p>June 2017 Leader of Industry Service Division, Advisory Service Headquarters, Deloitte Touche Tohmatsu LLC</p> <p>June 2019 Thought Leader, Deloitte Tohmatsu LLC</p> <p>September 2021 Special Adviser to the Governor of Kanagawa Prefecture (Current Position)</p> <p>[Significant concurrent positions outside the Company] Special Adviser to the Governor of Kanagawa Prefecture</p>	0
	<p>[Reason for nominating him as a candidate for Outside Director and overview of the role expected of him]</p> <p>Mr. Tatsuaki Kitachi has expertise as a certified public accountant and consulting experience related to risk management, corporate governance, etc. He is also expected to provide accurate and valuable suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint. Therefore, the Company nominated him as a candidate for Outside Director.</p>		

Notes:

- The candidates have no special interests in the Company.
- 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.
- Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki, Mayo Mita and Tatsuaki Kitachi are candidates for Outside Directors. The five conform with the Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines (presented on page 26), and the Company has registered them as Independent Officers as provided for under the rules of the Tokyo Stock Exchange.
- Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into agreements with Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita which limit their liabilities for damages under Article 423, paragraph (1) of the same Act. If their reappointments are approved, the Company plans to continue these agreements. If the election of Tatsuaki Kitachi is approved, the Company plans to enter into the same agreement with him. 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.
- The Company has entered into an executive liability limitation insurance agreement as provided for in Article 430-3, paragraph (1) of the Companies Act with an insurance company. The insurance agreement covers damages caused by claims for damage compensation arising from the performance of duties by Directors and/or Audit & Supervisory Board Members (legally mandated damage compensation and legal expenses). The Company's Directors and Audit & Supervisory Board Members are the insured parties under the insurance agreement, and the entire amount of the insurance premiums for the insured parties is borne by the Company. If the election of each candidate is approved at the meeting, the Company plans to include each of them as an insured in the insurance agreement. For an overview of the details of the insurance agreement, please see "Summary of the executive liability limitation insurance agreement" on page 43.

(Translation)



Proposal 3: Election of Four (4) Audit & Supervisory Board Members

The terms of office of all four (4) Audit & Supervisory Board Members will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect four (4) Audit & Supervisory Board Members.


The Audit & Supervisory Board has consented to this proposal.


The candidates for Audit & Supervisory Board Members are as follows:

Candidate No.	Name	Term of office as Audit & Supervisory Board Member	Current position in the Company	Attendance rate at meetings of the Board of Directors	Attendance rate at meetings of the Audit & Supervisory Board	
1	Reappointment	Yozo Toba	4 years	Standing Audit & Supervisory Board Member	100%	100%
2	Reappointment	Hiroshi Sugawara	11 years and 9 months	Outside Audit & Supervisory Board Member	100%	100%
3	New appointment Outside Independent	Kanako Osawa	—	—	—	—
4	New appointment Outside Independent	Sachie Tsuji	—	—	—	—

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
1	<div style="border: 1px solid black; padding: 2px; width: fit-content;">Reappointment</div>  <p>Yozo Toba (March 16, 1957)</p> <p>Position in the Company: Standing Audit & Supervisory Board Member</p> <p>Term of office as Audit & Supervisory Board Member: 4 years</p>	<p>April 1979 Joined Otsuka Chemical Co., Ltd.</p> <p>January 1995 Director, Information Center, Otsuka Chemical Co., Ltd.</p> <p>January 2006 CFO, Trocellen GmbH</p> <p>May 2009 Operating Officer, Information System Department, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)</p> <p>June 2009 Corporate Officer, Director of IT, Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.</p> <p>December 2011 Executive Director, Corporate Administration, Accounting and IT, Otsuka Chemical Co., Ltd.</p> <p>March 2015 Executive Vice President, Corporate Finance & Accounting & Corporate Service Department, Otsuka Holdings Co., Ltd.</p> <p>March 2018 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>March 2019 Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd (Current Position)</p> <p>[Significant concurrent positions outside the Company] Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd</p>	7,300
[Reasons for nominating him as a candidate for Audit & Supervisory Board Member]			
Mr. Yozo Toba held important posts in the accounting and finance departments and IT departments for many years, and has extensive knowledge of finance and accounting as well as abundant experience in management of overseas subsidiaries and in group operations. The Company deems that his experience and expertise can be utilized for audits of the Company and nominated him as a candidate for Audit & Supervisory Board Member.			
2	<div style="border: 1px solid black; padding: 2px; width: fit-content;">Reappointment</div>  <p>Hiroshi Sugawara (March 13, 1970)</p> <p>Position in the Company: Outside Audit & Supervisory Board Member</p> <p>Term of office as Audit & Supervisory Board Member: 11 years and 9 months</p>	<p>October 1997 Joined Chuo Audit Corporation</p> <p>October 2000 Joined Deloitte Touche Tohmatsu (present day Deloitte Touche Tohmatsu LLC)</p> <p>April 2002 Registered as a certified public accountant</p> <p>February 2006 Vice President, Will Capital Management Co., Ltd. (Current Position)</p> <p>June 2010 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>June 2012 Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.</p> <p>October 2013 Outside Director, NIPPON PARKING DEVELOPMENT Co., Ltd.</p> <p>March 2016 Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. Vice President, Will Capital Management Co., Ltd.</p>	8,000
[Reasons for nominating him as a candidate for Audit & Supervisory Board Member]			
Mr. Hiroshi Sugawara has expertise as a certified public accountant in addition to considerable operational experiences, including corporate management. The Company deems that his experience and expertise can be utilized for audits of the Company and nominated him as a candidate for Audit & Supervisory Board Member.			

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
3	<div data-bbox="296 264 488 297" style="border: 1px solid black; padding: 2px;">New appointment</div> <div data-bbox="296 309 488 409" style="border: 1px solid black; padding: 2px;">Candidate for Outside Audit & Supervisory Board Member</div> <div data-bbox="296 421 488 477" style="border: 1px solid black; padding: 2px;">Candidate for Independent Officer</div>  <p data-bbox="296 745 504 813">Kanako Osawa (December 22, 1970)</p> <p data-bbox="296 846 424 913">Position in the Company: -</p> <p data-bbox="296 958 480 1048">Term of office as Audit & Supervisory Board Member: -</p>	<p data-bbox="520 253 1222 309">April 1998 Registered as an attorney at law (Dai-ichi Tokyo Bar Association)</p> <p data-bbox="520 309 1222 365">Joined KAJITANI LAW OFFICES (Current Position)</p> <p data-bbox="520 365 1222 398">October 2005 Admitted to the bar of the State of New York</p> <p data-bbox="520 398 1222 454">June 2015 Outside Director (Audit & Supervisory Committee Member), LINTEC Corporation (Current Position)</p> <p data-bbox="520 454 1222 533">April 2021 Committee Member for Reform of Collateral Law, Legislative Council of the Ministry of Justice (Current Position)</p> <p data-bbox="520 533 1222 589">May 2021 Director, Japanese Association for Business Recovery (Current Position)</p> <p data-bbox="520 589 1222 622">June 2021 External Director, TPR Co., Ltd. (Current Position)</p> <p data-bbox="520 622 1222 656">[Significant concurrent positions outside the Company]</p> <p data-bbox="520 656 1222 689">Attorney at law, KAJITANI LAW OFFICES</p> <p data-bbox="520 689 1222 745">Committee Member for Reform of Collateral Law, Legislative Council of the Ministry of Justice</p> <p data-bbox="520 745 1222 779">Director, Japanese Association for Business Recovery</p> <p data-bbox="520 779 1222 835">Outside Director (Audit & Supervisory Committee Member), LINTEC Corporation</p> <p data-bbox="520 835 1222 869">External Director, TPR Co., Ltd.</p>	0
		<p data-bbox="296 1055 1198 1088">[Reasons for nominating her as a candidate for Outside Audit & Supervisory Board Member]</p> <p data-bbox="296 1088 1198 1189">Ms. Kanako Osawa has expertise as an attorney at law and extensive experience in negotiations, etc. with overseas corporations through that work. The Company deems that her experience and expertise can be utilized for audits of the Company and nominated her as a candidate for Outside Audit & Supervisory Board Member.</p> <p data-bbox="296 1189 1046 1223">Note: Ms. Kanako Osawa's name on the family register is Ms. Kanako Koike.</p>	

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
4	<div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">New appointment</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Candidate for Outside Audit & Supervisory Board Member</div> <div style="border: 1px solid black; padding: 2px; margin-bottom: 5px;">Candidate for Independent Officer</div>  <p>Sachie Tsuji (April 23, 1972)</p> <p>Position in the Company: -</p> <p>Term of office as Audit & Supervisory Board Member: -</p>	<p>October 1996 Joined Tohmatsu & Co. (present day Deloitte Touche Tohmatsu LLC)</p> <p>April 1999 Registered as a certified public accountant</p> <p>July 2015 Representative Director, SPLUS Corporation (present day Biz-suppli Corporation) (Current Position)</p> <p>June 2016 Director, Association of Certified Fraud Examiners (Current Position)</p> <p>March 2021 Outside Director (Audit & Supervisory Board Member), SBS Holdings, Inc. (Current Position)</p> <p>June 2021 Outside Audit & Supervisory Board Member, Shindengen Electric Manufacturing Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Representative Director, Biz-suppli Corporation Director, Association of Certified Fraud Examiners Outside Director (Audit & Supervisory Board Member), SBS Holdings, Inc. Outside Audit & Supervisory Board Member, Shindengen Electric Manufacturing Co., Ltd.</p>	0
	<p>[Reasons for nominating her as a candidate for Outside Audit & Supervisory Board Member] Ms. Sachie Tsuji has expertise as a certified public accountant and a deep understanding of the work involved in internal control, internal audits and risk management. The Company deems that her experience and expertise can be utilized for audits of the Company and nominated her as a candidate for Outside Audit & Supervisory Board Member. Note: Ms. Sachie Tsuji's name on the family register is Ms. Sachie Ueda.</p>		

Notes:

- The candidates have no special interests in the Company.
- Kanako Osawa and Sachie Tsuji are candidates for Outside Audit & Supervisory Board Members. The two conform with the Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines (presented on page 26), and the Company has registered them as Independent Officers as provided for under the rules of the Tokyo Stock Exchange.
- Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into agreements with Yozo Toba and Hiroshi Sugawara 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. In addition, if election of Kanako Osawa and Sachie Tsuji is approved, the Company plans to enter into the same agreement with them. 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.
- The Company has entered into an executive liability limitation insurance agreement as provided for in Article 430-3, paragraph (1) of the Companies Act with an insurance company. The insurance agreement covers damages caused by claims for damage compensation arising from the performance of duties by Directors and/or Audit & Supervisory Board Members (legally mandated damage compensation and legal expenses). The Company's Directors and Audit & Supervisory Board Members are the insured parties under the insurance agreement, and the entire amount of the insurance premiums for the insured parties is borne by the Company. If the election of each candidate is approved at the meeting, the Company plans to include each of them as an insured in the insurance agreement. For an overview of the details of the insurance agreement, please see "Summary of the executive liability limitation insurance agreement" on page 43.

(Translation)

[For Reference]

Skill Matrix for Directors and Audit & Supervisory Board Members

In order to establish an effective corporate governance structure that supports sustainable growth, the Company appoints individuals with wide-ranging business experience, advanced expertise in broad fields, and extensive knowledge, as Directors and Audit & Supervisory Board Members.

The table below summarizes areas of experience and expertise of Directors and Audit & Supervisory Board Members if Proposals 2 and 3 are approved as originally proposed.

		Global business	Technology, R&D, production	Strategic planning, marketing, sales	Finance, accounting	Legal, compliance, risk management	Company analysis	Healthcare administration, public health	Major qualifications, etc.
Directors	Ichiro Otsuka	●	●	●					
	Tatsuo Higuchi	●	●	●				●	
	Yoshiro Matsuo					●			
	Yuko Makino				●				
	Shuichi Takagi	●		●	●				
	Sadanobu Tobe			●					
	Masayuki Kobayashi	●	●					●	
	Noriko Tojo	●				●	●		
	Makoto Inoue	●	●	●					
	Yukio Matsutani							●	MD
	Ko Sekiguchi			●			●		
	Yoshihisa Aoki			●					
	Mayo Mita						●		
	Tatsuaki Kitachi				●		●		CPA
Audit & Supervisory Board Members	Yozo Toba	●			●				
	Hiroshi Sugawara				●				CPA
	Osawa Kanako					●			Attorney at law
	Sachie Tsuji				●	●			CPA

(Translation)

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.

Attached documents**Business Report**

(From January 1, 2021 to December 31, 2021)

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

i) Business activity and results

Operating results

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

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of investments accounted for using the equity method

(Millions of yen)

	FY2020 (Fiscal year ended December 31, 2020)	FY2021 (Fiscal year ended December 31, 2021)	Change	% Change
Revenue	1,422,826	1,498,276	75,450	5.3%
Business profit before research and development expenses	433,729	389,427	(44,302)	(10.2)%
Business profit	216,887	157,127	(59,760)	(27.6)%
Operating profit	198,582	154,497	(44,084)	(22.2)%
Profit before tax	189,988	163,638	(26,349)	(13.9)%
Profit for the year	151,733	129,209	(22,524)	(14.8)%
Profit attributable to owners of the Company	148,137	125,463	(22,673)	(15.3)%
Research and development expenses	216,841	232,299	15,457	7.1%
Impairment losses	26,110	6,479	(19,631)	(75.2)%

Based on the concept of total health care, the Group has been promoting corporate activities to maintain and promote health and diagnose and treat disease. Now is the time to demonstrate the Group’s true value as a total healthcare provider, and harness the opportunities presented by a growing awareness of health in the new normal in order to continue to move toward the realization of sustainable growth in both the pharmaceutical business and the nutraceutical business*1.

For the fiscal year ended December 31, 2021, the Group recorded consolidated revenue of ¥1,498,276 million (up 5.3% over the previous fiscal year) as the four global products *ABILIFY MAINTENA*, *REXULTI*²/*RXULTI*³, *JINARC*⁴/*JYNARQUE*⁵ and *LONSURF*, and the nutraceutical business, among others, contributed to an increase in sales that significantly exceeded a large decrease in sales caused by the expiration of co-agreements for *SPRYCEL* and *E Keppra*. In the pharmaceutical business, business performance was driven by sales growth of *ABILIFY MAINTENA*, *REXULTI/RXULTI*, *JINARC/JYNARQUE*, as well as clinical nutrition, diagnostic agents, and especially *LONSURF*, for which the number of prescriptions increased as the use of oral anti-cancer agents has been recommended amid the coronavirus pandemic, and the oral anti-cancer agent *INQOVI*, which was launched in North America in the previous fiscal year, despite an impact from the above expiration of co-agreements and the launch of a generic version of *Samsca* in the U.S. In the nutraceutical business, sales of *POCARI SWEAT* in Asia, which were affected by lower consumption due to fewer occasions to go out in the previous fiscal year, has recovered, and sales of *Nature Made* in North America and *EQUELLE* in Japan continued to grow in line with a rising awareness toward self-management of health. Re-building a distribution system

corresponding to the new normal contributed to an increase in the revenue of the Nutrition & Santé SAS brand. Meanwhile, gross profit increased only 2.1% over the previous fiscal year due to changes in the product mix, an increase in cost of sales associated with a co-promotion agreement for *TREMFYA*, a treatment for psoriasis, and an increase in cost of sales by other one-time factors*6. In addition, as a result of an increase in co-promotion expenses accompanying sales growth of *ABILIFY MAINTENA* and *REXULTI/RXULTI*, upfront investment for new brands toward 2022 of Pharmavite LLC, for which sales are currently growing steadily, and aggressive upfront investment for launching *AJOVY*, a preventive treatment for migraine, and preparing for launches of futibatinib and other new products, business profit before research and development expenses was ¥389,427 million (down 10.2%). Moreover, while development expenses related to vadadustat and others decreased, there was an increase in development expenses based on a collaboration and license agreement executed with Sumitomo Dainippon Pharma Co., Ltd. (hereinafter referred to as “Sumitomo Dainippon Pharma”) and Sunovion Pharmaceuticals Inc. (hereinafter referred to as “Sunovion Pharmaceuticals”) for joint development and commercialization related to an antipsychotic agent with a novel mechanism of action, as well as development expenses related to life cycle management for maximizing the value of *LONSURF* and so forth, bringing research and development expenses to ¥232,299 million (up 7.1%), while business profit was ¥157,127 million (down 27.6%), and operating profit was ¥154,497 million (down 22.2%), mainly as a result of recording expenses caused by the changes in the fair value of the contingent considerations related to centanafadine and impairment losses. Due to exchange rate fluctuations, etc., the Group recorded profit for the year of ¥129,209 million (down 14.8%), and profit attributable to owners of the Company of ¥125,463 million (down 15.3%).

*1: Nutraceuticals = nutrition + pharmaceuticals

*2: Brand name for the antipsychotic agent in the U.S.

*3: Brand name for the antipsychotic agent in Europe

*4: Brand name for autosomal dominant polycystic kidney disease (“ADPKD”) treatment in multiple regions outside Japan

*5: Brand name for ADPKD treatment in the U.S.

*6: One-time factors refer to the impact of exchange rate fluctuations on the elimination of unrealized gains on inventories in the pharmaceutical business and inventories valuation loss related to influenza diagnostics.

Revenue and business profit by business segment during FY2021 (Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Consolidated
Revenue	977,508	376,650	31,918	149,987	(37,788)	1,498,276
Business profit	139,942	46,551	5,324	10,774	(45,465)	157,127

(Reference - FY2020) (Millions of yen)

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

ii) Major business activities (as of December 31, 2021)

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

Pharmaceuticals

Revenue in the pharmaceutical business for the fiscal year ended December 31, 2021 totaled ¥977,508 million (up 2.3%), with business profit of ¥139,942 million (down 29.0%).

◆ Four global products

The Company positions the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI/RXULTI*, the V₂-receptor antagonist *Samsca/JINARC/JYNARQUE* and the anti-cancer agent *LONSURF* as its four global products. Sales of those products totaled ¥489,837 million (up 14.0%).

● Long acting antipsychotic agent *ABILIFY MAINTENA*

In the U.S., sales increased atop growth in prescriptions, mainly due to promoting the efficacy of the product for bipolar disorder and schizophrenia patients, who have problems adhering to drug regimens, as well as an increase in face-to-face detailing activities. In Japan, sales were strong mainly due to the addition of an indication for the suppression of recurrence and relapse of mood episodes in bipolar I disorder in September 2020. Also in Europe, sales increased, particularly in major markets. As a result, sales of *ABILIFY MAINTENA* totaled ¥130,275 million (up 12.3%).

● Antipsychotic agent *REXULTI/RXULTI*

In the U.S., where antipsychotic agent *REXULTI* is sold as adjunctive therapy in major depressive disorder and a treatment for schizophrenia, prescriptions grew and sales increased, mainly due to promotions utilizing digital technologies and an increase in face-to-face detailing activities. In Japan, prescriptions grew with the launch of orally disintegrating tablets in November 2021, increasing convenience, and stronger information provision activities. As a result, sales of *REXULTI/RXULTI* totaled ¥121,096 million (up 15.7%).

● Vasopressin V₂-receptor antagonist *Samsca*

In Japan, where the drug is sold as treatment for fluid retention in patients with heart failure and hepatic cirrhosis, ADPKD and another condition, sales increased due to online detailing activities such as web seminars. In the U.S., where the drug is sold as a treatment for hyponatremia, and in Europe, where the drug is sold as a treatment for syndrome of inappropriate antidiuretic hormone secretion (SIADH), generics were launched after the expiry of the exclusive sales period. As a result, sales of *Samsca* totaled ¥92,000 million (up 4.1%).

● Vasopressin V₂-receptor antagonist *JINARC/JYNARQUE*

In the U.S., the number of prescriptions for ADPKD increased mainly due to continued efforts to raise awareness of the disease and provide information about clinical data. As a result, sales of *JINARC/JYNARQUE* totaled ¥100,401 million (up 25.5%).

● Anti-cancer agent *LONSURF*

In the U.S., sales increased since at-home care and the use of oral anti-cancer agents^{*1, *2} are recommended due to the spread of COVID-19. Prescriptions continued to be robust in Japan and Europe. As a result, sales of *LONSURF* totaled ¥46,064 million (up 13.1%).

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

*2: ASCO. COVID-19 Patient Care Information, Cancer Treatment and Supportive Care. <https://www.asco.org/covid-resources/patient-care-info/cancer-treatment-supportive-care>
Updated 17 September 2021, Accessed 20 January 2022

Nutraceuticals

Revenue in the nutraceutical business for the fiscal year ended December 31, 2021 totaled ¥376,650 million (up 12.7%), with business profit of ¥46,551 million (up 10.9%).

The Company positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. Sales of those brands totaled ¥231,311 million (up 15.9%). Total sales of

its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥27,071 million (up 0.9%).

◆ Three major brands

Sales of *POCARI SWEAT*, an electrolyte supplement drink, increased overall for the brand amid restrained consumer activity due to the impact of COVID-19, as a result of conducting education about hydration and replenishment of electrolytes and developing markets in line with the situation in each region, particularly overseas. Sales performed solidly in Japan as the importance of hydration and replenishment of electrolytes at home became more widely recognized due to awareness-raising regarding countermeasures against heat disorder in daily life.

Amid a more sophisticated awareness of physical conditioning among consumers accompanying the spread of COVID-19, consumers' trust in the brand and quality of *Nature Made* supplements by Pharmavite LLC is further rising, and sales increased due to an increase in demand, primarily for vitamin D and vitamin C in *Nature Made*'s main market of North America. Furthermore, in July 2021, *Nature Made* was selected as the No. 1^{*1} supplement recommended by U.S. pharmacists for the 24th consecutive year.

Sales increased for the Nutrition & Santé SAS brand, which sells health food products mainly in Europe, mainly due to the effects of continuous product composition optimization, along with expansion of e-commerce adapted to new lifestyles.

◆ Three nurture brands

Plant-based foods of the Daiya Foods Inc. brand in North America maintained a high share in the dairy alternatives market, and the brand has been making positives moves, including new product launches and starting new efforts for expanding in e-commerce. However, this market has been expanding rapidly and newcomer manufacturers are increasing. Although sales declined for the fiscal year ended December 31, 2021 in part due to a fallback from the sharp surge in consumers' at-home demand accompanying the spread of COVID-19 for last year, efforts were continued to enhance the product lineup by utilizing its original technology and expand distribution.

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

As for *BODY MAINTÉ*, a protective beverage brand containing the plant-based lactic-acid bacteria B240^{*2}, although sales declined for the fiscal year ended December 31, 2021 in part due to a fallback from the increase in demand accompanying the spread of COVID-19 for last year, recognition and understanding of the product spread steadily amid rising awareness regarding health and body conditioning among consumers.

*1: 2021 *U.S. News & World Report* - Pharmacy Times Survey

Nature Made is ranked as the #1 Pharmacist Recommended brand for: Sleep Aids, Diabetic Multivitamins, CoQ10, Flaxseed Oil, Herbal Supplement Brand, Essential Vitamins, Omega-3/Fish Oil, Cholesterol Management (Fish Oil), Mood Health (St. John's Wort)

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

Consumer products

Revenue in the consumer product business for the fiscal year ended December 31, 2021 totaled ¥31,918 million (up 1.8%), while business profit totaled ¥5,324 million (down 50.0%), in part due to a decrease in share of profit of investments accounted for using the equity method.

In mineral water products, sales volume performed solidly, primarily of 700-milliliter PET bottles of mainstay brand *CRYSTAL GEYSER*, and sales volume remained level year on year overall for the brand. The *CRYSTAL GEYSER* brand introduced 50% recycled PET bottles in April 2021, as part of proactive efforts to promote environmental consideration. Sales volume of *MATCH*, a carbonated vitamin drink, decreased overall for the brand, mainly reflecting the impacts

(Translation)

of a decrease in opportunities for going outdoors and unfavorable weather.

Others

Revenue in the other businesses for the fiscal year ended December 31, 2021 totaled ¥149,987 million (up 7.0%) with business profit of ¥10,774 million (up 3.1%).

Sales in the specialty chemical business increased as a result of increased sales to the automotive industry. Sales in the fine chemical business increased, mainly due to an increase in sales of antibiotic intermediates.

In the transportation and warehousing business, sales increased due to the capture of new external customers in line with the promotion of a “common distribution platform” and a recovery in the handling volume.

(Translation)

iii) Research and development activities

Research and development expenses for the fiscal year ended December 31, 2021 totaled ¥232,299 million.

Research and development expenses for the pharmaceutical business amounted to ¥218,054 million, those for the nutraceutical business amounted to ¥7,977 million, those for the consumer products business amounted to ¥622 million and those for the other businesses amounted to ¥5,644 million.

Pipeline information

Phase III or later stage of development as of December 31, 2021

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

Category	Brand name (Generic name) Development Code	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Psychiatry and neurology	REXULTI/RXULTI (brexpiprazole) OPC-34712	Major depressive disorder / Oral	•				•	
		Agitation associated with dementia of the Alzheimer's type / Oral	•		•		•	
		Posttraumatic stress disorder / Oral			•			
	(deuterium-modified dextromethorphan, quinidine) AVP-786	Agitation associated with dementia of the Alzheimer's type / Oral			•		•	
		Negative symptoms of schizophrenia / Oral			•*			
	(centanafadine) EB-1020	Attention-deficit hyperactivity disorder / Oral			•			
	(ulotaront) SEP-363856	Schizophrenia / Oral	•*		•			
	SEP-4199	Bipolar I depression / Oral	•		•			
	(pizuglanstat) TAS-205	Duchenne muscular dystrophy / Oral	•					

(Translation)

Category	Brand name (Generic name) Development Code	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Oncology	<i>INQOVI</i> (decitabine, cedazuridine) ASTX727	Acute myeloid leukemia / Oral					•	
	(pamufetinib) TAS-115	Osteosarcoma / Oral	•					
	(pimipitespib) TAS-116	Gastrointestinal stromal tumor / Oral		•				
	(futibatinib) TAS-120	Intrahepatic cholangiocarcinoma / Oral	•		•		•	
	(fosnetupitant) Pro-NETU	Chemotherapy-induced nausea and vomiting / Injection		•				
Cardiovascular and renal system	(tolvaptan sodium phosphate) OPC-61815	Cardiac edema / Injection		•				
	(vadadustat) AKB-6548	Anemia associated with chronic kidney disease / Oral				•		•
	voclosporin	Lupus nephritis/ Oral						•
Other categories	<i>Deltyba</i> (delamanid) OPC-67683	Multidrug-resistant tuberculosis / Oral			•			
	(glucose, electrolyte, amino acid and vitamin) OPF-109	High-calorie parenteral nutrition for chronic renal failure / Injection	•					

* Phase II/ III

Research and development activities
Phase II or later stage of development as of December 31, 2021

<i>Brand name</i> (Generic name) Development Code	Status
Psychiatry and neurology	
(centanafadine) EB-1020	<U.S.> • Phase II trial for the smoking cessation was initiated in September 2021.
<i>AJOVY</i> (fremanezumab) TEV-48125	<Japan> • Approval was granted for the indication of preventive treatment of migraine in June 2021.
(ulotaront) SEP-363856*	<U.S.> • Currently in Phase III trial for the treatment of schizophrenia. <Japan> • Currently in Phase II / III trial for the treatment of schizophrenia.
SEP-4199*	<U.S.> • Currently in Phase III trial for the treatment of bipolar I depression. <Japan> • Phase III trial for the treatment of bipolar I depression was initiated in November 2021.
Oncology	
<i>INQOVI</i> (decitabine, cedazuridine) ASTX727	<U.S.> • Phase II trial for the treatment of acute myeloid leukemia was initiated in November 2021.
(pimitepsib) TAS-116	<Japan> • An application for the indication of gastrointestinal stromal tumor was filed in September 2021.
TAS-117	<Japan, U.S. and Europe> • Phase II trial for the treatment of solid tumors harboring germline PTEN inactivating mutations was initiated in April 2021.
(futibatinib) TAS-120	<Japan, U.S. and Europe> • Phase III trial for the treatment of intrahepatic cholangiocarcinoma was initiated in January 2021. <U.S. and Europe> • Phase II trial for the treatment of urothelial cancer was initiated in February 2021.
(fosnetupitant) Pro-NETU	<Japan> • An application for the indication of chemotherapy-induced nausea and vomiting was filed in March 2021.
(canerpaturev) TBI-1401	<Japan> • Development for the treatment of pancreatic cancer was halted due to the termination of an agreement.
TBI-1501	<Japan> • Development for the treatment of adult acute lymphoblastic leukemia was halted due to the termination of an agreement.

(Translation)

<i>Brand name</i> (Generic name) Development Code	Status
Cardiovascular and renal system	
(tolvaptan sodium phosphate) OPC-61815	<Japan> • An application for the indication of cardiac edema was filed in March 2021.
(vadadustat) AKB-6548	<U.S.> • An application for the indication of anemia associated with chronic kidney disease was filed in June 2021. <Europe> • A marketing application for the indication of anemia associated with chronic kidney disease was filed in October 2021.
(bempedoic acid) ETC-1002	<Japan> • Phase II trial for the treatment of hypercholesterolemia was initiated in April 2021.
(voclosporin)	<Europe> • A marketing application for the indication of lupus nephritis was filed in June 2021.
Other categories	
VIS410	<U.S.> • Development for the Type A influenza infection was halted due to development strategy.
<i>Moizerto</i> (difamilast) OPA-15406	<Japan> • Approval was granted for the indication of atopic dermatitis in September 2021.
(pamufetinib) TAS-115	<Japan> • Phase II trial for the treatment of chronic fibrosing interstitial lung diseases with a progressive phenotype was initiated in October 2021.

* Worldwide collaboration and license agreement with Sumitomo Dainippon Pharma and its U.S.-based subsidiary Sunovion Pharmaceuticals announced on September 30, 2021 for joint development and commercialization of four compounds including ulotaront (SEP-363856) and SEP-4199.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during the fiscal year ended December 31, 2021 amounted to ¥144,109 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥93,625 million. The figure includes payments for acquisition of intangible assets, including an upfront payment of USD 270 million (¥30,226 million) associated with a collaboration and license agreement for worldwide joint development and commercialization of four novel candidate compounds currently under development in psychiatry and neurology area by Sumitomo Dainippon Pharma and Sunovion Pharmaceuticals.

Capital investments in the nutraceutical business totaled ¥19,598 million, while those in consumer business totaled ¥2,673 million, other businesses totaled ¥10,742 million, and corporate investments (common) totaled ¥17,470 million.

(2) Key Issues to be Addressed

In 2021, while the impact of the spread of COVID-19 on the social situation was still unclear, the Group's business activities were impacted to a certain degree. In the second half of 2021, with the widening of social activity under the new normal environment for activities in many areas, the Group proactively engaged in marketing activities for the new business environment and preparations activities for the launch of new products. On the other hand, the Group strives to continue business activities while ensuring the safety of employees, and maintains a system that is able to stably supply products. The Group will continue to pay close attention to the impact on future business and business results assuming that the situation will be prolonged or become more serious.

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

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

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

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

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

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

Business Strategy: New value creation and existing business value maximization

Accelerate growth through strategic initiatives geared to mainstay products and brands

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

Initiatives geared to next-generation business and products

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

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

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

<Progress in FY2021>

- Consolidated revenue increased, as growth in the four global products of the pharmaceutical business and in the three major brands and three nurture brands of the nutraceutical business exceeded a decrease in sales caused by the expiration of co-promotion agreements for *E Keppra* and *SPRYCEL*.
- Business profit decreased mainly due to recording of expenses related to one-time factors, etc.* as well as conducting upfront investments for growth; however, excluding the one-time factors, business profit is progressing in line with the Third Medium-Term Management Plan.
- In the pharmaceutical business, the four global products, which are growth drivers, achieved the revenue target for the final year of the Third Medium-Term Management Plan two years ahead of schedule. The Company is also making steady progress on conducting trials for late-phase pipeline products and nurturing new products that will contribute to solving unmet needs.
- In the nutraceutical business, both revenue and business profit achieved new record highs as the Company maintained a business profit margin of 12% or higher, even while revenue grew steadily. The Company will continue aiming to achieve further expansion in business scale and increase in profitability by establishing its brands in high-growth markets.

* One-time factors, etc. refer to an increase in the cost of sales related to co-promotion agreement for *TREMFYA*, the impact of exchange rate fluctuations on the elimination of unrealized gains on inventories in the pharmaceutical business and inventories valuation loss related to influenza diagnostics.

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

Item	The 11th fiscal year ended December 31, 2018	The 12th fiscal year ended December 31, 2019	The 13th fiscal year ended December 31, 2020	The 14th fiscal year ended December 31, 2021 (Current fiscal year)
Revenue (Millions of yen)	1,291,981	1,396,240	1,422,826	1,498,276
Operating profit (Millions of yen)	108,304	176,585	198,582	154,497
Profit attributable to owners of the Company (Millions of yen)	82,492	127,151	148,137	125,463
Basic earnings per share (Yen)	152.24	234.55	273.15	231.32
Total assets (Millions of yen)	2,477,363	2,581,309	2,627,807	2,820,915
Total equity (Millions of yen)	1,732,266	1,795,440	1,883,432	2,045,189
Equity attributable to owners of the Company per share (Yen)	3,145.71	3,257.17	3,415.54	3,707.64

(4) Significant Subsidiaries (as of December 31, 2021)

Company name	Country	Capital	Percentage of voting rights held by the Company	Major business activities
Otsuka Pharmaceutical Co., Ltd.	Japan	20,000 million yen	100.0%	Manufacture and sale of pharmaceutical products, clinical testing, medical devices, food, beverages and cosmetic products
Otsuka Pharmaceutical Factory, Inc.	Japan	80 million yen	100.0%	Manufacture and sale of pharmaceutical products
Taiho Pharmaceutical Co., Ltd.	Japan	200 million yen	100.0%	Manufacture and sale of pharmaceutical products
Otsuka Warehouse Co., Ltd.	Japan	800 million yen	100.0%	Warehousing and transport business
Otsuka Chemical Co., Ltd.	Japan	5,000 million yen	100.0%	Manufacture and sale of chemical products
Otsuka Foods Co., Ltd.	Japan	1,000 million yen	100.0%	Manufacture and sale of food and beverages, sale of alcoholic drinks (wine)
Otsuka Medical Devices Co., Ltd.	Japan	7,550 million yen	100.0%	Manufacture and sale of medical devices
Otsuka America, Inc.	U.S.	4,243,365 thousand U.S. dollars	*100.0%	Holding company
Otsuka America Pharmaceutical, Inc.	U.S.	50,000 thousand U.S. dollars	*100.0%	Manufacture and sale of pharmaceutical products
Pharmavite LLC	U.S.	1,032 thousand U.S. dollars	*100.0%	Manufacture and sale of nutritional products
Otsuka Pharmaceutical Europe Ltd.	U.K.	140,652 thousand euro	*100.0%	Manufacture and sale of pharmaceutical products
Nutrition & Santé SAS	France	65,145 thousand euro	*100.0%	Manufacture and sale of food products

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

(Translation)

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 ¥1,248,088 million at the current fiscal year-end.

(5) Major Offices and Factories (as of December 31, 2021)

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 Medical Devices Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka America, Inc.	California, U.S.
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, 2021)

i) Employees of the Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	19,409	(1,822)	down 22	(down 150)
Nutraceuticals	8,221	(1,922)	up 212	(up 49)
Consumer products	622	(169)	up 12	(up 47)
Others	3,504	(623)	down 134	(down 43)
Corporate (Common)	1,470	(448)	up 7	(up 12)
Total	33,226	(4,984)	up 75	(down 85)

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
137 (18)	up 26 (up 1)	43.8	3.7

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.

(Translation)

(7) Major Creditors (as of December 31, 2021)

(Millions of yen)

Creditor	Balance of borrowings
Mizuho Bank, Ltd.	14,265
MUFG Bank, Ltd.	14,149
The Awa Bank, Ltd.	9,695
Resona Bank, Limited	6,005
Sumitomo Mitsui Banking Corporation	2,797

(Translation)

2. Current Status of the Company

(1) Shares (as of December 31, 2021)

- 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: 77,129
- iv) Principal shareholders (top 10 shareholders):

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	68,567	12.64
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	56,216	10.36
Otsuka Estate Co., Ltd.	23,316	4.29
Custody Bank of Japan, Ltd. (trust account)	23,137	4.26
Otsuka Group Employee Shareholding Fund	13,175	2.42
The Awa Bank, Ltd.	10,970	2.02
JP MORGAN CHASE BANK 385635	8,862	1.63
JP MORGAN CHASE BANK 380072	7,964	1.46
SMBC Nikko Securities Inc.	7,933	1.46
Otsuka Asset Co., Ltd.	7,380	1.36

Notes:

1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,443,722 of its own shares, treasury shares are excluded from the above list.
3. Shareholding ratio is calculated after treasury shares are deducted.

v) Status of shares granted to all Directors and Audit & Supervisory Board Members as consideration for the execution of duties during the current fiscal year

	Number of shares	Number of recipients
Directors excluding Outside Directors	26,400	9

Note: The above shares were granted as restricted stock remuneration of the Company.

(2) Directors and Audit & Supervisory Board Members of the Company**i) Directors and Audit & Supervisory Board Members (as of December 31, 2021)**

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

Notes:

- Executive Directors, Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita are Outside Directors.
- Audit & Supervisory Board Members, Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi are Outside Audit & Supervisory Board Members.
- Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
- The Company appoints Executive Directors Yukio Matsutani, Ko Sekiguchi, Yoshihisa Aoki and Mayo Mita as well as Audit & Supervisory Board Members Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi as Independent Officers as provided for under the rules of the Tokyo Stock Exchange and have registered them with the Exchange.
- Pursuant to the provisions of Article 427, paragraph (1) of the Companies Act, the Company has entered into agreements with each of Outside Directors and each of Audit & Supervisory Board Members which limit their liabilities for damages under Article 423, paragraph (1) of the same Act. The maximum amount of liabilities under the said agreements shall be the minimum amounts set forth in laws and regulations.
- Mayo Mita's name on the family register is Mayo Nakatsuka.

ii) Summary of the executive liability limitation insurance agreement

Pursuant to Article 430-3, paragraph (1) of the Companies Act, the Company has entered into an executive liability limitation insurance agreement whose content is summarized below. The insurance agreement is scheduled to be renewed in July 2022.

Summary of the insurance agreement

- Scope of insured persons
The Directors and Audit & Supervisory Board Members of the Company and the Directors and Audit & Supervisory Board Members of the Company's major subsidiaries in Japan (including those appointed after the agreement was concluded)
- Actual portion of insurance premium borne by insured persons
Insurance premiums are borne by the Company and its subsidiaries, and the insured persons do not bear any of the premiums.
- Summary of insurance incidents subject to cover
The insurance covers damages caused by claims for damage compensation arising from the performance of duties by the insured persons (legally mandated damage compensation and legal expenses)
- Measures to ensure that the propriety of the execution of duties by executives, etc., is not impaired
The insurance agreement includes an exclusion clause that excludes coverage for liability arising from certain acts by the insured persons, such as intentional behavior, unlawful personal profit or remuneration and violations of law.

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

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

The Company's remuneration plan for directors and Audit & Supervisory Board members is designed to achieve sustainable growth and enhanced corporate value over the medium to long term for the Group in line with the Group's corporate philosophy, while also ensuring that functions such as business execution and management supervision are exercised appropriately, maintaining transparency and fairness. The Company's basic approach to remuneration plan for Directors and Audit & Supervisory Board Members is as follows:

Remuneration levels

Considering the need to acquire and motivate outstanding personnel who will take responsibility for the Company's global business activities, the Company sets remuneration levels fully commensurate with the roles and responsibilities expected of such personnel, referencing remuneration levels at corporations the Company selected as benchmark based on business scale, fields and formats.

Remuneration system

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

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

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

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

Type of remuneration	Payment method Fixed/variable	Content of remuneration (Including the policy regarding determination of timing or conditions for granting remuneration, etc.)
Fixed remuneration	Cash/Fixed	<ul style="list-style-type: none"> Remuneration for Directors of the holding company is determined based on their duties and responsibilities including formulation of Group strategies, monitoring Group operations, and strengthening corporate governance. Remuneration for Directors who serve concurrently as Directors of subsidiaries that are operating companies is determined based on their duties and responsibilities including execution of business based on Group strategies formulated by Otsuka Holdings, formulation of strategies for the operating company, and strengthening corporate governance. (Remuneration shall not to exceed the upper limit of remuneration resolved at the shareholders meeting.) Fixed remuneration is paid out equally every month.
Performance-linked bonus	Cash/Variable	<ul style="list-style-type: none"> Remuneration is paid in a lump sum at a certain timing every fiscal year, with the amount or calculation method determined based on (1) rate of achievement of the fiscal year's targets for consolidated revenue, consolidated operating profit, and consolidated business profit before R&D expenses; (2) progress with respect to medium-to-long-term consolidated performance targets; and (3) appropriate business management in compliance with corporate governance, along with the individual's personal performance.
Share-based payment	Non-cash (Shares with transfer restrictions)/ Variable	<ul style="list-style-type: none"> The Company has introduced a share-based payment system that reflects progress in achieving the Third Medium-Term Management Plan that covers the period from fiscal year 2019 to 2023. The plan specifies that each person eligible for allocation must enter into a restricted stock allocation agreement with the Company, which contains provisions on restrictions, etc. on transfer for a fixed term, and is designed to provide an effective remuneration system by combining multiple release conditions for the transfer restrictions, including a set performance evaluation period and performance achievement, and by in principle granting shares with transfer restrictions requiring evaluation of performance over several fiscal years simultaneously in the first fiscal year. The specific timing for granting is every fiscal year for items that are subject to performance evaluation of a single fiscal year, and simultaneously in the first fiscal year of the evaluation period for items subject to a performance evaluation over several fiscal years.

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

To determine the number of shares to be allocated for persons eligible for allocation of shares with transfer restrictions, the standard number of shares for each fiscal year for each eligible recipient, giving consideration to their performance of duties, responsibility, and balance of their fixed remuneration as basic remuneration. Based on this standard number of shares, the shares are allocated simultaneously for each series each fiscal year or in the first fiscal year of an evaluation period of several fiscal years, according to the following release conditions.

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

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

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

Reason for selection of the indicators

For the performance indicators for performance-linked bonus, by combining consolidated revenue, consolidated operating profit, and consolidated business profit before R&D expenses, it is possible to evaluate the results of business management for a single fiscal year from multiple perspectives.

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

Composition of remuneration for directors (excluding outside directors)

Performance-linked remuneration as a percentage of total remuneration varies according to the Company's single-year and medium-to-long-term consolidated results of operations. The system emphasizes medium-to-long-term enhancement of corporate value.

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

b. Content of remuneration to Outside Directors

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

c. Content of remuneration to Audit and Supervisory Board Members

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

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

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

- For the individual fixed remuneration as basic remuneration for Directors and the individual performance-linked bonuses for each Director (excluding Outside Directors), President and Representative Director, CEO Tatsuo Higuchi, who oversees business execution for the entire Group, is delegated to decide the specific payment amounts based on a resolution of the Board of Directors, then in accordance with this delegation, determines the final remuneration amounts based on the deliberation and report by the Corporate Governance Committee regarding remuneration levels.

The reason for delegating President and Representative Director, CEO Tatsuo Higuchi is that he is deemed to be the most appropriate person to evaluate the operations assigned to each Director while having an overview of the business of the entire Group.

- The individual share-based payments for each Director (excluding Outside Directors) are resolved by the Board of Directors based on the report on the performance evaluation and so forth by the Corporate Governance Committee.

<Corporate Governance Committee>

As an advisory body to the Board of Directors, the Corporate Governance Committee deliberates on the nomination of Directors and Audit and Supervisory Board Members (appointment, dismissal, etc.), remuneration of Directors (remuneration system, remuneration

(Translation)

levels, etc.) and other corporate governance issues, and then reports to the Board of Directors. The committee consists of the President, the Director in charge of Corporate Administration, and all Outside Directors. The President serves as the chair of the committee.

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

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

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

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

Classification	Total amount of remuneration (Millions of yen)	Total amount by type of remuneration (Millions of yen)			Number of eligible officers
		Fixed remuneration	Performance- linked bonus	Share-based payment	
Directors (of which Outside Directors)	764 (39)	342 (39)	129 (-)	292 (-)	13 (4)
Audit & Supervisory Board members (of which Outside Audit & Supervisory Board Members)	56 (32)	56 (32)	-	-	4 (3)
Total (of which Outside Directors and Audit & Supervisory Board Members)	820 (72)	398 (72)	129 (-)	292 (-)	17 (7)

Notes:

- There are no Directors of the Company who concurrently serve as employees.
- 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.
- Targets and results for indicators relating to performance-linked remuneration for the current fiscal year
 - Performance-linked bonus

For the performance-linked bonuses for Directors (excluding Outside Directors), although consolidated revenue, which is one of the performance indicators, met or exceeded the target level, the other performance indicators—consolidated operating profit and consolidated business profit before R&D expenses—fell slightly below the target

levels, and the payment rate was determined to be 90% after giving consideration to the deliberation and report by the Corporate Governance Committee.

b. Share-based payment (shares with transfer restrictions)

For share-based payment using shares with transfer restrictions for Directors (excluding Outside Directors), three series have been issued with different release conditions.

Series A takes an evaluation period of a single fiscal year and has an incumbent condition for the target fiscal year as well as a release condition that the combined consolidated revenue and consolidated operating profit achievement rate must be at least 80%. Since the achievement rate exceeded the standard for the current fiscal year, these shares have been recorded as remuneration for the eligible Directors.

Series B takes the three-year period from fiscal 2019 to fiscal 2021 as the evaluation period, and specifies the target of consolidated business profit before R&D expenses set in the Third Medium-Term Management Plan, with the release condition that the cumulative amount of the results for this indicator during the target period must not be lower than the cumulative amount of targets in the evaluation period. Since the achievement rate exceeded the standard for the current fiscal year, these shares have been recorded as remuneration for the eligible Directors.

Series C takes the three-year period from fiscal 2019 to fiscal 2021 as the evaluation period, with the release condition that the cumulative amount of results for consolidated net operating profit after tax for the target period must not be lower than the cumulative amount of the consolidated cost of capital calculated using the consolidated cost of capital ratio based on the Third Medium-Term Management Plan. Since the achievement rate exceeded the standard for the current fiscal year, these shares have been recorded as remuneration for the eligible Directors.

Reason for the Board of Directors' judgment that the content of Directors' individual remuneration, etc. for the current fiscal year is in line with the determination policy of iii)

The Company's Board of Directors has confirmed that the content of individual remuneration, etc. for Directors for the current fiscal year has been determined based on the deliberation and report of the Corporate Governance Committee, which is in accordance with the determination policy of iii).

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

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

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

Executive Director, Yoshihisa Aoki, serves as Outside Director of ARATA CORPORATION. The Group has no significant 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 significant transactions with the said firms.

(ii) Major activities of the Outside Directors and overview of the duties performed in relation to the roles expected to be carried out by the Outside Directors

Executive Director Yukio Matsutani attended all fifteen (15) meetings of the Board of Directors held during the current fiscal year, and provided accurate and beneficial comments based on his extensive experience and high-level insights gained in the healthcare and welfare field and his expert perspective on healthcare in general. In addition, he attended all four (4) meetings of the Corporate Governance Committee held during the current fiscal year, conducting beneficial exchanges of opinions on various themes related to corporate governance.

Executive Director Ko Sekiguchi attended all fifteen (15) meetings of the Board of Directors held during the current fiscal year, and provided accurate and beneficial comments based on his extensive experience and track record and high-level insights gained as a corporate manager and his expert perspective on the pharmaceutical business. In addition, he attended all four (4) meetings of the Corporate Governance Committee held during the current fiscal year, conducting beneficial exchanges of opinions on various themes related to corporate governance.

Executive Director Yoshihisa Aoki attended all fifteen (15) meetings of the Board of Directors held during the current fiscal year, and provided accurate and beneficial comments based on his extensive experience and track record and high-level insights gained as a corporate manager and his expert perspective and abundant experience in the food industry. In addition, he attended all four (4) meetings of the Corporate Governance Committee held during the current fiscal year, conducting beneficial exchanges of opinions on various themes related to corporate governance.

Executive Director, Mayo Mita attended all fifteen (15) meetings of the Board of Directors held during the current fiscal year, and provided accurate and beneficial comments based on her extensive experience gained in corporate analysis as a securities analyst, and based on that experience, her high-level insight into objective observation and analysis of companies. In addition, she attended all four (4) meetings of the Corporate Governance Committee held during the current fiscal year, conducting beneficial exchanges of opinions on various themes related to corporate governance.

(iii) Major activities of Audit & Supervisory Board Members during the current fiscal year

Audit & Supervisory Board Member, Hiroshi Sugawara attended all fifteen (15) meetings of the Board of Directors and all eighteen (18) 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, and on his extensive business experience, including corporate management.

Audit & Supervisory Board Member, Yoko Wachi attended all fifteen (15) meetings of the Board of Directors and all eighteen (18) meeting of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on her broad experience cultivated as an attorney at law and high-level insights of overall legal knowledge.

Audit & Supervisory Board Member, Kazuo Takahashi attended all fifteen (15) meetings of the Board of Directors and all eighteen (18) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights gained through many years in corporate management.

(3) Accounting Auditor

i) Name of accounting auditor (Independent Auditor): KPMG AZSA LLC

Note: Deloitte Touche Tohmatsu LLC, the former accounting auditor of the Company, retired upon expiration of its term of office at the conclusion of the 13th Annual Shareholders Meeting held on March 30, 2021.

ii) Amount of audit fees

(Millions of yen)

	Amount
Total audit fees for the current fiscal year	93
Total of amount of cash and other financial benefits payable by the Company and its subsidiaries to the accounting auditor	340

Notes:

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

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

iv) Agreement for limitation of liability

No agreement for limitation of liability has been concluded between the accounting auditor and the Company.

v) Agreement for indemnity

No agreement for indemnity has been concluded between the accounting auditor and the Company.

(4) System to Ensure Appropriate Operations

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

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

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

The Company formulates the Otsuka Group Global Code of Business Ethics in order to ensure compliance with laws and regulations, the Articles of Incorporation, and other relevant rules and the underlying concepts, and to ensure corporate activities are carried out based on high ethical standards. The Company establishes the Otsuka Holdings Compliance Program as the specific guidelines of the Otsuka Group Global Code of Business Ethics, and leads efforts to promote establishment, maintenance, and improvement of the compliance system by providing 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 associates shall report matters provided for in the Subsidiary and Associate 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 associates and promote the development of risk management and compliance systems across the group in accordance with the Internal Audit Regulations to ensure appropriate operations integrally.

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

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

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

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

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

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

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

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

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

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

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

- x) Other systems to ensure effective audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members may attend meetings of the Board of Directors and other important meetings to understand the process whereby important decisions are made and the status of Directors' and employees' performance of duties, question Directors and employees on the status of their performance of duties, and access important records relating to the business operations such as circulars for managerial approval.

Directors and employees, if so requested by Audit & Supervisory Board Members, shall promptly report matters relating to business executions.

Internal Audit Department, Administration Department, Finance & Accounting Department, Internal Control Department and any other relevant department shall provide Audit & Supervisory Board Members with information as necessary and cooperate in ensuring and improving the effectiveness of audits performed by Audit & Supervisory Board Members.

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

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

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

- i) Overview of internal control system

In accordance with regulations to ensure the appropriateness of operations in the Otsuka group, the Company's Board of Directors, Audit & Supervisory Board and relevant departments receive reports, depending on the level of importance, from the Directors and Audit & Supervisory Board Members of the Company and subsidiaries and associates 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 subsidiaries and associates, 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 Compliance Policy, etc.

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, CEO 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 Conflict of Interest Policy, the Otsuka Group Global Anti-Corruption Policy, the Otsuka Group Compliance Policy, etc. 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 training is also held as part of training for directors and employees at group companies.

The Company and its major group companies held compliance training for their executive teams by providing lectures by external lawyers on the themes of “responsibilities of Directors” and “management of overseas subsidiaries (response in cases of misconduct and uses of internal whistleblower systems).”

iii) Reinforcing risk management system

(i) Risk management system

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, the Company formulates business continuity plans and holds meetings of the Risk Management Committee and risk management training to thoroughly promote awareness of them. Furthermore, to further enhance companywide risk management at the Company and its main operating companies, in July 2020 the Company introduced Enterprise Risk Management (“ERM”), which aims to recognize and evaluate risks from a companywide perspective and prioritize allocation of management resources to the control of important risks. Within the Company’s ERM activities, it has built a companywide risk management framework and risk assessment structure, and now recognizes major risks to the Group through risk assessments at its main operating companies, and formulates countermeasures for them. These risk management activities are reported to the Risk Management Committee, which is chaired by the Company’s President and Representative Director, CEO. The Risk Management Committee monitors the major risks, reviews the risk management activities and studies improvement proposals, and periodically reviews the risk management structure.

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

(ii) Information security

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

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

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

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

iv) Management of subsidiaries and associates

In accordance with the Subsidiary and Associate Management Regulations, the

Company's Board of Directors or principal departments received reports about decision-making at subsidiaries and associates and approved decisions, issued instructions or took other steps.

v) Execution of duties by Directors

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

vi) Execution of duties by Audit & Supervisory Board Members

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

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

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

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

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

(6) Policy on Decisions on Dividends

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

Based on this policy, in accordance with a resolution of the Board of Directors meeting held on February 10, 2022, 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 6, 2021, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 31, 2022.

Consolidated Statement of Financial Position

(As of December 31, 2021)

(Millions of yen)

Item	(Reference) FY2020	FY2021	Item	(Reference) FY2020	FY2021
Assets			Liabilities		
Current assets			Current liabilities		
Cash and cash equivalents	356,851	410,684	Trade and other payables	164,950	170,103
Trade and other receivables	379,107	380,191	Bonds and borrowings	28,690	32,877
Inventories	173,827	180,350	Lease liabilities	15,511	17,096
Income taxes receivable	3,283	8,543	Other financial liabilities	1,987	1,988
Other financial assets	44,920	20,074	Income taxes payable	14,744	10,490
Other current assets	44,488	48,036	Provisions	–	9,542
Subtotal	1,002,479	1,047,880	Contract liabilities	12,644	12,458
Assets held for sale	1,247	1,508	Other current liabilities	177,350	213,302
Total current assets	1,003,727	1,049,389	Subtotal	415,878	467,859
Non-current assets			Liabilities directly associated with assets held for sale	334	50
Property, plant and equipment	462,131	487,089	Total current liabilities	416,213	467,910
Goodwill	262,914	295,735	Non-current liabilities		
Intangible assets	457,192	522,662	Bonds and borrowings	124,564	102,754
Investments accounted for using the equity method	208,146	227,790	Lease liabilities	57,314	59,726
Other financial assets	187,221	173,956	Other financial liabilities	16,737	24,815
Deferred tax assets	21,531	31,936	Net defined benefit liabilities	16,724	14,075
Other non-current assets	24,941	32,355	Provisions	904	1,358
Total non-current assets	1,624,079	1,771,526	Contract liabilities	69,164	57,771
			Deferred tax liabilities	25,457	27,560
			Other non-current liabilities	17,294	19,753
			Total non-current liabilities	328,161	307,815
			Total Liabilities	744,374	775,725
			Equity		
			Equity attributable to owners of the Company		
			Share capital	81,690	81,690
			Capital surplus	506,295	506,724
			Treasury shares	(45,781)	(45,572)
			Retained earnings	1,402,644	1,482,197
			Other components of equity	(92,474)	(14,046)
			Total equity attributable to owners of the Company	1,852,375	2,010,994
			Non-controlling interests	31,057	34,195
			Total Equity	1,883,432	2,045,189
Total Assets	2,627,807	2,820,915	Total Liabilities and Equity	2,627,807	2,820,915

(Translation)

Consolidated Statement of Income

(From January 1, 2021 to December 31, 2021)

(Millions of yen)

Item	(Reference) FY2020	FY2021
Revenue	1,422,826	1,498,276
Cost of sales	(439,749)	(495,030)
Gross profit	983,076	1,003,245
Selling, general and administrative expenses	(562,434)	(622,326)
Share of profit of investments accounted for using the equity method	13,087	8,508
Research and development expenses	(216,841)	(232,299)
Impairment losses	(26,110)	(6,479)
Other income	11,436	11,348
Other expenses	(3,631)	(7,499)
Operating profit	198,582	154,497
Finance income	3,661	13,981
Finance expenses	(12,256)	(4,840)
Profit before tax	189,988	163,638
Income tax expenses	(38,254)	(34,429)
Profit for the year	151,733	129,209
Attributable to:		
Owners of the Company	148,137	125,463
Non-controlling interests	3,596	3,745
Total	151,733	129,209

(Translation)

[Reference]

Consolidated Statement of Comprehensive Income

(From January 1, 2021 to December 31, 2021)

(Millions of yen)

Item	(Reference) FY2020	FY2021
Profit for the year	151,733	129,209
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	4,260	7,166
Financial assets measured at fair value through other comprehensive income	18,798	(13,092)
Share of other comprehensive income of investments accounted for using the equity method	390	(252)
Subtotal	23,450	(6,178)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(34,088)	81,254
Cash flow hedges	(4)	(0)
Share of other comprehensive income of investments accounted for using the equity method	1,499	12,982
Subtotal	(32,593)	94,236
Total other comprehensive income	(9,143)	88,057
Comprehensive income for the year	142,590	217,267
Attributable to:		
Owners of the Company	139,321	212,218
Non-controlling interests	3,268	5,049
Comprehensive income for the year	142,590	217,267

(Translation)

Consolidated Statement of Changes in Equity
FY2020 (From January 1, 2020 to December 31, 2020) [Reference]

(Millions of yen)

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

(Translation)

(Millions of yen)

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

(Translation)

FY2021 (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2021	81,690	506,295	(45,781)	1,402,644	–	43,298
Profit for the year	–	–	–	125,463	–	–
Other comprehensive income	–	–	–	–	7,025	(13,364)
Comprehensive income for the year	–	–	–	125,463	7,025	(13,364)
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(54,236)	–	–
Share-based payment transactions	–	456	210	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	(27)	–	–	–	–
Changes associated with losing control of subsidiaries	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	8,326	(7,025)	(1,300)
Total transactions with owners	–	428	209	(45,910)	(7,025)	(1,300)
Balance as of December 31, 2021	81,690	506,724	(45,572)	1,482,197	–	28,632

(Translation)

(Millions of yen)

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Other components of equity			Total		
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of January 1, 2021	(135,766)	(5)	(92,474)	1,852,375	31,057	1,883,432
Profit for the year	–	–	–	125,463	3,745	129,209
Other comprehensive income	93,093	(0)	86,754	86,754	1,303	88,057
Comprehensive income for the year	93,093	(0)	86,754	212,218	5,049	217,267
Purchase of treasury shares	–	–	–	(1)	–	(1)
Dividends	–	–	–	(54,236)	(1,751)	(55,988)
Share-based payment transactions	–	–	–	666	–	666
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	(27)	(17)	(44)
Changes associated with losing control of subsidiaries	–	–	–	–	(143)	(143)
Transfer from other components of equity to retained earnings	–	–	(8,326)	–	–	–
Total transactions with owners	–	–	(8,326)	(53,598)	(1,911)	(55,510)
Balance as of December 31, 2021	(42,673)	(6)	(14,046)	2,010,994	34,195	2,045,189

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Accounting Principles for Preparing Consolidated Financial Statements

The consolidated financial statements of the Company, its subsidiaries and interests in its associates (hereinafter collectively referred to as the “Group”) are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provision of Article 120, paragraph (1) of the Regulations on Corporate Accounting. Pursuant to the provision 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: 169

ii) Names of major consolidated subsidiaries:

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd., Otsuka Chemical Co., Ltd., Otsuka Foods Co., Ltd., Otsuka Medical Devices Co., Ltd., Otsuka America, Inc., Otsuka America Pharmaceutical, Inc., Pharmavite LLC, Otsuka Pharmaceutical Europe Ltd. and Nutrition & Santé SAS

(3) Application of the Equity Method

i) Number of associates accounted for using the equity method: 30

ii) Names of major companies accounted for using the equity method:

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

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

Uqora, Inc. and one other company were included in the scope of consolidation for the current fiscal year due to acquisition of their shares.

Taiho Oncology Europe GmbH and two other companies were included in the scope of consolidation for the current fiscal year due to their establishment.

Kisco International SAS, which had been a previously consolidated subsidiary of the Company, was excluded from the scope of consolidation due to its liquidation.

HAIES Service Co., Ltd. and two other companies, which had been previously consolidated subsidiaries of the Company, were changed in the scope from consolidation to equity-method application as their shares were sold.

Otsuka Gypto Pharmaceutical Egypt S.A.E. and two other companies were included in the scope of equity-method application for the current fiscal year due to their establishment.

Bean Stalk Snow Co., Ltd. was excluded from the scope of equity-method application as the Company sold all its shares to Megmilk Snow Brand Co., Ltd.

(5) Fiscal Year End of Consolidated Subsidiaries and Associates

For consolidated subsidiaries and associates accounted for using the equity method if their closing date differs from that of the Group, the Company used their financial statements that were provisionally settled on December 31 for the purpose of consolidation.

(6) Accounting Policies

i) Valuation of significant 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 contract of the instruments.

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

trade receivables that do not contain a significant financing component are measured at the transaction price. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

At initial recognition, financial assets are classified as (a) Financial assets measured at amortized cost, (b) Debt instruments measured at fair value through other comprehensive income, (c) Equity instruments measured at fair value through other comprehensive income or (d) Financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

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

- The financial assets are 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 and equity instruments measured at fair value through other comprehensive income stated above, are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization by using the effective interest method and any gains or losses on 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 their fair value are recognized in profit or loss.

(iii) Impairment

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

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

If credit risk on financial instruments has not increased significantly after initial recognition, the allowance for those instruments is measured at an amount equal to the 12-month expected credit losses. If credit risk on financial instruments has increased significantly after initial

recognition, the allowance for such financial instruments is measured at an amount equal to the lifetime expected credit losses.

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

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

(iv) Derecognition

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

B. Financial liabilities

(i) Initial recognition and measurement

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

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

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

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

(ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization by using the effective interest method and any gains or losses on 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 their fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes the financial liabilities only when they are extinguished, that is, the obligations specified in the 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 to realize the assets and settle the liabilities simultaneously.

D. Derivatives and hedge accounting

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

The Group designates certain derivatives such as forward foreign exchange contracts, currency swap agreements, currency option transactions, and interest rate swap agreements to hedge foreign currency risk and interest rate risk.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged

item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. The Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at inception and on an ongoing basis. Ongoing assessments are performed at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

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

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

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

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

E. Inventories

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

ii) Depreciation of property, plant and equipment, and amortization of intangible assets

Property, plant and equipment and intangible assets are measured under the cost model and carried at their cost less any accumulated depreciation, amortization and impairment losses.

A. Property, plant and equipment

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

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 40 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.

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

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

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

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

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

B. Intangible assets

Separately acquired intangible assets are initially measured at cost.

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

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

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

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

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

Intangible assets with indefinite useful lives consist mainly of brands and trademarks acquired separately or in business combinations, and are included in intangible assets as “Trademarks, distribution rights and others.” Intangible assets with indefinite useful lives are reviewed at the end of each fiscal year to determine whether the indefinite useful life assessment remains appropriate. If it is no longer appropriate, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate. In-process research and development acquired separately or through a business combination is included in intangible assets as “In-process research and development.” As these assets are intangible assets that are not yet available for use, they are tested for impairment without amortization. An asset in “In-process research and development” is transferred to “Trademarks, distribution rights and others” when the asset becomes available for use by obtaining permits and approvals from regulatory authorities in a subsequent period, and begins to be amortized by the straight-line method over the estimated useful life from that time.

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

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

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

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

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

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

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

iii) Goodwill

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

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

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

iv) Provisions

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

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

v) Post-employment benefits

The Group has defined benefit plans and defined contribution plans as post-employment benefit plans for its employees.

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

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

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

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

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

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

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

vi) Foreign currency translation

A. Foreign currency transactions

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

Translation differences arising from translations or settlements are recognized as profit or loss. However, equity instruments measured through other comprehensive income as well as the effective portion of translation differences arising from hedging instruments related to cash flow hedges used to hedge foreign currency risk are recognized as other comprehensive income.

B. Foreign operations

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

vii) Revenue

A. Sales of products

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

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

Specifically, in connection with rebates for Medicaid, Medicare and Commercial Managed Care Program in the U.S., the Group estimates statutory and contractual rebate payments related to the public healthcare system provided by federal and state governments, and

contractual rebate payments with medical institutions and customers to prepare for possible refunds after the end of the fiscal year. The Group estimates the accrual amounts through the process such as identifying the target products of each program, applicable product prices, estimated inventory at pharmacies and wholesalers, and time lag between sales of products and payment of rebates. However, these estimates are uncertain and may differ from the actual amount incurred. The estimated amount of these rebate payments is recorded in “Other current liabilities” on the consolidated statement of financial position.

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

B. License and royalty income

License income includes up-front and milestone payments that the Group receives from a third party based on license agreements for development and distribution right of developing or finished products. Under license agreements, if contractual obligations are fulfilled at a point in time, up-front payments are recognized as revenue once development and distribution rights are granted, and milestone payments are recognized as revenue when the contractual milestones are achieved. If contractual obligations are fulfilled over a period of time, in principle, such payments are recorded as contract liabilities and recognized as revenue over a period such as an estimated contract term, in accordance with the measurement method of progress towards satisfaction of performance obligations determined by each contract. Income from milestone payments 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 that is calculated based on the sales of counterparties under license agreements, and is recognized as revenue at the later point of either the counterparty’s revenue recognition, or satisfaction of performance obligations.

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

viii) Others

A. Accounting method for consumption taxes

Consumption taxes are excluded from revenues and expenses.

B. Application of the consolidated taxation system

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

2. Notes to Accounting Estimates

Items whose amounts were recorded based on accounting estimates in the consolidated financial statements for the current fiscal year, and which may have a significant impact on the consolidated financial statements for the following fiscal year are as follows.

(1) Estimation of statutory and contractual rebates related to the public healthcare system in the U.S.

i) Amount recorded in the consolidated financial statements for the current fiscal year

Accrued expenses based on statutory and contractual rebates related to the public healthcare system in the U.S. ¥39,357 million

ii) Information that contributes to understanding of details of accounting estimates

In connection with rebates for Medicaid, Medicare and Commercial Managed Care Program in the U.S., the Group estimates statutory and contractual rebate payments related to the public healthcare system provided by federal and state governments, and contractual rebate payments with medical institutions and customers to prepare for possible refunds after the end of the fiscal year. The Group estimates the accrual amounts through the process such as identifying the target products of each program, applicable product prices, estimated inventory at pharmacies and wholesalers, and time lag between sales of products and payment of rebates.

The estimated amount of these rebate payments is recorded in “Other current liabilities” on the consolidated statement of financial position.

These estimates include various conditions unique to each product and if any change is made to such conditions, it may have a significant impact on the estimated amounts of rebates payable that are included in other current liabilities in the consolidated financial statements for the following fiscal year.

(2) Impairment of intangible assets

i) Amount recorded in the consolidated financial statements for the current fiscal year

Intangible assets ¥522,662 million

ii) Information that contributes to understanding of details of accounting estimates

Intangible assets, such as in-process research and development and trademarks, distribution rights and others are tested for impairment annually and whenever there is an indication of impairment. If the recoverable amount is less than the carrying amount, an impairment loss is recognized, and the carrying amount is reduced to the recoverable amount. The recoverable amount is estimated for each asset to be evaluated individually, cash-generating units or groups of cash-generating units, and measured at the higher of its fair value less cost of disposal or its value in use. The value in use is calculated based on assumptions such as estimated future cash flows, probability of success, growth rate and discount rate.

Major assumptions such as the estimated future cash flows, the probability of success, growth rates, and discount rates are highly uncertain in the estimates. If a delay or halt of development and launches of competing products will lead to results that differ from the initial assumptions, this may have a significant impact on the amount of intangible assets in the consolidated financial statements for the following fiscal year.

(3) Recoverability of deferred tax assets

i) Amount recorded in the consolidated financial statements for the current fiscal year

Deferred tax assets ¥32,326 million

ii) Information that contributes to understanding of details of accounting estimates

Deferred tax assets are recognized for deductible temporary differences, unused tax losses and unused tax credits to the extent that it is highly probable that taxable profits will be available against which they could be utilized. In assessment of the recoverability of deferred tax assets, reversal of deferred tax liabilities, expected future taxable profit and tax planning are taken into account, and the carrying amount is reviewed each fiscal year based on the level of taxable profit in the past and estimated future taxable profit in the period during which deferred tax assets are deductible.

The future taxable profit and tax planning are estimated based on the Group’s business plan. If a different result from forecasts such as revenue in the business plan is occurred, this may have a significant impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

(4) Fair value of financial instruments

i) Amounts recorded in the consolidated financial statements for the current fiscal year

Financial assets measured at fair value
(Other financial assets) ¥42,721 million

Financial liabilities measured at fair value
(Other financial liabilities) ¥24,676 million

ii) Information that contributes to understanding of details of accounting estimates

In calculating fair value of certain financial instruments, the Group uses valuation techniques including inputs that are not observable in the market.

Unobservable inputs are affected by uncertain future economic conditions. Therefore, if a different result from their assumptions is occurred, this may have a significant impact on the

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amounts of financial assets and financial liabilities measured at fair value in the consolidated financial statements for the following fiscal year.

(5) Measurement of defined benefit obligations

i) Amounts recorded in the consolidated financial statements for the current fiscal year	
Net defined benefit liabilities	¥14,075 million
Net defined benefit assets (Other non-current assets)	¥14,013 million

ii) Information that contributes to understanding of details of accounting estimates

For defined benefit retirement benefit plans, the net amount calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations is recognized as net defined benefit liabilities or net defined benefit assets in the consolidated statement of financial position. Defined benefit obligations are calculated using an actuarial technique, and actuarial assumptions include estimates of discount rate, retirement rate, mortality rate, and salary increase rate. The discount rate is determined based on market yields on high quality corporate bonds at the end of the fiscal year.

These assumptions may be affected by uncertain future economic conditions or changes in social situations, and other factors. If a different result from their assumptions is occurred, this may have a significant impact on the amounts of net defined benefit liabilities and net defined benefit assets included in other non-current assets in the consolidated financial statements for the following fiscal year.

3. Notes to Consolidated Statement of Financial Position

(1) Allowance for Expected Credit Losses Directly Deducted from Assets	
Trade and other receivables	¥2,041 million
Other financial assets (non-current assets)	¥112 million
(2) Assets Pledged as Collateral and Secured Liabilities	
Trade and other receivables	¥244 million
Inventories	¥498 million
Property, plant and equipment	
Buildings and structures	¥203 million
Machinery and vehicles	¥1,287 million
Land	¥172 million
Total	¥2,407 million

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥630 million and bonds and borrowings (non-current liabilities) of ¥57 million.

(3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses)	¥778,459 million
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(4) Contingent Liabilities

Guarantees given to financial institutions for borrowings of associates:	¥92 million
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4. Notes to Consolidated Statement of Changes in Equity

(1) Total Number of Issued Shares

Class of shares	Number of shares as of January 1, 2021	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, 2021
Ordinary shares	557,835 thousand shares	—	—	557,835 thousand shares

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(2) Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2021	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, 2021
Ordinary shares	15,499 thousand shares	15 thousand shares	71 thousand shares	15,443 thousand shares

Note: The 15-thousand-share increase in the number of treasury shares is due to the acquisition without contribution of some ordinary shares allotted as restricted stock remuneration and the purchase of shares less than one share unit. The 71-thousand-share decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration.

(3) Dividends

i) Payment of dividends

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 12, 2021	Ordinary shares	¥27,116 million	¥50	December 31, 2020	March 31, 2021
Meeting of the Board of Directors held on August 6, 2021	Ordinary shares	¥27,120 million	¥50	June 30, 2021	September 6, 2021

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 10, 2022	Ordinary shares	Retained earnings	¥27,119 million	¥50	December 31, 2021	March 31, 2022

5. 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 its policy to mitigate these financial risks. The Group uses derivative transactions to avoid foreign currency risk or interest rate risk and, in accordance with its policy, does not carry out any speculative transactions.

ii) Market risk management

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

A. Foreign currency risk management

As the Group is expanding its business globally, exchange rate fluctuations mainly in the US dollar and euro affect its operating results.

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

In addition, the Group has established management rules for derivative transactions and limits

derivative transactions, including forward foreign exchange contracts, to those for the purpose of hedging risks.

B. Interest rate risk management

The Group is exposed to various interest rate risks in its business activities, and especially subjected to interest rate fluctuations 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. Risk management of price fluctuations in equity instruments

The Group is exposed to risk of stock price fluctuations in equity instruments. The Group has no equity instruments held for short-term trading but owns equity instruments to execute business strategies smoothly. With regard to equity instruments, the Group regularly assesses fair value and monitors financial conditions of issuers.

iii) Credit risk management

Credit risk is the risk that causes financial loss to the Group when a counterparty of a financial asset held by the Group goes into default for contractual obligations. According to its credit management policy, the Group's sales department and accounting and finance department regularly monitor the credit status of each counterparty to claims such as trade receivables, manage due dates and balances, and strive for early identification and mitigation of any concerns about collections due to deterioration in the financial position of the counterparty and other factors. When full or partial collection of trade receivables and other is considered impossible, or extremely difficult, it is deemed as a default.

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

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

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

iv) Liquidity risk management

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

(2) Fair Value of Financial Instruments

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

	(Millions of yen)	
	Carrying amount	Fair value
<Financial assets>		
Financial assets measured at amortized cost		
Other financial assets (bonds)	570	620
Total financial assets	570	620
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Borrowings	55,790	55,923
Bonds	79,841	80,253
Total financial liabilities	135,632	136,176

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

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approximates to the fair value is also omitted.

Other financial assets (bonds)

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

Borrowings

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

Bonds

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

6. Notes to per Share Information

(1) Equity Attributable to Owners of the Company per Share	¥3,707.64
(2) Basic Earnings per Share	¥231.32

7. Notes to Significant Subsequent Events

Not applicable.

8. Other Notes

(Business Combinations)

(Contingent considerations arising from business combination)

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

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

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

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

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

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

(Millions of yen)

	Amount
Balance as of January 1, 2021	16,465
Business combination	912
Changes in fair value	6,036
Foreign currency translation adjustment	1,203
Balance as of December 31, 2021	24,618

(Translation)

Balance Sheet (Under Japanese GAAP)

(As of December 31, 2021)

(Millions of yen)

Item	(Reference) FY2020	FY2021	Item	(Reference) FY2020	FY2021
Assets			Liabilities		
Current assets	134,440	156,346	Current liabilities	110,722	98,823
Cash and bank deposits	70,368	44,770	Accounts payable - other	6,558	6,669
Supplies	59	61	Accrued expenses	84	124
Prepaid expenses	1,991	1,300	Income taxes payable	145	947
Short-term loans receivable from subsidiaries and associates	10,347	79,235	Deposits received from subsidiaries and associates	103,795	90,897
Income taxes receivable	996	5,778	Provision for bonuses	31	84
Other current assets	50,836	25,399	Provision for directors' bonuses	48	33
Allowance for doubtful accounts	(159)	(199)	Other current liabilities	60	66
Non-current assets	1,074,045	1,091,742	Non-current liabilities	80,798	80,516
Property, plant and equipment	1,080	5,895	Bonds	80,000	80,000
Buildings	4	13	Deferred tax liabilities	742	482
Structures	118	249	Provision for retirement benefits for directors (and other officers)	38	33
Machinery and equipment	859	1,475	Other non-current liabilities	17	-
Tools, furniture and fixtures	36	46	Total Liabilities	191,520	179,339
Construction in progress	61	4,111	Net Assets		
Intangible assets	6,782	6,266	Shareholders' equity	1,014,753	1,066,878
Software	6,782	6,266	Share capital	81,690	81,690
Investments and other assets	1,066,182	1,079,579	Capital surplus	810,836	810,956
Investment securities	15,583	15,093	Additional paid-in capital	731,816	731,816
Shares of subsidiaries and associates	750,984	750,984	Other capital surplus	79,019	79,140
Investments in capital of subsidiaries and associates	-	133	Retained earnings	168,007	219,803
Long-term loans receivable from subsidiaries and associates	299,800	313,597	Other retained earnings	168,007	219,803
Prepaid pension costs	160	286	Reserve for tax purpose reduction entry of non-current assets	108	107
Other assets	53	153	Retained earnings brought forward	167,898	219,695
Allowance for doubtful accounts	(400)	(670)	Treasury shares	(45,781)	(45,572)
			Valuation and translation adjustments	2,210	1,870
			Unrealized gain on available-for-sale securities	2,210	1,870
			Total Net Assets	1,016,964	1,068,749
Total Assets	1,208,485	1,248,088	Total Liabilities and Net Assets	1,208,485	1,248,088

(Translation)

Statement of Income (Under Japanese GAAP)

(From January 1, 2021 to December 31, 2021)

(Millions of yen)

Item	(Reference) FY2020	FY2021
Operating revenues	102,708	115,006
Operating expenses	10,846	11,594
Operating income	91,862	103,411
Non-operating income	2,224	2,512
Interest and dividend income	1,005	1,047
Business consignment fees	1,038	1,407
Other	181	57
Non-operating expenses	613	1,134
Interest expenses	29	46
Commission fees	42	66
Provision of allowance for doubtful accounts	324	710
Bond interests	213	214
Other	2	97
Ordinary income	93,473	104,789
Extraordinary loss	16	-
Loss on retirement of non-current assets	16	-
Profit before tax	93,456	104,789
Income tax - current	(839)	(1,132)
Income tax - deferred	(82)	(110)
Net profit	94,378	106,032

(Translation)

Statement of Changes in Net Assets

FY2020 (From January 1, 2020 to December 31, 2020) [Reference]

(Millions of yen)

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

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

(Translation)

FY2021 (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity						
	Share capital	Capital surplus			Retained earnings		
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings		Total retained earnings
				Reserve for tax purpose reduction entry of non-current assets	Retained earnings brought forward		
Balance as of January 1, 2021	81,690	731,816	79,019	810,836	108	167,898	168,007
Changes in the year							
Dividends	-	-	-	-	-	(54,236)	(54,236)
Share-based payment transactions	-	-	120	120	-	-	-
Purchase of treasury shares	-	-	-	-	-	-	-
Net profit	-	-	-	-	-	106,032	106,032
Net changes other than shareholders' equity	-	-	-	-	(1)	1	-
Total changes in the year	-	-	120	120	(1)	51,796	51,795
Balance as of December 31, 2021	81,690	731,816	79,140	810,956	107	219,695	219,803

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments	
Balance as of January 1, 2021	(45,781)	1,014,753	2,210	2,210	1,016,964
Changes in the year					
Dividends	-	(54,236)	-	-	(54,236)
Share-based payment transactions	210	330	-	-	330
Purchase of treasury shares	(1)	(1)	-	-	(1)
Net profit	-	106,032	-	-	106,032
Net changes other than shareholders' equity	-	-	(340)	(340)	(340)
Total changes in the year	209	52,125	(340)	(340)	51,784
Balance as of December 31, 2021	(45,572)	1,066,878	1,870	1,870	1,068,749

Notes to Financial Statements

1. Summary of Significant Accounting Policies

- 1) Valuation of Significant Assets
 - i) Shares of subsidiaries and associates:
Stated at cost, determined by the moving-average method.
 - ii) Other securities
 - Marketable securities classified as available-for-sale:
Stated at fair value based on the quoted market price at the end of the fiscal year, with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving-average method.
 - Non-marketable securities classified as available-for-sale:
Stated at cost, determined by the moving-average method.
 - iii) Valuation of inventories
 - Supplies:
Stated at the lower of cost or net selling value, determined by the first-in, first-out method.
- 2) Depreciation and Amortization of Non-Current Assets
 - i) Property, plant and equipment:
The Company uses the straight-line method.
The estimated useful lives of major items are as follows:
 - Buildings: 3 to 15 years
 - Structures: 10 to 20 years
 - Machinery and equipment: 13 years
 - Tools, furniture and fixtures: 2 to 20 years
 - i) 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 (3 to 10 years).
- 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 prepare for the payment of employees' bonus, the Company accounts for a reserve for the estimated bonus payments, which is attributable to the current fiscal year.
 - iii) Provision for directors' bonuses:
To prepare for the payment of directors' bonus, the Company accounts for a reserve for the estimated bonus payments to directors, which is attributable to the current fiscal year.
 - iv) Provision for retirement benefits for directors (and other officers):
In order to cover payment of retirement benefits to corporate officers, the Company estimates the amount required to be paid at year-end in accordance with the internal rules.
 - v) Provision for retirement benefits:
In order to cover payment of retirement benefits to employees, the Company estimates a provision based on the amount of retirement benefit obligations and plan assets at the end of the current fiscal year. For the calculation of provision for retirement benefits and retirement benefit expenses, the Company has adopted a simplified method in which the latest actuarial obligations in pension funding calculation makes it the retirement benefit obligations.
- 4) Recognition of revenues and expenses
Recognition of revenues:
The Company applies the new accounting standards, "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on

(Translation)

Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018), and recognizes revenue from contracts with customers except for items such as interest income, dividend income, based on the following five-step model:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

5) Others

i) Accounting method for consumption taxes:

Consumption taxes are excluded from revenues and expenses.

ii) Adoption of the consolidated taxation system:

The Company applies the consolidated taxation system.

The amounts of deferred tax assets and deferred tax liabilities were calculated in accordance with the provisions of the tax law prior to enactment of the “Act Partially Amending the Income Tax Act” (Act No. 8 of 2020), as allowed by the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020).

2. Notes to Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment ¥606 million

(2) Receivables from and Payables to Subsidiaries and Associates (Excluding Those Classified Separately in the Balance Sheet)

i) Short-term receivables ¥25,127 million

ii) Short-term payables ¥4,061 million

3. Notes to Statement of Income

Transactions with Subsidiaries and Associates

i) Operating revenues ¥115,006 million

ii) Operating expenses ¥1,830 million

iii) Non-operating transactions

Interest income ¥612 million

Interest expenses ¥46 million

Other non-operating income ¥1,385 million

4. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2021	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, 2021
Ordinary shares	15,499 thousand shares	15 thousand shares	71 thousand shares	15,443 thousand shares

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

The 71-thousand-share decrease in the number of treasury shares is due to the disposal of treasury shares as restricted stock remuneration.

(Translation)

5. Notes to Income Taxes

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

Deferred tax assets	
Provision for retirement benefits for directors (and other officers)	¥10 million
Provision for bonuses	¥25 million
Accrued directors' bonuses	¥29 million
Accrued enterprise tax	¥50 million
Share-based remuneration expenses	¥250 million
Allowance for doubtful accounts	¥266 million
Loss on valuation of shares of subsidiaries and associates	¥2,837 million
Loss on extinguishment of tie-in shares	¥176 million
Adjustment of tax-basis book value of shares of subsidiaries and associates	¥886 million
Deferred assets	¥161 million
Unused tax losses	¥1,583 million
Other	¥65 million
<hr/>	
Subtotal of deferred tax assets	¥6,344 million
Valuation allowance for unused tax losses	¥(1,583) million
Valuation allowance for the total of deductible temporary differences, etc.	¥(4,283) million
<hr/>	
Subtotal of valuation allowance	¥(5,867) million
<hr/>	
Total of deferred tax assets	¥477 million
Deferred tax liabilities	
Unrealized gain on available-for-sale securities	¥(824) million
Prepaid pension costs	¥(87) million
Reserve for tax purpose reduction entry of non-current assets	¥(47) million
<hr/>	
Total of deferred tax liabilities	¥(959) million
<hr/>	
Net deferred tax liabilities	¥(482) million

6. Notes to Related Party Transactions

(1) Subsidiaries

Type	Company name	Percentage owned	Relationship		Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
			Interlocking directors and audit & supervisory board members	Business relationship				
Subsidiary	Otsuka Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct	5	Investment in stock	Lending of funds ^{*1}	287,959	Short-term loans receivable from subsidiaries and associates ^{*1}	71,839
		(Held by the subsidiary) None			Receipt of interest ^{*2}	533	Long-term loans receivable from subsidiaries and associates ^{*1}	268,720
Subsidiary	Taiho Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct	1	Investment in stock	Borrowing of funds ^{*1}	63,726	Deposits received from subsidiaries and associates ^{*1}	60,425
		(Held by the subsidiary) None			Payment of interest ^{*2}	30		
Subsidiary	Otsuka Chemical Co., Ltd.	(Held by the Company) 100.0% direct	1	Investment in stock	Borrowing of funds ^{*1}	22,483	Deposits received from subsidiaries and associates ^{*1}	12,047
		(Held by the subsidiary) None			Payment of interest ^{*2}	11		
Subsidiary	Otsuka Medical Devices Co., Ltd.	(Held by the Company) 100.0% direct	2	Investment in stock	Lending of funds ^{*1}	37,768	Short-term loans receivable from subsidiaries and associates ^{*1}	5,250
		(Held by the subsidiary) None			Receipt of interest ^{*2}	64	Long-term loans receivable from subsidiaries and associates ^{*1}	39,087

Terms and conditions of transactions and policy on determination thereof

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

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

(2) Officers and Significant Individual Shareholders

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

Terms and conditions of transactions and policy on determination thereof

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

(Translation)

7. Notes to per Share Information

(1) Net Assets per Share	¥1,970.44
(2) Earnings per Share	¥195.50

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 8, 2022

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

KPMG AZSA LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:
Koichi Kohori

Designated Engagement Partner,
Certified Public Accountant:
Kentaro Onishi

Designated Engagement Partner,
Certified Public Accountant:
Takayuki Suzuki

Opinion

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries (the "Group"), namely, the consolidated statement of financial position as of December 31, 2021, and the consolidated statement of income and consolidated statement of changes in equity for the fiscal year from January 1, 2021 to December 31, 2021, and the related notes.

In our opinion, the accompanying consolidated financial statements, prepared with the omission of a part of the disclosures required under International Financial Reporting Standards pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Regulations on Corporate Accounting, present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2021, and its consolidated financial performance for the year then ended.

Basis for Opinion

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Regulations on Corporate Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under International Financial Reporting

(Translation)

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.

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

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

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

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

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

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

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board

(Translation)

regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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

Notes to the Readers of Independent Auditor's Report

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

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 8, 2022

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

KPMG AZSA LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:
Koichi Kohori

Designated Engagement Partner,
Certified Public Accountant:
Kentaro Onishi

Designated Engagement Partner,
Certified Public Accountant:
Takayuki Suzuki

Opinion

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the nonconsolidated financial statements of Otsuka Holdings Co., Ltd. (the "Company"), namely, the nonconsolidated balance sheet as of December 31, 2021 and the nonconsolidated statement of income and nonconsolidated statement of changes in net assets for the 14th fiscal year from January 1, 2021 to December 31, 2021, and the related notes and the accompanying supplemental schedules.

In our opinion, the accompanying nonconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

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

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

In preparing the nonconsolidated financial statements, management is responsible for assessing the

(Translation)

Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

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

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

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

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

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

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

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

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

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

(Translation)

Notes to the Readers of Independent Auditor's Report

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

(Translation)

(TRANSLATION)

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 14th Fiscal Year from January 1, 2021 to December 31, 2021, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

1. Auditing Methods and Content of Audits

- (1) The Audit & Supervisory Board established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding the status of his or her audit and the results thereof, as well as reports from the Directors and independent auditors regarding performance of their duties, and sought explanations as necessary.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Audit & Supervisory Board Member endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and audits were implemented as follows:
 - i) Each Audit & Supervisory Board Member attended the meeting of the Board of Directors and other important meetings to receive reports regarding performance of duties from Directors and other employees, and sought explanations as necessary. Each Audit & Supervisory Board Member also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices. With regard to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
 - ii) With regard to contents of resolutions of the Board of Directors regarding the development of the system to ensure that the performance of duties by the Directors conforms to the laws and regulations and the Articles of Incorporation and other systems that are stipulated in Article 100 (1) and (3) of the Regulations 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 Regulations on Corporate Accounting) is organized in accordance with the product quality management standards regarding audits (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

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

2. Results of Audit

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

February 9, 2022

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]