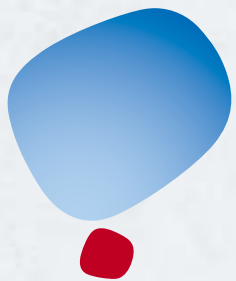


Integrated Report 2021

For the year ended December 31, 2021



Otsuka

Otsuka-people creating new products
for better health worldwide



Otsuka Holdings Co., Ltd.

Corporate Philosophy

Otsuka-people creating new products for better health worldwide

In keeping with this corporate philosophy and the Otsuka values of *Ryukan-godo* (by sweat we recognize the way), *Jissho* (actualization) and *Sozosei* (creativity), we strive to do what only Otsuka can do. The Otsuka group supports the lives of people worldwide through a wide range of innovative and creative products including pharmaceuticals, functional beverages, and functional foods. We are dedicated to cultivating a dynamic corporate culture and workplaces that reflect our vision as a healthcare company, to finding ways to live in harmony with local communities and the natural environment, and to contributing to richer and healthier lives.

Otsuka's Goal

To become an indispensable contributor to people's health worldwide

The Otsuka group aims to be an indispensable contributor to people's health worldwide, fulfilling its corporate philosophy in every aspect of its operations. This commitment to improving people's health worldwide is part of the unchanging value we will continue to provide society. Our operations encompass two core businesses: the Pharmaceutical Business, which provides comprehensive health support from diagnosis to treatment of diseases, and the Nutraceutical Business,* which helps people maintain and improve day-to-day health.

* Nutraceuticals = nutrition + pharmaceuticals

Essence of Management (Our Corporate Culture)

Ryukan-godo (by sweat we recognize the way)

The process of discovering the core substance of something through hard work and practice

Jissho (actualization)

Self-actualization through achievement, completion and the discovery of truth

Sozosei (creativity)

Pursuing that which only Otsuka is capable of delivering

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100th Year Symbol



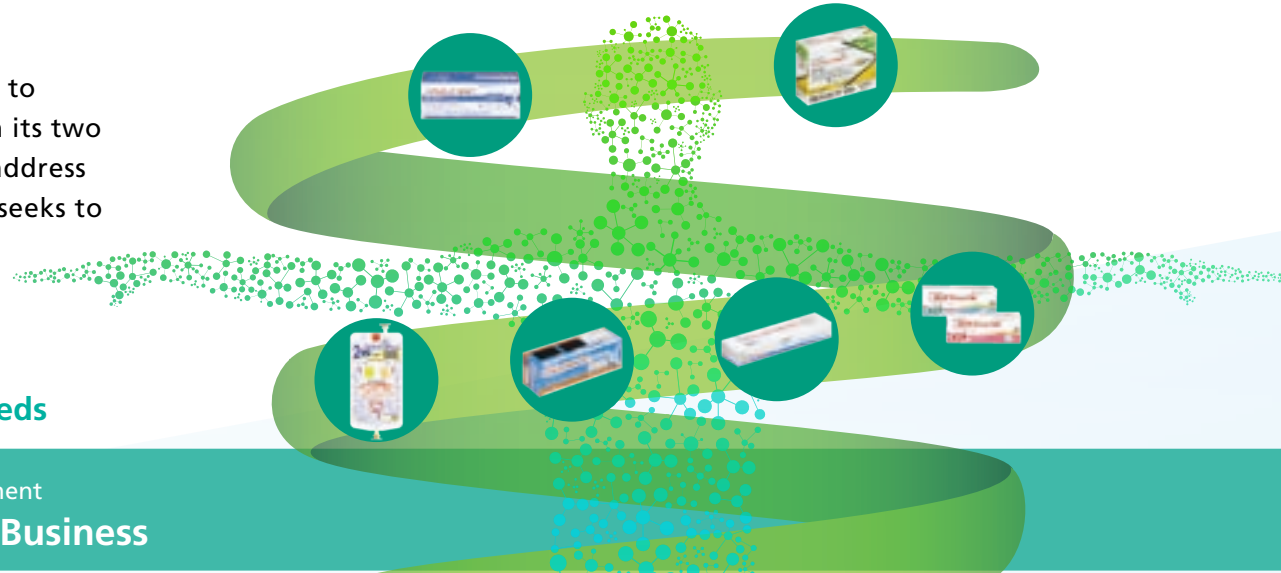
The zeros of the 100 are made up of an O for Otsuka, and a Q for quality. The quality refers to our promise and guarantee to create, manufacture and deliver products we care about and that our customers can trust.

Providing Value through Our Businesses

As a total healthcare company, the Otsuka group contributes to people's health worldwide by creating innovative products in its two core businesses: the Pharmaceutical Business, which aims to address unmet medical needs, and the Nutraceutical Business, which seeks to fulfill the yet-to-be-imagined needs of consumers.

Unmet medical needs

From diagnosis to treatment
Pharmaceutical Business



Providing value
Bringing health to people worldwide



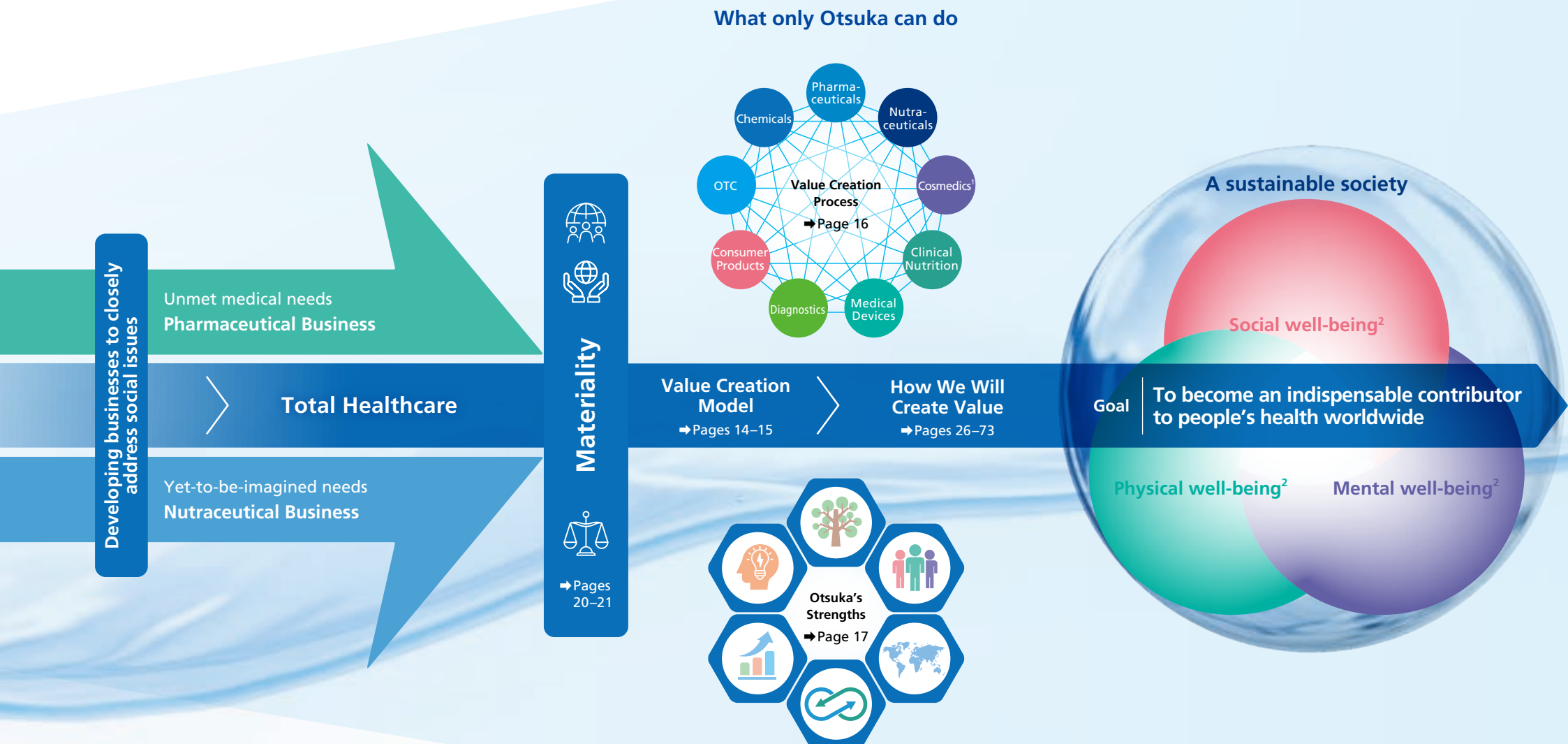
What only Otsuka can do

Maintaining and improving day-to-day health
Nutraceutical Business

Yet-to-be-imagined needs



Otsuka's Goal through Its Development as a Total Healthcare Company



Founding —————> Present —————> Future

1. Cosmetics = cosmetics + medicine
 2. The state of health, as defined in the constitution of the World Health Organization (WHO)

Message from the CEO



The Otsuka group of companies celebrated its 100th anniversary in September 2021. We reached this milestone thanks to the support of our stakeholders, including consumers, patients, medical professionals, business partners, and local communities.

As we embark on our second century, I offer heartfelt thanks and reconfirm the determination of every Otsuka employee to pursue what only Otsuka can do, thereby contributing to people's health worldwide.

Otsuka's Centennial, Otsuka's Values

The Otsuka group originated in the 1921 establishment of a chemical raw material manufacturer in Naruto, Tokushima Prefecture, Japan. Although the following 100 years included some tough times, we were able to overcome those challenges by adhering to concepts espoused by three generations of leaders from the Otsuka family—values that have always underpinned our business and are as relevant today as ever: *Ryukan-godo*, *Jissho*, and *Sozosei*.

Ryukan-godo (by sweat we recognize the way) is taken from the words of Otsuka founder Busaburo Otsuka: "In all things, only through your own sweat and toil can you discover truth and essence." For instance, a problem with the quality of magnesium carbonate in our earliest days caused considerable frustration. After much head-scratching and experimenting, a solution was discovered quite by coincidence—a fortuitous accident that would not have occurred without the everyday endeavors of those involved. In this way, unstinting effort helped create the bedrock of our business.

Jissho (actualization) is inspired by advice from Masahito Otsuka, a leader from the second generation: "Hypothesize, experiment, and achieve." In the world of pharmaceuticals, a drug that has satisfied 99 percent of requirements for regulatory approval is still a drug that has yet to be approved. What might seem like a measly one percent could be the first indicator of a major flaw in the project and that there is still a long, long way to go.

Message from the CEO

When Masahito Otsuka said, "In life, doing trumps knowing," he was referring to the need to try many approaches to overcome challenges and ensure that final one-percent gap is bridged. When a younger me first heard those words, I thought that was all very well, but surely it was necessary to study something before attempting it. It was not until later that I realized that only by being on location, and observing and listening first-hand can we truly learn how products are made at our factories, how consumers react to our products in-store, and why consumers prefer a particular product. Naturally, we need to gather facts, but it takes action to parlay those facts into real awareness and understanding.

Sozosei (creativity) comes from Akihiko Otsuka, a leader from the third generation. The sentiment is encapsulated in the slogan "Otsuka-people creating new products for better health worldwide," which was adopted as the philosophy of Otsuka Pharmaceutical's factories and

laboratories in the 1970s and has since become the Otsuka group's corporate philosophy. These days, creativity is a common byword, but Akihiko Otsuka was saying more than four decades ago that we would be judged on our creativity and innovation. His calls for greater creativity and innovation were born of a conviction that we could become world-class only by pursuing projects that other companies found too challenging and, as a result, developing revolutionary products. In fact, it has led to blockbusters like *ABILIFY* and *Samsca/JINARC/JYNARQUE*, and the creation of new-category products such as *POCARI SWEAT* and *Calorie Mate*.

These three Otsuka leaders shared a common determination to always keep their eye on the task at hand, and an appetite for the hard work that was usually necessary to get things done. Sometimes things do not turn out as planned, but in those failures lie hints and discoveries. Today, as always, the Otsuka group corporate culture encourages people to take on

challenges, to persevere, and to pursue the truths at the heart of the matter.

A Strategy to Stay Abreast of Changing External Risks and Opportunities

Since its appearance in 2019, the COVID-19 pandemic has had an outsized impact not only on day-to-day life, but also on industrial structures and business models, which has included significant, rapid change in the pharmaceutical industry. Today, we are faced with myriad risks and opportunities, including geopolitical turmoil, supply chain disruption, rising raw material costs, environmental problems, population issues, and the evolution of artificial intelligence and computer technology. It is very hard to predict what the world will look like in the future. For the Otsuka group to become an indispensable contributor to the health of people worldwide, we need to envision a society and economy 10 years, 20 years, and further ahead, and to be agile in our response.

No one could anticipate the ways in which the world would change when we launched our Third Medium-Term Management Plan in fiscal 2018. The Otsuka group of companies has never sat back and accepted fate—our style has always been to keep a close eye on developments, adapt flexibly, and change where appropriate. This has enabled us to adjust to the transformations brought about by the pandemic but still pursue our business in a way that is consistent with our

Ryukan-godo

(by sweat we recognize the way)

The process of discovering the core substance of something through hard work and practice

Jissho

(actualization)

Self-actualization through achievement, completion and the discovery of truth

Sozosei

(creativity)

Pursuing that which only Otsuka is capable of delivering

Message from the CEO

management plan. I believe that the increase in popular awareness of health issues amid the new normal of the post-COVID-19 era presents us with growth opportunities, and that now is the time for us to demonstrate our true value as a unique total healthcare company.

In the Pharmaceutical Business, we have achieved the revenue targets for our four Global Products set forth in the Third Medium-Term Management Plan two years ahead of schedule. Moreover, in adapting to the changing landscape, we are carrying out R&D that includes virtual clinical trials; enhancing business continuity planning and developing labor-saving technologies to maintain a stable supply system for manufacturing; and operating a hybrid communication system in sales that combines in-person and digital methodologies. Moreover, we continue to pursue innovation with the establishment of Otsuka Pharmaceutical's Osaka Pharmaceutical Research Institute (tentative name) and our partnership with Sumitomo Dainippon Pharma (now Sumitomo Pharma) and its U.S. subsidiary Sunovion Pharmaceuticals in the psychiatry and neurology area.

In the Nutraceutical Business, we are solidifying our presence in consumer healthcare markets via a strategy that focuses on global expansion, new concepts and categories, and high-profit-margin products. In addition, our strategy emphasizes taking advantage of increased health consciousness and addressing new needs generated by women playing more active roles in the workplace.

In fiscal 2021, the middle year of the Third Medium-Term Management Plan, revenue tracked roughly in line with the initial forecast. Business profit was below target as a result of our agile approach to prioritizing investments for growth; nevertheless we will redouble our efforts to push business profit beyond the 200 billion yen target in fiscal 2023 by making ROIC (return on invested capital)-conscious investments and managing SG&A expenses.

Our Vision for the Next 100 Years

The support of all our stakeholders and the grounding principles left to us by generations of Otsuka family leaders have enabled the Otsuka group of companies to thrive for over a century. Observance of the leader's time-tased wisdom must, however, be coupled with flexibility in the way we view and carry out our business, so that we may adapt to changes in the market, keep up with technological advances, and respond to geopolitical risks. We cannot hope to keep up with changes in operating environments if we are unable to move with the times or adapt to the needs of specific regions. To sustain growth, we must overcome preconceptions and stereotypes, and energetically incorporate and act on diverse opinions. Those who do not dare, achieve no progress, and spark no innovation; if we seek innovation, we will find it in the insights generated out of diversity and the bold action of

taking on challenges.

I believe a business's three main drivers are its philosophy, its culture, and the capabilities of its people and organization. The Otsuka group corporate philosophy, "Otsuka-people creating new products for better health worldwide," will remain universally applicable. A company with a solid philosophical backbone is strongest in turbulent times, and we remain dedicated to seeking out the hard challenges, unafraid of change or failure. The lessons we learn in this pursuit should then be incorporated into subsequent ventures, thereby creating a cycle that enhances the capabilities of individuals and advances our ability to manage organizations comprised of such individuals.

The Otsuka group has, as a unique total healthcare company, contributed to the health of people worldwide by developing and providing creative products and services covering everything from diagnosis and treatment of diseases to health maintenance and improvement. Moving forward, increasing digitalization will surely bring major change to our industry, such as in drugs and treatments that fuse digital technology and conventional healthcare methodologies, and advancements in diagnosis and prediction of disease. We strive to be a provider of comprehensive services and products to meet the specific healthcare needs of each community in each era. The sheer variety of the Otsuka group's business portfolio gives us the foundation needed to accelerate intragroup cooperation and joint ventures in the pursuit of our unwavering

Message from the CEO



corporate philosophy, and I am convinced that focusing on contributing to people's health will help usher in another century of sustained growth for the group and sustainability in society.

Our stance toward helping the world overcome environmental and other problems can be seen in our Sustainability Mission, launched in 2019, and our 2050 Environmental Vision, "Net Zero," launched in 2021.

Furthermore, we have newly defined *carbon neutrality*, *circular economy* and *water neutrality* as environmental material issues and have set medium-term targets to promote next-level initiatives. Already, we are working in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, an advisory board set up by the G-20 Financial Stability Board for companies to analyze and respond to the risks and opportunities brought about by climate change.

To Our Stakeholders

Humanity has faced pandemics before; every time the pandemics have had a major impact; every time we have used our wisdom and technical innovations to overcome them. In the case of COVID-19, the challenge facing the world is to find a way to live with the virus. We at the Otsuka group seek always to contribute to society—otherwise, there would be no reason for us to exist as a company. Every day, we work hard toward that goal, inspired by three generations of leaders from the Otsuka family buoyed by lofty aspirations, and steeled by unyielding determination.

Today, patients and consumers are more health-conscious than ever before. For our part, we pursue our business with an unwavering commitment to contribute to people's health worldwide through new products and

services. Together with business partners and all our other stakeholders, we will strive to live up to the trust and responsibility invested in us as a manufacturer, and to address and fulfill unmet medical needs and be the best partner the medical community and consumers could hope for. The Otsuka group has signed comprehensive partnership agreements with prefectures and municipalities throughout Japan, under which we help with health maintenance and improvement activities and support disaster preparation and response efforts. These activities are made possible by the group's position as a provider of unique total healthcare, and they are an ideal opportunity for us to work closely with local communities to find solutions to the challenges facing society.

Shareholders and investors can be confident in our continued commitment to transparency and fairness in management, such as through a strong governance framework and appropriate disclosures in accordance with Japan's Corporate Governance Code. Through proactive dialogue, we will continue to live up to the trust invested in us and fulfill our responsibilities to society as we remain dedicated to seeking sustained growth and generating medium-to-long-term value in accordance with our corporate philosophy.

We sincerely ask for continued support and guidance from all stakeholders, and urge you to hold high expectations for the next 100 years of the Otsuka group.



HUNDRED YEAR
OTSUKA QUALITY

For Life. Realizing the hidden power within.

Feature

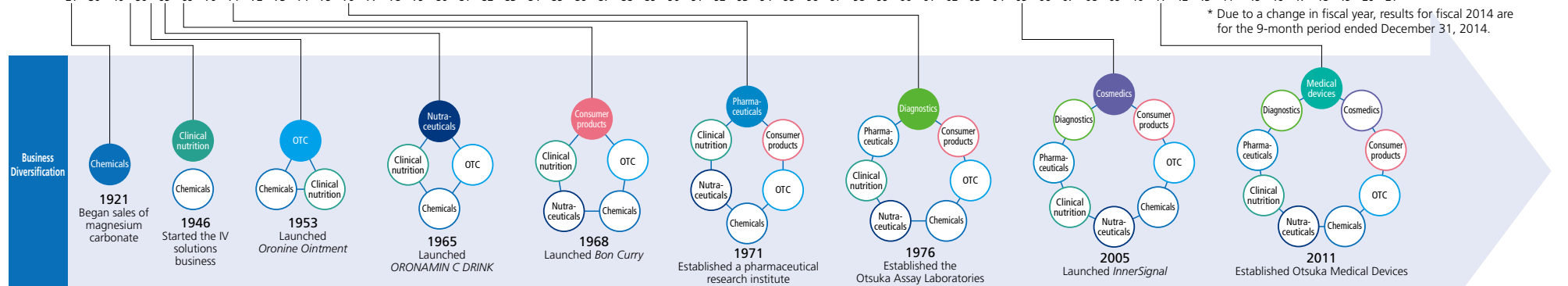
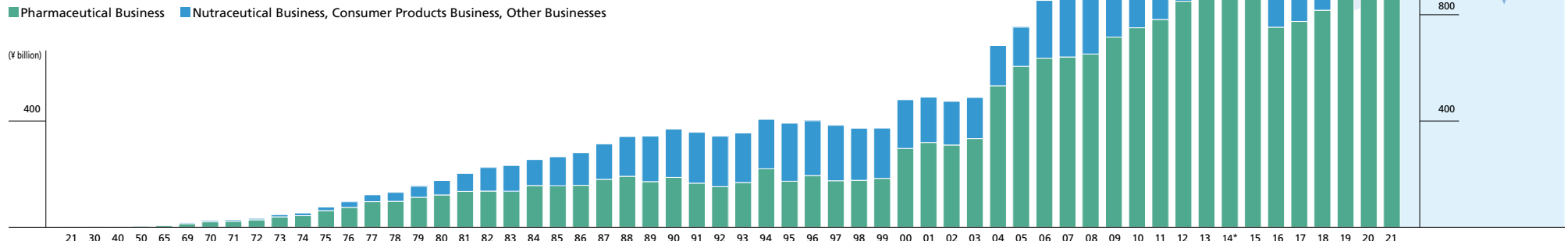
A 100-Year History of the Otsuka Group Developing into a Total Healthcare Company

The Otsuka group celebrated its 100th anniversary in 2021. The values we have cultivated over our long history have enabled us to take on new endeavors in each of our businesses. Our employees around the world continue to create new value for people everywhere under our unwavering corporate philosophy: "Otsuka-people creating new products for better health worldwide."

Otsuka's Story

Since its founding as a chemical raw material manufacturer in 1921, the Otsuka group has not only demonstrated outstanding creativity, but has also honestly endeavored to take the path it believes to be correct, and to stay true to the values that have enabled it to pursue what only Otsuka can do. Based on these values—*Ryukan-godo* (by sweat we recognize the way), *Jissho* (actualization) and *Sozosei* (creativity)—group members have spurred each other on toward the goal of becoming a unique total healthcare company. In addition to responding to changing times and conditions, we will continue to contribute to people's health by anticipating future trends and developing businesses that leverage our uniqueness.

Revenue



The Otsuka group was founded in 1921 as a chemical raw material manufacturer in Naruto City, Tokushima Prefecture. It moved away from single-product manufacturing when it diversified into intravenous injection, drip and infusion solutions and other pharmaceutical products, which it sold nationwide. In addition to pharmaceuticals, the group moved into the food and housing domains. Thus, the foundations of today's Otsuka group were built.



A factory during the founding era

Aiming for further growth, in the 1970s the Otsuka group began proactively expanding its businesses overseas. To maintain and even improve quality, the group insisted on local manufacturing. In addition to providing products at appropriate prices, this approach created jobs and contributed to local communities. "Otsuka-people creating new products for better health worldwide" became the philosophy of the group's factories and research institutes. The Otsuka group created new markets through numerous unique products, and its businesses diversified.



Contract signing ceremony at China Otsuka Pharmaceutical

The Otsuka group has grown into a provider of a wide variety of science-backed products and services that meet the healthcare needs of the times and the countries and regions it serves. The group has launched the new medical devices business, and has been aiming for globalization while working to develop the ideal approach in this age of heightened concern for the environment. In doing so, the group has successfully configured its diverse businesses to generate value through synergy.



Founding Era (1921–1970s)

International Expansion (1970s–2000s)

Further Development (2000s Onward)

Founding Era (1921–1970s)

The Otsuka Group Begins as Otsuka Seiyaku Kogyobu

Founding

The Otsuka group began as Otsuka Seiyaku Kogyobu, which was founded on September 1, 1921 by Busaburo Otsuka in Naruto City, Tokushima Prefecture. Naruto City had many salt pans, hence it was here that the group began business as a chemical raw material manufacturer, producing magnesium carbonate (a rubber additive) from bittern, which was a by-product of salt production.

Entrance into the Pharmaceutical Business and Nationwide Expansion

To complement its steady growth as a chemical raw material manufacturer, in 1946 the Otsuka group entered the pharmaceutical business. The group successively launched new intravenous injection, drip and infusion solutions and expanded its business throughout Japan.

Furthermore, while diversifying its businesses using its technological expertise in intravenous injection, drip and infusion solutions and chemical products, in 1953 the group launched the sterilizer/disinfectant *Oronine Ointment* as its first over-the-counter (OTC) pharmaceutical.



Busaburo Otsuka



Intravenous injection and infusion solutions from the time the IV solutions business was launched



Oronine Ointment

- 1921 Established as Otsuka Seiyaku Kogyobu
- 1940 Renamed as Otsuka Pharmaceutical Factory
- 1946 Entered the intravenous injection, drip and infusion solutions business
- 1950 Established Otsuka Chemical and Medical Products (currently Otsuka Chemical)
- 1953 Launched *Oronine Ointment*
- 1961 Established Otsuka Warehouse

From Pharmaceuticals to Food and Housing

Otsuka Pharmaceutical, Taiho Pharmaceutical, Otsuka Foods Industry (currently Otsuka Foods), Otsuka Warehouse and other group companies were established in the 1960s and 1970s, Japan's period of rapid economic growth. With the addition of Earth Corporation, the group's operating infrastructure grew substantially.

In 1965, the group launched the carbonated energy drink *ORONAMIN C DRINK* with the catchphrase *Genki Haturatsu!* ("Full of Vitality"). Born from the revolutionary idea of creating the first-ever carbonated energy drink, it went on to become one of the group's most familiar long-selling products.

In 1968, the group launched the world's first retort pouch food product *Bon Curry*. Developed using expertise cultivated in the IV solutions business, *Bon Curry* quickly became widely popular among Japanese households, revolutionizing mealtimes.



ORONAMIN C DRINK



Bon Curry

- 1963 Established Taiho Pharmaceutical
- 1964 Established Otsuka Pharmaceutical
Launched Otsuka Foods Industry (currently Otsuka Foods) through equity investment in CBC Foods Industry
Launched *Tiovita Drink*
- 1965 Launched *ORONAMIN C DRINK*
- 1968 Launched *Bon Curry*
- 1970 Equity investment in Earth Corporation

International Expansion (1970s–2000s)

Progress of Internationalization and Total Healthcare

Internationalization

Leveraging the rise of the yen against the U.S. dollar in 1971, the Otsuka group began expanding overseas with its sights set on internationalization. Beginning with the establishment of Thai Otsuka Pharmaceutical and its first office in the U.S. in Palo Alto in 1973, the group expanded into Europe, Indonesia, Taiwan, Egypt and China. Today the Otsuka group has approximately 47,000 employees working at 200 companies in 33 countries and regions worldwide. (As of December 31, 2021)

In-house Drug Discovery

With a desire to create pharmaceuticals that would contribute to global healthcare, in 1971 the group established a research institute within Otsuka Pharmaceutical's Tokushima Factory, and began in-house drug discovery.

Having discovered the potential of the carbostyryl structure, in 1980 the group launched its first in-house drug, the beta-blocker *Mikelan*. It went on to release the bronchodilator *Meptin*, and *Mucosta* for gastritis and gastric ulcers, evolving its in-house R&D and production structure in the process.

- 1973 Established Thai Otsuka Pharmaceutical, the group's first overseas operating company
Opened first office in the U.S.
- 1974 Launched *Futraful*
Opened first offices in Europe
Established P.T. Otsuka Indonesia
Established Taiwan Otsuka Pharmaceutical
- 1977 Established Arab Otsuka Pharmaceutical (currently Egypt Otsuka Pharmaceutical)
- 1980 Launched *POCARI SWEAT*
Launched *Mikelan* and *Meptin*
- 1981 Established China Otsuka Pharmaceutical
- 1982 Established Korea Otsuka Pharmaceutical



Inauguration ceremony at Thai Otsuka Pharmaceutical



Mikelan and *Meptin*



Mucosta



Anticancer drug *Futraful*

The Birth of *POCARI SWEAT*—A Replenishing Drink

Developed to replenish the water and electrolytes lost through perspiration, ion supply drink *POCARI SWEAT*, which is now one of the Otsuka group's leading products, went on sale in 1980.

The group decided to go with blue packaging for the product, despite the color being considered a taboo color for soft drinks in Japan at the time, and it initially did not receive a positive response. However, as a result of continuous visits to sports venues, supermarkets, public baths, saunas, and similar places to communicate the importance of replenishing water and electrolytes lost through perspiration and to promote the value of the product in addressing this issue, *POCARI SWEAT* is now enjoyed in more than 20 countries worldwide, predominantly Japan and other countries in Asia.



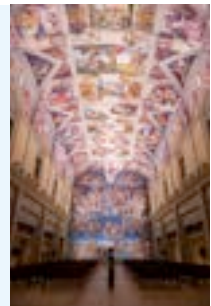
POCARI SWEAT

The World's First Art Museum Housing Ceramic Reproductions of Major Works of Art

In March 1998, the Otsuka group marked its 75th anniversary with the opening of the Otsuka Museum of Art.

Built for both educational and tourism purposes, the Otsuka Museum of Art is the only art museum in the world to house over 1,000 full-size ceramic reproductions of major works of art from around the world.

Reproduction of the Sistine Chapel ceiling at the Otsuka Museum of Art



- 1983 Launched *Calorie Mate*
- 1988 Established Otsuka Pakistan
- 1989 Established Otsuka America
Established Otsuka America Pharmaceutical
Pharmavite joined the Otsuka group
- 1990 Launched *Mucosta*
- 1998 Established the Otsuka Museum of Art
Launched *MATCH* throughout Japan
Established Otsuka Pharmaceutical Europe



Nutritionally balanced food *Calorie Mate*

Further Development (2000s Onward) Becoming a True Total Healthcare Company

The Otsuka group will continue to provide value that meets the needs of the times and the countries and regions it serves, with the aim of helping resolve social issues.

Contributions Unique to Otsuka

Since launching *ABILIFY*—the world’s first dopamine D₂ partial agonist for psychiatric treatment—in the U.S. in 2002, Otsuka Pharmaceutical has gone on to develop and sell a diverse range of unique products and services in more than 60 countries and regions worldwide. These include *Samsca/JINARC/JYNARQUE*, an original drug for a disease for which there was no known treatment, and that met the need for a diuretic that promotes the excretion of only water, without electrolyte loss. Moreover, in the oncology area—a central pillar of the group’s Pharmaceutical Business—Otsuka Pharmaceutical, Taiho Pharmaceutical, and Astex Pharmaceuticals are strategically sharing the unique, advanced technologies they have independently cultivated. Linking these technologies with its many years of expertise and experience, the Otsuka group aims to further drive sales of its four Global Products for future growth. Aiming to address unmet needs that cannot be fulfilled by pharmaceuticals alone, the group is also developing unique medical devices by combining its strengths in pharmaceuticals and clinical development with revolutionary technologies. In doing so, the Otsuka group is striving for further growth as an unrivaled total healthcare company.

- 2001 Launched *OS-1*
- 2002 Launched *ABILIFY* in the U.S.
- 2003 Launched *Amino-Value*
- 2006 Launched *SOYJOY*
- 2008 Established Otsuka Holdings
- 2009 Launched *Samsca/JINARC/JYNARQUE* in the U.S. and Europe
- 2010 Otsuka Holdings listed on the First Section of the Tokyo Stock Exchange
- 2011 Established Otsuka Medical Devices
- 2013 Launched *ABILIFY MAINTENA* in the U.S.
- 2014 Launched *LONSURF*



Providing Value to Meet New Needs

In recent years, in addition to heightened awareness of the importance of health, increasing attention is being paid to environmentally friendly food products. The Otsuka group has been moving to address needs for such products from a very early stage under the theme of social contribution. In the U.S., Daiya Foods, which develops, manufactures, and sells plant-based food products, is growing as a result of firm support from individuals with strong health awareness and new health-related values, as well as from those with food allergies. In addition, Nutrition & Santé offers a range of healthy foods including “free-from” * food products and alternative food products in more than 40 countries worldwide, mainly in Europe. In Japan, the group also sells a variety of healthy, environmentally friendly products. These include the *Bon Curry Veggie* series of products, which contain no animal-derived ingredients; two *Zero Meat* hamburger products, which were the first in Japan to acquire JAS certification as soy meat foods; and the *SOYJOY Plant-Based* series, which acquired vegan certification for their use of only plant-based ingredients.

* Food products that do not contain (are free from) specific ingredients. For example, foods that do not contain gluten are gluten-free.

- 2014 Launched *EQUELLE*
- 2015 Launched *REXULTI* in the U.S.
- 2017 Launched *BODYMAINTÉ*
- 2018 Launched *Zero Meat*
- 2021 Launched *BioMimics 3D* in Japan
- 2022 Launched the *SOYJOY Plant-Based* series



Gerblé from Nutrition & Santé



Products from Daiya Foods



SOYJOY Plant-Based series



Zero Meat



Bon Curry Veggie

Challenge New Frontiers; Do what only Otsuka can do

Addressing Unmet Needs

Aiming to generate innovation from creative, diverse research platforms in addition to its existing strengths, Otsuka Pharmaceutical is using cell and gene therapies, regenerative medicine, biologics, immune system research, and advanced digital technologies for highly innovative drug discovery in fields such as immunology, oncology, and neurodegenerative therapy. To further these efforts, and to promote close collaboration and information exchange with companies inside and outside the group, in 2022 Otsuka Pharmaceutical will open the Osaka Pharmaceutical Research Institute as a research hub to create value from a global perspective.



Image of the Osaka Pharmaceutical Research Institute

Visterra joined the Otsuka group in 2018. The company's proprietary *Hierotope*® platform technologies for antibody development use an entirely different approach to conventional methods. Using this approach, the Otsuka group aims to design and develop therapeutic antibodies for drug discovery targets and diseases that until now have been considered untreatable. In doing so, the group intends to provide pharmaceuticals to address unmet medical needs.



Initiatives in the Women's Health Market

As women's empowerment in society progresses, the Otsuka group seeks to create a world in which every individual can play an active role. To that end, the group is focusing on initiatives to tackle women's health issues throughout life.

The group provides science-backed products such as *EQUELLE*, a dietary supplement containing equol that supports women's health and beauty at a time when aging brings physical and mental changes; *tocoelle*, a complex supplement to address the psychological and physical premenstrual symptoms that are experienced by around 80% of women; and *BUP-4 LADY*, the first OTC pharmaceutical in Japan accredited for being effective against urinary urgency in women. The group also publishes women's health and health management information. Meanwhile, U.S.-based Uqora, a specialist provider of products for urinary health—a particular concern for many women—has joined the Otsuka group, which will enable the group to support women in an even wider range of fields. The group will stay closely attuned to individual needs and work to provide solutions to women's unique health issues.



EQUELLE

tocoelle

Products from Uqora



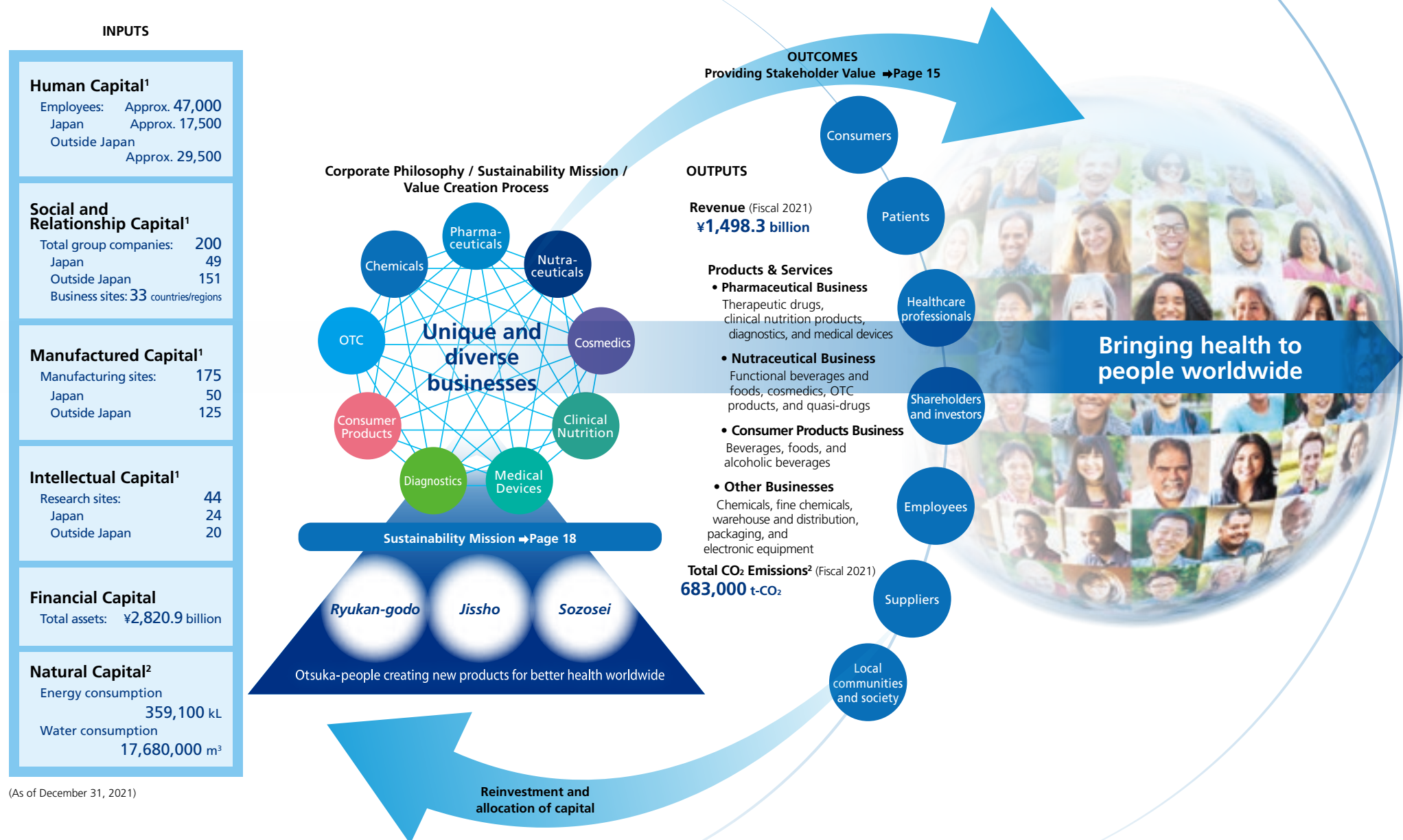
BUP-4 LADY

Founding Era (1921–1970s)

International Expansion (1970s–2000s)

Further Development (2000s Onward)

Value Creation Model



(As of December 31, 2021)

1. Data for 200 companies including Otsuka Holdings and its subsidiaries and affiliated companies
2. All manufacturing sites of the consolidated Otsuka group

Providing Stakeholder Value (Initiatives in Fiscal 2021)

Consumers, patients, and healthcare professionals	<ul style="list-style-type: none"> ● Expand product access <ul style="list-style-type: none"> • Countries/Regions where the anti-tuberculosis drug delamanid is available: More than 120 • Countries/Regions where the antipsychotic drug <i>ABILIFY MAINTENA</i> is sold: 48 • Otsuka Pharmaceutical formulated the Otsuka Global Patient Access Support Policy (July 2021) 	<ul style="list-style-type: none"> ● Contribute to the resolution of unmet needs through innovation <ul style="list-style-type: none"> • New drugs approved: 4¹ • Development projects for unmet needs: 38² • Research and development expenses: ¥232.3 billion • In-house drug discovery ratio: 76%³
Shareholders and investors	<ul style="list-style-type: none"> ● Maintain a sound financial foundation <ul style="list-style-type: none"> • Credit rating: AA⁻⁴ • D/E ratio: 0.11 • Net cash⁵ ÷ Average monthly consolidated revenue: 2.2 months 	<ul style="list-style-type: none"> ● Deliver stable returns to shareholders <ul style="list-style-type: none"> • Annual dividend per share: ¥100 ● Provide new information <ul style="list-style-type: none"> • Business briefings for institutional investors: 3⁶
Employees	<ul style="list-style-type: none"> ● Enhance employee engagement <ul style="list-style-type: none"> • Female manager ratio at Otsuka Holdings: 30.3% • Employees taking parental leave: 637 (at 19 group companies⁷) • Male employees taking parental leave: 341 (54% of above total) 	<ul style="list-style-type: none"> ● Create vibrant workplace environments <ul style="list-style-type: none"> • Group companies recognized as 2021 Certified Health & Productivity Management Outstanding Organizations by METI: 10⁸ ● Enhance measures to respect human rights <ul style="list-style-type: none"> • Formulated and implemented the Otsuka Group Human Rights Policy (March 2021) and offered necessary training
Suppliers	<ul style="list-style-type: none"> ● Further promote sustainable procurement <ul style="list-style-type: none"> • Companies that attended supplier briefings: 53 • Suppliers implementing self-assessment questionnaire (SAQ): 57 • Interviews held with suppliers: 7 	
Local communities and society	<ul style="list-style-type: none"> ● Enhance system for the realization of healthy lifestyles <ul style="list-style-type: none"> • Executed cooperation agreements with all 47 prefectures of Japan for the promotion of collaboration in health awareness activities (Otsuka Pharmaceutical) ● Provide support during COVID-19 pandemic <ul style="list-style-type: none"> • Donated relief goods and funds ● Increase utilization of renewable energy <ul style="list-style-type: none"> • Reduction in CO₂ emissions through adoption of renewable energy: 143,000 t-CO₂ 	<ul style="list-style-type: none"> ● Reassess use of raw materials <ul style="list-style-type: none"> • Launch of PET bottles made using recycled materials ● Environmental management <ul style="list-style-type: none"> • Formulated 2050 Environmental Vision, "Net Zero" • Revised medium-term goals and targets for material issues • Announced support for the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) and carried out scenario analyses

1. Quick Navi – Flu+COVID-19 Ag, Otsuka minor BCR-ABL mRNA measurement kit, AJOVY, and Moizerto

2. Unmet needs areas defined by Otsuka based on *PatientsMap2021JP* and *PatientsMap2020US*, M3 & SSR1

3. In-house drug discovery ratio among late-phase development projects (Phase 3 onward)

4. Rating and Investment Information, Inc.

5. Net cash = Cash and cash equivalents – (Borrowings + Bonds)

6. Briefing on Tuberculosis Initiatives, Briefing on Daiya Business for Institutional Investors, and Briefing on Pharmavite Business for Institutional Investors

For briefing materials, visit: <https://www.otsuka.com/en/ir/library/briefing.html>

7. Domestic: Otsuka Holdings, Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Warehouse, Otsuka Chemical, Otsuka Foods, Otsuka Medical Devices, Otsuka Electronics, Otsuka Techno, Okayama Taiho Pharmaceutical, Otsuka Packaging Industries, Otsuka Ohmi Ceramics, Higashiyama Film, Otsuka Wellness Vending, and JIMRO Overseas: Otsuka Pharmaceutical Development & Commercialization, Otsuka America Pharmaceutical, and Pharmavite

8. Otsuka Holdings, Otsuka Pharmaceutical, Taiho Pharmaceutical, Earth Corporation, Otsuka Pharmaceutical Factory, Otsuka Pharmaceutical Health Insurance Association, Otsuka Medical Devices, Otsuka Wellness Vending, Otsuka Electronics, and JIMRO

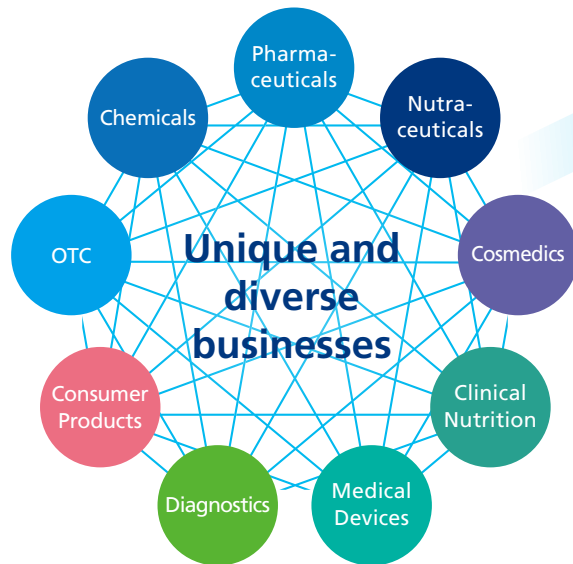
Value Creation Process That Generates Originality

Taking on the challenge of doing what only Otsuka can do

The originality of Otsuka is generated from the combination of unique and diverse businesses. We are attempting to create new value using our unique standing as a total healthcare company involved in diverse businesses.

Diverse businesses

The Otsuka group boasts a wealth of human resources with diverse expertise and experience, and has accumulated various technological and scientific assets.



Utilize links between businesses

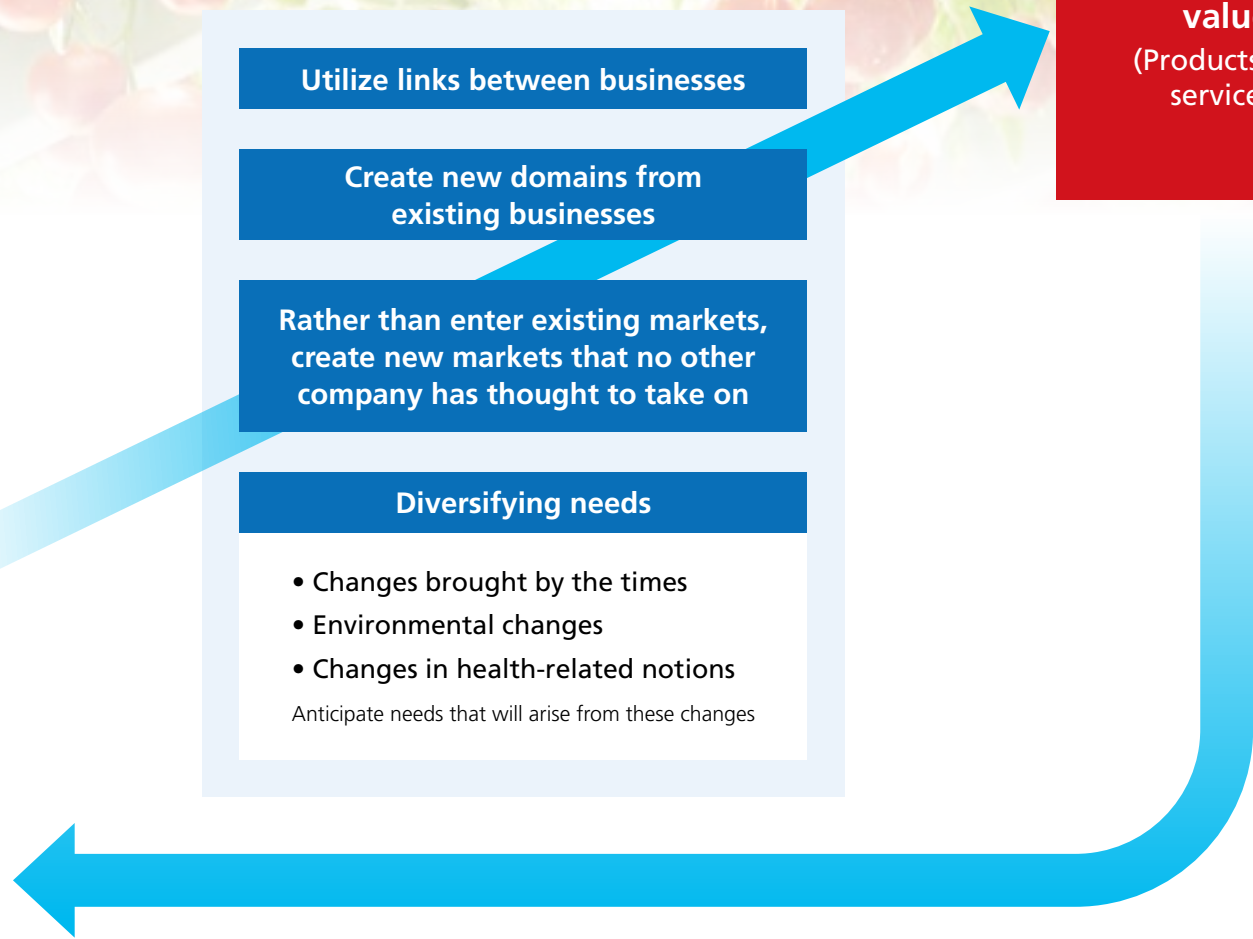
Create new domains from existing businesses

Rather than enter existing markets, create new markets that no other company has thought to take on

Diversifying needs

- Changes brought by the times
 - Environmental changes
 - Changes in health-related notions
- Anticipate needs that will arise from these changes

New original value
(Products and services)



Value Creation Process That Generates Originality

What only Otsuka can do: Otsuka's Strengths

People are the source of our strengths. Since Otsuka's establishment in 1921, employees everywhere have pursued business guided by our enduring corporate philosophy in order to bring health to people worldwide. Through their determination, we have developed many strengths. The six strengths described below are a representative sample. Otsuka group employees utilize these and other strengths in working to maximize effects and contributing to the health of people around the world.

An enduring corporate philosophy and essence of management, passed down and practiced throughout the group

33 countries/regions

Our corporate philosophy is displayed prominently in offices in every country and region where we do business

Through communication of our corporate philosophy and essence of management, Otsuka employees around the world work to do what only Otsuka can do to contribute to the health of people worldwide.

A business model centered on total healthcare

Social well-being
Physical well-being
Mental well-being

Contributing to three aspects of health

We provide a variety of science-based products and services that meet the specific healthcare needs of the times in each community.

An unwavering quest for originality

In-house drug discovery ratio: **76%**¹
Development projects for unmet needs: **38** projects²

We continue to take on the challenge of revolutionary products and services by striving for creativity in all value chains and always looking for opportunities to make unique Otsuka innovations.

1. In-house drug discovery ratio among late-phase development projects (Phase 3 onward)
2. As of December 2021; unmet needs areas defined by Otsuka based on *PatientsMap2021JP* and *PatientsMap2020US*, M3 & SSRI

A global reach incorporating solutions to social issues through our core business processes

IV solutions business overseas companies: **16**³
Countries/Regions where *POCARI SWEAT* is available: **More than 20**
Countries/Regions where the anti-tuberculosis drug delamanid is available: **More than 120**

We are extending our global reach by addressing social issues that differ in each country/region depending on culture, customs, and the times.

3. Number of companies engaged in the IV solutions business. Many of these companies also export products to neighboring countries, thereby making a meaningful contribution to medical care in those countries.

An ability to nurture enduring brands

Top-share products by pharmaceutical category⁴:
8 in Japan, **3** outside Japan
Share of consumers with the experience of using *POCARI SWEAT*: **87.7%**⁵

We are developing each product's brand by tenaciously communicating the value of our revolutionary products, and in doing so aim for sustainable growth and further enhancement of our corporate value.

4. Copyright © 2022 IQVIA. Created based on annual category totals for the past 10 years, including IQVIA MIDAS 2011 to 2021 and Otsuka research. Categories defined by Otsuka. Reprinted with permission.
5. November 2021 survey in Japan conducted by Otsuka

A solid financial foundation and strong earnings power that drive sustainable growth

Rating: **AA-**⁶
Business profit margin of Nutraceutical Business: **12.4%**⁷

We are cultivating a solid financial foundation and strong earnings power whereby nutraceuticals and IV solutions generate stable earnings and act as a base, while therapeutic agents, which are a driver of growth, fund ongoing investment in creative new areas befitting Otsuka.

6. Rating and Investment Information, Inc.
7. Average for the previous three years (For reference: average operating profit margin of S&P Food & Beverage Select Industry Index constituents for the previous three years: 8.2%)

Creating Future Value That Leads to Originality

The Otsuka Group's Approach to Sustainability

The Otsuka group has determined its material issues to be *society (health, people, quality in all we do)*, *environment (carbon neutrality, circular economy, water neutrality)*, and *governance*, and worked as a group to achieve its 2030 goals.



Process for Determining Materiality (Material Issues)

Materiality is initiatives that Otsuka is focused on. To determine the Otsuka group's material issues, we first compiled a list of social issues, referencing a range of international guidelines and frameworks, including ISO 26000, GRI, and the U.N. SDGs. We narrowed down the list of issues by evaluating them in terms of their importance, taking into account our ability to contribute to a solution, their impact on business, and our strengths.

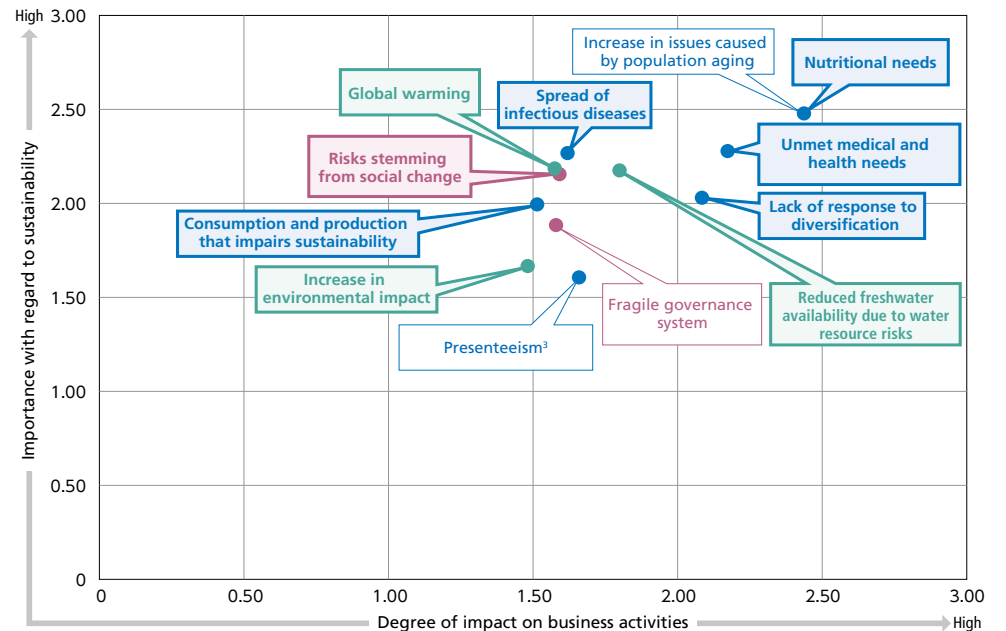
Issues were then discussed by the Sustainability Promotion Committee¹ and approved at the Otsuka Holdings Board of Directors meeting.

- 1 Identification of social issues with reference to respective international guidelines**
- 2 Assessment of social issues that our business activities can contribute to solving and their importance**
- 3 Determination of material issues by the Sustainability Promotion Committee from the viewpoint of their impact on society and on the Otsuka group**
- 4 Approval at the Otsuka Holdings Board of Directors meeting**

1. The Sustainability Promotion Committee promotes sustainability throughout the Otsuka group. The committee's responsibilities include discussing and deciding on the direction and plans for sustainability activities. The Otsuka Holdings director in charge of sustainability promotion serves as the committee chair. Committee members comprise group managers of departments relating to sustainability and the sustainability officers of each company.

Map of Social Issues²

We compiled a list of social issues relevant to the Otsuka group's businesses and created a map of social issues considering their importance in terms of sustainability and degree of impact on business activities.



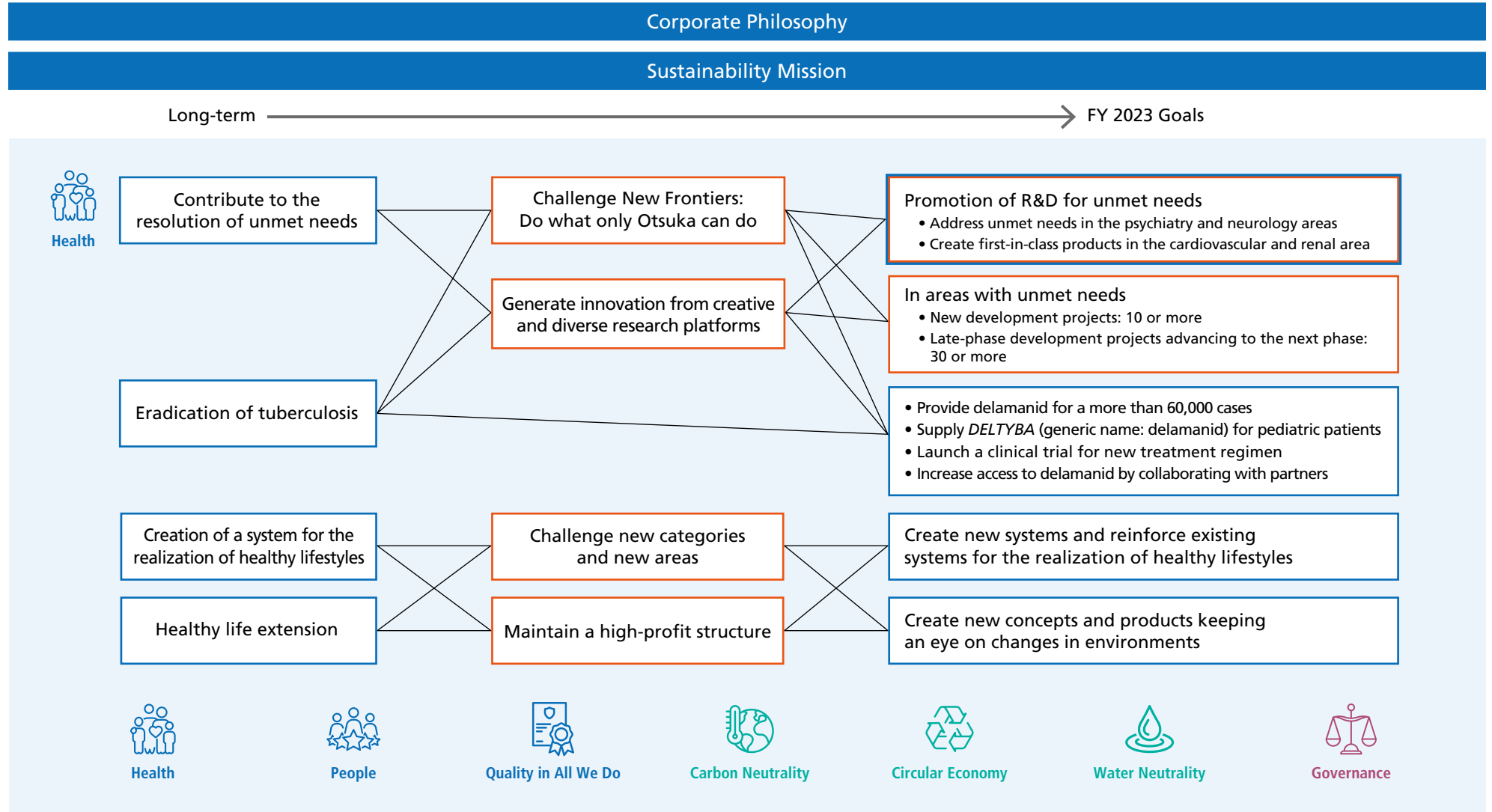
2. Issues in bold are the nine priority social issues

3. A situation in which, despite coming in to work, productivity does not increase due to the employee's poor mental and physical condition















The Otsuka Group's Approach to Sustainability

Relationship between Materiality and the Medium-Term Management Plan

□ Description of Materiality □ Description of MTM Plan



Materiality (Material Issues)

Materiality		Social Issues	Our Goals	Our Activities	Related SDGs
 Society (Healthier Society)	 Health	<ol style="list-style-type: none"> Unmet medical and health needs Spread of infectious diseases Nutritional needs Increase in issues caused by population aging 	<ul style="list-style-type: none"> Contribution to the resolution of unmet needs Eradication of tuberculosis Creation of a system for the realization of healthy lifestyles Healthy life extension 	<ul style="list-style-type: none"> Promotion of R&D for unmet needs R&D of anti-tuberculosis drugs and improvement of drug access Support and awareness activities for people's health maintenance/improvement, mainly on exercise and nutrition, etc. Promotion of problem solving by strengthening partnerships 	
	 People	<ol style="list-style-type: none"> Presenteeism¹ Lack of response to diversification 	<ul style="list-style-type: none"> Creation of a corporate culture that stimulates creativity Enhance employee engagement 	<ul style="list-style-type: none"> Human resource development Diversity promotion Health and productivity management 	
	 Quality in All We Do	<ol style="list-style-type: none"> Consumption and production that impairs sustainability 	<ul style="list-style-type: none"> Gaining stakeholder trust Pursuing sustainability at all levels of the value chain Establishing a quality assurance system for safety and security 	<ul style="list-style-type: none"> Sustainable procurement and product design Thorough quality control and stable supply Responsible promotional activities and information provision Deepening communication with stakeholders Promotion of "Consumer-oriented management" 	
 Environment (Healthier Planet)	 Carbon Neutrality²	<ol style="list-style-type: none"> Global warming 	<ul style="list-style-type: none"> 2028 target: Reduce 50% in CO₂ emissions compared to 2017 	<ul style="list-style-type: none"> Reduce CO₂ emissions throughout the value chain 	
	 Circular Economy³	<ol style="list-style-type: none"> Environmental load increase 	<ul style="list-style-type: none"> 2028 target: Reduce 50% in simple incineration and landfill disposal compared to 2019 2030 target: 100% content of recycled and plant-based materials in our PET bottles 	<ul style="list-style-type: none"> Reduce environmental impact by improving resource efficiency Promotion of business activities aimed at sustainability for both society and the earth 	
	 Water Neutrality⁴	<ol style="list-style-type: none"> Reduced freshwater availability due to water resource risks 	<ul style="list-style-type: none"> 2028 target: Expand the plant water management program to all locations globally 2028 target: Develop a water use strategy for business locations in water-stressed areas 	<ul style="list-style-type: none"> Understanding water resource risks Management and effective use of water resources 	
 Governance	<ol style="list-style-type: none"> Fragile governance system Social change risk 	<ul style="list-style-type: none"> Long-term improvement of corporate value 	<ul style="list-style-type: none"> Strengthen corporate governance Thorough compliance Risk identification, evaluation and management 		

1. A situation in which, despite coming in to work, productivity does not increase due to the employee's poor mental and physical condition

2 Sustainable energy use

3 Sustainable use of raw materials

4 Sustainable use of water resources

Fiscal 2023 Goals and Fiscal 2021 Progress

Among the 12 social issues determined to be Otsuka group's materiality, we selected nine issues that we regard as especially important at present, and set goals related to them for fiscal 2023.

Social Issues	FY 2023 Goals	FY 2021 Progress
1	<ul style="list-style-type: none"> Promotion of R&D for unmet needs Address unmet needs in the psychiatry and neurology areas Create first-in-class products in the oncology area Create first-in-class products in the cardiovascular and renal area In areas with unmet needs <ul style="list-style-type: none"> New development projects: 10 or more Late-phase development projects advancing to the next phase: 30 or more 	<ul style="list-style-type: none"> In areas with unmet needs New development projects: 15 projects¹ Late-phase development projects advancing to the next phase: 15 projects¹
2	<ul style="list-style-type: none"> Provide delamanid for more than 60,000 cases Supply <i>DELTYBA</i> (generic name: delamanid) for pediatric patients Launch a clinical trial for new treatment regimen Increase access to delamanid by collaborating with partners 	<ul style="list-style-type: none"> Provided delamanid for 60,000 cases ahead of schedule, in more than 120 countries/regions <i>DELTYBA</i> approved for pediatric patients in Europe in October 2021 Determined to conduct clinical trial for new three-drug combination therapy regimen that includes OPC-167832 and delamanid
3	<ul style="list-style-type: none"> Challenge new categories and new areas Create new systems and reinforce existing systems for the realization of healthy lifestyles Create new concepts and products keeping an eye on changes in environments 	<ul style="list-style-type: none"> Executed comprehensive cooperation agreements on health with all 47 prefectures in Japan and other local governments, and promoted collaboration in health and other fields Raised awareness of proper hydration and electrolyte replenishment Continued to hold Women's Health Seminars More than 30 years of publishing the Otsuka Health Comic Library Cumulative total OATHAS² registrants: Approximately 21,000
6	<ul style="list-style-type: none"> Further instill the corporate culture and philosophy Build systems for ongoing human resource development aligned with changes in society and the times Further promote and instill diversity as a source of innovation Build new systems to maintain more comfortable working environments 	<ul style="list-style-type: none"> Cumulative total participants in the executive human resource development programs of Otsuka Global Academy (OGA): 203³ Cumulative total participants in Health Seminars: Approximately 2,800
7	<ul style="list-style-type: none"> Suppliers implementing self-assessment questionnaire (SAQ): 200 Pursuing sustainability at all levels of the value chain Sustainable procurement Conduct supplier briefings For 160 suppliers Original goal: Over 30 times/companies by fiscal 2023 	<ul style="list-style-type: none"> Cumulative total of companies implementing SAQ: 137 Cumulative total of companies participating in supplier briefings: 126 Stable supply of products during the COVID-19 pandemic Held the Global Production Meeting, "Manufacturing Errors" Workshop, and Environmental Management Information Exchange Meeting
8	<ul style="list-style-type: none"> Reduce CO₂ emissions by introducing renewable energy and maximizing energy efficiency Reduce CO₂ emissions throughout the value chain 	<ul style="list-style-type: none"> Announced support for the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) and carried out risk analyses
9	<ul style="list-style-type: none"> Reduce environmental impact through enhanced resource efficiency Promote business activities that aim for social and environmental sustainability 	<ul style="list-style-type: none"> Began sales of PET bottles using recycled PET resin
10	<ul style="list-style-type: none"> Analyze and ascertain risks regarding sustainable water usage Ensure effective use and management of water resources 	<ul style="list-style-type: none"> Formulated plan to create water resource management program
12	<ul style="list-style-type: none"> Build a system to strengthen compliance within the group Strengthen corporate governance to further raise effectiveness Build a governance system capable of global business development and response to various changes 	<ul style="list-style-type: none"> Carried out activities for directors to raise effectiveness Board of Directors meeting attendance rate: 100% Implemented the Otsuka Group Global Anti-Fraud Policy Launched basic cyber security training program

1. Cumulative total since 2019

2. Otsuka Advanced Training for Healthy Aging Supporters: A program that supports pharmacies as health information hubs with strong connections to local communities

3. As of December 31, 2021

4. Cumulative total since 2019

5. Includes carbon-neutral electricity utilizing certificates equal to renewable energy that does not emit CO₂

6. Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, and Otsuka Foods

Message from the CFO

We will practice business management with an awareness of capital cost, and pursue sustainable growth and enhanced corporate value by maximizing business value and making investments for growth.



Yuko Makino
Executive Director, CFO
Otsuka Holdings Co., Ltd.



Progress in the Third Medium-Term Management Plan

Overview of the Plan

The period of the Third Medium-Term Management Plan is positioned as a five-year growth phase to "Advance in the Global Market as a Unique Total Healthcare Company." In the Pharmaceutical Business and the Nutraceutical Business, we will maximize existing business value and create new value, and conduct business management with a corporate-wide awareness of capital cost, and thereby maintain sustainable growth while at the same time making investments for growth and ensuring returns to shareholders.

Progress in the Middle Year (Fiscal 2021) of the Third Medium-Term Management Plan

In fiscal 2021, our business was impacted by a variety of events such as the COVID-19 pandemic, soaring raw material prices, and supply chain disruptions, but we have been able to overcome these issues by harnessing our strengths in conducting broad-ranging business as a unique total healthcare company.

We achieved revenue of 1,498.3 billion yen for the year, an increase of 75.5 billion yen from the previous year mainly from an increase of around 90 billion yen in revenue from the four Global Products in the Pharmaceutical Business and the three Major Brands and three Nurture

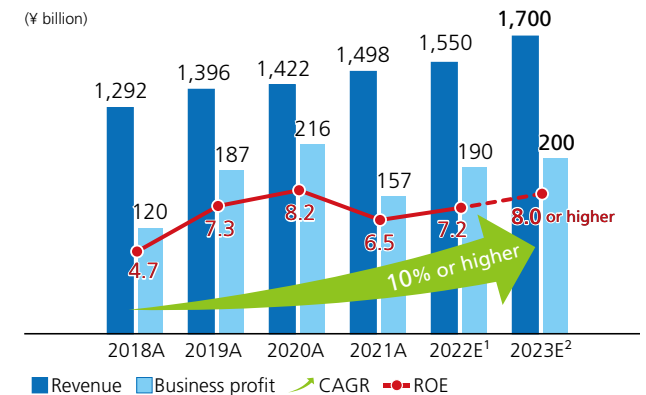
Brands of the Nutraceutical Business, overcoming loss of revenue due to the expiration of major co-promotion agreements. Business profit was 157.1 billion yen, a decrease of 59.8 billion yen from the previous year, as solid growth in existing businesses was outweighed by an increase in expenses due to one-time factors and the early deployment of investments for growth. ROE was 6.5% and ROIC was 5.6%.

Our initial targets for the middle year of the Third Medium-Term Management Plan were 1,500 billion yen in revenue, 160 billion yen in business profit, and ROE of 6.0% or higher. Excluding the aforementioned expenses due to one-time factors, revenue would be 99.9% of the target, business profit 15.8% above target, and ROE on target.

Results under the Third Medium-Term Management Plan

Fiscal 2023 Targets

- Revenue **¥1,700 billion**
- Business profit **¥200 billion (CAGR 10.0% or more)**
- ROE **8.0% or higher**



1. Announced February 2022

2. Announced May 2019

Message from the CFO

However, a variety of risks—including those relating to geopolitics, interest rates, and exchange rate fluctuation—continue to make for an unpredictable operating environment in fiscal 2022 and beyond. We will keep a close eye on their potential impact on our business and respond flexibly in a timely manner to meet the targets of the Medium-Term Management Plan.

Plan for Fiscal 2022

As we made upfront investments in the period up to and including fiscal 2021, we foresee further growth in the four Global Products of the Pharmaceutical Business, as well as *POCARI SWEAT* and supplements in the Nutraceutical Business. Therefore, for fiscal 2022 we forecast revenue of 1,550 billion yen, a year-on-year increase of 51.7 billion yen. We forecast business profit of 190 billion yen, a year-on-year increase of 32.9 billion yen, led by ongoing growth in existing businesses and increased revenue from new product launches. Our forecast is ROE of 7.2%, a year-on-year increase of 0.7 points, and ROIC of 6.6%, a year-on-year increase of 1.0 points. We will

pursue progress toward these targets in line with the Third Medium-Term Management Plan.

Measures for Enhancing Corporate Value

(1) Maximizing Existing Business Value through ROIC Management

One aim of the Third Medium-Term Management Plan is to embed a commitment throughout the group to focus on: maximization of existing business value as well as new value

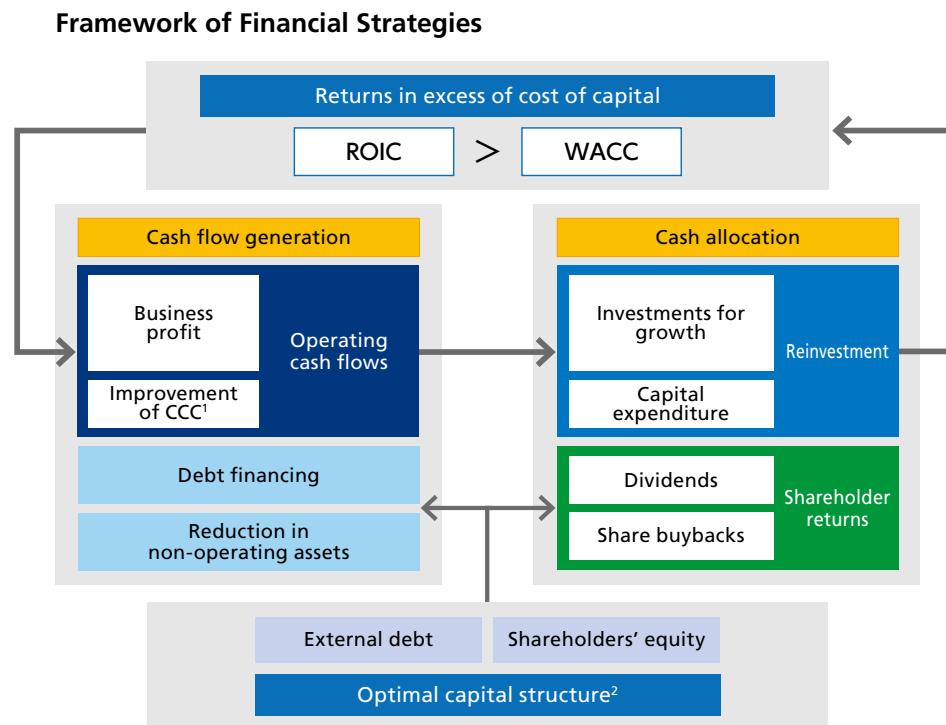
creation in our core businesses of pharmaceuticals and nutraceuticals while being conscious of capital costs in our business operations. This commitment will lead to maximizing cash returns from existing business, allocating that generated cash to reinvest in future growth areas, and to appropriately making stable and ongoing shareholder returns.

During the Third Medium-Term Management Plan, we will work to implement a corporate-wide awareness of capital cost, and as such we have set the weighted average cost of capital (WACC) benchmark for the Otsuka group at 5.5%.

We are focusing on embedding ROIC management during the Third Medium-Term Management Plan in order to secure stable returns on business activities in excess of the cost of capital. In addition to pursuing maximization of revenues, we will aim to achieve better cost management, improved business management tailored to each business and product, and more efficient asset and liability management that is closely aligned to the balance sheet—one of the major factors for ROIC management. Thoroughly implementing this approach will lead to higher cash returns from businesses. Specific measures aimed at establishing ROIC management are outlined below.

Maximizing Revenues from Existing Businesses

We will maximize revenues from our two core businesses: the Pharmaceutical Business and the Nutraceutical Business. In the Pharmaceutical Business, we are two years ahead of schedule, having achieved our final year revenue targets for the four Global Products under the Medium-Term Management Plan. In the Nutraceutical Business, we are aiming for faster growth through a further major expansion of the three Major Brands and by better conveying the value provided by the three Nurture Brands. In the supplement business in particular, higher



1. Cash Conversion Cycle

2. The optimal mix between external borrowing and shareholders' equity

Message from the CFO

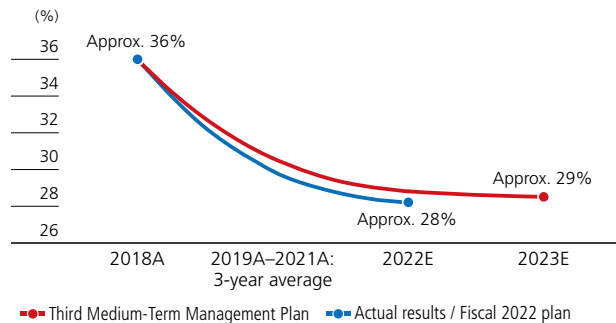
levels of health consciousness and greater trust in our brands and quality are generating revenue growth.

Cost Efficiency in Existing Businesses

As to launched pharmaceutical products, we have set selling, general and administrative (SG&A) expense ratio targets and seek to make efficient use of costs by carefully controlling expenses. Our goal for the SG&A expense ratio in the final year of the Third Medium-Term Management Plan is approximately 29%, which we aim to achieve ahead of time.

In the Nutraceutical Business, amid aggressive investment by competitors, we are striving for efficient, disciplined control of costs through unique methods of communicating product value.

SG&A Expense Ratio of Pharmaceutical Products Already on the Market



Corporate Department Initiatives

The corporate department supports cost efficiency at indirect departments and smooth business operations by enhancing the business foundation group-wide. While strengthening governance through a management

structure that encompasses our operations in multiple regions—Japan, North America, Europe, Asia, and China—we are also looking to expand shared services, strengthen our IT platform, promote intragroup financing, and optimize procurement functions. One example of intragroup financing is our adoption of a cash management system for each region. This system leads to more efficient funding among Otsuka group companies in each region, reduces the need for external borrowing, reduces interest payments, and contributes to our ability to generate cash.

Corporate Department Initiatives in Each Region

Initiatives in each region	
Japan	Established Otsuka Business Support in 2019. Standardization and efficiency initiatives in human resources, IT, and accounting.
North America	Standardization and efficiency initiatives in human resources, procurement, finance, and IT, centered on Otsuka America.
Europe	Established Otsuka Holdings Europe in Germany in 2021; began standardization and efficiency initiatives for work processes.
Asia	Standardization and sharing initiatives for finance work processes.
China	Efficiency initiatives for human resources, finance, IT, audit, and compliance work processes, centered on Otsuka (China) Investment.

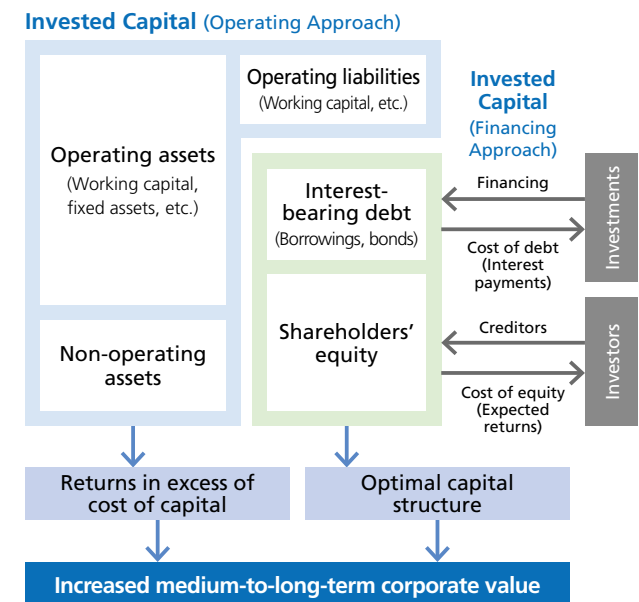
A Close Eye on the Balance Sheet

Looking at invested capital from the assets perspective, we will emphasize efficient management of operating assets, strive to maintain appropriate inventory levels, control working capital, strengthen management of fixed assets, and periodically review shares held for business strategic purposes. Meanwhile, we will continue to address the issue of non-operating assets including idle fixed assets, either by finding ways to make effective use of them in our businesses or by selling them off.

From the financing perspective, we will stabilize our financial base and improve capital efficiency by reducing interest-bearing debt. If external financing is required, we will do so on a case-by-case basis based on a comprehensive assessment of the cost and time required to access the funds, balance in terms of debt-to-equity ratio and other metrics, and credit rating. In this way, we ensure the optimal balance between interest-bearing debt and shareholders' equity in our capital structure.

To embed thorough ROIC management group-wide, we must improve not only short-term capital efficiency, but medium-to-long-term corporate value as well. From a financial standpoint, we must build a stable financial base in order to continue doing what only Otsuka can do. Such

ROIC Management from an Invested Capital Perspective



Message from the CFO

a base will in turn help us contribute to society by paving the way for innovation.

(2) Framework of Financial Strategies to Support New Value Creation

Source of Funds for Investments for Growth

In principle, investments for growth are funded through the reinvestment of cash returns generated from businesses, and through effective use of funds from the cash management system established within the Otsuka group in Europe, North America, and Japan. Where external procurement of cash is required, we are always prepared to implement the full range of options, including commercial paper, corporate bonds, bank loans, and share issues. When selecting the optimal approach, we take into account factors such as credit rating, financial security, and the cost and time required, thereby ensuring our ability to act in a timely manner on business opportunities when they arise.

Allocation of Funds for Growth Investments

At the Otsuka group, we see investment as a vehicle for pursuing innovation that enables us to contribute to society. We will continue to pursue investments with the potential to increase corporate value and our social contribution. When reallocating funds for investment, our position continues to be that funds need not necessarily be allocated within their original portfolio segment (such as to a specific business, product, or region within the Pharmaceutical Business or Nutraceutical Business), but that different segments should help each other out with cash for investment.

For instance, *ABILIFY* generated large-scale revenues. Cash from *ABILIFY* was used not only to diversify the Pharmaceutical Business's revenue structure and promote globalization of our business so as to avert the risk of

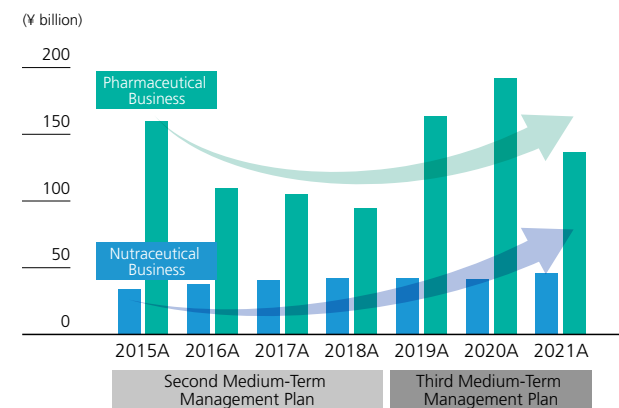
impending patent expiration during the Second Medium-Term Management Plan period, but also to fund investments for organic growth in the Nutraceutical Business.

By business segment, in the Pharmaceutical Business we are directing funds toward ongoing investments in R&D aimed at enhancing our products and pipelines in core areas such as the psychiatry and neurology area, the oncology area, and the cardiovascular and renal area. In addition, investments are targeted at creating new value to meet unmet medical needs, including diseases with no existing therapeutic drugs; in new concepts that integrate drugs with digital technologies, such as *ABILIFY MYCITE*; and in medical devices that apply new approaches such as ultrasound renal denervation treatment. By refining manufacturing technologies, enhancing product quality, and implementing rationalization measures, the clinical nutrition business has achieved stable cash generation in the Japanese market. To link this to success in overseas growth markets, we are allocating funds not only by business area, but also by regional market.

In the Nutraceutical Business, we are reallocating cash earned from the three Major Brands to the creation of new categories and expanding into new regions. We will build brands and strengthen manufacturing and marketing structures for the three Nurture Brands by making proactive investments that will better convey the value of our products.

Through aggressive investments in the Pharmaceutical and Nutraceutical Businesses we have established a structure in which the two businesses are both inseparable—like two wheels of a cart—but also capable of supporting each other in terms of revenues and profit during the period of the Third Medium-Term Management Plan. While the Pharmaceutical Business is susceptible to ups and downs in revenues and profits due to factors such as the expiration of exclusive licenses, the Nutraceutical

Business Profits in the Pharmaceutical and Nutraceutical Businesses



Business's steady generation of profits has enabled the group as a whole to sustain stable growth.

(3) Shareholder Returns Policy

Our basic policy for shareholder returns is to maintain stable dividends. While emphasizing the continuity and stability of dividends, we carefully consider the amount of dividends, comprehensively weigh issues such as appropriate levels of retained cash for investments for growth, maintaining a solid financial standing, and achieving the optimal capital structure.

As a core tenet of our financial strategy, we have continued to issue stable dividends during the Third Medium-Term Management Plan period, despite short-term fluctuations in performance. Moving forward, we will consider further shareholder returns depending on circumstances, which include the outlook of investments for growth targeting increased profit under subsequent medium-term management plans, and the group's overall financial situation.



How We Will Create Value

Further Advancing as a Unique Total Healthcare Company

As a comprehensive provider of a diverse range of science-based products and services, the Otsuka group's growth has been underpinned by our dedication to addressing healthcare needs in accordance with the times and the characteristics of the communities we serve. The social issues faced by countries and regions differ depending on local cultures and customs, and are constantly evolving. By identifying and helping to resolve these changing social issues, we continue to expand globally. We are devoted to supplying products and services that can help more countries and regions overcome their challenges.

Business Strategy:

Existing Business Value Maximization and New Value Creation

- Strengthen strategic initiatives for growth drivers four Global Products in the Pharmaceutical Business; three Major Brands and three Nurture Brands in the Nutraceutical Business
- Launch and nurture new drivers for sustainable growth in Pharmaceutical and Nutraceutical Businesses

Performance Target:

Business Profit CAGR of 10% or More

- Organic growth of mainstay products and brands in Pharmaceutical and Nutraceutical Businesses
- Actively invest in R&D to continue creating new drugs that will drive revenue during and beyond the next medium-term management plan

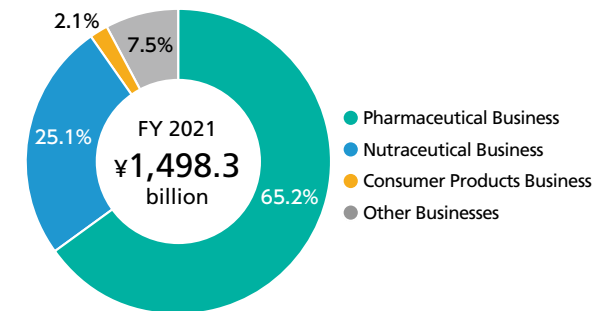
Third Medium-Term Management Plan Targets (FY 2023)	Revenue: ¥1,700 billion
	Business profit: ¥200 billion (CAGR of 10% or more)
	ROE: 8.0% or higher

Progress of the Third Medium-Term Management Plan

Overview of Fiscal 2021

Fiscal 2021, the third year of the Third Medium-Term Management Plan, saw ongoing social uncertainty due to the COVID-19 pandemic, which also had an impact on the Otsuka group's business activities. However, despite restrictions on sales activity and reduced consumption, we took heightened health awareness as a growth opportunity, and leveraged our true value as a unique total healthcare company. As a result, we maintained solid growth, achieving revenue of 1,498.3 billion yen, an increase of 5.3% from the previous year.

Revenue by Business Segment



Outcomes and Progress

Total healthcare company

- Disseminate and provide new value as a unique total healthcare company in response to new social issues caused by the pandemic
- Adapt to environmental changes and tailor the Third Medium-Term Management Plan

Results

- Fiscal 2021 results are progressing in line with Third Medium-Term Management plan targets
- Pharmaceuticals | Four Global Products sales achieved Third Medium-Term Management Plan targets two years ahead of schedule
- Nutraceuticals | Profitability has reached one of the highest in the Japanese food sector

Growth strategy

- Strengthen pipeline in psychiatry and neurology area
- Enrich pipeline for Japan business
- Nutraceuticals | New categories (women's health, plant-based foods)
- Achieve *Nature Made* target as a "100 billion-yen-brand"

Further Advancing as a Unique Total Healthcare Company

Among the Otsuka group's materialities, we set specific goals for three health-related social issues (unmet medical and health needs, spread of infectious diseases, and nutritional needs) under the Third Medium-Term Management Plan (ending in fiscal 2023), and are making progress toward meeting these goals.

Social Issues	Unmet medical and health needs	Spread of infectious diseases	Nutritional needs
Goals	Contribute to the resolution of unmet needs	Eradication of tuberculosis	Creation of a system for the realization of healthy lifestyles
FY 2023 Goals	<p>Promotion of R&D for unmet needs</p> <ul style="list-style-type: none"> Address unmet needs in the psychiatry and neurology areas Create first-in-class products in the oncology area Create first-in-class products in the cardiovascular and renal area <p>In areas with unmet needs</p> <ul style="list-style-type: none"> New development projects: 10 or more Late-phase development projects advancing to the next phase: 30 or more 	<ul style="list-style-type: none"> Provide delamanid for more than 60,000 cases Supply <i>DELTYBA</i> (generic name: delamanid) for pediatric patients Launch a clinical trial for new treatment regimen Increase access to delamanid by collaborating with partners 	<ul style="list-style-type: none"> Challenge new categories and new areas Create new systems and reinforce existing systems for the realization of healthy lifestyles Create new concepts and products keeping an eye on changes in environments
FY 2021 Progress	<p>In areas with unmet needs¹</p> <ul style="list-style-type: none"> New development projects: 15 projects² Late-phase development projects advanced to the next phase: 15 projects² 	<ul style="list-style-type: none"> Provided delamanid for 60,000 cases ahead of schedule, in more than 120 countries/regions <i>DELTYBA</i> approved for pediatric patients in Europe in October 2021 Determined to conduct clinical trial for new three-drug combination therapy regimen that includes OPC-167832 and delamanid Continued participation in Pan-TB collaboration and accelerated the development of new TB treatment regimen Delamanid supplied through the Global Drug Facility (GDF) of the Stop TB Partnership and alliance partners Continued participation in the Global Health Innovative Technology Fund (GHIT Fund) 	<ul style="list-style-type: none"> Executed cooperation agreements on health with all 47 prefectures in Japan and other local governments, and promoted collaboration in health and other fields Raised awareness of proper hydration and electrolyte replenishment Continued to hold Women's Health Seminars More than 30 years of publishing the Otsuka Health Comic Library Cumulative total OATHAS registrants: Approximately 21,000 Ongoing provision of the <i>Kenko Shacho</i> ("Healthy President") service Expanded dietary education to communicate the importance of good nutrition Support for disasters and emergencies Support for the Tokyo Marathon Support for the Inter-High School Championships

1. Unmet needs areas defined by Otsuka based on *PatientsMap2021JP* and *PatientsMap2020US*, M3 & SSRI

2. Cumulative total since 2019

Further Advancing as a Unique Total Healthcare Company

Pharmaceutical Business

The Third Medium-Term Management Plan calls on us to maximize existing business value, to challenge new frontiers by doing what only Otsuka can do, and to generate innovation from creative and diverse research platforms. We will take advantage of this strategic framework to position our four Global Products—*ABILIFY MAINTENA*, *REXULTI*, *Samsca/JINARC/JYNARQUE* and *LONSURF*—as growth drivers. With a focus on increasing revenue from these Global Products, we will continue to develop the business as we work to achieve the plan target of 1,080 billion yen in revenue in fiscal 2023.

The Otsuka group focuses on unmet medical and health needs as a social issue. In fiscal 2021, in unmet needs areas*

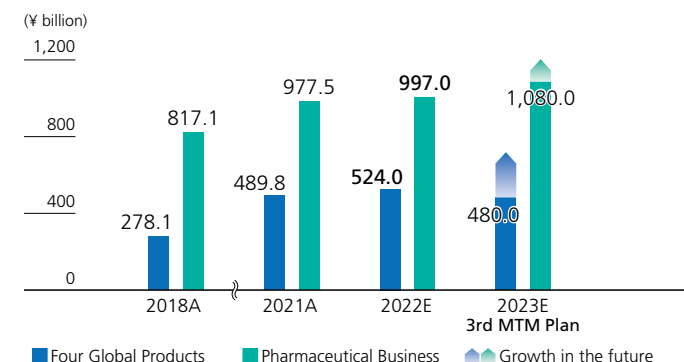
we began six new development projects (15 projects since fiscal 2019) and advanced six late-phase development projects to the next phase (15 projects since fiscal 2019).

* Unmet needs areas defined by Otsuka based on *PatientsMap2021JP* and *PatientsMap2020US*, M3 & SSRI

Progress of Four Global Products

For the four Global Products, we expanded regions and added indications overseas, and worked to increase awareness of convenient dosage formulations of our drugs. Revenue in fiscal 2021 rose 14.0% from the previous year to 489.8 billion yen, achieving the 480 billion yen target of the Third Medium-Term Management Plan two years ahead of schedule.

Progress of the Third Medium-Term Management Plan



(¥ billion)	FY 2020 revenue	FY 2021 revenue	Year-on-year	FY 2022 revenue plan	Growth rate
<i>ABILIFY MAINTENA</i>	116.0	130.3	+12.3%	143.5	+10.2%
<i>REXULTI</i>	104.6	121.1	+15.7%	130.0	+7.4%
<i>Samsca/JINARC/JYNARQUE</i>	168.3	192.4	+14.3%	199.0	+3.4%
<i>LONSURF</i>	40.7	46.1	+13.1%	51.5	+11.8%
Total	429.7	489.8	+14.0%	524.0	+7.0%

ABILIFY MAINTENA

aripiprazole | Antipsychotic long-acting injectable

As a global treatment for schizophrenia, there is increased awareness of this drug's efficacy claims and convenient dosage formulation. Following U.S. approval in 2017 for an additional indication for the treatment of bipolar disorder, prescriptions are increasing. Prescriptions are also increasing in Japan following approval for an additional indication for the treatment of bipolar disorder in September 2020.

REXULTI

brexpiprazole | Atypical antipsychotic

Marketed as an adjuvant treatment for major depressive disorder and as a treatment for schizophrenia in the U.S., this drug is highly evaluated for its efficacy and safety as a new treatment option for both diseases. In Japan, where the drug is marketed as a treatment for schizophrenia, we began sales of orally disintegrating tablets in November 2021. In Europe, sales began from April 2019.

At present, several clinical trials are under way with the aim of further contributing to treating unmet needs in the psychiatry and neurology area.

Further Advancing as a Unique Total Healthcare Company

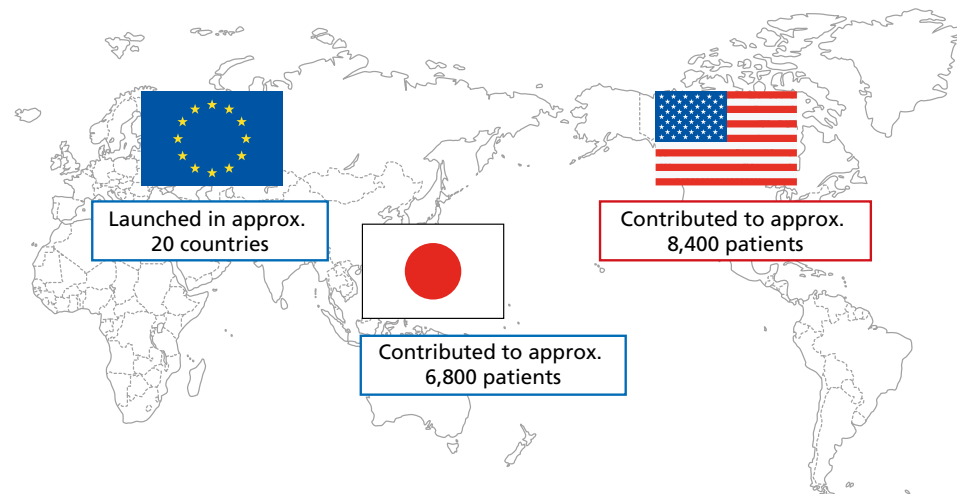
Samsca/JINARC/JYNARQUE

tolvaptan | V₂-receptor antagonist

Samsca is highly evaluated in various guidelines in Japan, and prescriptions are increasing for the treatment of cardiac edema and hepatic edema. Prescriptions for the treatment of autosomal dominant polycystic kidney disease (ADPKD), an intractable renal disease, are increasing owing to the promotion of proper use guidelines and disease awareness activities. The drug has also contributed to resolving unmet needs following approval for an additional indication for the syndrome of inappropriate antidiuretic hormone secretion (SIADH) in June 2020.

In May 2018, *JYNARQUE* was launched in the U.S. as a treatment for ADPKD. Efforts to raise disease awareness and make clinical trial data available have helped spread recognition of both the disease and the drug, leading to a steady increase in prescriptions. In Europe, *JINARC* is sold in approximately 20 countries and the number of patients receiving treatment through the drug is on the increase.

Global operation as an ADPKD drug



Estimated number of ADPKD patients

U.S.: 140,000, Europe: 205,000, Japan: 31,000

(As of December 31, 2021, in-house survey)

LONSURF

trifluridine/tipiracil | Anticancer agent

LONSURF is a treatment option for unresectable advanced or recurrent colorectal cancer. As of December 2021, it has been approved in 98 countries and regions, and prescriptions are increasing. Furthermore, combination therapy with bevacizumab has been listed as a recommended treatment option in both the National Comprehensive Cancer Network (NCCN)* Guidelines for Colon Cancer (January 2021) and Rectal Cancer (December 2020) in the U.S. and the Japanese Society for Cancer of the Colon and Rectum (JSCCR) Guidelines (January 2022). Meanwhile, also as a treatment option for metastatic gastric cancer, both the number of countries and regions in which *LONSURF* has been approved and the total number of prescriptions are increasing. To further maximize its value, we are currently conducting several clinical studies to develop better combination therapies.

* National Comprehensive Cancer Network: A non-profit alliance of 32 leading cancer centers in the U.S. that is devoted to patient care, research, and education.



Chisato Mashita

Assistant Section Manager,
Yokohama Sales Branch Ethical Drug Sales Section 1,
Taiho Pharmaceutical

The Role of *LONSURF* in Medical Settings

LONSURF is a third-line or subsequent chemotherapy option for patients with colorectal and gastric cancers. In addition to its efficacy, as an oral agent I believe it provides additional value due to its convenience, which enables patients to spend less time receiving treatment and more time outside the medical facility. For me, it is important in the field of oncology to support treatment specialists on the frontline and to work closely with them to identify each patient's needs. Although the pandemic has made it difficult to gather and communicate information in medical settings, the Otsuka group is enhancing its cooperative framework by means that include sharing information between group companies. This is something that only the Otsuka group can do. By utilizing our unique group synergy, our aim is to quickly and carefully communicate essential information, and in doing so, improve quality of life for patients and their families.

Further Advancing as a Unique Total Healthcare Company

Future of Pharmaceutical Business

Opportunities and Risks

Risks that affect the Pharmaceutical Business include those relating to reduced visits to medical institutions and delayed clinical development due to the global COVID-19 pandemic, paradigm shifts in treatment caused by advances in digital technologies, medical cost inflation, and supply chain

disruptions caused by global conflicts or other factors. Against this backdrop, in addition to working to reduce these risks—such as by reinforcing supply chains to ensure stable product supplies—the Otsuka group will contribute to the resolution of social issues through initiatives targeting diseases where there are unmet needs.

Future Initiatives

In the Pharmaceutical Business, we are taking on challenges in new areas where we can utilize the unique qualities of the Otsuka group, working to address unmet needs and generate innovation using our creative, diverse research platforms, and working to develop systematic solutions to optimize medical care. Furthermore, we will form alliances, promote open innovation, and work with venture capital firms to reinforce our drug discovery foundation and diversify our modalities. We will also seek to strengthen supply chains by securing back-up suppliers and enhancing the accuracy of sales forecasts, and promote development and marketing activities that use digital technologies.

In addition, we will strive to improve profitability by maximizing the value of existing products, carry out trials for new projects that we actively invested in during the Second and Third Medium-Term Management Plans, and develop new products. In doing so, we aim to grow the pipelines that will drive our development from 2030 onward and achieve sustainable growth.

<p>Strengths</p> <ul style="list-style-type: none"> ● Providing total healthcare solutions, from diagnosis to treatment ● Global R&D and marketing assets in the psychiatry and neurology area, and the renal area ● Presence in the oncology area ● Stable profit in the IV solutions business ● Medical techniques using digital technologies ● Originality free from fixed ideas <p style="text-align: right; font-size: 2em; color: #80C090;">Strength</p>	<p>Weaknesses</p> <ul style="list-style-type: none"> ● Delays in registering trial participants due to specific to problems in the field of psychiatry and neurology caused by the spread of COVID-19 ● Patent expiration of mainstay products ● Dependence on manufacturing sites, raw material suppliers, and production contractors concentrated in specific regions <p style="text-align: right; font-size: 2em; color: #80C090;">Weakness</p>
<p>Opportunities</p> <ul style="list-style-type: none"> ● Advances in science and technology, and the progress of basic research related to diseases ● Creation of synergies in therapeutic drugs through advances in digital technologies ● Promotion of precision medicines to enhance efficacy <p style="text-align: right; font-size: 2em; color: #80C090;">Opportunity</p>	<p>Threats</p> <ul style="list-style-type: none"> ● Global drug price control policies and promotion of generic drug use due to medical cost inflation ● Intensifying competition in core areas ● Pandemic related to the spread of infectious diseases ● Supply chain disruptions due to geopolitical risks and other factors <p style="text-align: right; font-size: 2em; color: #80C090;">Threat</p>

Further Advancing as a Unique Total Healthcare Company

● Psychiatry and Neurology

Aiming to become a top-class global player in the psychiatry and neurology area, with a high-potential pipeline and product portfolio

Psychiatric diseases such as schizophrenia, bipolar disorder, and major depressive disorder can develop at any age and affect a person's social life, career, and studies. Moreover, there are concerns about the increase in Alzheimer's disease as the world population ages. These diseases affect not just the patient's quality of life; they also place a strain on family members and caregivers, as well as on the healthcare economy. There are still many psychiatric and neurological diseases for which satisfactory treatments have yet to be established. This is because their causes and mechanisms are not fully understood, which makes the discovery of new drugs extremely difficult. The Otsuka group entered the psychiatry and neurology area in the 1970s and has continued to take on the challenge of new drug discovery with the goal of contributing to medical needs.

At the Otsuka group, we have developed an extensive and high-potential pipeline and product lineup through the application of both small molecule and large molecule compound technologies and digital technologies. Our aim is to become a top-class global player in the psychiatry and neurology area.

Agitation Associated with Dementia of the Alzheimer's Type

It is estimated that approximately 3.90 million people (estimated 2022)* in the U.S. have Alzheimer's disease, and it is thought that a large number of those patients exhibit some form of behavioral disorder (agitation), such as excessive motor activity, and verbal or physical aggression. This kind of disorder places a burden on patients and caregivers, impacting quality of life. The Otsuka group aims to market the world's first treatment for agitation associated with dementia of the Alzheimer's type. Clinical trials are under way on two drugs with different mechanisms of action, brexpiprazole and AVP-786.

We hope that these therapeutic development projects contribute not only to the physical well-being of patients, but also to mental well-being and social well-being including that of caregivers, and will become a solution for the realization of a sustainable society.

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● Oncology

Maximizing business value through proprietary drug discovery platforms and initiatives for new drug discovery technologies and methodologies

Taiho Pharmaceutical's broad product portfolio is supported by its proprietary drug discovery platform technologies, including the biochemical modulation technology it has continued to develop throughout its history, the Cysteinomix Drug Discovery Platform¹ that enables specific covalent modification of therapeutic targets, and the fragment-based drug discovery² platform established by Astex Pharmaceuticals. One example is futibatinib, which was discovered using the Cysteinomix Drug Discovery Platform. It has been granted Breakthrough Therapy Designation by the U.S. FDA. In March 2022, the FDA also accepted the New Drug Application of futibatinib under priority review. Likewise, pimitespib was approved by Japan's Ministry of Health, Labour and Welfare for the indication of gastrointestinal stromal tumors that have progressed after chemotherapy. Taiho Pharmaceutical is also accelerating its drug development to resolve unmet needs, collaborating with partner companies. Furthermore, it looks for opportunities for collaboration with promising startups through corporate venture capitals, thereby expanding its development pipelines in cancer immunotherapy and other areas, and acquiring innovative drug discovery platform technologies.

Meanwhile, centering on external collaborations, Otsuka Pharmaceutical is taking on the challenge of establishing new therapies with a focus on the future. This includes creating synergies with new modalities, in areas such as gene-modified T cell therapies.

Individual group companies are combining their accumulated assets in their fields of strength to bolster global operations and enhance business value.

1. Platform for discovering compounds that specifically form a covalent bond with reactive amino acid residues (mainly cysteine residues) of protein as potential drug target proteins.
2. Technology to create new compounds through molecular design. It clarifies interactions between small-molecular fragments showing pharmacological activity that cannot be measured in high-throughput screening and large molecule proteins with complicated 3D structures that have been implicated in diseases and are potential drug targets.

Further Advancing as a Unique Total Healthcare Company

● Cardiovascular and Renal System

Creating first-in-class products through new drug discovery technologies and medical devices

In the cardiovascular and renal area, in addition to strengthening our proprietary drug discovery platforms, we also plan to actively make growth investments, examples of which have included our business alliance with Aurinia Pharmaceuticals for voclosporin and the acquisition of Visterra, a company with a renal disease-related pipeline. Combining our expertise in pharmaceuticals and medical device technologies, we also develop medical devices that are minimally invasive and less impactful on the body. In 2021, we launched the *BioMimics 3D Vascular Stent System* in Japan. Meanwhile, our Ultrasound Renal Denervation System, a revolutionary treatment method for patients with high blood pressure where existing treatments have proved ineffective, was granted Breakthrough Device Designation by the U.S. FDA. The treatment bears the CE mark* in Europe, and clinical trials are under way in the U.S. and Japan.

Moving forward, we aim to provide first-in-class products through our innovative approaches.

* Displayed on products that conform with relevant health, safety, and environmental protection standards specified by EU legislation.



Zachary Shriver
Chief Scientific Officer,
Visterra

Focusing on Building Otsuka's Kidney Franchise

Since joining Otsuka in 2018, Visterra has endeavored to grow our capabilities in biologics-based drug discovery and accelerate medicines into clinical testing. We continue to develop state-of-the-art machine learning algorithms to expedite our workflows and employ innovative scientific strategies to create novel antibody-based designs.

Through successful collaboration between the medical teams at Visterra and Otsuka, we continue to advance our investigational medicines, even with the challenges presented by the COVID pandemic. Our collective efforts led to several noteworthy successes. Sibeprenlimab (VIS649) has progressed rapidly to Phase III clinical trials for the treatment of IgA nephropathy, a serious autoimmune disease of the kidney, and was recently awarded an orphan drug designation by the European Medicines Agency. In addition, VIS171, a drug intended to regulate autoimmune responses, was recently granted regulatory permission to initiate clinical trials.

Given recent successes, we look forward to continued collaboration, expanding upon Otsuka's franchise in nephrology and immunology.

● Anti-Tuberculosis Drug Research and Development

Delamanid is improving global health one of the first new drugs in 40 years "If nobody does it, Otsuka must do it."

Delamanid is one of the newest anti-tuberculosis drugs approved in the world in the past 40 years. Although MDR-TB is currently gaining prominent attention, it had been thought that TB had become a disease that humankind has already overcome since rifampicin, currently used as one of the first-line drugs, was discovered in 1964. In the 1970s, when many researchers and research institutes around the world stopped development, Otsuka Pharmaceutical continued research, based on the belief that "TB is a serious global health problem, and we must continue our research if nobody else does it." Delamanid was created after more than 40 years. Otsuka Pharmaceutical remains actively engaged in R&D on new anti-tuberculosis drugs. For more than a decade, the company has consistently ranked among the top funders of TB R&D worldwide.

Next-generation tuberculosis drug candidate, OPC-167832

Otsuka Pharmaceutical is conducting research into anti-tuberculosis drugs that will follow delamanid. The latest development is a compound called OPC-167832, which as of 2021 is undergoing Phase II trials in South Africa to confirm its safety and efficacy. OPC-167832 kills TB bacteria through a mechanism that inhibits the activity of enzymes that are essential for synthesizing mycobacterium tuberculosis cell walls. Because its mechanism of action differs completely from those of existing anti-tuberculosis drugs, including delamanid, it is expected to be effective as a treatment for various strains of TB. In developing the drug, we received grants from the Bill & Melinda Gates Foundation, which has cited elimination of TB worldwide as one of its top priorities, to advance clinical trials. We will continue engaging in TB R&D with the aim of establishing innovative treatment methods.

Further Advancing as a Unique Total Healthcare Company

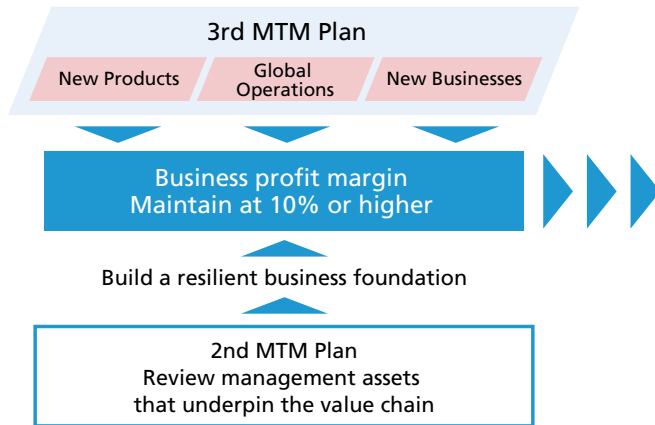
Major Development Progress in 2021

Product	Indication	Country/Region	Progress
Psychiatry and neurology			
brexiprazole	Schizophrenia in pediatric patients	U.S.	Approved
fremanezumab	Migraine	Japan	Approved
aripiprazole (long-acting injectable)	Schizophrenia	China	Filed
centanafadine	Smoking cessation	U.S.	Started Phase II
ulotaront	Schizophrenia	U.S.	Implemented Phase III
		Japan	Implemented Phase II/III
SEP-4199	Bipolar I depression	Japan/U.S.	Implemented Phase III
Oncology			
pimipespib	Gastrointestinal stromal tumor	Japan	Filed
fosnetupitant	Chemotherapy-induced nausea and vomiting	Japan	Filed
futibatinib	Cholangiocarcinoma	Japan/U.S./Europe	Started Phase III
	Urothelial cancer	U.S./ Europe	Started Phase II
TAS-117	Solid tumors harboring germline PTEN inactivating mutations	Japan/U.S./Europe	Started Phase II
ASTX727	Acute myeloid leukemia	U.S.	Started Phase II
OPC-415	Multiple myeloma	Japan	Started Phase I/II
TAS1553	Acute myeloid leukemia	U.S.	Started Phase I
Cardiovascular and renal system			
OPC-61815	Cardiac edema	Japan	Filed
voclosporin	Lupus nephritis	Europe	Filed
bempedoic acid	Hypercholesterolemia	Japan	Started Phase II
NO-13065	Obesity	U.S.	Started Phase I
Other categories			
difamilast	Atopic dermatitis	Japan	Approved
pamufetinib	Chronic fibrosing interstitial lung diseases with a progressive phenotype	Japan	Started Phase II

Further Advancing as a Unique Total Healthcare Company

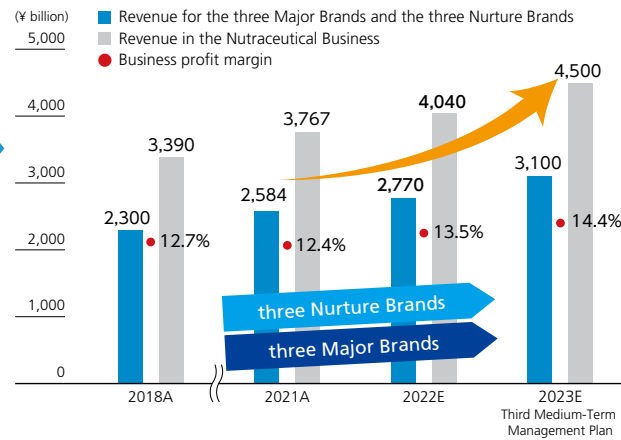
Nutraceutical Business

The Third Medium-Term Management Plan calls for revenue growth of 40 billion yen in the three Major Brands—*POCARI SWEAT*, *Nature Made*, and *Nutrition & Santé*—and 40 billion yen in the three Nurture Brands—*BODYMAINTÉ*, *EQUELLE*, and *Daiya*.



Furthermore, we are working to maintain a high-profit structure capable of a sustained business profit margin of 10% or higher. Our strategies include creating new product concepts in anticipation of changes in business and other landscapes, expanding into new categories and new regions, and accelerating our global expansion.

Revenue During the Third Medium-Term Management Plan

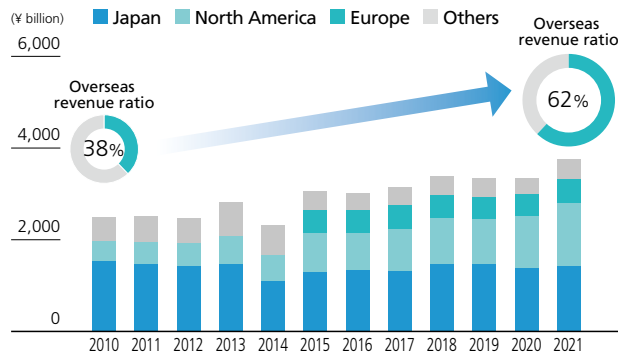


Progress of the Three Major Brands

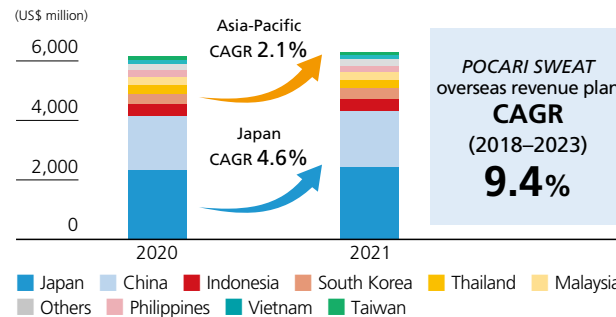
POCARI SWEAT

Despite the effect of restrictions due to the COVID-19 pandemic on consumer activity, sales volume for *POCARI SWEAT* (a beverage for replenishing fluids and electrolytes) is increasing, particularly overseas, due to awareness-raising activities and market development tailored to conditions in each region. In Japan, in addition to our regular activities to raise awareness of heat disorder countermeasures, new activities included providing support for the running of the Inter-High School Championships and the All-Japan Junior High School Championships, at which we also communicated the importance of measures to prevent the spread of infectious diseases. Public understanding of the importance of replenishing fluids and electrolytes at home has also been increasing, and revenue has been growing steadily as a result. In 2021, the Asia-Pacific sports beverage market expanded with CAGR of 2.1%. * However, we expect to outpace market growth, forecasting CAGR of 9.4% in overseas revenue for *POCARI SWEAT* during the period of the Third Medium-Term Management Plan.

Accelerating Global Expansion—Trends in Overseas Revenue



Sports Beverage Market (Asia-Pacific)*



* Euromonitor International of the U.K.

Furthermore, given higher levels of health consciousness, we are strengthening our global sales structure to expand into new regions where we expect growth in demand for health beverages. In the future, we aim to grow *POCARI SWEAT* into a 100-billion-yen brand by further enhancing brand strength through original marketing that thoroughly communicates the product concept.

Further Advancing as a Unique Total Healthcare Company

Nature Made

Launched in 1971 by Pharmavite LLC, a California-based corporation engaged in supplement-specific research and development, *Nature Made* is the No. 1 supplement brand¹ sold in U.S. stores.

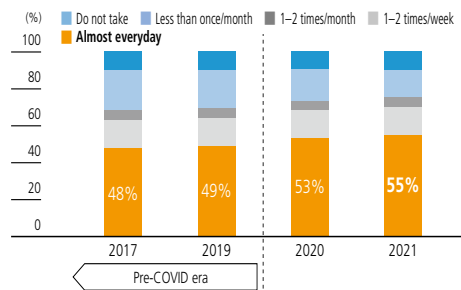
Sales of *Nature Made* in Japan began in 1993, and the brand has continued to grow by offering a range of high-quality products designed and manufactured for Japanese consumers. As a pioneer, *Nature Made* leads the Japanese supplement market, with its multivitamin and mineral supplements and vitamin D supplements ranking No. 1 for in-store sales in their respective market categories.²

Nature Made marked its 50th anniversary in 2021, and continues to be recognized for its quality and dedication to health and wellness. For 24 years beginning in 1997, a U.S. News & World Report survey conducted in collaboration with specialist publication *Pharmacy Times* has named *Nature Made* the No. 1 Pharmacist Recommended supplement.³

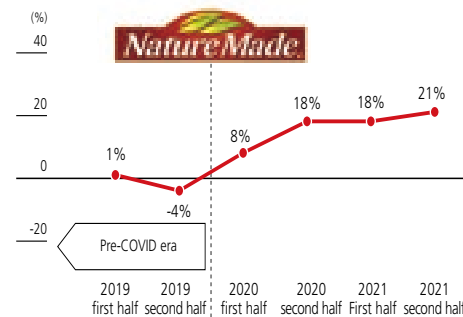
Compared to the pre-COVID era, the percentage of individuals in the U.S. who take supplements almost every day has increased, indicating that awareness of the importance of health is rising. As a result of rising demand, CAGR in the supplement market in the U.S. is 4.5% per year.⁴

1. Based on total U.S. retail sales aggregate data reported through the Scantrack service in the supplement vitamin category for the 52-week period ended December 26, 2021. ©2022 Information Resources Inc.
2. INTAGE SRI Multivitamin / Vitamin D markets, cumulative market share by brand for January–December 2021
3. US News & World Report and Pharmacy Times 2021 Survey: Product categories: Letter Vitamins (A–E), Coenzyme Q10, Omega-3/Fish Oil, Flax Seed Oil, Herbal Supplements, Mood Health Supplements, Diabetic Multivitamins, Cholesterol Management—Natural, Garlic Supplements
4. Euromonitor International of the U.K.

Results of Survey on Frequency of Supplement and Vitamin Intake in the U.S.



YoY Change in Nature Made Revenue



Source: Euromonitor International of the U.K.

Nutrition & Santé

Nutrition & Santé (N&S) was founded in 1972, and is a pioneer in European health food manufacturing. “*Santé*” means “health” in French, so the company’s objective is to provide better nutrition to keep consumers healthy. N&S has 11 factories and people stationed in France, Belgium, the Netherlands, Italy, Spain, Brazil, and Portugal.

One important asset of N&S is the partnerships it has built over 40 years with local farmers, enabling it to achieve the objectives of sourcing main ingredients cultivated using sustainable farming methods and ensuring traceability. Today, consumers’ and governments’ concept of health is shifting from “human health” to the wider concept of “the Earth’s health,” which has increased the value of such partnerships among our stakeholders. We will continue to strengthen this asset to deliver health to more people.

Accelerating toward Our Vision at Nutrition & Santé



Luis Uribe
President
Nutrition & Santé

At *Nutrition & Santé*, we are accelerating our transformation journey—focusing and strengthening our categories and brands like *Gerbé* and rapidly growing our e-commerce business—while at the same time simplifying our portfolio and improving our operating performance in order to fuel growth.

In that sense, we aim to develop strong capabilities in e-commerce in our core countries—France, Belgium, the Netherlands, Italy, Spain, and Portugal—proposing services to consumers that go beyond products. Doing so should enable us to not only develop our D2C* business, but also to accelerate our transformation toward our Vision: “Be the recommended partner of natural nutritional solutions for the wellbeing of body and mind.” This represents an important shift in our business strategy. While we continue to respect our foundations based on nutrition and local supply chain sourcing. In 2022, we celebrate the 50th anniversary of *Nutrition & Santé*. We will reflect on our foundations while pursuing our Vision to lead preventive nutritional solutions.

* D2C: Direct to Consumer

Further Advancing as a Unique Total Healthcare Company

Progress of three Nurture Brands

BODYMAINTÉ

Focusing on the fact that athletes who put their bodies through demanding training and people under regular stress due to work or study are at a higher risk of health problems, Otsuka Pharmaceutical used research findings in the fields of "intestines and nutrition" and "exercise and nutrition," to develop *BODYMAINTÉ*. *BODYMAINTÉ Jelly* is a conditioning food that contains the proprietary lactic acid bacteria B240, as well as BCAA, arginine, and whey protein as main ingredients, and has won the support of many athletes, sports trainers and others who challenge their bodies daily. *BODYMAINTÉ Drink* is a conditioning beverage containing lactic acid bacteria B240 and electrolytes that help keep the body hydrated. It is a convenient way for consumers everywhere to regularly maintain their health and condition.

EQUELLE

EQUELLE originated from research conducted at Otsuka Pharmaceuticals' Saga Nutraceuticals Research Institute, where women's health is a research theme. *EQUELLE*, which contains equol, is sold in Japan and the U.S. as a food product that supports women's health and beauty at a time when aging brings physical and mental changes. In Japan, we have deployed dedicated staff with expert knowledge of women's health nationwide. With the cooperation of physicians, pharmacists and other healthcare professionals we convey the importance of personal care to women who are experiencing physical and mental changes, among other activities aimed at maintaining and improving the health of women and enhancing quality of life. Otsuka Pharmaceutical also provides a broad range of up-to-date information concerning women's health, including through the Women's Healthcare Project website.

Daiya

Daiya Foods develops, manufactures, and sells high-quality, creative plant-based food products such as cheese alternatives, dressings, and desserts. Its brand, *Daiya*, is enjoyed not only by vegetarians and people with food allergies, but also by the health-conscious millennial generation.

The U.S. plant-based alternatives market continues to grow. *Daiya Foods* is expanding its sales channels and product lineup, mainly in the area of cheese alternatives, which are its core product. Under the Third Medium-Term Management Plan, we plan to achieve revenue CAGR of 25%.



Lactic Acid Bacteria B240

Lactiplantibacillus pentosus ONRICb0240 is a plant-derived lactic acid bacteria isolated through the fermentation of a type of tea leaf, traditionally consumed in northern Thailand. It was isolated by Sanae Okada, Professor Emeritus of Tokyo University of Agriculture* and its efficacy was confirmed by Otsuka Pharmaceutical.

* J Gen. Appl. Microbiol. 1986;32:57-65

Equol

Equol is an ingredient produced when daidzein, a soybean isoflavone, is metabolized by intestinal bacteria. One aspect of Otsuka Pharmaceutical's many years of soybean research was a focus on the properties of equol. The Saga Nutraceuticals Research Institute succeeded in isolating the *Lactococcus* 20-92 strain, a lactic acid bacteria that produces equol. We publicize the progress results of a variety of research and continue to be a leader in global research in this field.



Further Advancing as a Unique Total Healthcare Company

Future of Nutraceutical Business

Opportunities and Risks

The Nutraceutical Business involves risks such as stagnation in the global economy due to the COVID-19 pandemic, intensifying competition, soaring raw material and shipping prices, a shrinking market in Japan due to population decline, and sluggish markets due to unseasonable weather. Despite these risks, the Otsuka group continues to search for solutions

to emerging health issues. Utilizing expertise honed in its Pharmaceutical Business, the Otsuka group will develop original science-based products to maintain and improve people's health and supply these products around the world. Furthermore, by tenaciously continuing with activities to communicate the value our products, we will create entirely new product markets.

Future Initiatives

Health awareness is on the rise. In the Nutraceutical Business we will use the unique expertise we have accumulated in the Pharmaceutical Business to provide solutions (based on entirely new concepts) that address yet-to-be-imagined needs and health issues. In doing so, we aim to extend healthy life expectancy through the maintenance and improvement of people's health. Furthermore, we will reinforce our supply chain by decentralizing manufacturing sites and optimizing logistics, and respond to pandemic-related changes in consumer needs using our current strategy of targeting the self-medication market. In countries where we already do business, we will engage in new types of marketing activities for our Major Brands and Nurture Brands to improve brand value, expand the scale of our business, and accelerate our global expansion through new growth markets.

<p>Strengths</p> <ul style="list-style-type: none"> • Creative products and marketing based on scientific evidence • POCARI SWEAT and other products with long-term popularity • Overseas businesses that incorporate solutions to social issues through their core business processes • Steady earnings power <p style="text-align: right; font-size: 2em; color: #4F81BD;">Strength</p>	<p>Weaknesses</p> <ul style="list-style-type: none"> • Brand development in this field takes time • Mechanisms for responding to unforeseen increases in demand • Dependence on manufacturing sites and raw material suppliers concentrated in specific regions <p style="text-align: right; font-size: 2em; color: #4F81BD;">Weakness</p>
<p>Opportunities</p> <ul style="list-style-type: none"> • Rising consumer awareness of self-medication, prevention and daily health in tandem with medical cost inflation • Diversification of diet • Changing consumer needs due to the pandemic <p style="text-align: right; font-size: 2em; color: #4F81BD;">Opportunity</p>	<p>Threats</p> <ul style="list-style-type: none"> • Sluggish overall beverage market due to unseasonal weather • Intensification of competition in core areas due to entry of new competitors • Pressure on earnings due to soaring raw material and shipping prices • Supply chain disruptions due to geopolitical risk and other factors <p style="text-align: right; font-size: 2em; color: #4F81BD;">Threat</p>

Further Advancing as a Unique Total Healthcare Company

Research and Development

At our R&D sites in the Nutraceutical Business, we are investigating themes such as nutrition and exercise from unique viewpoints that utilize expertise honed in our Pharmaceutical Business.

Saga Nutraceuticals Research Institute

In addition to developing new science-based products using in-house research published data, we will continue to undertake research on the replenishment of fluids, electrolytes, and nutrients to support improved physical performance and conditioning among consumers.

Since its establishment in 1984 as Japan's first private research institute for clinical exercise and nutrition, the Saga Nutraceuticals Research Institute has conducted R&D in various fields related to exercise and nutrition, women's health, and other health issues. In 2014, one of the largest controlled-environment rooms in Japan was completed at the institute, enabling the recreation of hypoxic environments equivalent to those found at an altitude of 5,000 meters, which were previously difficult to recreate, as well as high-temperature/high-humidity and low-temperature/low-humidity conditions. This facility helps advance research into sports nutrition, such as by verifying the effects of fluid and nutritional intake in such environments.



Otsu Nutraceuticals Research Institute

The Otsu Nutraceuticals Research Institute was established in 2000 to advance research on intestinal immunity, with a particular focus on the intestines, which play a key role in overall health. One example of the institute's research is related to enhancing the body's biological barrier by increasing the secretion of immunoglobulin A (IgA), an antibody that plays a crucial role in mucosal immunity. Exploratory R&D demonstrated that lactic acid bacteria B240 heightens the function of mucosal immunity and lowers the probability of catching the common cold.



Otsu Skin Care Research Institute

Otsu Skin Care Research Institute performs R&D of cosmetics. We wanted to improve people's health not only from within, but also from without, by ensuring the skin, the body's protective covering, was cared for. Focusing on the ingredient AMP,¹ a substance found naturally in the body, we developed Energy Signal AMP.² An active ingredient that supports skin turnover and encourages melanin excretion from the body, it is an ingredient of the main products of the *InnerSignal* series. *UL-OS* contains the moisturizing ingredient AMP,³ which is based on one of Otsuka's proprietary formulas. The product line has steadily expanded to include moisturizer, sunblock, skin wash, refresh sheets, shampoo, and whitening care,⁴ and has grown into a brand that offers total skin care for the body from head to toe.

1. Adenosine monophosphate
2. Disodium adenosine monophosphate OT

3. Adenosine monophosphate (moisturizing ingredient)
4. Suppresses production of melanin and prevents skin blemishes and freckles



Further Advancing as a Unique Total Healthcare Company

Continued Activities to Achieve Healthy Lifestyles

Considering nutritional problems to be a social issue, the Otsuka group continues to work to create systems that can support people's health in a range of situations, including exercise and sport—which are an essential health maintaining.

Activities to Communicate the Importance of Replenishing Fluids and Electrolytes

Since launching *POCARI SWEAT*, Otsuka Pharmaceutical has continued to communicate the importance of replenishing fluids and electrolytes in a variety of contexts. Following the establishment of the Japan Sport Association's Study Group for the Prevention of Heat Disorders in Sports Activities in 1991, from 1992 Otsuka Pharmaceutical began working with the association on activities to build understanding of and help prevent heat disorders. During the ensuing years, the company has continued to provide information on a growing number of themes, including children's sport, labor health and safety, and rehydration for senior citizens. Otsuka Pharmaceutical's website includes an information section titled Protect Yourself From Heat Disorders and a section presenting content based on the Japan Sport Association's *A Guidebook for the Prevention of Heat Disorder During Sports Activities (First Edition)*. Another initiative is the Heat Disorders Prevention website, which was created in collaboration with weather forecasters. Through these and other activities, we are further raising awareness of the topic. In addition, Otsuka Pharmaceutical Factory, which sells *OS-1*, an oral rehydration solution, provides operational support to Oshiete! "Kakure Dassui" linkai, an organization that raises awareness of ways to prevent and treat dehydration before it becomes critical.



Sponsoring the Tokyo Marathon from the Inaugural Race: Supporting Runners in Replenishing Fluids, Electrolytes and Nutrients

Otsuka Pharmaceutical has been an official partner of the Tokyo Marathon—one of the largest urban marathons in Asia—since the inaugural race, and has supported runners in replenishing fluids, electrolytes and nutrients during the event. The Tokyo Marathon sparked a running boom in Japan, and in conjunction with rising health awareness, has been a major factor in increasing the number of domestic runners. In 2021, with thorough infection prevention measures in place, the public were able to run in the Tokyo Marathon for the first time in three years.

For runners competing in the 26.2 miles (42.195 km), dehydration, loss of energy, and muscle injury can be serious issues. Every year at the Tokyo Marathon, replenishing fluids, electrolytes and nutrients that runners lose is a major challenge to finishing the race safely. Using the expertise from its Pharmaceutical Business, Otsuka Pharmaceutical has provided runners with evidence-based nutraceutical products and relevant information, and will continue to offer support to runners in future races.

Heat Disorder Countermeasures Suited to the New Normal at the All Japan Inter-High School Championships Ensuring Safe Operation and Supporting the Health of Competitors and Officials

Otsuka Pharmaceutical has been a special sponsor of the All Japan Inter-High School Championships for eight consecutive years since 2014. Due to the pandemic, in 2021 the championships had to be held with thorough infection prevention measures in place. As such, Otsuka Pharmaceutical worked with the All Japan Inter-High School Sporting Association and the hosting prefectures to create a system to ensure thorough support for the prevention of heat disorders. Measures included encouraging the use of personal squeeze bottles by athletes, which minimizes interaction with officials and prevents the sharing of drinks and other forms of close contact. In addition to supporting organizing committee members in becoming qualified as Heat Disorder Prevention Advisors, the company also worked with students in the broadcasting team to draft warning announcements regarding heat disorders. In these and other ways, Otsuka Pharmaceutical is supporting both athletes and event staff.

Further Advancing as a Unique Total Healthcare Company

Consumer Products

In 1968, Otsuka Foods released *Bon Curry*, the world's first commercially available food in plastic pouch bags (retort bags), and has since launched a range of products that have been ahead of their time, such as *Mannan Hikari*, a rice-like processed food made from refined konjac flour and other ingredients, the *My Size* series, perfect for people who feel that the portion size and calorie count of their meals are high, and *Zero Meat*, meat-free products made from soybeans.

Otsuka Foods aims to develop the kinds of products that people are happy to serve to their friends and family and incorporate the four key ingredients of flavor, safety, peace of mind, and health.

Based on its original concepts and development capabilities, as well as a traditional pioneering spirit, Otsuka Foods will continue to deliver original flavors and new dreams to people's tables as only Otsuka Foods can.



Zero Meat

Zero Meat was developed to solve a range of current social issues related to health, food shortages, and environmental impact. With no animal-based ingredients,¹ *Zero Meat* products are entirely plant-based, using soy² as a meat alternative.

1. Animal-based ingredients include those made from beef, pork, chicken, eggs, milk, honey, and seafood.
2. This product uses processed soybeans.



Bon Curry Veggie

Bon Curry Veggie is an addition to the *Bon Curry* lineup that brings out the delicious flavors of plant-based ingredients and uses no animal-derived ingredients. Made using vegetables and beans produced in Japan, *Bon Curry Veggie* is unlike conventional curries that use a flour-based stock, instead using pureed vegetables and fruits to gently thicken the sauce. Moreover, ingredients have been carefully selected to ensure the product is vegan-friendly.³

3. Otsuka Foods' definition of vegan friendly is as below: Products that do not use animal-based ingredients (beef, pork, chicken, eggs, milk, honey, or seafood). Further information: <https://www.otsukafoods.co.jp/en/company/business/vegan.html>

Others

Otsuka's diversified operations include a chemical business that supplies various materials in the fields of automobiles, electrical and electronic equipment, and building materials; a transportation and warehousing business that aims for environmentally friendly logistics, mainly for Otsuka group pharmaceuticals, foods, and beverages; and an electronic equipment business that supports the development of leading-edge technologies. Otsuka Chemical's operations center on materials. The company aims for continuous technological innovation in automotive, electrical and electronic equipment, housing, and healthcare areas, and provides products worldwide.

Based on organic, inorganic, and high-molecular chemical technologies, Otsuka Chemical is engaged in diverse material development with the aim of offering high added value in line with the needs of the smart device, mobility, and other markets. Moreover, the company goes beyond offering materials to propose solutions for various industries from a global perspective.

Otsuka Chemical has also succeeded in the development of GCLE, a proprietary pharmaceutical intermediate for cephalosporin antibiotics. Leveraging the technological expertise accumulated in this development process, the company is moving forward with research and development on active pharmaceutical ingredients and intermediates, including for β -lactam antibiotics.



Otsuka Chemical India (GCLE Production Plant)



New office at Zhangjiagang Otsuka Chemical

Otsuka Warehouse provides optimal logistics solutions. This includes working with external manufacturers to promote joint distribution, with a focus on the Otsuka group's pharmaceuticals, beverages/food products, and daily necessities. Furthermore, the company has built an IT-based connected logistics system and is promoting paperless working environments, eco-friendliness, and work style innovation.



Warehouse work using digital devices



Paperless offices using data-sharing systems

Message from the Director in Charge of Sustainability



Resolving Social Issues through Our Business

The Otsuka group of companies, in accordance with its corporate philosophy, "Otsuka-people creating new products for better health worldwide," seeks to be an indispensable contributor to people's health worldwide through a wide range of innovative and creative products including pharmaceuticals, functional beverages, and foods. We believe that by making our philosophy a reality we will effectively achieve sustainability. As such, our basic stance is to grow sustainably and help resolve social issues through our business, in accordance with that philosophy.

In 2019, when we unveiled the Third Medium-Term Management Plan, we also announced our Sustainability Mission and Materiality (the initiatives that Otsuka is focused

on) to further clarify the group's commitment to sustainable growth. The material issues were selected with consideration of social issues and based on the characteristics and strengths of the Otsuka group in conducting broad-ranging businesses, and we are working together to achieve the goals we have set for each material issue.

In Search of Solutions for Unmet Needs

One of the Otsuka group's important missions is to contribute to the resolution of unmet needs. We work every day to help in the prevention and treatment of illness around the world, and to maintain and improve peoples' health. Daunting challenges remain, including the threat of prolonged pandemics, insufficient medical infrastructure, lack of effective

treatments for some conditions, and undernutrition. We approach these issues by considering what only Otsuka can do and setting about addressing the related unmet medical needs.

For example, in the Pharmaceutical Business, we seek to eradicate tuberculosis—one of the "big three" infectious diseases. Tuberculosis is a serious public health challenge, and like COVID-19, accounts for a high number of deaths every year. In fact, tuberculosis kills 1.5 million people annually,^{1,2} and is particularly prevalent in the developing world. We continue to work with various partners around the world to deliver drugs and address the disparity in access to medicines due to economic factors.

In the Nutraceutical Business, we develop innovative science-based products that leverage the know-how that the Pharmaceutical Business has accumulated over many years, and conduct ongoing health education programs aimed at tackling challenges involved in access to nutrition. (See pages 43–44)

1. *Global Tuberculosis Report 2021*, World Health Organization

2. *WHO Coronavirus (COVID-19) Dashboard*, World Health Organization

People and Quality in All We Do Are Essential for Sustained Corporate Growth

Nurturing successive generations of talent is essential for the sustainable growth of a company. At the Otsuka group, we know that the diversity of our people is key to innovation, globalization, and the development of revolutionary products. That is why we always seek to hire a broad range of people, encourage effective personnel exchanges within the group, and conduct training that further invigorates and develops our workforce. The Otsuka Group Global Code of Business Ethics, a code of conduct for business activities in global markets, includes topics on human rights and diversity. Furthermore, we are signatories to the United Nations Global Compact (as of

Message from the Director in Charge of Sustainability

2016), which stipulates ten principles on human rights, labor, the environment, and anti-corruption, as well as to the Women's Empowerment Principles (as of 2017), thus further underlining our commitment to social responsibility. In addition, we released the Otsuka Group Human Rights Policy in 2021, and are engaged in group-wide initiatives to ensure respect for human rights. (See pages 45–46)

Commitment to quality has been an important part of the Otsuka spirit since the company's inception. "Quality in all we do" signifies not only our product quality, but quality at all stages of the value chain, from R&D and production through to distribution and accountability to customers, as well as quality in management. We will continue with our group-wide efforts to achieve higher levels of quality. (See pages 47–50)

Our 2050 Environmental Vision, "Net Zero"

The Otsuka group aims to help resolve social issues through its business activities. In 2021, amid the increasing seriousness of climate change and various other environmental issues, we adopted the 2050 Environmental Vision, "Net Zero," which calls for us to reduce the total environmental impacts of our business activities to zero. Under this vision, we identified three environmental material issues: *carbon neutrality*, *circular economy*, and *water neutrality*; set new medium-term targets that include reducing 50% in CO₂ emissions compared to 2017 levels by 2028; and raised the target of the Otsuka Group Plastic Policy to 100% use of recycled and plant-derived raw materials in our PET bottles by 2030. The group will work as one to achieve its 2050 Environmental Vision, "Net Zero," by pursuing unique initiatives to realize a sustainable society that can be passed on to future generations. (See pages 51–55)

Further Strengthening Group Corporate Governance

For the Otsuka group to remain relevant to all stakeholders, a strong governance structure is necessary. Based on realizing its corporate philosophy, Otsuka Holdings is committed to maximizing corporate value sustainably over the medium to long term. To meet this commitment, its basic policy is to make transparent, fair, and timely decisions, and to fulfil its corporate social responsibility by living up to the expectations of all stakeholders and engaging in ongoing dialogue. Governance has been a key focus since the establishment of Otsuka Holdings. We continue working to strengthen governance, as illustrated by the introduction of Enterprise Risk Management (ERM) in July 2020. (See pages 62–73)

Sustainability Management Structure

We believe that sustainability initiatives are an integral part of our business and should be undertaken by each and every employee. To this end, the Otsuka group has established the Otsuka Group Sustainability Promotion Committee.

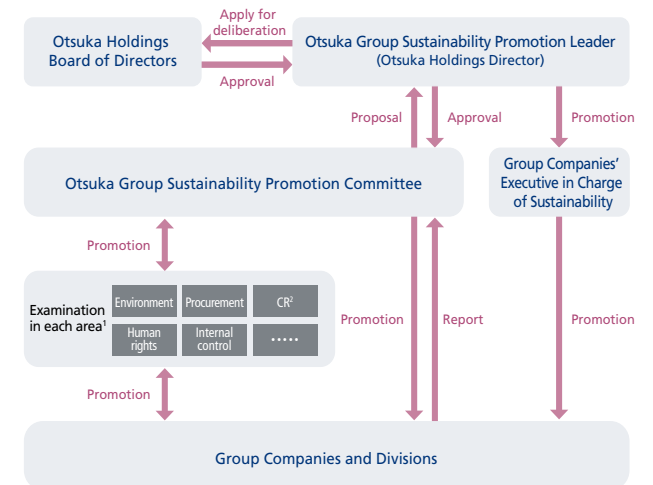
The committee was formed in 2018 to discuss and determine the direction and plans for the group's sustainability efforts. Committee members comprise managers of departments related to sustainability-relevant areas such as the supply chain, the environment, human resources, general affairs, compliance and risk management, public relations, and, from 2021, production and quality.

For those in charge of the supply chain, the environment, human rights, and other relevant areas, the committee provides a forum for sharing their initiatives and progress on sustainability

issues. Amid rapid day-to-day change in the external environment and societal demands related to sustainability, opportunities to participate in lectures and discussions by outside experts on the latest trends are also provided.

We at the Otsuka group are committed to growing sustainably in accordance with our corporate philosophy and resolving social issues through our business.

Sustainability Management Structure



1. Activities are promoted through various conference bodies, WGs, TFs, and others (including time-limited PJ)
2. Consumer Relations



Health

For more details about our health-related initiatives, visit:
<https://www.otsuka.com/en/csr/society/health/pharmaceutical.html>



Pharmaceutical Business: The Challenge of Addressing Unmet Medical Needs

Basic Policy

Good health is a universal desire. At the Otsuka group, we work every day to help healthcare professionals around the world prevent and treat illness, and to help ordinary people maintain and improve their health. Numerous challenges remain, including protracted infectious disease outbreaks, underdeveloped medical infrastructure, and insufficient effective treatment options. We approach these issues by considering what it is that only Otsuka can do, with a particular focus on working to address unmet medical needs. Moreover, with medical costs soaring, maintaining and improving health is now an issue not just for individuals but for society as a whole to face head on. The Otsuka group endeavors not only to raise awareness of health-related issues among individuals, but also teams up with communities to help all people become and stay healthier.

In this section, we look at the Otsuka group's initiatives targeting unmet medical needs, focusing on efforts to eliminate tuberculosis, which is one of the world's "big three" infectious diseases.

disease worldwide); contribute to Doctors Without Borders programs; have secured funding from the Bill & Melinda Gates Foundation for the development of new TB treatment drugs; and forge alliances with global companies in places where we have no corporate presence, all with the aim of using our strengths to contribute to public health.

Otsuka Pharmaceutical is working to establish a system for sustainable drug supply at appropriate prices so that people around the world can access delamanid when they need it, regardless of the socioeconomic conditions or income level of the countries in which they live. This multifaceted approach has seen use of delamanid expand to more than 120 countries/regions by the end of 2021, with enough doses to treat more than 60,000 cases shipped since 2016.



Expanding Access to Patients Worldwide

Alongside HIV/AIDS and malaria, tuberculosis (TB) is considered one of the world's "big three" infectious diseases. Its deadliness is comparable with newcomers such as COVID-19; of the more than ten million people that are affected by TB each year, 1.5 million die. Otsuka Pharmaceutical has contributed to the fight against TB with the development of delamanid, a TB drug that is the result of more than 40 years of R&D. However, given that many of the world's TB patients are in developing countries/regions in Africa, Asia, and other parts of the world where Otsuka Pharmaceutical has no corporate presence, we are working to expand access to TB drugs and diagnostics by teaming up with the Stop TB Partnership, an organization that helps developing nations purchase medicines sustainably via its Global Drug Facility.

In addition, we work with a wide range of stakeholders to contribute to people's health worldwide. For instance, we participate in the Global Health Innovative Technology (GHIT) Fund (a public-private partnership headquartered in Japan that aims to tackle the spread of infectious

Battling Antimicrobial Resistance (AMR)

Otsuka Pharmaceutical has been implementing the Responsible Access Program to prevent the outbreak of delamanid-resistant TB and to promote proper use of the drug.

Our stewardship achievements, including efforts to educate about proper use, increase global access to delamanid, and conduct ongoing research and development into drug-resistant TB, are acknowledged in the AMR Benchmark, a survey of global pharmaceutical companies conducted by the Access to Medicine Foundation, which is funded by the U.K. and Dutch governments.

For more details about our Fight against Tuberculosis – An Ancient Disease with a Contemporary Face, visit:

https://www.otsuka.com/en/csr/society/health/to_health.html

Health

Nutraceutical Business: Initiatives for Yet-To-Be-Imagined Needs

Basic Policy

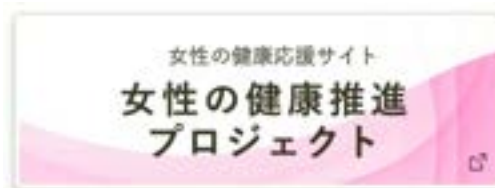
The advance of medical technology and improvement in public health has seen the average lifespan increase worldwide. However, new health challenges have also emerged, such as declining birthdates, aging populations, and the rise of lifestyle-related diseases. At the Otsuka group, our Nutraceutical Business pursues a range of initiatives aimed at supplying the world with products that help people maintain and improve their health. These initiatives include the development of innovative products that combine scientific evidence with the Pharmaceutical Business's accumulated expertise, and ongoing health awareness programs aimed at tackling challenges related to access to nutrition. Here, we present our initiatives for women's health, as well as offerings that support the self-medication trend, such as *Nature Made*.

Contributing to Total Healthcare for Women

The Otsuka group continues to research topics relating to women's health and actively engage in product development. In addition to *EQUELLE* and *EQUELLE Gelée*, which contain equol (an ingredient that supports women's health and beauty at a time when aging brings physical and mental changes), Otsuka Pharmaceutical released *tocoelle* in 2021, which emerged from R&D focused on premenstrual symptoms. Furthermore, Taiho Pharmaceutical launched *BUP-4 LADY*, which aims to improve the day-to-day lives of women with urinary urgency. In 2021, the Otsuka group acquired Uqora, a U.S. provider of products for women's urinary health. We are committed to addressing health needs in a broad range of areas and contributing to total healthcare for women.

Building Awareness of Women's Health

Otsuka Pharmaceutical strives to support women in leading active, healthy lives, and knows the importance of building understanding of the changing health needs of women throughout life, and of arming individuals with the knowledge they need to make choices that are right for them. We



Women's Health Promotion Project website (available only in Japanese)

provide a variety of information in this regard. Since 2015, we have held Women's Health Seminars throughout Japan. Furthermore, we launched the Otsuka Advanced Training for Healthy Aging Supporters (OATHAS) program to assist pharmacies and pharmacists in supporting the health of their local communities. This program is both a source of essential knowledge for community health, and an opportunity for hands-on practical experience. Other measures include webpages that offer insights into women's health, including the Women's Health Promotion Project, KO-NENKI.Lab (with content on menopausal health issues), and PMS LABORATORY, through which we offer day-to-day health support for women of all ages.

Supporting the Self-Medication Trend

The U.S. is a global leader in nutrition and supplements. *Nature Made* was developed in the U.S. by Pharmavite, which was founded by a pair of pharmacists who felt that more could be done to improve people's wellness other than simply prescribing drugs. To address this issue, they developed a range of products that contain nutrients essential for life in a form as close as possible to their natural state.

Nutritional Support and Helping Families Fill Nutrition Gaps

Pharmavite, which is based in the U.S. and handles the development and sales of *Nature Made* products, has partnered with the non-profit organization Feed the Children to provide products and support for health over three years. Through this partnership, the company has donated approximately 15 million children's chewable multivitamins. Each family received a two-year supply of children's vitamins, reaching 8,800 families total.

In addition, *Nature Made* registered dietitians provided on-site nutritional education to families on how to compensate for nutritional deficiencies.





People

Diverse Human Resources to Drive Innovation

Basic Policy

Innovation has always been driven by people. The Otsuka group attracts talented people and offers opportunities for skills development to enable those people to make the most of their skills. Moreover, we are establishing a network across workplaces and business fields that will actively promote communication inside and outside the group. By doing so, we hope to generate a lasting source of innovation that is free from fixed ideas.

Human Resource Development

Upholding Our Corporate Culture and Developing Global Leaders

In 2016, Otsuka Holdings established the Otsuka Global Academy with the aim of ongoing identification and development of the global human resources needed for sustained growth. The academy's programs, which target Otsuka group employees worldwide, are designed and run in-house, but we also partner with outside institutions in some areas for more effective human resource development. Guided by the commitment of Otsuka Holdings' executives and rooted in the leadership of the Otsuka group's founding figures and the group's unique approach to business, participants learn about and discuss the kinds of people the Otsuka group needs for its next generation of leaders and the skills they are expected to possess, and are cultivated as future leadership candidates.

Meanwhile, since 2021 Taiho Pharmaceutical has partnered with outside institutions to provide training that emphasizes dialogue on upholding the company's longstanding corporate culture and mindset. Inspired by the company's slogan "Acting on what should be done," training currently targets company executives, but the company intends to broaden coverage going forward.



Highlight Global E-Learning Platform

In April 2020, we launched the Global E-Learning (GEL) Platform employing the Harvard ManageMentor program provided by Harvard Business School Publishing Corporate Learning. A first for the Otsuka group, it is a shared learning platform for group employees worldwide. So far, a total of 2,400 employees from 75 group companies in 29 countries/regions have participated. In addition to cultivating business literacy and skills, the program features messages from top Otsuka group executives, as well as training initiatives unique to Otsuka that group employees around the globe can take part in together, including a learning "café" and webinars.

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

<https://www.otsuka.com/en/csr/society/people/>



A System That Generates Innovation

Human Resource Development through Collaboration Inside and Outside the Group

The Otsuka group views partnerships and collaborative efforts inside and outside the group as opportunities to help address the unmet medical needs of patients worldwide. By sharing expertise and state-of-the-art technologies, we are boosting our drug discovery capabilities, further improving our development capabilities, and stepping up our global expansion. For example, Taiho Pharmaceutical established its own corporate venture capital (CVC) subsidiary in the U.S. in 2016, and is using it to forge a network with promising biotech start-ups and the academic community in the U.S. and elsewhere with a view to generating innovation. The company also seconded employees from Japan to the CVC subsidiary for a few years to gain overseas experience as part of their professional development.

Developing Digitally-Capable Human Resources

Otsuka Holdings is conducting a variety of initiatives to speed up digital transformation throughout the group. One example is the Otsuka Group AI Forum, which is used to share case studies of group companies' successes and generally promote the spread and understanding of artificial intelligence mainly among group company presidents and directors. Training in a wide spectrum of technologies such as data science is also provided in order to help boost employees' IT capabilities. In addition, a group-wide portal site was launched in 2021 to disseminate and share in-house and external information relating to digitalization.

Otsuka Medical Devices hosted a training session at which university professors shared examples of how to employ artificial intelligence in the field of medicine. Meanwhile Otsuka Warehouse, knowing that IT is vital for overcoming the challenges faced by the logistics industry, is seeking to improve the IT literacy of its employees through in-house study workshops and by encouraging employees to take the Japanese government's IT Passport exam by subsidizing examination fees. The company's commitment to building IT competency also includes ongoing year-round IT skills training for those who pass the exam.



Executives and employees at the Otsuka Group AI Forum

People

Diversity and Inclusion

Basic Policy

At the Otsuka group, we know that the contributions of a diverse array of people is conducive to innovation and globalization, and to the development of innovative products. That is why we embrace and promote diversity. As a group of companies driven to innovate, we are committed to ensuring our workplaces are welcoming to all people.

Promotion System

Since 2008, the Diversity and Inclusion Promotion Team at each group company has led efforts for greater diversity and inclusion through individual company and coordinated group initiatives. These initiatives include planning group-wide systems, conducting seminars, and holding regular meetings to share each company's effective examples of diversity and inclusion.

Collaborative Group Activities

In Japan, we have introduced the Family Smile Support System, which encourages employees to work from home before/after parental leave, or when taking on childcare and nursing care obligations. This system has led to improvements in work efficiency, productivity, and work-life balance. We have also introduced the Work Interval System, which mandates minimum rest periods for shift workers. We also hold regular group-wide diversity seminars. A total of 2,070 people attended the six seminars held from fiscal 2019 through fiscal 2021. We know that it is not enough for only employees to be aware of the issues—their bosses must broaden their awareness too. That is why we established the “*Ikuboss*” (managers supportive of work-life balance) declaration, which has already led to increases in the female manager ratio and the number of employees taking parental leave. (Please refer to Financial and Non-Financial Highlights on page 75.)

Highlight

Otsuka America Pharmaceutical among Recipients of HBA's ACE Award*

Otsuka Pharmaceutical in the U.S. established *Otsuka's Network of Otsuka Women* (NOW) in 2019 to drive efforts toward diversity, equity, and inclusion as key parts of its global business strategy. With a membership of more than 500 employees, NOW connects women with opportunities to consider how to succeed and grow in the workplace, and NOW members have had higher promotion rates. In recognition of this and other initiatives, Otsuka America Pharmaceutical received the 2021 Advancement. Commitment. Engagement. (ACE) award* from the Healthcare Businesswomen's Association (HBA).



* This award honors companies committed to ensuring gender diversity and leadership opportunities for women as part of their organizational DNA.

Health and Productivity Management

Basic Policy

At the Otsuka group, we believe that maintaining workplaces that enable each employee to work in good health and spirits is vital for making our shared corporate philosophy a reality. This was also the thinking behind the declarations on health made by major Otsuka group companies.

Promotion System

Otsuka Holdings' executive deputy president and director is in charge of health and productivity management, and under his supervision the Otsuka Pharmaceutical health insurance association, each group company's health and productivity promotion manager, and specialist staff such as industrial physicians and nurses work collaboratively across the entire organization to help maintain and enhance the health of employees and their families. As a result of these initiatives, 15 Otsuka group companies were selected by the Ministry of Economy, Trade and Industry under the 2022 Certified Health & Productivity Management Outstanding Organizations Recognition Program.

Raising Health-Awareness among Employees through Business Activities

We hold seminars on a variety of topics with the aims of deepening employees' understanding of group company activities and encouraging them to give their own health and the health of their families more thought. In 2021, a total of 1,300 employees attended online seminars on women's health and on cancer. Other seminars were held on headaches and presenteeism, and on alcohol consumption. Furthermore, employees of Otsuka Pharmaceutical Factory have produced a series of online health support videos for the benefit of their colleagues.

Highlight Boosting mental and physical health on a virtual run.

In conjunction with World Mental Health Day, the POCARI SWET RUN charity event took place between October 1 and November 14, 2021, in collaboration with Silver Ribbon—a mental health awareness NPO based in Singapore. The event is a virtual running race utilizing a smartphone app. Participants choose their distance and donate to the NPO based on how far they manage to run. Around 4,000 runners including Otsuka group employees from Japan and Indonesia laced up their running shoes and took part in the event.

Before the race, participants could join online seminars to hear psychiatrists and athletes talk about mental health, focusing on mental welling, exercise, and hydration. Events of this kind highlight how Otsuka can work closely with and support consumers' mental and physical health by utilizing the synergy of its two core businesses.



Quality in All We Do

For more details about our quality in all we do-related initiatives, visit:
<https://www.otsuka.com/en/csr/society/quality/>



Basic Policy

To help build a sustainable society, the Otsuka group guided by an enduring philosophy of "Customers First" and "Quality First," pursues quality at all stages of the value chain, and promotes initiatives taking into account the environment, society, and human rights.



"Quality is vital in a factory and so is packaging. We have to manufacture and market, putting ourselves in the consumer's position."

In 1946, when Otsuka began the manufacture and sale of injection drugs, Otsuka's founder, Busaburo Otsuka, wrote the above guiding principles to clarify what his employees should do to ensure proper manufacturing, transportation, and sales.

Today still, these principles are on display at the Otsuka group's manufacturing sites and other facilities, conveying our philosophy of "Customers First" and "Quality First."

All employees of the Otsuka group will remain true to this philosophy, and now as in the past, our responsibility as a health-related company will always be to think of customers and quality first.

Fields	Field-Specific <i>Quality in All We Do</i> Challenges
Research and Development	Ethical Considerations in Accordance with Laws and Guidelines We comply with all relevant laws and guidelines while striving to uphold bioethics and scientifically valid methodologies from the viewpoints of preservation of the environment and safety management.
Procurement	Sustainable Procurement in Cooperation with Suppliers We share the Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines with suppliers. We carry out robust due diligence when selecting new suppliers, and work with suppliers to promote sustainable procurement with regard to legal compliance, consideration for the environment, human rights, and other issues.
Production, Quality Control and Patient/Customer Safety	Group-wide Teamwork to Ensure Stable Supply of High-Quality Products We comply with relevant laws and regulations, administrative instructions, and industrial standards, and have also been working to obtain international certification for quality and food safety management standards. In addition, we observe the laws and regulations of each country in which we do business and, based on GxP* perform quality control, quality assurance and utilize our global safety surveillance system to implement post-marketing safety measures, including the collection and monitoring of safety information concerning adverse events. <small>* GxP (Good x Practice): A general term for "Good Practice" standards (ministerial ordinances, regulations, and guidelines) established by governments and other public institutions for ensuring safety and reliability</small>
Logistics	Building a Logistics Foundation with the Ultimate Mission of Ensuring Supply Stability We rigorously control and maintain product quality throughout pharmaceutical, food product, and beverage distribution. Furthermore, we have incorporated transportation into our business continuity planning, including registration of vehicles for authorized access to restricted areas in an emergency.
Sales and Marketing	Appropriate Promotion and Enhanced Information Access We have established a Code of Practice that builds on the International Federation of Pharmaceutical Manufacturers & Associations' Code of Practice and the Japan Pharmaceutical Manufacturers Association's Promotion Code for Prescription Drugs. In addition to complying with that code, Otsuka group companies also observe industry rules such as the "Guidelines for Provision of Sales information on Prescription Drugs" and conduct sales and marketing activities responsibly and with a high level of ethics. We have also established an expert panel, comprising members drawn from multiple departments, to perform reviews of marketing plans and sales promotion materials.
Customer Service	Sincere Response to Inquiries and Reflection in Company Activities We have established dedicated customer contact points (staffed by specially trained personnel) that field inquiries and are tailored to the characteristics of particular drugs, quasi-drugs, food products, and other respective products. Opinions and suggestions regarding products and services are proactively shared within the group for the purpose of product development and improvement.



Quality in All We Do Procurement

Sustainable Procurement in Cooperation with Suppliers

Basic Policy

The Otsuka group is a signatory to the 2016 United Nations Global Compact (UNGC), and considers the compact's positions on human rights, labor, the environment, and anti-corruption to be universal values. Our procurement is guided by the Otsuka Group Procurement Policy, which sets out the direction for consistently upholding the UNGC's values, maintaining sustainable procurement practices in accordance with our corporate philosophy, "Otsuka-people creating new products for better health worldwide," and improving corporate value while making a contribution to society.

Promotion System

The Otsuka Sustainable Procurement Task Force, which is supervised by Otsuka Holdings' directors and comprises Otsuka Holdings and eight group companies,* was formed in 2020. The task force meets once every two months to share views on challenges, exchange information, and report on each company's progress. In addition, we formulated the Otsuka Group Sustainable Procurement Guidelines in September 2020 as concrete guidelines for suppliers to follow.

Starting in 2022, the Otsuka group has begun focusing on a new area—stability of supply, which addresses natural disasters and geopolitical risks—in addition to the four existing areas of attention: human rights, labor, the environment, and anti-corruption.

* Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, Otsuka Foods, Otsuka Packaging Industries, Otsuka Techno, and EN Otsuka Pharmaceutical.



Group meeting on sustainable procurement
Attendees include directors, executive officers, and procurement staff from Otsuka Holdings, Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, and Otsuka Foods

Sustainable Procurement Initiatives

Embedding Sustainable Procurement through Training

We provide sustainable procurement-related training that takes into consideration human rights, the environment, and other issues, in order to further embed the Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines throughout the group. Moreover, specific task forces work to improve the skills of procurement staff, providing them with opportunities to learn about sustainable procurement issues and other topics.

Briefings on Sustainable Procurement Practices

Target for 2023: Conduct Briefings for 160 Suppliers

2021 Progress: Conducted Briefings for 126 Suppliers

We hold briefings for suppliers on sustainable procurement practices. Attendees learn about the Otsuka Group Procurement Policy and the Otsuka Group Sustainable Procurement Guidelines, and our expectations regarding compliance. These events are also opportunities for all parties to stay up-to-date on human rights and environmental issues and hear about examples of the group's initiatives in action. Suppliers that agree to uphold our policies sign a pledge affirming their intention to cooperate in achieving sustainable procurement as business partners.

Self-Assessment Questionnaire (SAQ) on Sustainable Procurement

Target for 2023: Conduct SAQs at 200 Suppliers

2021 Progress: Conducted SAQs at 137 Domestic and Overseas Suppliers

Suppliers that sign the pledge conduct a self-assessment, which consists of the common SAQ published by Global Compact Network Japan, and the Human Rights SAQ and Environmental SAQ that we have developed taking into account characteristics of the Otsuka group business activities. Based on the results, we then conduct interviews with suppliers. Seven companies were interviewed in fiscal 2021, with the interviews conducted remotely as a pandemic measure. The sharing of examples of sustainable procurement practices are opportunities to learn from successful case studies, and cooperating to address specific concerns ensures that we and our suppliers can make tangible progress toward sustainable procurement.



Quality in All We Do

Production, Quality Control and Patient/Customer Safety

Group-wide Cooperation to Ensure Stable Supply of High-Quality Products

Basic Policy

At the Otsuka group, we believe that providing a stable supply of high-quality products is part of our contribution to a sustainable society. Accordingly, we seek to make the most effective use of the characteristics of our businesses, which include pharmaceuticals, foods, chemical products, and cosmetics, in the quest for a level of quality that justifies customers' faith in us. To that end, we believe it is vital to pursue talent development across departmental borders, to maintain a reliable quality assurance system spanning all relevant companies (which also has the advantage of enabling us to stay abreast of changes in the operating environment), to minimize quality risks, and to undertake dynamic initiatives that contribute to supply chain stability.

The Otsuka group's systems for production, quality, and safety management are compliant with relevant laws and regulations, administrative instructions, and industry standards (including those prescribed by the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices and the Food Sanitation Act). Furthermore, we aim not only to obtain appropriate standards certification (ISO 9001 for quality, ISO 22000, and FSSC 22000 for food safety), but also to foster a "quality culture" that goes beyond the minimum obligations required by law.

Promotion System for Production

At the Otsuka group, we aim to maintain a stable supply of high-quality products. To that end, our production departments practice stringent production management that facilitates the tracing of products throughout the entire supply chain, from the procurement of raw materials through production and distribution to sale.

Moreover, to share information, hold discussions, and implement technical improvements group-wide, managers and staff from Otsuka group factories around the world come together under the supervision of group company executives for the Global Production Meeting, which has been held for over 30 years. It leads to new activities that leverage the strengths of the Otsuka group in conducting broad-ranging businesses, including the promotion of cross-company technical exchanges.

In terms of day-to-day production, we know the importance of reflecting on and learning from past performance, and to that end we have held "Manufacturing Errors" Workshops twice a year since 2017. These meetings bring together representatives of group company production

departments from Japan and around the world, and are an ideal opportunity to share and learn from manufacturing errors case studies from each company.

Promotion System for Quality Control and Patient/Customer Safety

The Otsuka group designs systems for quality control and patient/customer safety in accordance with the characteristics of each business, whether it be pharmaceuticals, food, chemical products, or cosmetics. We comply with the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices and observe laws and regulations of the countries in which we operate, perform quality control based on Good Quality Practice and Good Vigilance Practice in manufacturing and sales, and implement post-marketing safety measures. Moreover, we submit necessary reports to regulatory authorities, and update and maintain all required documentation. In addition, with regard to the manufacture and sale of pharmaceuticals at Otsuka group companies, information is exchanged among the General Marketing Compliance Officer and the Quality Assurance Manager, and the Safety Control Manager. We have established a pharmacovigilance system that facilitates the constant collection and assessment of product safety information throughout the group worldwide, and this has enabled us to provide information swiftly to medical institutions.

Otsuka Pharmaceutical and its overseas group companies have established global product quality policies,* implement measures to ensure the reliability of quality-related data, and publish manuals that outline common procedures. We strive to improve our quality systems, for instance by holding annual management reviews—globally, at the Otsuka International Asia Arab Division, and in Japan—in order to promote compliance with Good Clinical Practice, Good Vigilance Practice, and Good Manufacturing Practice from development through commercial sale.

Since 2019, product quality department of the Pharmaceutical Business and Nutraceutical Business jointly hold an annual Global Product Quality Meeting. The third meeting, held online, was attended by approximately 120 executives and quality supervisors for pharmaceuticals and nutraceuticals from 12 countries/regions, including Japan. The attendees shared information on changes in the social landscape and quality improvement initiatives. In addition, a Quality Performance Award was established to recognize quality control initiatives, and efforts are being made to train people for quality control and to raise awareness.

* Policies established at Pharmaceutical Business in 2017; at Nutraceutical Business in 2021.



Ryo Harima
Vice President
Deputy General Manager,
Production Headquarters
Otsuka Pharmaceutical

Over 30 Years of Technical Exchange at the Global Production Meeting

The Global Production Meeting returned in fiscal 2021 after a gap of two years due to the COVID-19 pandemic. The 2021 meeting was held online under the theme "New Forms of Production," and was attended by 138 employees and executives from 14 countries/regions. Participants presented case studies, including reports on remote support for the launch of a new overseas plant and the use of a big data analysis system in production, exchanged views, and joined the ceremony for the 2021 Production Awards, which recognize outstanding production achievements.



Ken Konagai
Director
Office of Nutraceuticals
Quality Assurance
Quality Headquarters
Otsuka Pharmaceutical

Commitment to the NC Global Quality Policy

In 2018, Otsuka Pharmaceutical's Quality Assurance Office of the Quality Headquarters inaugurated a Global Product Quality Team, with members from 14 Otsuka group companies from around the world involved in the Nutraceutical Business. Otsuka Pharmaceutical's approach to quality is rooted in, and remains faithful to, founder Busaburo Otsuka's words: "Quality is vital in a factory and so is packaging. We have to manufacture and market, putting ourselves in the consumer's position."

The key message of the NC Global Quality Policy is "Customer delight through Quality," which expresses the founder's sentiment in our own words and declares our common global commitment.



Quality in All We Do Customer Service

Sincere Response to Inquiries and Reflection in Company Activities

Basic Policy

We recognize that respecting consumer rights is an important human rights issue. Our Declaration of Consumer-oriented Commitment, made in October 2018, establishes basic policies regarding our commitment to our social responsibilities as a corporation, which we fulfill by pursuing consumer-oriented management and making appropriate decisions that are based on dialogue with all stakeholders.

Promotion system

Each Otsuka group company has established dedicated contact centers to field inquiries from patients, healthcare professionals, and general consumers, and these centers are staffed by trained personnel that provide information as appropriate. Inquiries are reported to the relevant department and the management team at each company so that views and suggestions about our products can inform future improvements.

Group-wide Customer Service Liaison Meeting

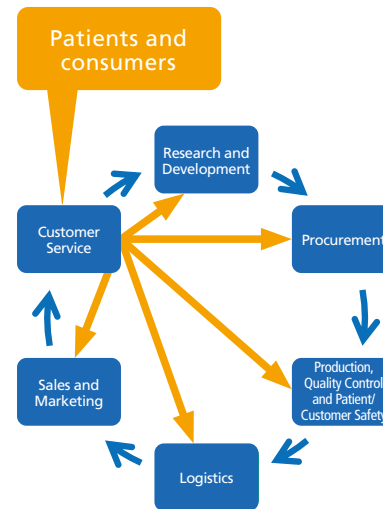
Since 2008, we have held a Group-wide Customer Service Liaison Meeting every year under the supervision of Otsuka Holdings directors. Meetings are attended by representatives of companies in the Pharmaceutical Business, Nutraceutical Business, Consumer Products Business, the daily necessities and e-commerce categories, and well as from other relevant departments. The various companies report on their customer service activities and initiatives for greater consumer orientation, thus fostering our consumer-oriented corporate culture. The 27th meeting, held in 2022, focused on evolving consumer trends amid social changes in the ongoing COVID-19 pandemic, and best practices for product improvements informed by customer feedback.



Switching to label-less bottles by reflecting customer feedback

Reflecting Stakeholders' Views in Company Activities

Customer-facing departments of Otsuka group companies receive a broad variety of feedback from patients, healthcare professionals, and consumers, and we make sure that feedback is shared appropriately with the relevant departments. We also strive to share this feedback throughout the value chain with the right executives and departments, so that it can be properly reflected in our company activities.



Value Chain	Communication with Stakeholders
Procurement	The cross-group Otsuka Sustainable Procurement Task Force communicates closely with suppliers to promote sustainable procurement.
Production	Otsuka Pharmaceutical's Tokushima Itano Factory and Human Resource Development Institute, and Otsuka Foods' Tokushima Factory hold online factory tours as part of community outreach.
Quality Control and Patient/Customer Safety	In addition to collecting feedback through the Consumer-Relations Office, Otsuka Pharmaceutical collects and analyzes consumer comments from social media, and incorporates these comments in product improvements.
Logistics	Otsuka Warehouse, which handles the Otsuka group's logistics operations, holds meetings with transport partners as necessary to share policies and initiatives, and also engages in mutual employee exchanges aimed at promoting digital transformation and operational improvements.
Sales and Marketing	Swift dissemination of information using online tools enabled us to provide information about pharmaceuticals and nutritional products without compromising strict COVID-19 countermeasures.



Toshifumi Fujishita
Director
Consumer-Relations Office
Otsuka Pharmaceutical

Group-wide Initiatives to Leverage Customer Feedback

At Otsuka Pharmaceutical, the Quality Assurance Office of the Quality Headquarters and the Consumer-Relations Office hold an annual Listen to Customer Feedback Meeting. This year's meeting was held online in December 2021, connecting Consumer-Relations Office offices in Tokushima, Osaka, Tokyo, and at production plants, and was attended by 115 representatives from sales, production, quality, procurement, and other head office departments, as well as members of Otsuka Holdings. Participants heard customer feedback about products and examples of how feedback had been incorporated into product improvements.



Prof. Izumi Kado
Department of Business and Communication,
Shikoku University,
Junior College

High Hopes for Deeper Permeation of Consumer-oriented Management

I have the deepest respect for the people of the Otsuka group, who work hard to create a sustainable society together with consumers, inspired by the ideal of ethical consumption founded on three key concepts: the environment, workers' rights and happiness, and the community. In an age when we can no longer count on the future being a direct extension of the past, I am convinced that the Otsuka group's consumer-oriented management style, imbued with a spirit of altruism and defined by diverse, in-depth and, ethical communication with all stakeholders, will come to be shared widely around the world.

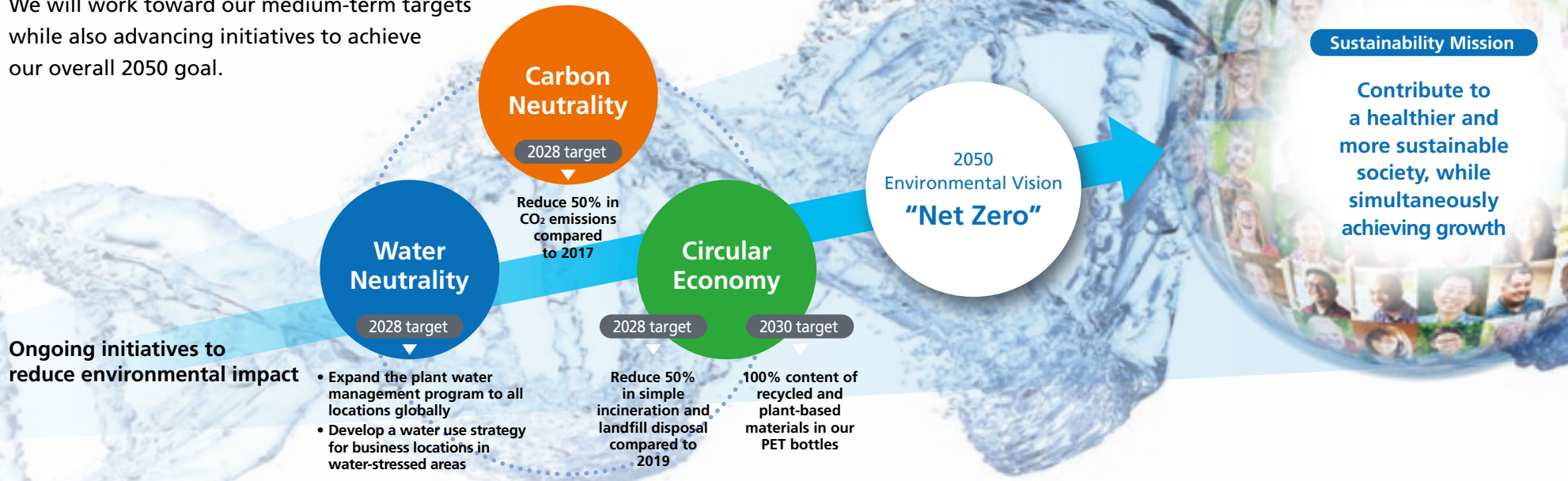
Environment

For more details about our environment-related initiatives, visit:
<https://www.otsuka.com/en/csr/environment/>



Toward Our 2050 Environmental Vision, "Net Zero"

The Otsuka group has established 2050 Environmental Vision, "Net Zero," with the aim of reducing the total environmental impact across all its business activities to zero. We will work toward our medium-term targets while also advancing initiatives to achieve our overall 2050 goal.



Ongoing initiatives to reduce environmental impact

- Expand the plant water management program to all locations globally
- Develop a water use strategy for business locations in water-stressed areas
- Reduce 50% in simple incineration and landfill disposal compared to 2019
- 100% content of recycled and plant-based materials in our PET bottles

Materiality (Material Issues)	Social Issues	Our Goals	Our Activities
Carbon Neutrality¹	<ul style="list-style-type: none"> • Global warming 	<ul style="list-style-type: none"> • 2028 target: Reduce 50% in CO₂ emissions compared to 2017 	<ul style="list-style-type: none"> • Reduce CO₂ emissions throughout the value chain
Circular Economy²	<ul style="list-style-type: none"> • Environmental load increase 	<ul style="list-style-type: none"> • 2028 target: Reduce 50% in simple incineration and landfill disposal compared to 2019 • 2030 target: 100% content of recycled and plant-based materials in our PET bottles 	<ul style="list-style-type: none"> • Reduce environmental impact by improving resource efficiency • Promote business activities aimed at sustainability for both society and the earth
Water Neutrality³	<ul style="list-style-type: none"> • Reduced freshwater availability due to water resource risks 	<ul style="list-style-type: none"> • 2028 target: Expand the plant water management program to all locations globally • 2028 target: Develop a water use strategy for business locations in water-stressed areas 	<ul style="list-style-type: none"> • Understanding water resource risks • Management and effective use of water resources

1 Sustainable energy use 2 Sustainable use of raw materials 3 Sustainable use of water resources

Environment

Basic Policy

Aiming to create a healthy future as a total healthcare company, the Otsuka group has established 2050 Environmental Vision, "Net Zero," with the aim of reducing the total environmental impact across all its business activities to zero.

Based on this vision, we have determined the material issues in our environmental initiatives to be *carbon neutrality*, *circular economy*, and *water neutrality*. As global action aimed at a decarbonized society gathers speed, we have established a new set of medium-term targets with the aim of being more proactive in our own initiatives. We will promote activities to improve employees' understanding and recognition of environmental issues through environment-related training, generate synergy among Otsuka group companies, and act from a unified standpoint.

Carbon Neutrality

Global warming and the resulting change in climate are having a major impact on the world's bioresources and water resources, and environmental problems are becoming more apparent on a global scale. As a group that operates globally, we recognize that climate change presents major risks but at the same time offers new business opportunities. In aiming to contribute to a decarbonized, more sustainable society, we are working to reduce greenhouse gas (GHG) emissions throughout the value chain in line with the international targets and indicators adopted under the Paris Agreement.

Disclosure According to TCFD Recommendations

In October 2021, Otsuka Holdings announced its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Accordingly, we are moving forward with the disclosure of information on climate-related risks and opportunities in governance, strategy, risk management, and metrics and targets, according to the framework recommended by the TCFD.



Governance

The Otsuka Holdings Environmental Committee comprises the executive deputy president and director of Otsuka Holdings, group company directors, and executive officers. The committee is responsible for making decisions on key challenges relating to climate change. Furthermore, resolutions on matters relating to group-wide direction are shared with each company following approval by the Board of Directors. These matters are communicated to each company in the form of Otsuka group policies and incorporated into specific action plans. In 2021, the Board of Directors approved 2050 Environmental Vision, "Net Zero," with the aim of reducing the total environmental impact across all its business activities to zero.

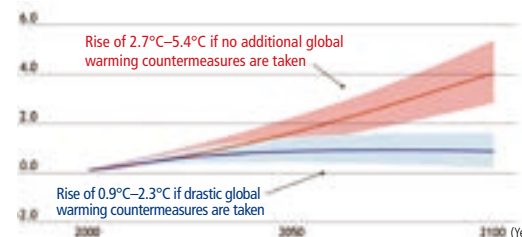
Otsuka Group Environmental Management System



Strategy

The Otsuka group conducts climate change scenario analysis to assess the resilience of its strategies. Specifically, it references the IEA's *World Energy Outlook 2020* and other materials to assess business risks and opportunities in both the below 2°C scenario and the 4°C scenario.

Change in Global Mean Surface Temperature*



4°C Scenario
A scenario in which development is dependent on fossil fuels and climate change measures are not introduced. Rising temperatures cause an increase in natural disasters, negative impact on crops, and loss of biodiversity.

Below 2°C Scenario
A scenario in which development is sustainable and climate change measures are proactively implemented to keep the temperature rise below 2°C. Measures to achieve a decarbonized society are enhanced, including the introduction of CO₂ emissions regulations and expansion of the renewable energy market.

* Based on the Ministry of the Environment's Japanese translation of *Summary for Policymakers, Working Group II Report, Fifth Assessment Report* published by the IPCC

Main Scenarios Referenced

- IEA *World Energy Outlook 2020* (Sustainable Development Scenario, Stated Policy Scenario)
- IPCC (RCP2.6, RCP8.5)
- OECD-FAO *Agricultural Outlook 2021–2030*

Environment

Scenario Analysis: Financial Impacts and Responses Associated with Climate-Related Risks and Opportunities

Category	Contents	Business/Financial Impacts		Our Response/Resilience	
		Below 2°C	4°C		
Transition Risks	Policies and regulations	• Increased costs due to tightened regulations such as carbon pricing	Large	Large	<ul style="list-style-type: none"> Introduction of internal carbon pricing Introduction of CO₂-free electricity
	Market	<ul style="list-style-type: none"> • Steep rise in renewable energy prices • Steep rise in energy prices 	Large	Large	<ul style="list-style-type: none"> Introduction of solar power generation systems including mega solar power systems
	Reputation	• Reputation risk and investment-related risk associated with inadequate response to climate change and water resource risks	Large	Medium	<ul style="list-style-type: none"> Improving energy efficiency through energy saving and fuel conversion Investment in environmental facilities in Japan and overseas
Physical Risks	Acute	• Risks of damage to production and other facilities due to intensification of extreme weather, and cost increases to prepare for extreme weather events	Medium	Large	<ul style="list-style-type: none"> Decentralized production of major products Formulation, disclosure, and sharing of procurement policies and guidelines with suppliers Strengthening communication with our supply chains (expanding the number of suppliers that are subject to our supply chain questionnaires, improving and enhancing contents of the questionnaires, and holding discussions)
		• Risks in raw material procurement such as disruption to supply chains and stable procurement			
	Chronic	<ul style="list-style-type: none"> • Increased energy costs associated with temperature rise • Effects of climate change on drug discovery using crop and other natural products 	Large	Medium	<ul style="list-style-type: none"> Systematic renewal of facilities Collection of information about the impacts on drug discovery using crops and other natural products, risk assessment, and examination of countermeasures
Opportunities	Resource efficiency	• Reduction of operating costs through the introduction of energy-efficient equipment	Large	Medium	<ul style="list-style-type: none"> Collection of information on new technologies (such as membrane water treatment technology that does not require steam) and examination of introduction of such technologies in a timely manner
	Energy sources	• Reduction of energy procurement risk due to proactive introduction of renewable energy	Large	Small	<ul style="list-style-type: none"> Introduction of internal carbon pricing Collection of information on next-generation energy sources (such as hydrogen and ammonia) and examination of introduction of such sources in a timely manner
	Products and services	• Increased revenue from increased demand for products that mitigate or address climate change (e.g., products for preventing heat stroke and the spread of infectious diseases)	Large	Large	<ul style="list-style-type: none"> Formulation of the Otsuka Group Plastic Policy (in 2020) that aims at reducing reliance on fossil fuel-derived materials Examination of introduction of recycled PET resin or plant-based bio-PET resin for PET bottle beverage containers Examples: Expand sales of products for preventing heat stroke, and expand sales of products with low environmental impact throughout their lifecycles
	Market	• Increased revenue from expansion into new market categories with products that address climate change	Medium	Medium	• Development of products that mitigate or address climate change (e.g., plant-based products)
	Resilience	• Strengthening business continuity planning (measures against disaster and supply chain disruptions)	Medium	Large	<ul style="list-style-type: none"> Strengthening of promotion of energy saving and renewable energy through internal carbon pricing Business continuity plan measures at manufacturing sites (anti-seismic measures and measures against flooding)

Assessment of business/financial impacts

Large: One billion yen or more (equivalent to 1% of operating income assuming a minimum operating income of 100 billion yen)

Medium: From negligible to less than one billion yen




Small: Negligible

Risk Management

The Otsuka group examines and assesses climate-related risks that have the potential to impact its financial affairs and strategies. The Otsuka Holdings Environmental Committee considers related risks, and committee members in charge of environmental management report on any matters that are deemed to be significant in the risk assessment process to the Board of Directors. Resolutions on matters approved by the Board of Directors are communicated to each company in the form of Otsuka group policies, and the whole group works to minimize climate-related risks.

Metrics and Targets

The Otsuka group has established 2050 Environmental Vision, "Net Zero," with the aim of reducing the total environmental impact across all its business activities to zero. In addition to revising our CO₂ emissions reduction target upward (from a 30% reduction by 2030 to a 50% reduction by 2028; compared to 2017), we have joined the international RE100 initiative (see next page) and continue to promote activities aimed at decarbonization. Looking ahead, we will maximize group synergy and proactively engage in efforts to achieve carbon neutrality.

 Carbon Neutrality	Targets	• 2028 target: Reduce 50% in CO ₂ emissions compared to 2017	
	Fiscal 2021 Results	CO ₂ emissions reductions through introduction of renewable energy 143,000 t-CO₂	CO ₂ emissions 683,000 t-CO₂
 Circular Economy	Targets	• 2028 target: Reduce 50% in simple incineration and landfill disposal compared to 2019 • 2030 target: 100% content of recycled and plant-based materials in our PET bottles	
	Fiscal 2021 Results	Total waste volume 90,100 t	Simple incineration and landfill disposal volume 16,400 t
 Water Neutrality	Targets	• 2028 target: Expand the plant water management program to all locations globally • 2028 target: Develop a water use strategy for business locations in water-stressed areas	
	Fiscal 2021 Results	Water usage 17.68 million m³	Water intensity per unit of sale 11.80 m³/¥ million

(Calculated based on the performance of all manufacturing sites in the consolidated Otsuka group)

Environment

Joining the RE100 Initiative

In April 2022, the Otsuka group joined the international RE100 initiative, which asks companies to commit to using 100% renewable energy in their business activities. As the world transitions to a decarbonized society, under our 2050 Environmental Vision, "Net Zero," through which we aim to reduce the total environmental impact across all business activities to zero, we will continue to proactively implement measures to reduce CO₂ emissions.



Increasing Utilization of Renewable Energy and Maximizing Energy Efficiency

The Otsuka group has set the target of reducing CO₂ emissions by 50% (compared to 2017) by 2028. To achieve this target, we are increasing our renewable energy usage through the introduction of CO₂-free electricity and solar power generation equipment, and maximizing our energy efficiency through the adoption of co-generation systems.¹

In 2021, we introduced CO₂-free electricity at all 23 manufacturing sites of five² Otsuka group companies, and as a result reduced our annual emissions by approximately 109,800 t-CO₂.³ Furthermore, in Tokushima Prefecture, which is home to many Otsuka group production facilities, we have begun upgrading the co-generation facility at Otsuka Chemical's Tokushima Factory. This will enable us to supply electricity and steam to neighboring Otsuka group manufacturing sites and improve our energy efficiency. The new co-generation system is scheduled to begin operation in 2024, and is expected to cut annual emissions by approximately 8,000 t-CO₂. In addition, we have introduced a new co-generation system and changed boiler fuel at Otsuka Pharmaceutical Factory's Naruto Factory, which should result in an annual reduction of approximately 4,800 t-CO₂.

1. The engines, turbines, or fuel cells of co-generation systems generate electricity from natural gas, LPG, or other fuel sources. At the same time, the systems collect the waste heat, thereby achieving efficient use of both heat and electricity

2. Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, and Otsuka Foods

3. Compared to 2017

Introducing CO₂-Free Electricity at Four* Indonesian Group Companies

Among our overseas businesses, the highest generator of CO₂ emissions after Japan is Indonesia, where we are engaged in the pharmaceutical, nutraceutical, and chemical businesses. In Indonesia, we have introduced CO₂-free electricity from geothermal power, which we forecast will reduce annual CO₂ emissions by about 60%.

Moving forward, we will continue increasing our use of renewable energy and maximizing energy efficiency both in Japan and around the world, and make use of group synergy to contribute to a decarbonized, more sustainable society.

* PT Otsuka Indonesia, PT Amerta Indah Otsuka, PT Widatra Bhakti, and PT Lautan Otsuka Chemical



Sukabumi Factory, PT Amerta Indah Otsuka

Building a New Integrated Energy Service Structure

As one effort to achieve 2050 Environmental Vision, "Net Zero," and reduce the total environmental impact across all business activities to zero, the Otsuka group has established a new integrated energy service structure under the retail electricity provider model. Through this move, we will be able to procure renewable energy from power producers and other sources, and more efficiently supply electricity generated within the Otsuka group to group business sites.

Environment

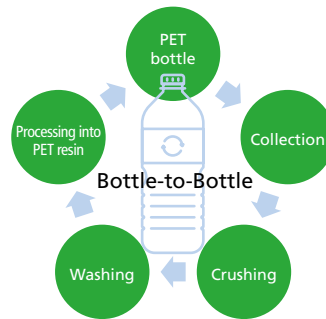
Circular Economy

In line with global trends, for us to be able to create a more sustainable society and achieve sustainable corporate growth, we must shift to a more sustainable business model whereby we can achieve growth without having a serious impact on the environment. To continue offering products that contribute to the health of people worldwide, we have set ourselves two goals: reduce simple incineration and landfill disposal of waste by 50% compared to 2019 and use 100% recycled or plant-based materials in our PET bottles by 2030* as per the Otsuka Group Plastic Policy. We will continue to increase resource efficiency throughout the value chain and build a harmonious and sustainable relationship with bioresource and other resource sources.

* Goal has been revised. Previous goal: 50% content of recycled or plant-based materials in PET bottles by 2030

Containers and Packaging for a Sustainable Society

Based on the Otsuka Group Plastic Policy, we are quickly moving forward with measures to reduce the environmental impact caused by our plastic containers and packaging. In doing so, we are contributing to sustainable closed-loop recycling for plastics and other resources.



Launch of PET Bottles Made Using Recycled Materials

We launched a PET bottle made using 50% recycled PET resin for *Crystal Geysler* in April 2021, and a 30% recycled PET bottle for *POCARI SWEAT* in March 2022. While moving forward with further technological development, we will gradually extend the use of recycled PET bottles to other products.

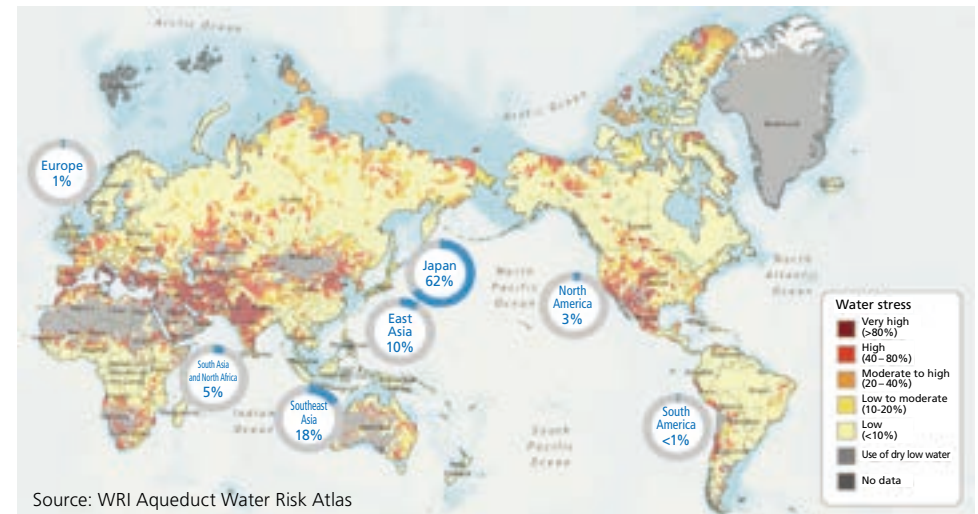


Water Neutrality

Water resources are unevenly distributed across countries and regions, each of which faces different challenges. We are working with all our stakeholders to conduct ongoing water conservation initiatives from intake to discharge (including cultivation of water resources, conscientious use, and clean return) as we aim for sustainable water use. As such, we have revised our targets to include developing and implementing a water use strategy for business sites in water-stressed areas, and expanding the plant water management program to all locations globally, both by 2028.

Working together, group companies use the World Resources Institute's (WRI) Aqueduct Water Risk Atlas, as well as extensive water-related data, to assess the water risks at all manufacturing sites within the scope of consolidation. Based on that assessment, we draw up model cases for water management and water targets tailored to each country or region. We will examine and evaluate the results and launch similar initiatives at sites worldwide.

Aqueduct Water Risk Atlas and Breakdown by Region of Water Consumption in the Otsuka Group



Source: WRI Aqueduct Water Risk Atlas

Messages from Outside Directors

For the full text of these messages, visit:

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



Evolving corporate governance while maintaining the founding family's spirit and Otsuka's unique approach

Yukio Matsutani
Outside Director
Otsuka Holdings Co., Ltd.

From My Appointment to the Present Day

The Otsuka group achieved growth before its listing through the charismatic management of its founding family. Since its listing, the company has shifted from being an owner-operated company to one in which leadership is chosen by shareholders. Such structural transitions sometimes lead to disruptions in areas including corporate governance, but in Otsuka's case it has been relatively smooth. The group's success in this respect is no doubt partly due to CEO Tatsuo Higuchi being a long-time veteran of the Otsuka group with an understanding of the founding family's spirit and expertise in global management. As the group expands the scale of its business for further growth as a truly global company, it must address how to evolve its management and corporate

governance structures while maintaining the founding family's spirit and Otsuka's unique approach.

One of the most important issues in global corporate governance is risk management. Global governance is extremely complex, as each country has its own challenges. But although there are of course many issues to deal with, I feel that the group is steadily building an organizational structure for addressing them.

Progress and Challenges in Global Governance

Given the diversity of the Otsuka group's shareholders, customers, clients, and other stakeholders, it is essential that we carefully discuss what the best overall structure for global governance is. The group has enjoyed the benefits of

a unique corporate culture since its founding, so it will be important to examine how to become truly global while continuing to reap those benefits.

Development through Diversity

Biological evolution is a continuous process in which individual species within a group successfully adapt to the surrounding environment and pass on their genes. As environments change, it is not always easy to predict which species will be able to adapt to any given change. In that sense, I believe the rich diversity of the Otsuka group's businesses will enable it to continue evolving with the times.

On the other hand, with such rich diversity comes certain inefficiencies. The aim of global governance is to deal with these inefficiencies. However, the group must determine what is to be managed as a group, and what is to be left to local operating companies to deal with in their own ways. Markets differ by country, as does the stage of development of each group business. Even business purposes differ. Overmanaging these businesses can also lead to inefficiencies. Clarifying responsibility for the timing and criteria for investment or liquidation decisions, or for evaluating the success or failure of a particular business is important, but overmanagement can also be costly. Given the difficulty of determining what to keep and what to eliminate from an organizational perspective, it will be necessary to create a platform for decision-making based on evidence and data.

Messages from Outside Directors

Maximizing value and generating sustainable growth as a group

Ko Sekiguchi

Outside Director
Otsuka Holdings Co., Ltd.



Progress in Enhancing Group Governance

In addition to ensuring the smooth development of each operating company's businesses, Otsuka Holdings must manage with a focus on how to maximize value and ensure sustainable growth as a group.

In March 2022, Managing Director Shuichi Takagi was appointed CSO to strengthen the corporate strategy functions of Otsuka Holdings. I believe this was a significant step toward enhancing group governance. The next step is to deepen discussion on whether the goal of each operating company is aligned with that of Otsuka Holdings, and whether each of those companies has a clear role to perform within the group, keeping in mind group-wide synergy and the group's vision for 10 years from now.

Regarding finances, in its Third Medium-Term Management Plan the group stated its intention to conduct business management with a corporate-wide awareness of

capital cost. Executive Director, CFO Yuko Makino is leading these efforts. In addition, the introduction and expansion of shared services is moving forward. I consider such services to be an extremely important factor in enhancing group governance. Group companies differ in scale, structure, industry, and stage of development, so it will take considerable effort to incorporate these services. Nonetheless, I believe progress has been steady.

Importance of a Global Personnel Strategy

In addition to the introduction and operation of these shared services, global personnel functions will also fulfill a key role in group governance. Currently, each operating company is responsible for the formulation and implementation of its own personnel systems and strategies. From a global perspective, however, having

numerous personnel systems and wage structures makes it difficult to implement shared services across all of these companies, and to ensure effective personnel utilization and education that will increase group-wide value. Once the roles and responsibilities of each group company have been clarified, it will be important from an organizational perspective to create a global personnel system and strategies that are linked to the level of contribution that those companies make to the group. In addition, giving consideration to an ideal remuneration system that could cover a variety of business types would further enhance group governance.

Responsibility to Contribute to and Fulfill an Important Role in the Group

We live in an era in which continuously creating and developing novel, innovative pharmaceuticals is difficult. This is why it is important for each business and operating company to responsibly engage in initiatives with an awareness of how they contribute to the group and what role they should fulfill. In the Nutraceutical Business, the group stands in a unique, unrivaled position, and therefore has great potential for even more innovation. There are very few companies in the world who cover everything from prevention to recovery.

I also believe there is a need to improve group-wide communication and strategic consideration of investment decisions and strategies. Entrusting investment to operating companies that have extensive experience, expertise, and competitive advantages in specific fields could lead to even greater value. This is an important approach given the group's aims to take capital cost into account in management.

Messages from Outside Directors



Challenges in Global Governance

Until now, management of the Otsuka group was based on competition among its operating companies. This approach enabled it to grow into a unique total healthcare company. As the world becomes more complex and the number of Otsuka group companies reaches the 200 mark, however, I believe it is time to reexamine the group's direction and review the mechanisms for keeping it on track. As a listed company, Otsuka Holdings has a responsibility to contribute to its stakeholders by further boosting management efficiency and enhancing profitability. Consequently, the group must establish a new direction and rebuild its mechanisms while maintaining its founding spirit. The appointment of Managing Director Shuichi Takagi as CSO in March 2022 reflects the group's intention to do so.

In rebuilding mechanisms, Otsuka Holdings now needs to clarify the scope and scale of responsibility it will give to each group company. To ensure that the group's direction and profitability are not affected, Otsuka Holdings needs to strengthen the management and capabilities of each operating company while respecting their independence. At the same time, it must carefully balance responsibilities under its control as a holding company with the responsibilities it entrusts to operating companies. The Otsuka group already has various management mechanisms in place, but I believe even more robust mechanisms will be required if the group continues to develop through further globalization and if the number of group companies continues to increase. Although there is already a significant focus on personnel development in the group, it is now at the stage where preparations must be made to prepare for further expansion by strengthening

human resource development, rotation, and allocation functions within Otsuka Holdings to develop and increase the number of management personnel for group companies.

Further Growth in the Nutraceutical and Consumer Products Businesses

Compared to the management foundations of the Pharmaceutical Business, those of the Nutraceutical Business and the Consumer Products Business are still in the development stage. That said, the unique development of these two businesses has led to steady growth in their foundations. In the consumer products market, systems and values are undergoing major changes due to environmental issues, the need to address infectious diseases, and other factors. If the Otsuka group were to utilize bold investments in taking these changes as opportunities to employ its unique approach, I believe the scale of the business could increase significantly.

Founding Spirit

It is not easy to manage a company while maintaining faith in its founding spirit. However, the Otsuka group's founding spirit continues to be passed on through the group's corporate philosophy. My hope is that the group can make use of this philosophy to provide even more solutions that benefit people and society.

Messages from Outside Directors

Considering management policies and business strategies to further enhance the value of the Otsuka group

Mayo Mita

Outside Director
Otsuka Holdings Co., Ltd.



The Otsuka Group's Value as an Organization

The Otsuka group has grown into a huge organization and has diverse corporate history. With so many operating companies, the Board of Directors and the Corporate Governance Committee continue to deliberate over how to show the group's true abilities and maximize its underlying value. If the group can make full use of its strong management foundation and maximize group synergy, its value will no doubt increase. To date, the creativity of each operating company has inspired mutual improvement, enabling the group to generate numerous innovations. However, the current speed and scale of change in digitalization, borderless information sharing, and other external trends is unprecedented. Amid this environment, the call is even greater for corporations to improve their

corporate value through globalization, innovation, and synergy. At the Board of Directors, we constantly consider what management policies and business strategies will best improve the value of the Otsuka group.

Innovation and Efficiency through Creativity

The Otsuka group's structure enables it to create and facilitate relationships within the group that are unlike external collaborations. Some pioneering examples include the collaboration between Taiho Pharmaceutical and Otsuka Pharmaceutical for the sale of anticancer agents in the U.S., and the partnership between Otsuka Medical Devices and Otsuka Pharmaceutical. I believe making these

successes more visible could inspire even more successful collaborations among operating companies and projects.

On the topic of investments, whether it be in R&D, IT, or the expansion of sales channels, the Otsuka group can make much larger-scale investments than single entities. As a group, it can adopt a larger risk appetite for investments in promising domains. Meanwhile, in external collaborations too, the recognition that can be gained for the group's comprehensive strengths is much more significant than that possible for a lone operating company.

On the other hand, the group must also make the correct choices as social demands change with the times. It is therefore important to create new mechanisms that allow the group to take on new challenges that can in turn lead to virtuous cycles. With so many different businesses, it is only natural that their KPIs differ—what is important is that through the setting of KPIs, management is then undertaken with a sense of ownership and responsibility. Embedding the concepts of cost of capital and ROIC throughout every operating company in the group is a difficult task, however, converting these indicators into numerical targets is a way to increase decision-making transparency for both the business execution side and the governance side regarding business details and investment priorities.

In becoming a listed company, Otsuka Holdings welcomed shareholders as a new category of stakeholder. When shareholders purchase shares in Otsuka Holdings, it is because they look forward to the sustainable growth of the group. Communicating the group's commitment to growth to each category of stakeholder will no doubt lead to improved relationships of trust.

Messages from Outside Directors



Governance under which Otsuka is always moving in the right direction and aspiring to greater heights

Tatsuaki Kitachi

Outside Director
Otsuka Holdings Co., Ltd.

Governance as Expressed in the Corporate Philosophy

For me, the Otsuka group's corporate philosophy—"Otsuka-people creating new products for better health worldwide"—is the prime expression of what the group's approach to governance should be. The words "for better health worldwide" show the group's desire to ensure better health in governance too, in that it emphasizes a constructive approach to governance, in other words looking at what to eliminate and what to revise. "Creating new products," meanwhile, is an expression of the group's willingness to take on new challenges to reach greater heights. My role as an outside director is to ensure governance under which the Otsuka group is always moving in the right direction and aspiring to greater heights.

Strive to Do What Only Otsuka Can Do

The Otsuka group's communications often reference "what only Otsuka can do" and "uniqueness." To me, rather than connotations of "specialness" or "exclusivity," these words express how the group is willing to use strong leadership to take on challenges that others cannot.

Research and development requires a long-term commitment, process management, and supportive colleagues and partners. Meanwhile, large investments do not always guarantee success in R&D; sometimes, small investments can lead to major or fascinating results. Even if the outcome of a project is difficult to foresee, it is important for R&D leaders to commit to supporting their team. It is also necessary to create networks and exchange information, and to move forward while gradually revising the direction of projects as necessary. I believe the Otsuka group can apply all of these capabilities to great effect.

Meanwhile, to maintain better health throughout society, it is important to directly address the needs of patients, consumers, and communities. A representative example among pharmaceuticals is *ABILIFY MAINTENA*, a drug developed for schizophrenia patients that offers them a more convenient prescription format and solutions to the issues they face in society and life. *POCARI SWEAT* is another example. Although sales began one bottle at a time, direct contact with consumers raised awareness of the product's advantages, and built it into a popular brand. Almost 40 years later, Otsuka developed *POCARI SWEAT ICE SLURRY*, which supports construction workers and others working under extremely hot conditions, and is now promoting it at various sites. Products such as these could not have been created through product development and marketing activities that only had efficiency in mind.

A Key Mission: Enhancing Financial Efficiency

Today, the Otsuka group comprises 200 companies (including affiliated companies), each conducting independent management as an independent company. Moreover, some of these operating companies are engaged in multiple businesses. Although this approach is suited to long-term business management, including personnel development, it is important to further reinforce the methods and tools required to manage financial accounting and managerial accounting from different perspectives. In the current environment, in which there is significant movement at the macroeconomic level, it is essential to find the most beneficial means of implementing financial management and capital efficiency across all group companies. The Otsuka group must therefore incorporate approaches for enhancing financial efficiency, such as centralized capital management and foreign exchange risk management. Improving financial efficiency is key if the group is to meet the expectations of its shareholders and investors. While this will present a significant challenge, it is one that the group must tackle.

Message from the CSO



Combining the Creativity of Each Operating Company with Group Governance

The Otsuka group currently comprises 200 companies. To date, operating companies within the group have used their accumulated creativity and strengths to offer unique businesses and undertake independent management, while inspiring mutual improvement and generating broad-ranging innovation in the process. Since the shift to a holding company structure, as well as introducing shared services and improved corporate functions, we have sought to accelerate group synergy and innovation. To that end, we have built mechanisms to optimize asset use and promote collaboration, for example through information-sharing platforms for operating companies and shared value chains.

As society continues to become more diverse and operating environments rapidly change, we must take measures to continue to meet the expectations of our stakeholders and provide social value. In this sense, it is imperative that we integrate the creativity and management capabilities of our operating companies—which are responsible for carefully examining social needs and identifying what value we should create—with group governance, which will be key to enhancing the effectiveness of group management from a systematic, overarching perspective. In particular, due to rapid recent changes in the social environment, we need to rebuild supply chain networks in certain businesses and it is difficult to anticipate what the future will bring. As the group looks to further grow in scale and promote global development, over the last few years we

have sought to reinforce both strategic, proactive approaches to cooperation (by increasing opportunities for discussion on asset strengths and strategies) and precautionary approaches to cooperation (by enhancing monitoring of our operating companies and quickly finding solutions to emerging business challenges). We must also hold further discussions on ways to create a more robust organization, including the overall direction of the group and the significance and relevance of each business.

Diversity and Value Creation

As a total healthcare company, the Otsuka group's success is grounded in the diversity of both the industries it does business in and of the human resources and expertise it brings together. Furthermore, each operating company is at a different stage of growth. One of the group's biggest strengths is its ability to integrate different ideas and values from various perspectives. This enables it to respond to change and generate entirely new value as it goes about business and management. As a holding company, we must value the creativity of each business, develop opportunities for small projects to grow into major successes, and offer support for the creation of new value through group synergy. Moving forward, we will also look at promoting interaction among employees to create new environments where they can play active roles, as well as organizational personnel development programs that leverage employee diversity.

At the Otsuka group, our aim is to continue contributing to people's lives as a total healthcare company. By building strong relationships of trust and enhancing cooperation within the group, we will strive to ensure more robust group governance and management.



Governance

For more details about our governance-related initiatives, visit:
<https://www.otsuka.com/en/csr/governance/>



Corporate Governance

Basic Policy

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

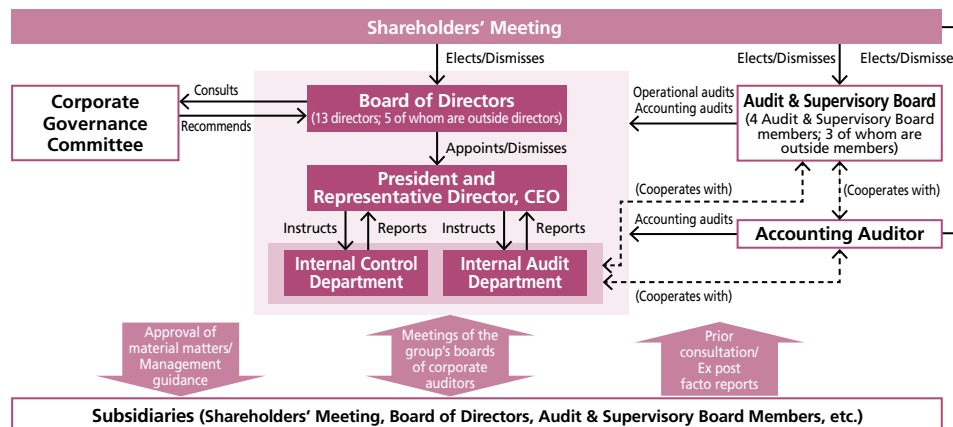
Corporate Governance Guidelines

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

Corporate Governance Report (April 12, 2022)

https://www.otsuka.com/jp/csr/governance/pdf/governance_report2022.pdf (available only in Japanese)

Corporate Governance Organizational Structure



Initiatives to Strengthen Corporate Governance

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

Governance

Board of Directors

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

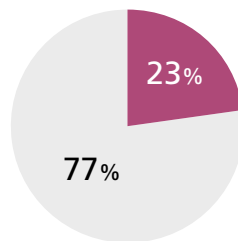
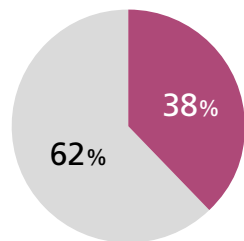
The term of directors at Otsuka Holdings is set at one year to clarify executive responsibility for each fiscal year. Furthermore, the Company works to ensure the overall diversity of directors, and appoints people with the insight, expertise, and experience needed to realize and maintain appropriate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

Meetings Held in Fiscal 2021 (Average Attendance): 15 (100%)

Ratio of Independent Directors Ratio of Female Directors

■ Outside directors: 5
■ Inside directors: 8

■ Female directors: 3
■ Male directors: 10



Director Skill Matrix

	Global business	Technology, R&D, production	Strategic planning, marketing, sales	Finance, accounting	Legal, compliance, risk management	Company analysis	Healthcare administration, public health	Major qualifications, etc.
Ichiro Otsuka	●	●	●					
Tatsuo Higuchi	●	●	●				●	
Yoshiro Matsuo					●			
Yuko Makino				●				
Shuichi Takagi	●		●	●				
Masayuki Kobayashi	●	●					●	
Noriko Tojo	●				●	●		
Makoto Inoue	●	●	●					
Yukio Matsutani							●	MD
Ko Sekiguchi			●			●		
Yoshihisa Aoki			●					
Mayo Mita						●		
Tatsuaki Kitachi				●		●		CPA

Director Selection Criteria/Independence Standards for Outside Directors

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

For the reasons for nominating each director, refer to the Notice for the Calling of the 14th Annual Shareholders' Meeting

https://www.otsuka.com/en/ir/stock/pdf/meeting/202112_01.pdf

Governance

Major Matters Deliberated by the Board of Directors

Category	Major reports and discussions in fiscal 2021
Business performance and plan	<ul style="list-style-type: none"> Monitoring of progress of consolidated results and plan Discussions on current conditions and issues regarding the performance of each operating company and business segment Monitoring of progress of Medium-Term Management Plan
Corporate governance	<ul style="list-style-type: none"> Identification of issues in improving the effectiveness of the Board of Directors Approval of officer election and remuneration Monitoring of subsidiary activities Confirmation of progress of measures to reinforce group governance Review of cross-shareholdings
Sustainability	<ul style="list-style-type: none"> Formulation of group energy strategies Approval of support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) Confirmation of the status of execution of programs for cultivating management personnel Formulation of 2050 Environment Vision, "Net Zero" and approval of revised material issues Approval for joining the RE100 international initiative
M&A and partnerships	<ul style="list-style-type: none"> Discussion of a license agreement for joint development and commercialization by Otsuka Pharmaceutical, and Sumitomo Dainippon Pharma (now Sumitomo Pharma) and its U.S. subsidiary Sunovion Pharmaceuticals Discussion of Pharmavite's acquisition of Uqora
Risk management	<ul style="list-style-type: none"> Approval of internal control reports, update on implementation of global training programs and on confirmation of conflicts of interest, and approval of activity reports and activity plans Annual reporting on internal whistleblowing system (whistleblowing system improvement status, number of reports and overview) and approval of action plan Formulation of new global policies (Otsuka Group Human Rights Policy, Otsuka Group Global Anti-Fraud Policy and Otsuka Group Global Speak-Up Policy) Reporting on ERM monitoring activities Reporting on progress of initiatives to reinforce overseas crisis management
Financial strategy	<ul style="list-style-type: none"> Formulation of funding policy Discussions of new capital investments Formulation of dividend policy
IT	<ul style="list-style-type: none"> Reinforcement of cyber security measures Reporting on Otsuka group IT activities, etc.

Evaluation of Effectiveness of Board of Directors

During January and February 2022, the Company conducted a questionnaire survey of all directors and Audit & Supervisory Board members. Results of the survey were reviewed by a company attorney, and then considered and evaluated at the Board of Directors meeting in March 2022.

Questionnaire items were as follows.

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

Summary of Evaluation in Fiscal 2021

The overall opinion was that improvements have been made from the previous year, and that the Board of Directors is functioning appropriately from the standpoint of effectiveness. Nonetheless, the results confirmed the need for ongoing efforts to make further improvements in areas such as the role of the Company as a holding company, approaches for fully coordinating and sharing information with subsidiaries, and the stance of the Company with respect to investors and other stakeholders.

Governance

Corporate Governance Committee

Otsuka Holdings established the Corporate Governance Committee in February 2017. As an advisory body to the Board of Directors, the committee discusses matters relating to the enhancement of the corporate governance structure, including the nomination of directors and Audit & Supervisory Board members, as well as succession plans and the remuneration system and remuneration levels for directors and Audit & Supervisory Board members, and reports the results of its deliberations to the Board of Directors. The committee has seven members: the president, the director in charge of administration, and all outside directors (five as of the publication of this report). The president serves as the chair of the committee.

Effectiveness of the Corporate Governance Committee

The initial role of the Corporate Governance Committee was as a nomination and remuneration committee. Although the committee continues to effectively carry out this role, it now allocates more time to discussion of corporate governance overall, with greater freedom than the Board of Directors. I feel that the committee has evolved to a point where its discussions get to the very roots of corporate governance.

Yukio Matsutani, Outside Director

Although the president serves as the chair of the committee, Corporate Governance Committee meetings have become a platform for truly open discussions, and there are currently no issues regarding transparency. Considering that discussions on sustainability-related matters will increase even further, it may be best to set up a separate committee for matters concerning nomination, remuneration, and governance.

Ko Sekiguchi, Outside Director

The current structure enables lively exchange of opinions, so I believe the committee is serving its purpose effectively. I look forward to even more in-depth exchange of opinions in the future.

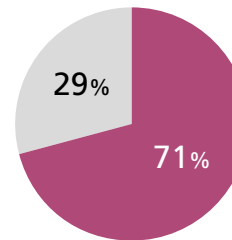
Yoshihisa Aoki, Outside Director

The committee provides outside directors with the opportunity to exchange opinions and interact with the individuals who execute business at each operating company. As financial market attention to succession plans increases, I am grateful that I can get a first-hand look at the different kinds of leaders in various group businesses and the approaches these leaders take toward management of operating companies.

Mayo Mita, Outside Director

Ratio of Independent Outside Directors

■ Outside directors: 5
 ■ Inside directors: 2



Major Matters for Deliberation

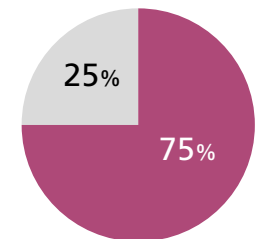
Nomination	Director and Audit & Supervisory Board member nomination, succession plans
Remuneration	Remuneration systems and levels for directors and Audit & Supervisory Board members
Other corporate governance matters	Improvement of group governance and global governance, organizational structure, innovation promotion, etc.

Audit & Supervisory Board

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

Ratio of Outside Audit & Supervisory Board Members

■ Outside members: 3
 ■ Inside members: 1



Governance

Audit & Supervisory Board Member Skill Matrix

	Global business	Technology, R&D, production	Strategic planning, marketing, sales	Finance, accounting	Legal, compliance, risk management	Company analysis	Healthcare administration, public health	Major qualifications, etc.
Yozo Toba	●			●				
Hiroshi Sugawara				●				CPA
Kanako Osawa					●			Attorney
Sachie Tsuji				●	●			CPA

Internal Audit Department

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

Internal Control Department

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

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

Remuneration for Directors and Audit & Supervisory Board Members

Basic Approach to Officer Remuneration

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

Remuneration Levels

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

Remuneration System

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

Total Remuneration to Directors and Audit & Supervisory Board Members

	Total amount of remuneration (¥ million)	Total amount by type of remuneration (¥ million)			Number of eligible officers
		Fixed remuneration	Performance-linked bonus	Share-based payment	
Directors [of which Outside Directors]	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 Outside 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 fiscal 2021, 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.

Governance

Content of Remuneration to Directors (Excluding Outside Directors)

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

Remuneration type	Payment method Fixed/Variable	Remuneration content (Including policy for determining timing or conditions of remuneration)
Fixed remuneration	Cash/ Fixed	<ul style="list-style-type: none"> Remuneration for directors of the holding company is determined based on their duties and responsibilities including formulation of group strategies, monitoring group operations, and strengthening corporate governance. Remuneration for directors who serve concurrently as directors of subsidiaries that are operating companies is determined based on their duties and responsibilities including execution of business based on group strategies formulated by Otsuka Holdings, formulation of strategies for operating companies, and strengthening corporate governance. (Remuneration shall not to exceed the upper limit of remuneration resolved at the Shareholders Meeting.) Fixed remuneration is paid out equally every month.
Performance-linked bonus	Cash/ Variable	<ul style="list-style-type: none"> Remuneration is paid in a lump sum at a certain time every fiscal year, with the amount or calculation method determined based on (1) rate of achievement of the fiscal year's targets for consolidated revenue, consolidated operating profit, and consolidated business profit before R&D expenses; (2) progress with respect to medium-to-long-term consolidated performance targets; and (3) appropriate business management in compliance with corporate governance, along with the individual's personal performance.
Share-based payment	Non-cash (restricted stock)*/ Variable	<ul style="list-style-type: none"> The Company has introduced a share-based payment plan that reflects progress in achieving the targets in the Third Medium-Term Management Plan covering the period from fiscal 2019 to fiscal 2023. Under the plan, restricted stock allocation agreements stipulating conditions including transfer restrictions for a set period are concluded with the grantees. The plan is designed to function as an effective remuneration system by combining multiple release conditions for the transfer restrictions, including a set performance evaluation period and performance achievement, and by, in principle, granting restricted stock requiring evaluation of performance over several fiscal years at the same time in the first fiscal year. Specifically, stock is granted each fiscal year for items requiring evaluation of performance in a single fiscal year, and at the same time in the first fiscal year of the evaluation period for items requiring evaluation of performance over several fiscal years.

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

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

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

For example,

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

Composition of Outside Director Remuneration

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

Composition of Audit & Supervisory Board Member Remuneration

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

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

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

Alternatively, please refer to the 14th Annual Securities Report:

<https://www.otsuka.com/jp/ir/library/securities.html> (available only in Japanese)

Directors and Audit & Supervisory Board Members

(As of March 30, 2022)

Directors

Ichiro Otsuka
Chairman and Representative Director



Profile

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

Tatsuo Higuchi
President and Representative Director, CEO



Profile

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

Yoshiro Matsuo
Executive Deputy President and Director



Profile

Apr. 1985 Joined Otsuka Pharmaceutical Co., Ltd.
Jan. 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Jun. 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
Nov. 2007 Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.
Jul. 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Mar. 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
Jan. 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (current)
Mar. 2019 Senior Managing Director, Otsuka Holdings Co., Ltd.
Mar. 2022 Executive Deputy President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (current)
Executive Deputy President and Director, Otsuka Holdings Co., Ltd. (current)

Shuichi Takagi
Managing Director, CSO



Profile

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

Yuko Makino
Executive Director, CFO



Profile

Apr. 1982 Joined Otsuka Pharmaceutical Co., Ltd.
Apr. 1996 Joined Baxter Limited
Apr. 2000 Joined Otsuka Pharmaceutical Co., Ltd.
Mar. 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Sep. 2016 Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Apr. 2017 Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd.
Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
Mar. 2018 Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd.
Mar. 2019 Executive Director, CFO, Otsuka Holdings Co., Ltd. (current)
Mar. 2022 Executive Director (Finance), Otsuka Pharmaceutical Co., Ltd. (current)

Masayuki Kobayashi
Executive Director



Profile

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

Noriko Tojo
Executive Director



Profile

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

Makoto Inoue
Executive Director



Profile

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

Directors and Audit & Supervisory Board Members

Outside Directors

Yukio Matsutani
Outside Director



Profile

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

Ko Sekiguchi
Outside Director



Profile

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

Yoshihisa Aoki
Outside Director



Profile

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

Mayo Mita
Outside Director



Profile

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

Tatsuaki Kitachi
Outside Director



Profile

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

Audit & Supervisory Board Members

Yoza Toba
Standing Audit & Supervisory Board Member



Profile

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

Hiroshi Sugawara
Outside Audit & Supervisory Board Member



Profile

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

Kanako Osawa
Outside Audit & Supervisory Board Member



Profile

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

Sachie Tsuji
Outside Audit & Supervisory Board Member



Profile

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

Governance

Compliance

Basic Policy

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

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

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



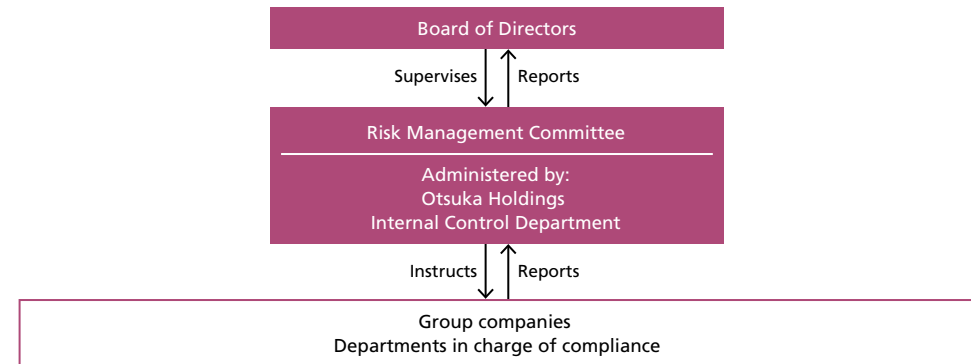
Compliance Promotion System

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

To instill thorough compliance at group companies, the Otsuka group conducts universal training based on policies such as the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy and the Otsuka Group Global Policy for Conflict of Interest. Training materials (available in English, French, Chinese, Korean, Indonesian, and other languages) are distributed to group companies, and executives and employees attend related training at least once annually. Depth and breadth of compliance understanding among employees is evaluated through a test during training,

awareness surveys, and other measures. Trainees are required to submit a signed declaration that they will observe the regulations, and the results of training and the status of submission of declaration forms are regularly reported at meetings of the Board of Directors. The operational status of the internal reporting systems and internal audits at group companies is likewise reported. Other examples of initiatives include the appointment of compliance officers at overseas group companies and regular meetings for sharing the status of progress in each country. In Asia, for instance, the director in charge of compliance visits companies to gather information and offer suggestions on how improvements can be made.

Compliance Promotion System



Monitoring System

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

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

Governance

Tax Compliance

Basic Policy

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

Correspondence with Tax Authorities

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

Transfer Pricing Policy

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

Governance

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

Risk Management

Basic Policy

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

Risk Management System

To further enhance risk management at Otsuka Holdings and its main operating companies, the Company introduced enterprise risk management (ERM) in July 2020 for the purpose of recognizing and assessing group-wide risks, and prioritizing allocation of resources to the control of significant risks.

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

Governance

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

Details of Risk Management Activities

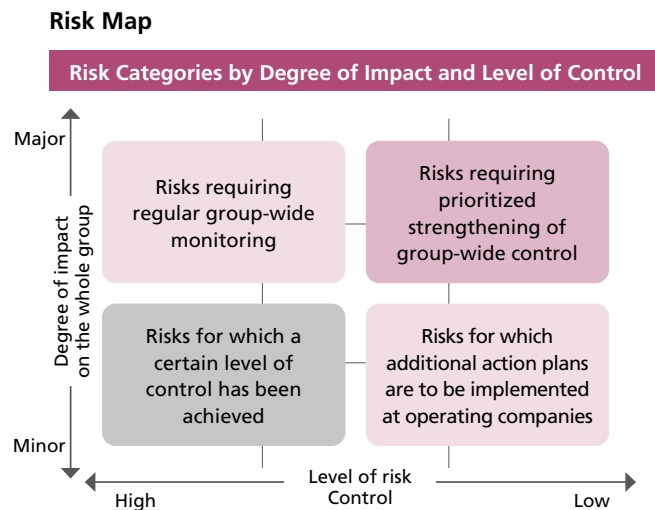
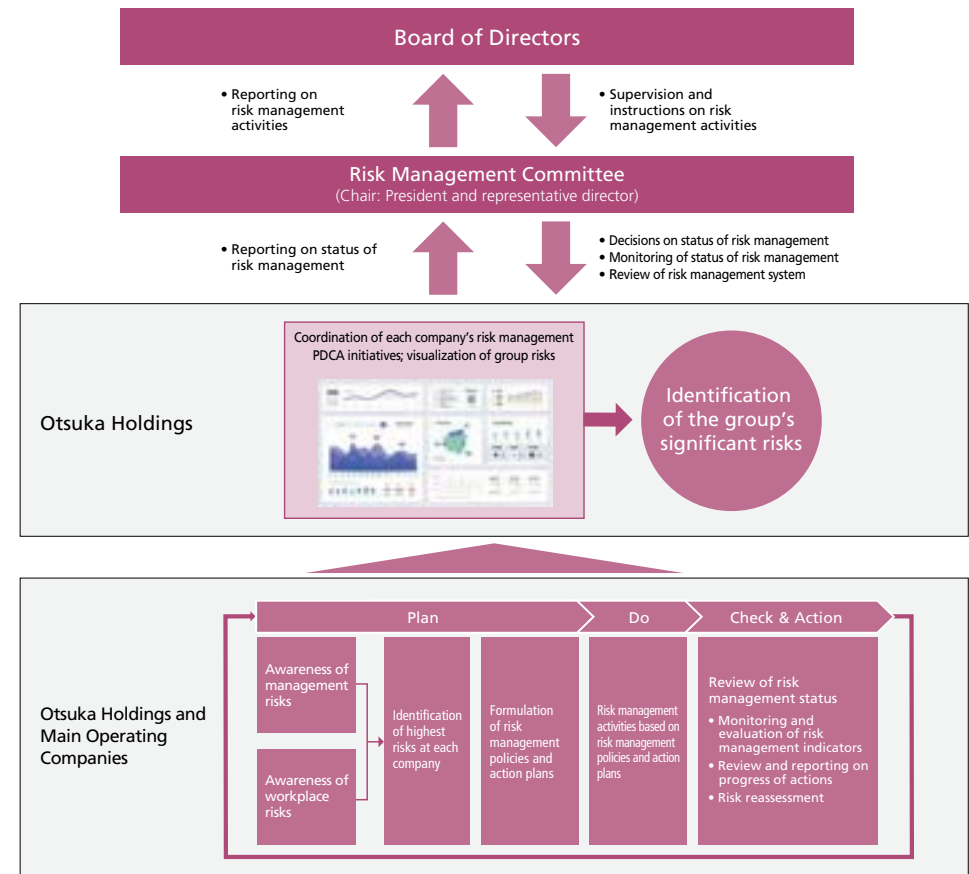
Identification of significant risks begins with the sharing of risk awareness by senior management through interviews at Otsuka Holdings and its main operating companies (top-down approach), as well as assessments of risks and controls by front-line employees (bottom-up approach). This enables us to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

Otsuka Holdings aggregates and visualizes the significant risks faced by each group company so as to grasp a comprehensive understanding of the existing risks and the status of controls in the group. Common risks that apply to the whole group are studied closely and the significant risks are gathered and identified. Based on the results of this process, the Risk Management Committee assigns priority to significant risks that could have major impact on the group's business, for such as financial losses or business continuity.

Otsuka Holdings and its main operating companies develop and implement countermeasures to each significant risk based on its characteristics and risk tolerance. Otsuka Holdings provides the necessary guidance and support to group companies, which submit reports and seek advice from Otsuka Holdings as appropriate. In these activities, the whole group coordinates closely to promote and practice ERM.

Moreover, Otsuka Holdings and group companies work to prevent risks from realizing by regularly monitoring them and confirming that they are within their respective tolerance levels.

Risk Management System



Governance

Significant Risks

Through group-wide risk assessments, the Otsuka group recognizes the following significant risks at Otsuka Holdings and the main operating companies, and is taking steps to mitigate them.

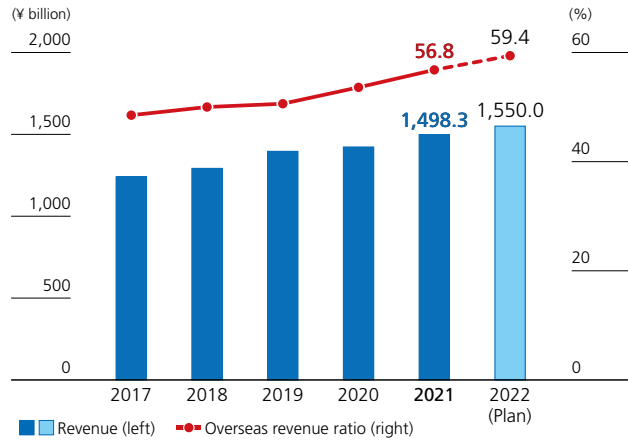
For more details about business risks, visit our website:
<https://www.otsuka.com/en/ir/management/risk.html>



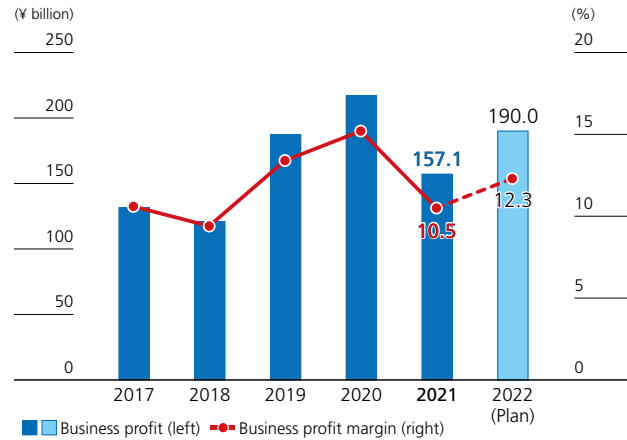
Item	Risk scenarios	Response	Risk management policies	
Significant risks in core business areas	(Pharmaceutical Business) Healthcare cost containment measures	<ul style="list-style-type: none"> Revision of drug price standards; further lowering of drug prices Further encouragement to use generic drugs and biosimilars 	<ul style="list-style-type: none"> Demonstrating the value of new drugs and providing products at appropriate prices Monitoring and analyzing administrative trends Creating value as a total healthcare company 	<ul style="list-style-type: none"> Creating value as a total healthcare company while maintaining a healthy risk appetite
	(Pharmaceutical Business) Uncertainty of new drug development	<ul style="list-style-type: none"> Delay or cancellation of R&D Reduction of exclusive license periods Emergence of competing products 	<ul style="list-style-type: none"> Enhancing pipeline in priority areas Expanding the range of development items Proper portfolio management through appropriate review of R&D policy 	<ul style="list-style-type: none"> Developing new drugs while maintaining a healthy risk appetite
	(Pharmaceutical Business) Side effects	<ul style="list-style-type: none"> Suspension of sales and recalls due to serious side effects 	<ul style="list-style-type: none"> Establishing a safety management structure, including collection and evaluation of safety information Establishing a system for implementing safety measures in accordance with the regulations of each country and region 	<ul style="list-style-type: none"> Reducing risk by strengthening the safety management structure
	(Nutraceutical Business) Expansion into new categories and regions	<ul style="list-style-type: none"> Failure of products to address customer needs Changes to and strengthening of legal restrictions Deterioration of economic conditions, political instability 	<ul style="list-style-type: none"> Monitoring and analyzing macro and micro trends Optimizing strategy from a long-term perspective based on product and local characteristics Relevant departments cooperating on effective information collection and analysis, and strategizing 	<ul style="list-style-type: none"> Creating value in new categories and regions while maintaining a healthy risk appetite
	(Nutraceutical Business and Consumer Products Business) Food safety and quality	<ul style="list-style-type: none"> Quality problems (e.g., contamination by hazardous substance) caused by quality control system failure 	<ul style="list-style-type: none"> Ensuring compliance with legal and regulatory requirements, and governmental and industry standards Acquisition and maintenance of certifications and international standards Ongoing quality improvements through audits, etc. 	<ul style="list-style-type: none"> Reducing risk by strengthening systems related to quality management and safety assurance
Significant risks common to business areas	Talent recruitment and development, and understanding of corporate culture and corporate philosophy	<ul style="list-style-type: none"> Failure to secure sufficient human resources to execute high-level strategy Failure to develop talent 	<ul style="list-style-type: none"> Identification and development of future generations of management human resources via Otsuka Global Academy Promoting diversity based on the Otsuka Group Global Code of Business Ethics, and providing relevant systems and mechanisms 	<ul style="list-style-type: none"> Reducing risk by strengthening human resource development group-wide
	Environmental issues	<ul style="list-style-type: none"> Delay in action or responses regarding resolution of environmental problems Failure to meet the group's environmental targets (e.g., cutting GHG emissions) 	<ul style="list-style-type: none"> Building a structure (e.g., establishing committees) for addressing environmental issues Establishing the Otsuka Group Environmental Policy and Environmental Activity Guidelines to promote action to address issues Pursuing efficient and highly effective action through acquisition of ISO 14001 integrated certification (for environmental management systems) Pursuing action to cut GHG emissions throughout business value chains based on the establishment of clear targets for 2030 	<ul style="list-style-type: none"> Reducing risk by proactively addressing environmental issues through our business
	Supply chain transparency	<ul style="list-style-type: none"> Major non-compliance or misconduct (e.g., relating to human rights, labor, the environment, corruption) in the supply chain 	<ul style="list-style-type: none"> Establishing the Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines Conducting due diligence when selecting suppliers Establishing an ongoing monitoring system 	<ul style="list-style-type: none"> Reducing risk through evaluations when selecting suppliers, and ongoing post-selection monitoring of suppliers
	Risk as a holding company	<ul style="list-style-type: none"> Failure to appropriately allocate business resources Incomplete or wrong formulation or review of group strategy Insufficient governance by holding company, including group company management 	<ul style="list-style-type: none"> Strategic allocation of managerial resources for priority segments and important measures in each business Establishing a group-wide oversight mechanism based on the Otsuka Group Global Code of Business Ethics and respective global policies Strengthening the internal monitoring framework and establishing a group-wide internal reporting system 	<ul style="list-style-type: none"> Reducing risk by strengthening cooperation among group companies and ongoing reinforcement of group company management systems
	Corporate brand management and reputation	<ul style="list-style-type: none"> Insufficient corporate brand development and management 	<ul style="list-style-type: none"> Establishing the CI Management Committee Formulating the Otsuka Group PR Guidelines Education and training for executives and employees 	<ul style="list-style-type: none"> Reducing risk through ongoing training and establishing information collection systems
	Business alliances and acquisitions	<ul style="list-style-type: none"> Failure to generate synergies due to insufficient due diligence of partners or acquired companies Insufficient business management when engaging in an alliance or following an acquisition 	<ul style="list-style-type: none"> Conducting careful due diligence of target companies and assets Stronger business monitoring when engaging in an alliance or following an acquisition 	<ul style="list-style-type: none"> Reducing risk by strengthening screening and monitoring systems
	Digitalization	<ul style="list-style-type: none"> Decline in competitive ability due to slow or insufficient digitalization 	<ul style="list-style-type: none"> Adopting state-of-the-art technologies, conducting proof-of-concept demonstrations, and practical application Improving literacy and skills group-wide through seminars and information sharing 	<ul style="list-style-type: none"> Reducing risk by proactively adopting the latest technologies and offering training
	Natural disasters and pandemics	<ul style="list-style-type: none"> Suspension of plant operations, etc., loss of human resources, interruption or delay of product development due to major natural disaster or pandemic 	<ul style="list-style-type: none"> Formulating business continuity plans, including ongoing review and improvement Conducting regular drills and exercises Thorough implementation of COVID-19 prevention measures 	<ul style="list-style-type: none"> Reducing risk by incorporating natural disaster scenarios and pandemics into business continuity planning, and keeping employees informed
	Supply stability	<ul style="list-style-type: none"> Destabilization of material procurement and supply caused by global economic stagnation or heightened geopolitical risk 	<ul style="list-style-type: none"> Establishing in-house standards based on GMP and GDP standards Diversification of procurement sources across multiple suppliers, and securing alternative raw materials Securing appropriate inventory and spreading production across multiple manufacturing sites 	<ul style="list-style-type: none"> Reducing risk by running various scenarios, diversifying suppliers, and securing alternative raw materials
	Patent infringement	<ul style="list-style-type: none"> Third-party infringement of intellectual property rights Infringement by the Otsuka group of third-party intellectual property rights 	<ul style="list-style-type: none"> Establishing a management and monitoring system for intellectual property rights Using databases and research agencies to conduct searches and collect information 	<ul style="list-style-type: none"> Reducing risk by strengthening management and monitoring systems
	Litigation	<ul style="list-style-type: none"> Litigation brought by a third party Insufficient litigation response 	<ul style="list-style-type: none"> Establishing an internal reporting and cooperation system Cooperation with outside counsel, etc. 	<ul style="list-style-type: none"> Reducing risk by establishing internal systems and strengthening cooperation
	Information management	<ul style="list-style-type: none"> Major system outage External cyberattack Falsification, misuse, or leakage of data through negligence, etc., on the part of an employee, contractor, or other third-party 	<ul style="list-style-type: none"> Establishing the Otsuka Group Global Information Security Policy Education and training for executives and employees Establishing the Group Information Security Committee Establishing an emergency response system centered on the internal Computer Security Incident Response Team (CSIRT) 	<ul style="list-style-type: none"> Reducing risk through higher security levels, ongoing improvements, and employee training
	Global business operations	<ul style="list-style-type: none"> Failure to keep up with legal restrictions in countries where the group operates Sudden changes in economic conditions or the business environment 	<ul style="list-style-type: none"> Cooperation by relevant departments to implement appropriate management for business operations based on local operating environments Optimizing strategy from a long-term perspective based on product and local characteristics 	<ul style="list-style-type: none"> Reducing risk by establishing systems for cooperation among operating companies and relevant departments

Financial and Non-Financial Highlights

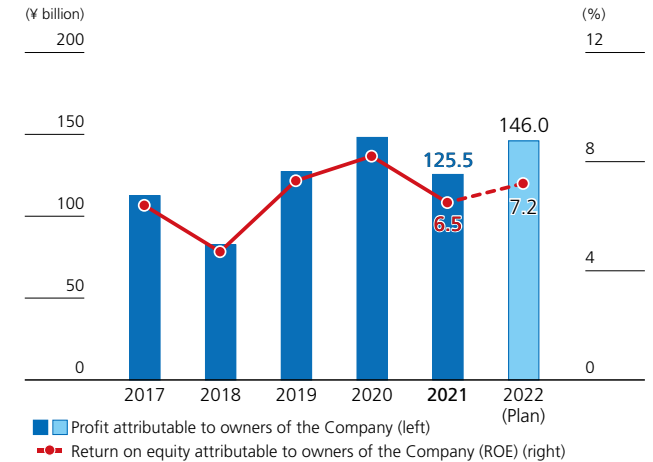
Revenue, Overseas Revenue Ratio



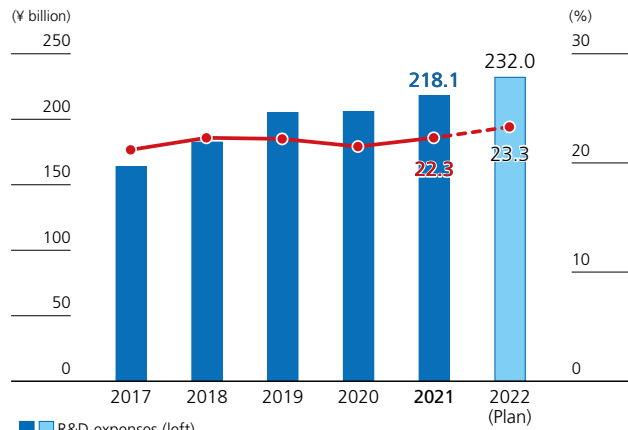
Business Profit, Business Profit Margin (Ratio to Revenue)



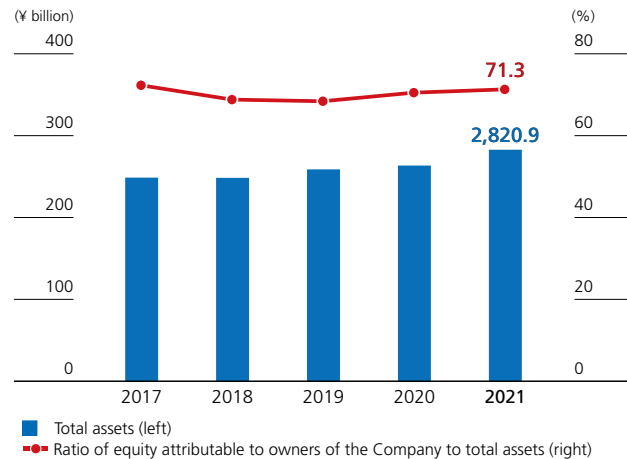
Profit Attributable to Owners of the Company, Return on Equity Attributable to Owners of the Company (ROE)



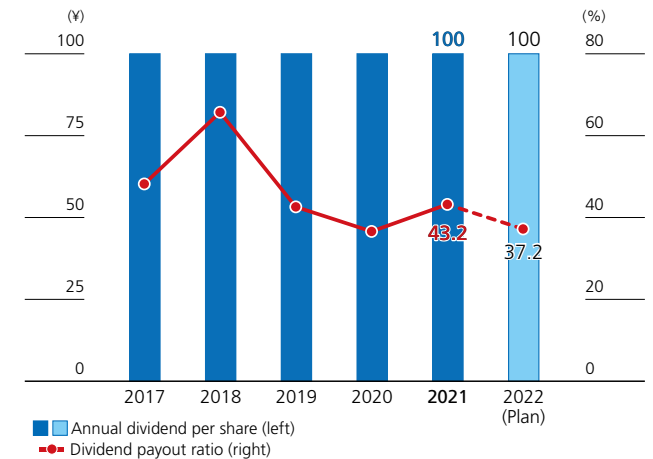
Pharmaceutical Business R&D Expenses*, R&D Ratio (Ratio to Revenue)



Total Assets, Ratio of Equity Attributable to Owners of the Company to Total Assets



Annual Dividend per Share, Dividend Payout Ratio



* Excluding impairment losses

Financial and Non-Financial Highlights

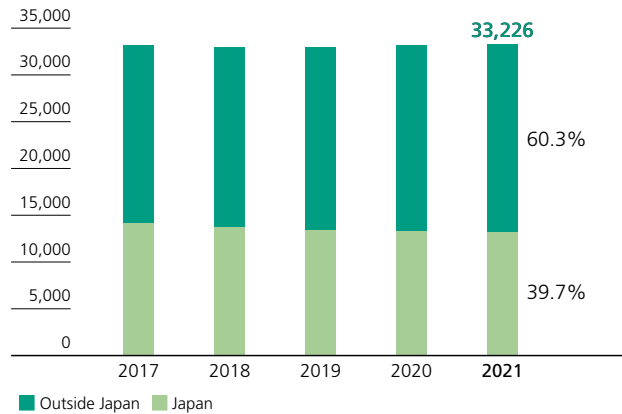
Visit the Otsuka Holdings website for key sustainability data at:



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

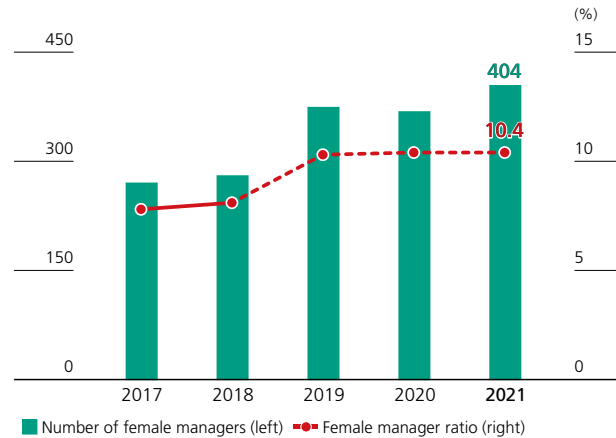


Number of Employees



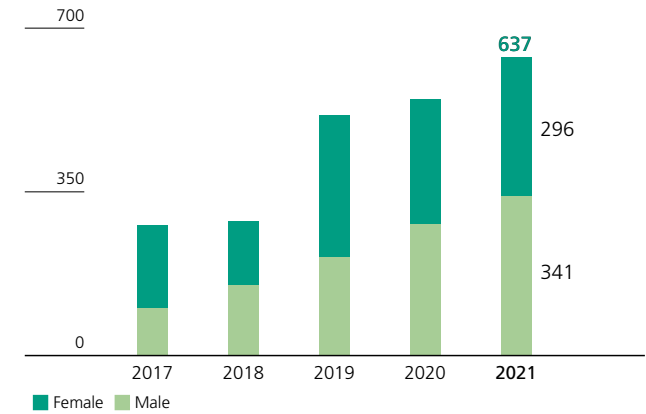
Scope: All production sites of the consolidated Otsuka group

Number of Female Managers, Female Manager Ratio



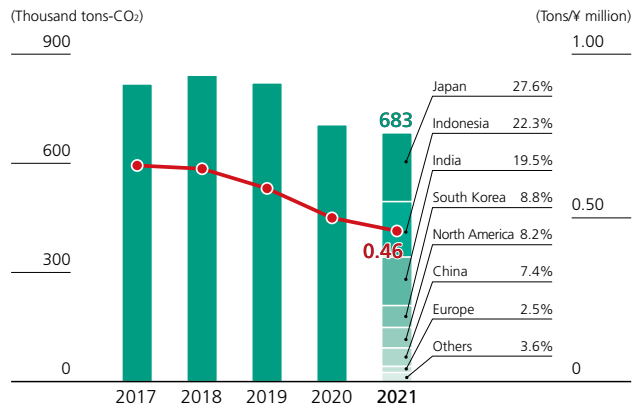
Scope: (Fiscal 2017–2018) Six companies: Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Warehouse, Otsuka Chemical, and Otsuka Foods
 (Fiscal 2019) Nine companies: six companies above plus Otsuka Pharmaceutical Development & Commercialization, Otsuka America Pharmaceutical, and Pharmavite
 (Fiscal 2020) Eleven companies: nine companies above plus Otsuka Holdings and Otsuka Medical Devices
 (Fiscal 2021) Nineteen companies: Eleven companies above plus Otsuka Electronics, Otsuka Techno, Okayama Taiho Pharmaceutical, Otsuka Packaging Industries, Otsuka Ohmi Ceramics, Higashiyama Film, Otsuka Wellness Vending, and JIMRO

Number of Employees Taking Parental Leave



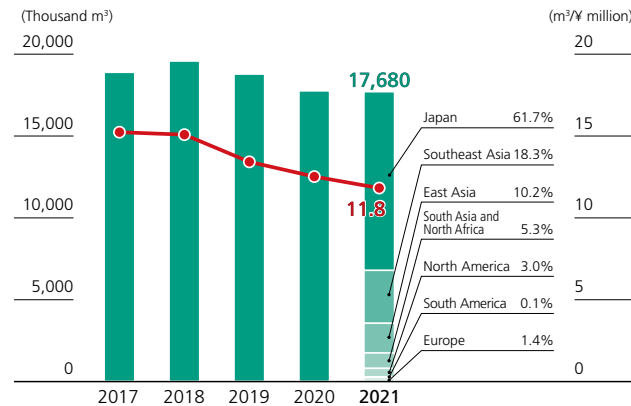
Scope: (Fiscal 2017–2018) Six companies: Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Warehouse, Otsuka Chemical, and Otsuka Foods
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CO₂ Emissions, CO₂ Emissions per Sales



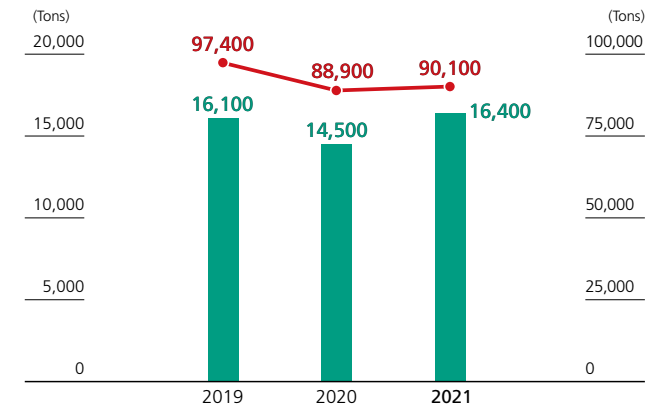
Scope: All production sites of the consolidated Otsuka group

Water Usage, Water Usage per Sales



Scope: All production sites of the consolidated Otsuka group

Simple Incineration and Landfill Volume, Total Waste Volume



Scope: All production sites of the consolidated Otsuka group

ESG Content Index

In addition to information included in this integrated report, the Otsuka group discloses the following ESG-related information on its website. Please visit the website for more details.

Item	Policies, commitments, and systems	Initiatives
Overall	<ul style="list-style-type: none"> • Signatory to the United Nations Global Compact • Sustainability Mission ➔Page 18 • Materialities ➔Page 20 • Goals and progress ➔Page 21 • Stakeholder engagement • Sustainability management structure ➔Page 42 • External recognition • Data (people, the environment, and governance) 	
Society	<ul style="list-style-type: none"> • Basic policy ➔Pages 43–44 	
Health	<ul style="list-style-type: none"> • Pharmaceutical Business <ul style="list-style-type: none"> • Basic policy • Goals and progress ➔Page 21 • “FY 2023 Goals (Quantification)” and “FY 2021 Progress” • Nutraceutical Business <ul style="list-style-type: none"> • Basic policy • Goals and progress ➔Page 21 	<ul style="list-style-type: none"> • Contribution to unmet medical needs ➔Pages 26–33, Page 43 • Initiatives for access to medicine ➔Page 43 • Initiatives for infectious diseases including tuberculosis ➔Pages 32, 43 • Catering to yet-to-be-imagined needs ➔Page 44 • Initiatives for Access to Nutrition ➔Page 44
People	<ul style="list-style-type: none"> • Basic policy • Human resource development <ul style="list-style-type: none"> • Basic policy ➔Page 45 • Diversity & Inclusion <ul style="list-style-type: none"> • “Otsuka Group Global Code of Business Ethics” (“Diversity and Inclusion”) • Basic policy ➔Page 46 • Signatory to the Women’s Empowerment Principles (WEPs) ➔Page 42 • Ikuboss (managers supportive of work-life balance) declaration by group companies ➔Page 46 • Health and Safety <ul style="list-style-type: none"> • Otsuka Group Global Code of Business Ethics (“Human Rights and Labor Standards” and “Employee Health”) • Basic policy • Declaration on health by group companies ➔Page 46 • “Health and Safety Committee” and other promotion structures • Fair employment and working condition <ul style="list-style-type: none"> • Otsuka Group Global Code of Business Ethics (“Human Rights and Labor Standards,” “Discrimination and Harassment,” and “Reporting Concerns”) • Basic policy • Human rights initiatives <ul style="list-style-type: none"> • Otsuka Group Global Code of Business Ethics (“Human Rights and Labor Standards,” “Discrimination and Harassment,” and “Reporting Concerns”) • Basic policy • Otsuka Group Human Rights Policy ➔Page 42 • Promotional structure 	<ul style="list-style-type: none"> • Human resource development programs (including management human resource development programs) ➔Page 45 • Internship programs • Systems for leveraging abilities (open recruiting system, self-assessment system, etc.) • Systems for diversity promotion (including mindset and establishing structure to help diverse human resources play active roles regardless of nationality, race, age, gender, disability, sexual orientation, etc.) ➔Page 46 • Examples of external recognition • Initiatives for employee health maintenance and promotion ➔Page 46 • Initiatives for workplace health and safety • Initiatives for reduction overtime and encouraging employees to take paid leave • Examples of external recognition • Internal training on bullying, harassment, and other issues • Employee survey, and improvement activities based on survey results • Implementing human right risk assessment to identify salient human right risks • Identifying salient human right issues and implementing corrective measures • Whistleblowing hotline • Employee training on Otsuka Group Human Rights Policy ➔Page 21 • External collaboration
Quality in All We Do	<ul style="list-style-type: none"> • Basic policy • Otsuka Group Global Code of Business Ethics (“Business Integrity,” “Maintaining Books and Records,” etc.) • Certification status of ISO 9001 (quality), ISO 22000, FSSC 22000 (food safety), etc. 	
Research and development	<ul style="list-style-type: none"> • Commitments in R&D (compliance with laws and guidelines, ethical considerations, etc.) ➔Page 47 	<ul style="list-style-type: none"> • Ethical considerations in research involving animals • Ethical considerations in research involving human-derived specimens • Ethical considerations in research involving pathogenic microorganisms (pathogens, etc.) and genetically modified organisms • Ethics in clinical trials • Compliance in R&D by Otsuka group companies • Management of public research funds
Procurement	<ul style="list-style-type: none"> • Basic policy ➔Pages 47–48 • Otsuka Group Procurement Policy ➔Pages 47–48 • Otsuka Group Sustainable Procurement Guidelines ➔Pages 47–48 • Sustainable procurement promotional structure (establishment of the Otsuka Sustainable Procurement Task Force) ➔Page 48 • Goals and progress ➔Pages 20–21 	<ul style="list-style-type: none"> • Promotion of sustainable procurement with consideration for the environment, human rights, and other matters (including due diligence investigation on new suppliers, and the common SAQ and briefing sessions for suppliers) ➔Pages 47–48 • Joint business collaborator audit by pharmaceutical companies • Global initiatives for streamlining production and supply of products
Production, quality control and patient/customer safety	<ul style="list-style-type: none"> • Basic policy ➔Pages 47, 49 • Measures including global product quality policies for pharmaceutical products and the NC Global Quality Policy for the Nutraceutical Business of Otsuka Pharmaceutical ➔Page 49 • Promotion structure including Global Production Meeting and Global Product Quality Meeting ➔Page 49 	<ul style="list-style-type: none"> • Production, quality control and patient/customer safety in compliance with and regulatory requirements, and governmental and industry standards ➔Pages 47, 49 • Acquisition of ISO 9001 (quality), ISO 22000, FSSC 22000 (food safety), etc. ➔Page 49 • Quality control based on GQP and GVP, and post-marketing safety management ➔Page 49 • Global implementation of pharmacovigilance activities ➔Pages 47, 49 • Measures against falsified medicines • Employee training
Logistics	<ul style="list-style-type: none"> • Basic policy ➔Page 47 • Establishment of the GDP Promotion Office and other promotion structures for control and maintenance of product quality and stable supply in logistics 	<ul style="list-style-type: none"> • Initiatives for quality control and maintenance (promotion of logistics in compliance with the Good Distribution Practice (GDP) guidelines, employee training, etc.) • Initiatives for streamlined cooperation among shippers and distributors (standardization of IT-based data systems, digitization of forms, etc.) • Initiatives for stable supply (distribution strategy of inventory, registration of vehicles for authorized access to restricted areas, etc.) • Environmentally friendly measures (the promotion of modal shift to reduce CO₂ emissions, etc.)

ESG Content Index

The ESG balance sheet can also be found on our website:
https://www.otsuka.com/en/csr/esg_control_chart.html



Item		Policies, commitments, and systems	Initiatives	
	Sales and Marketing	<ul style="list-style-type: none"> Basic policy →Page 47 Establishing internal code of practice that expands on the JPMA's Promotion Code for Prescription Drugs, for activities targeted at healthcare professionals →Page 47 Structural measures such as establishing the Scientific Affairs Department for gathering and disseminating information about products, related knowledge, and the latest academic information, and dedicated review unit to ensure appropriate marketing and promotion activities 	<ul style="list-style-type: none"> Conducting appropriate marketing and promotion activities in compliance with laws and regulations →Page 47 Gathering and disseminating information about products, related knowledge, latest academic information, etc. Employee training Reducing food loss (extending shelf life, switching to month-based expiration dates, etc.) 	
	Customer Service	<ul style="list-style-type: none"> Basic policy →Page 50 Declaration of Consumer-oriented Commitment →Page 50 Group-wide Customer Service Liaison Meeting, cross-department "Listen to Customer Feedback Meeting," and other promotion structures for consumer-oriented management →Page 50 	<ul style="list-style-type: none"> Promoting consumer-oriented management →Page 50 Ensuring appropriate communication with customers →Pages 47, 50 Improved products based on customer feedback →Pages 47, 50 Establishing dedicated contact points for patients, healthcare professionals, and customers →Page 47 	
Environment	Environmental Management	<ul style="list-style-type: none"> Otsuka Group Global Code of Business Ethics ("Environmental Protection") Otsuka Group Environmental Policy Otsuka Group Environmental Activity Guidelines Group promotional structures centering on the Otsuka Group Global Environmental Council →Page 52 Disclosure of ISO 14001 certification status 2050 Environmental Vision, "Net Zero" →Page 51 		
	Carbon Neutrality	<ul style="list-style-type: none"> Basic policy →Page 52 Goals and progress →Page 53 	<ul style="list-style-type: none"> Initiatives for efficient energy use and CO₂ reduction (expanded use of renewable energy sources, such as by introduction of CO₂-free electricity, including solar power generation for in-house consumption, and purchase of Green Power Certificates, etc.) →Page 54 Disclosure According to TCFD Recommendations →Page 52 Disclosure of CO₂ emissions and other data →Pages 53, 75 	
	Circular Economy	<ul style="list-style-type: none"> Basic policy →Page 55 Goals and progress →Page 53 	<ul style="list-style-type: none"> Initiatives to achieve zero waste Initiatives for plastic recycling →Page 55 Disclosure of waste volume (effective use volume and final disposal volume) and other data →Page 75 	
	Water Neutrality	<ul style="list-style-type: none"> Basic policy →Page 55 Goals and progress →Page 53 	<ul style="list-style-type: none"> Water risk evaluation at manufacturing sites →Page 55 Disclosure of water usage, unit sales and other data. →Pages 53, 75 	
Governance	Corporate Governance	<ul style="list-style-type: none"> Basic policy Corporate Governance Guidelines 		
	Governance Structure	<ul style="list-style-type: none"> Basic policy →Page 62 Overview of governance structure →Page 62 	<ul style="list-style-type: none"> Disclosure of Corporate Governance Report Timeline of initiatives to strengthen corporate governance →Page 62 Board of Directors, Audit & Supervisory Board and Corporate Governance Committee →Page 63 Rationale for selection of directors Evaluation of board effectiveness →Page 64 Skill matrix for directors and Audit & Supervisory Board members →Pages 63, 66 Succession plan 	
	Remuneration for Directors and Audit & Supervisory Board Members	<ul style="list-style-type: none"> Basic policy →Page 66 	<ul style="list-style-type: none"> Disclosure of Corporate Governance Report Remuneration standards, system, and method of determination →Page 66 	
	Compliance	Overall	<ul style="list-style-type: none"> Basic policy →Page 70 Compliance promotion structure →Page 70 	
		Tax Compliance	<ul style="list-style-type: none"> Basic policy →Page 71 Tax policy →Page 71 Transfer pricing policy →Page 71 	<ul style="list-style-type: none"> Correspondence with tax authorities →Page 71 Governance →Page 71
		Anti-Corruption	<ul style="list-style-type: none"> Promotion system →Page 70 Otsuka Group Global Code of Business Ethics ("Bribery and Corruption," etc.) Otsuka Group Global Anti-Corruption Policy 	<ul style="list-style-type: none"> Due diligence Training for employees →Page 70 Monitoring →Page 70
		Conflicts of Interest	<ul style="list-style-type: none"> Promotion system →Page 70 Otsuka Group Global Code of Business Ethics ("Conflicts of Interest," etc.) Otsuka Group Global Policy for Conflict of Interest 	<ul style="list-style-type: none"> Training for employees →Page 70 Monitoring →Page 70
		Protecting Privacy	<ul style="list-style-type: none"> Otsuka Group Global Code of Business Ethics ("Privacy and Confidentiality," etc.) Otsuka Group Global Privacy Policy 	<ul style="list-style-type: none"> Training for employees Monitoring
		Whistleblowing Hotline		<ul style="list-style-type: none"> Provision of internal and external whistleblowing hotlines
	Risk Management	Overall	<ul style="list-style-type: none"> Basic policy →Page 71 Risk Management Policy Enterprise risk management →Page 71 Risk management system →Page 72 	<ul style="list-style-type: none"> Identifying significant risks via risk assessments and mitigating risks →Page 73 Business continuity planning and management Risk management training Initiatives to mitigate information security risk
Contribution to Communities		<ul style="list-style-type: none"> Policy 	<ul style="list-style-type: none"> Contribution to communities 	

Main Data

With effect from fiscal 2016 (ended December 31, 2016), Otsuka adopted International Financial Reporting Standards (IFRS). Information for fiscal 2015 (ended December 31, 2015) is also presented in line with IFRS.

J-GAAP						
Item ¹	(Unit)	2011.3	2012.3	2013.3	2014.3	2014.12 ⁵
Results of Operations						
Revenue	(¥ billion)	¥1,127.6	¥1,154.6	¥1,218.1	¥1,452.8	¥1,224.3
Selling, general and administrative expenses ^{2,3}	(¥ billion)	457.6	457.4	462.2	563.4	508.6
Business profit before R&D expenses	(¥ billion)					
Ratio of business profit before R&D expenses to revenue	(%)					
R&D expenses ³	(¥ billion)	164.7	159.2	192.4	249.0	172.9
R&D ratio	(%)	14.6	13.8	15.8	17.1	14.1
Business profit ⁴	(¥ billion)					
Business profit margin	(%)					
Operating profit	(¥ billion)	126.3	148.7	169.7	198.7	196.5
Operating profit margin	(%)	11.2	12.9	13.9	13.7	16.1
Profit attributable to owners of the Company	(¥ billion)	82.4	92.2	122.4	151.0	143.1
Financial Position						
Total assets	(¥ billion)	¥1,589.7	¥1,666.8	¥1,779.2	¥2,028.4	¥2,178.2
Total equity	(¥ billion)	1,163.3	1,222.8	1,325.1	1,510.8	1,658.6
Ratio of equity attributable to owners of the Company to total assets	(%)	72.4	72.5	73.7	73.2	74.7
ROE	(%)	7.9	7.8	9.7	10.8	9.2
Cash Flows						
Net cash flows from operating activities	(¥ billion)	¥ 87.7	¥ 147.6	¥ 119.3	¥ 226.5	¥ 88.5
Net cash flows from (used in) investing activities	(¥ billion)	(131.5)	(107.6)	(91.2)	(108.5)	(28.7)
Free cash flows	(¥ billion)	(43.8)	40.0	28.1	117.9	59.9
Dividends						
Annual dividend per share	(Yen)	¥ 28	¥ 45	¥ 58	¥ 65	¥ 75
Dividend payout ratio	(%)	17.3	27.2	26.1	23.4	28.4
Common Stock, Stock Price						
Number of shares outstanding at year-end	(Thousand shares)	557,836	557,836	557,836	557,836	557,836
Stock price at year-end	(Yen)	¥ 2,055	¥ 2,450	¥ 3,300	¥ 3,087	¥ 3,617
Number of Employees⁸						
Total	(Persons)	25,188	24,595	25,330	28,288	29,482
Japan	(Persons)	14,030	13,808	13,732	14,116	14,285
Outside Japan	(Persons)	11,158	10,787	11,598	14,172	15,197

1. Line items are based on IFRS.

2. SG&A expenses under J-GAAP are presented as total expenses less R&D expenses. The Company believes that this information is useful to investors in comparing the Company's financial results under J-GAAP with those under IFRS.

3. Excluding impairment losses

4. Business profit = Revenue – Cost of sales – Selling, general and administrative expenses + Share of profit of associates – R&D expenses

5. Due to a change in the consolidated fiscal year, fiscal 2014 (ended December 31, 2014) was a transitional period covering the nine months from April 1 to December 31, 2014.

6. As of December 31, 2019, the Company finalized provisional accounting treatments for business combinations. This is reflected in the presentation of figures for the year ended December 31, 2018.



7. Calculated at ¥115.02 = US\$1.

8. Number of employees including Otsuka Holdings Co., Ltd. and its subsidiaries

Main Data

IFRS										
Item ¹	(Unit)	2015.12	2016.12	2017.12	2018.12 ⁶	2019.12	2020.12	2021.12	(Unit)	2021.12 ⁷
Results of Operations										
Revenue	(¥ billion)	¥1,427.4	¥1,195.5	¥1,240.0	¥1,292.0	¥1,396.2	¥1,422.8	¥1,498.3	(US\$ million)	\$13,026
Selling, general and administrative expenses ³	(¥ billion)	617.5	519.5	531.4	552.8	557.6	562.4	622.3	(US\$ million)	5,411
Business profit before R&D expenses	(¥ billion)	369.8	285.7	305.4	313.8	403.0	433.7	389.4	(US\$ million)	3,386
Ratio of business profit before R&D expenses to revenue	(%)	25.9	23.9	24.6	24.3	28.9	30.5	26.0	(%)	26.0
R&D expenses ³	(¥ billion)	199.6	152.6	174.0	192.9	215.8	216.8	232.3	(US\$ million)	2,020
R&D ratio	(%)	14.0	12.8	14.0	14.9	15.5	15.2	15.5	(%)	15.5
Business profit ⁴	(¥ billion)	170.2	133.1	131.4	120.9	187.2	216.9	157.1	(US\$ million)	1,366
Business profit margin	(%)	11.9	11.1	10.6	9.4	13.4	15.2	10.5	(%)	10.5
Operating profit	(¥ billion)	148.9	101.1	104.2	108.3	176.6	198.6	154.5	(US\$ million)	1,343
Operating profit margin	(%)	10.4	8.5	8.4	8.4	12.6	14.0	10.3	(%)	10.3
Profit attributable to owners of the Company	(¥ billion)	102.0	92.6	112.5	82.5	127.2	148.1	125.5	(US\$ million)	1,091
Financial Position										
Total assets	(¥ billion)	¥2,575.3	¥2,478.3	¥2,480.3	¥2,477.4	¥2,581.3	¥2,627.8	¥2,820.9	(US\$ million)	\$24,525
Total equity	(¥ billion)	1,727.4	1,738.4	1,822.0	1,732.3	1,795.4	1,883.4	2,045.2	(US\$ million)	17,781
Ratio of equity attributable to owners of the Company to total assets	(%)	66.0	69.0	72.3	68.8	68.4	70.5	71.3	(%)	71.3
ROE	(%)	6.1	5.4	6.4	4.7	7.3	8.2	6.5	(%)	6.5
Cash Flows										
Net cash flows from operating activities	(¥ billion)	¥ 257.9	¥ 142.0	¥ 102.8	¥ 135.8	¥ 192.6	¥ 232.8	¥ 228.9	(US\$ million)	\$ 1,990
Net cash flows from (used in) investing activities	(¥ billion)	(422.6)	(135.1)	(40.1)	(93.3)	(52.3)	(99.9)	(95.3)	(US\$ million)	(828)
Free cash flows	(¥ billion)	(164.7)	6.9	62.8	42.5	140.4	133.0	133.6	(US\$ million)	1,161
Dividends										
Annual dividend per share	(Yen)	¥ 100	¥ 100	¥ 100	¥ 100	¥ 100	¥ 100	¥ 100	(US\$)	\$0.87
Dividend payout ratio	(%)	53.1	58.5	48.2	65.7	42.6	36.6	43.2	(%)	43.2
Common Stock, Stock Price										
Number of shares outstanding at year-end	(Thousand shares)	557,836	557,836	557,836	557,836	557,836	557,836	557,836	(Thousand shares)	557,836
Stock price at year-end	(Yen)	¥ 4,317	¥ 5,093	¥ 4,948	¥ 4,493	¥ 4,883	¥ 4,418	¥ 4,169	(US\$)	\$ 36.25
Number of Employees⁸										
Total	(Persons)	31,940	31,787	32,817	32,935	32,992	33,151	33,226	(Persons)	33,226
Japan	(Persons)	14,082	13,909	13,880	13,757	13,356	13,319	13,196	(Persons)	13,196
Outside Japan	(Persons)	17,858	17,878	18,937	19,178	19,636	19,832	20,030	(Persons)	20,030

Group Structure / Global Network / Corporate Information

Otsuka Group Corporate Philosophy

Otsuka-people creating new products for better health worldwide


Overview

The Otsuka group of companies, whose origins date back to 1921, aims to contribute to the health of people around the world. It aims to do so through two main pillars: the pharmaceutical business for the diagnosis and treatment of diseases and the nutraceutical*1 business to support the maintenance and promotion of everyday health.

The company's culture, summarized in a few words as, "Ryukan-godo" (by sweat we recognize the way), "Jissho" (actualization) and "Sozosei" (creativity), have been fostered by successive Otsuka leaders. These are emphasized by our 47,000*2 employees across 200 group companies in 33 countries and regions who strive to create and market unique products and services.

*1. Nutraceuticals: nutrition + pharmaceuticals *2. As of end of December, 2021. Otsuka Holdings and subsidiaries and affiliates.

Organizational Structure



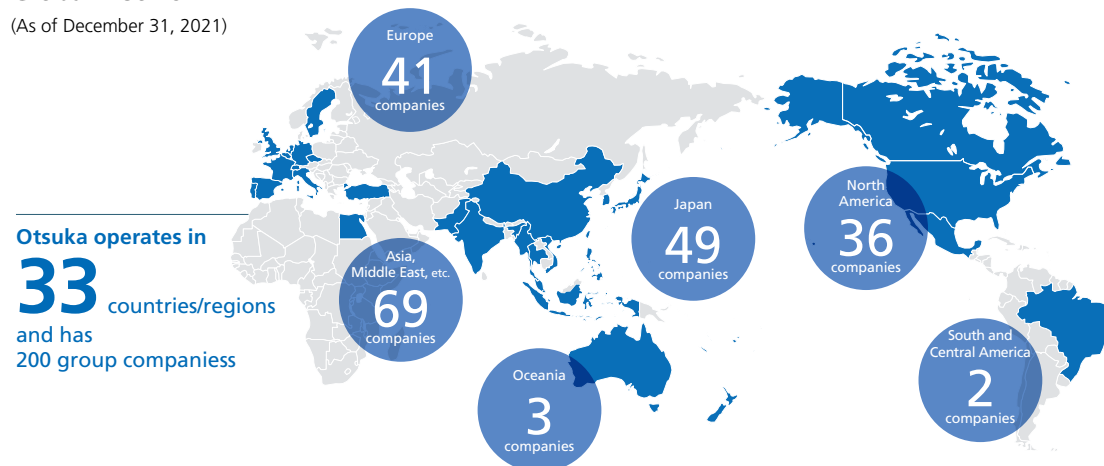
Corporate Information

(As of December 31, 2021)

Company Name	Otsuka Holdings Co., Ltd.
Established	July 8, 2008
Capital	¥81.69 billion
Head Office	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo 101-0048, Japan
Tokyo Headquarters	Shinagawa Grand Central Tower, 2-16-4 Konan, Minato-ku, Tokyo 108-8241, Japan
Telephone	+81-3-6717-1410
Number of Employees	137 (Consolidated: 33,226)
Business Description	Control, management and related activities with respect to the Company's subsidiaries and affiliates operating in pharmaceutical, nutraceutical, consumer product, and other businesses

Global Network

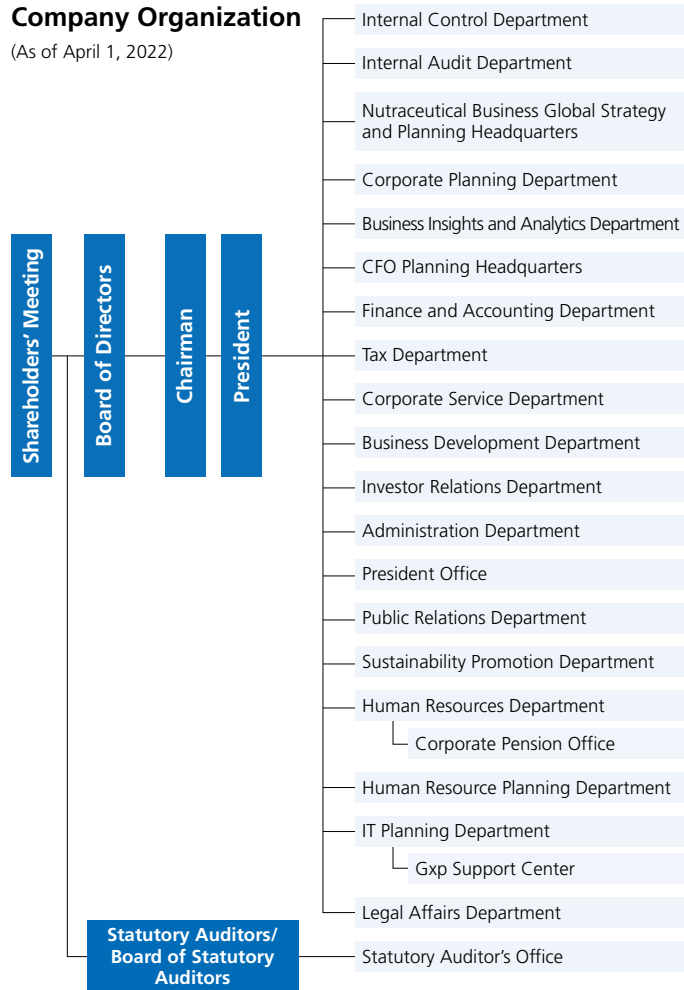
(As of December 31, 2021)



Company Organization / Overview of Main Operating Companies

Company Organization

(As of April 1, 2022)



Otsuka Pharmaceutical Co., Ltd.

A total healthcare company supporting well-being for the whole body, from the treatment of diseases to the promotion of everyday health

Under the corporate philosophy "Otsuka-people creating new products for better health worldwide," Otsuka Pharmaceutical operates with two core businesses to benefit people's health: the Pharmaceutical Business, which provides new pharmaceuticals for the treatment of diseases, and the Nutraceutical Business, which provides products to help people maintain and improve their health.

Otsuka Pharmaceutical Factory, Inc.

Original company of the Otsuka group, and a leader in IV solutions in Japan with more than 70 years of experience in the field

Based on its management vision of being "The Best Partner in Clinical Nutrition," Otsuka Pharmaceutical Factory creates innovative products that meet a variety of needs, including pharmaceuticals, medical devices, oral rehydration solutions and other medical foods, and OTC pharmaceuticals. The company operates globally, with a focus on Japan and the rest of Asia.

Taiho Pharmaceutical Co., Ltd.

Half a century of working in the field of oncology, for patients and people worldwide

Taiho Pharmaceutical is an R&D-driven specialty pharma focusing on the fields of oncology, allergy and immunology, and urology. Its corporate philosophy is "We strive to improve human health and contribute to a society enriched by smiles." In the oncology field in particular, Taiho Pharmaceutical is known as one of the leading companies in Japan, actively promoting globalization as well. In its consumer healthcare business, Taiho Pharmaceutical strives to create products that support a loving and affluent lifestyle with people's needs as its utmost priority.

Otsuka Warehouse Co., Ltd.

Contributing to people's health worldwide in the field of logistics

Since its founding, Otsuka Warehouse has developed businesses with an emphasis on pharmaceutical and food product logistics. This includes constructing a shared platform that is tailored to the Otsuka group's three business domains—pharmaceuticals, foods and beverages, and daily necessities—and providing optimal logistics solutions through joint distribution with external manufacturers. In recent years, Otsuka Warehouse has utilized IT to achieve Connected Logistics, and is working to reform its distribution solutions.

Otsuka Chemical Co., Ltd.

Otsuka Chemical creatively gives shape to the power of materials together with its customers

With materials at the core of its operations, Otsuka Chemical aims for continuous technological innovation that leads to the creation of products that enable higher standards of living. Otsuka Chemical provides products to global markets in automotive, electrical and electronic equipment, housing, and healthcare areas through its main segments of the hydrazine business, the inorganic and composite materials business, and the pharmaceutical intermediates and active pharmaceutical ingredient (API) business.

Otsuka Foods Co., Ltd.

Delivering revolutionary products for new dietary styles since 1955

Otsuka Foods' motto is "the company begins with people and food begins with spirit." With this in mind, everyone at Otsuka Foods brings a spirit of food focused on deliciousness, safety, peace of mind and better health to the company's business. With food and health as its main themes, the company is striving to create and propose revolutionary products that meet social needs, aiming to bring people all the joy and happiness that come with good health. In doing so, Otsuka Foods seeks to achieve sustainable growth by contributing to society.

Otsuka Medical Devices Co., Ltd.

Developing innovative treatment methods and creating new value

Since its establishment in February 2011, Otsuka Medical Devices has focused on developing unique solutions that improve the health and wellbeing of patients whose medical needs and conditions cannot yet be fulfilled by existing treatment methods. To achieve its aspiration of becoming a pioneer in the medical device industry, the company combines global R&D efforts with the technology and drug discovery know-how inherent within the Otsuka group's heritage. Based on the Otsuka group's corporate philosophy—"Otsuka-people creating new products for better health worldwide"—Otsuka Medical Devices will do what it takes to offer patients new innovative treatment choices, and contribute to the health and healthcare of people across the world.

Disclosure by the Otsuka Group

The Otsuka group provides an overview of financial and non-financial information through this integrated report. Visit the Otsuka Holdings website for additional information, including consolidated financial statements, financial results presentations and supplementary documents, and information about research and development.

Website

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



Investor Relations

<https://www.otsuka.com/en/ir/>



The Otsuka Group's Sustainability

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



Library

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



Sustainability Handbook

In this handbook, we present examples of our stance and initiatives with respect to sustainability in an easily accessible format for the general public.



Environmental Report 2020

We have compiled and published a detailed Environmental Report that introduces the Otsuka group's environmental initiatives.



About the *Integrated Report*

Beginning with the fiscal 2017 edition, Otsuka Holdings has combined its *Annual Report* and *CSR Report* into a single integrated report that brings together financial information and non-financial information. We hope it deepens stakeholders' understanding of the group in its aim to become an indispensable contributor to people's health worldwide.

Reporting Period

Fiscal 2021 (January 1, 2021 to December 31, 2021); Note that certain information from January 2022 onward is also included.

Scope of Reporting

In principle, this report covers Otsuka Holdings Co., Ltd. and its subsidiaries. Where the scope of activities or data is narrower, details are noted.

Guidelines Referenced

- *International Integrated Reporting Framework*, International Integrated Reporting Council (IIRC)
- *GRI Sustainability Reporting Standards*, Global Reporting Initiative (GRI)
- ISO 26000
- *Environmental Reporting Guidelines 2018*, Ministry of the Environment
- *Guidance for Collaborative Value Creation*, Ministry of Economy, Trade and Industry,
- Other guidelines



Precautions Regarding Forward-Looking Statements

This integrated report summarizes the operating and financial results of the Otsuka group (Otsuka Holdings Co., Ltd. and its subsidiaries) for fiscal 2021 (January 1, 2021 to December 31, 2021). The report contains forward-looking statements and forecast pertaining to plans, projections, strategies, and performance for the Otsuka group of companies. These statements are based upon current analysis and beliefs in light of the information available on the issuing date of the report. Actual results may therefore differ due to the risks and uncertainties that may affect Otsuka group operations.

Medical Information

In this integrated report, for the sake of readability a unified brand name is used when a product has different brand names in different countries or regions. Therefore, these products may not be available in all countries, or may be available under different brand names, for different indications, in different dosages and strengths.

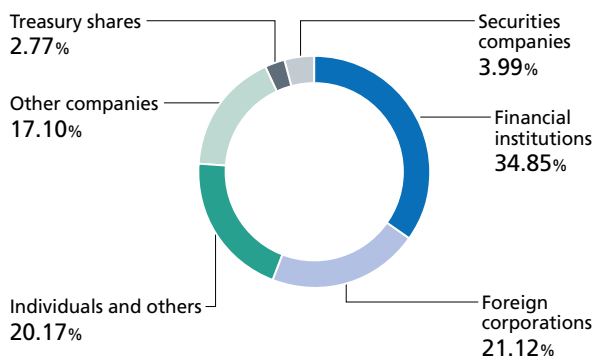
Please note that the information regarding pharmaceutical products (including products under development) is not intended for advertising or promotional purposes, or as medical advice.

Stock Information

(As of December 31, 2021)

Number of shares authorized	1,600,000,000 shares
Number of shares issued	557,835,617 shares
Number of shareholders	77,129

Stock Distribution



Principal Shareholders (Top 10)

Name of Shareholders	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.

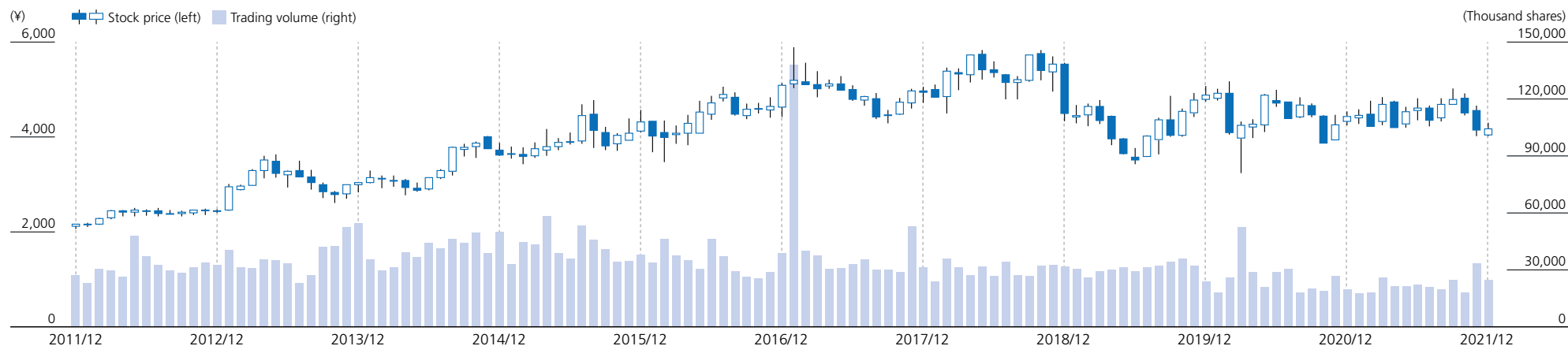
Maximum/Minimum Stock Price and Volatility by Year

Fiscal	Maximum stock price (¥)	Minimum stock price (¥)	Volatility (%) (standard deviation)
2021	5,013	4,012	23.74
2020	5,158	3,224	32.51
2019	5,072	3,434	27.61
2018	5,832	4,331	29.07
2017	5,895	4,290	14.20
2016	5,139	3,467	17.69
2015	4,774	3,433	20.22
2014	4,019	2,773	19.24
2013	3,630	2,454	27.09
2012	2,512	2,100	9.89
2011	2,252	1,737	13.77

Total Shareholders' Return

Fiscal	2017	2018	2019	2020	2021
Otsuka Holdings	99.1%	92.1%	101.8%	94.6%	91.7%
Comparison: TOPIX Total Return Index	122.2	102.7	121.3	130.3	146.9

Stock Performance

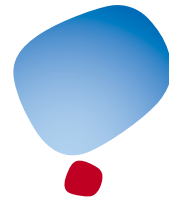


For Life .

Realizing
the hidden power
within.



HUNDRED YEAR
OTSUKA QUALITY



Otsuka

Otsuka Holdings Co., Ltd.

COMMUNICATION
ON PROGRESS



This is our **Communication on Progress**
in implementing the Ten Principles of the
United Nations Global Compact and
supporting broader UN goals.

We welcome feedback on its contents.

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