

Otsuka

Otsuka-people creating new products
for better health worldwide



**INTEGRATED
REPORT**

2019

For the year ended December 31, 2019

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.

What only Otsuka can do

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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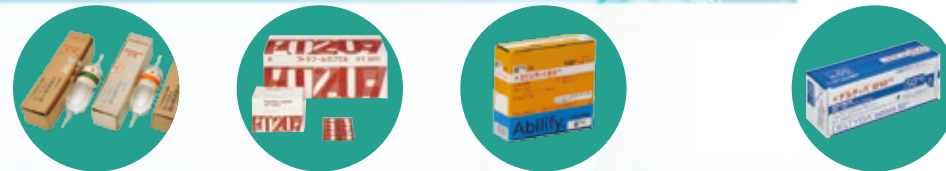
Providing Value through Our Businesses

The Otsuka group of companies 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



What only Otsuka can do



Yet-to-be-imagined needs

Maintaining and improving day-to-day health

Nutraceutical Business

Providing value

Bringing health to people worldwide

Total Healthcare

Physical well-being

Mental well-being^{*}

Social well-being



* The state of health, as defined in the constitution of the World Health Organization (WHO)

Otsuka's History of Addressing Social Issues

Since its founding in 1921 as a chemical raw materials manufacturer, the Otsuka group has worked to address social issues by providing products that help realize healthcare that is aligned with society's expectations, while responding to the changing times and business environment. The group has continued to grow while contributing to health in the three areas of physical, mental and social well-being. The year 2021 will be the centennial of our founding. Consistent with the aspirations of the company founders, we aim to offer products and services for the coming 100 years and into perpetuity, while helping to address future social needs.

1946

The evolving IV solutions business

Intravenous Solutions

Otsuka's intravenous solutions business began in Japan during the post-WW II period, when nutrition was a major issue for the nation. Otsuka pushed forward with technological innovations that met the needs of medical institutions, such as the development of Japan's first plastic bottle for intravenous solutions. From the 1970s, using local production, we expanded the business to countries in Asia that were seeking to advance sanitary practices.



1974

Improving QOL for cancer patients

Futraful

Launched by subsidiary Taiho Pharmaceutical as an oral anti-cancer agent at a time when such medicine was not widely used anywhere in the world. Unlike conventional anti-cancer agents at the time, *Futraful* enabled outpatient treatment, making hospitalization unnecessary. Since then, Taiho Pharmaceutical has launched oral anti-cancer agents *UFT*, *TS-1*, and *Lonsurf*, and contributed to improved quality of life (QOL) for cancer patients.



2002

A new option for antipsychotic medications

ABILIFY

Diseases of the central nervous system (CNS) include numerous disorders. The underlying causes of these diseases have yet to be precisely elucidated, making the research and development of treatments extremely challenging. Antipsychotic agent *ABILIFY* was launched by Otsuka Pharmaceutical in the U.S. as the first therapeutic agent for the CNS developed through in-house drug discovery. On the basis of its unique characteristics, it has been well received by physicians and patients.



2014

Combating tuberculosis—an old disease with a new face

DELTYBA

Tuberculosis is an infectious disease that mankind has long fought to eradicate, and it remains a serious global health issue. As it is our duty to persevere where others have not, we have continued our research in this area. The culmination of more than 30 years of research, *DELTYBA* was approved as one of the world's first new tuberculosis drugs in about half a century. It has now become an essential treatment for multidrug-resistant tuberculosis.



Pharmaceutical Business

Changes in the Concept of Health

Social well-being

Mental well-being

Physical well-being

2019

Announcement of the Third Medium-Term Management Plan

1980

The importance of hydration becomes apparent

POCARI SWEAT

Inspired by the idea of a drinkable intravenous solution, *POCARI SWEAT* was developed as a beverage that could easily replenish fluids and electrolytes (ions) lost through perspiration. R&D progressed with the target of creating a health drink for everyday life, and in 1980, *POCARI SWEAT* was launched in Japan.



1983

Solving issues relating to irregular eating habits and unbalanced diets

Calorie Mate

Leveraging expertise in high-density liquid diets from our clinical nutrition business, we created *Calorie Mate*, which provides nutrition for healthy consumers. It supports healthy eating habits in busy modern lifestyles, and was a pioneer in nutritionally balanced foods in Japan. As the top-selling brand,* it continues to lead the field.

* Source: Intage SRI, nutritionally balanced food product market (category: cookies, biscuits, cereals and cakes), January–December 2019



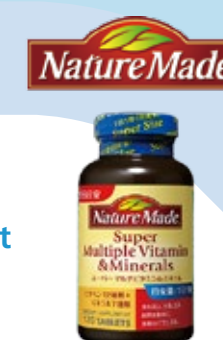
1989*

Supplementing nutrient deficiencies in food

Nature Made

In modern times, changes in lifestyles or eating habits can cause people to struggle at maintaining balanced diets. Even with careful meal planning, it can be difficult to obtain sufficient amounts of many nutrients. Supplementing meals with *Nature Made* products enables consumers to take in recommended amounts of such nutrients.

* Acquired Pharmavite of the U.S. in 1989, launched sales in Japan in 1993



Nutraceutical Business

2014

Solutions to support women's health

EQUELLE

EQUELLE supports women's health and beauty. It contains equol, a metabolite produced when soy isoflavone is fermented by unique lactic acid bacteria. Sold as a dietary supplement to support women's health, it relieves the symptoms of physical and mental changes experienced by women in their 40s and older.



Establishment of Major Group Companies

1921
Otsuka Seiyaku Kogyobu (now Otsuka Pharmaceutical Factory)

1950
Otsuka Chemical
1955
Otsuka Foods

1961
Otsuka Warehouse
1963
Taiho Pharmaceutical

1964
Otsuka Pharmaceutical
1973
Thai Otsuka Pharmaceutical

1974
Otsuka Indonesia
Taiwan Otsuka Pharmaceutical
1981
China Otsuka Pharmaceutical

1982
Korea Otsuka Pharmaceutical
1988
Otsuka Pakistan

1989
Otsuka America
Otsuka America Pharmaceutical
1998
Otsuka Pharmaceutical Europe

2008
Otsuka Holdings
2010
Stock publicly listed on Tokyo Stock Exchange
2011
Otsuka Medical Devices

2021
100th anniversary of founding

Otsuka's Strengths

What we can achieve because we are Otsuka

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 the determination of these employees, we have developed many strengths. The six strengths described below are a representative sample, and more continue to evolve each day. Making the best possible use of these strengths, employees take on new challenges to fulfill our potential, all in order to contribute to better health worldwide.

An enduring corporate philosophy and a managerial essence, passed down and practiced throughout the group

31 countries/regions

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

We engage our employees to think and act creatively without preconceived notions. We also support their development, so that they can embody our unique capabilities and potential. We believe that this, as well as engagement with our corporate philosophy and managerial essence (reflected in our corporate culture) has brought us to where we are today, and will build the Otsuka of tomorrow.

An unwavering quest for originality

In-house drug discovery percentage: 89%¹
Development projects for unmet needs: 23²

We pursue the creativity implicit in our corporate philosophy across our entire value chain, from R&D through marketing. In the ongoing challenge to create innovative products and services, we are always thinking about how to generate the kind of innovation that defines Otsuka, targeting unmet medical needs as well as the yet-to-be-imagined needs of consumers.

1. Ratio of in-house drug discovery projects among late-phase development projects
2. As of December 2019; unmet needs areas defined by Otsuka based on PatientsMap2019JP and PatientsMap2018US, M3 & SSRI

An ability to nurture enduring brands

Top-share products by pharmaceutical category⁴:
8 in Japan, 3 outside Japan
Percentage of consumers in Japan who have tried POCARI SWEAT: 88.3%⁵

We have developed our brands through unceasing efforts to demonstrate the health value of innovative products born from creative R&D. Our ability to nurture brands leads to sustainable growth and enhanced corporate value, enabling us to take on the challenge of finding original approaches to new healthcare needs.

4. Copyright © 2020 IQVIA. Created based on annual category totals for the past 10 years, including IQVIA MIDAS 2009 to 2019 and Otsuka research. Categories defined by Otsuka. Reprinted with permission.
5. November 2019 survey in Japan conducted by Otsuka

A business model centered on total healthcare

Contributing to three aspects of health

Physical, mental and social well-being

We provide a variety of science-based products and services that meet the specific healthcare needs of the times in each community. We conceive products and services that will contribute in 10 or 20 years' time in the three areas of physical, mental, and social well-being.

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

IV solutions business overseas companies: 15³
Countries/Regions where POCARI SWEAT is available: More than 20
Countries/Regions where tuberculosis drug DELTYBA is available: More than 100

We are extending our global reach by addressing social issues (e.g., fluid/electrolyte replenishment, infectious diseases) that differ in each country/region depending on culture, customs and the times. Going forward, we will provide products and services that lead to solutions for social issues in many more countries/regions.

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

A solid financial foundation and strong earnings power, which drive sustainable growth

Rating: AA-⁶
Business profit margin of Nutraceutical Business: 12.7%⁷

We are cultivating a solid financial foundation and strong earnings power whereby nutraceuticals and intravenous 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. This will form the basis for sustained investment in areas that create new value in the face of a changing business environment.

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: 8.5%)

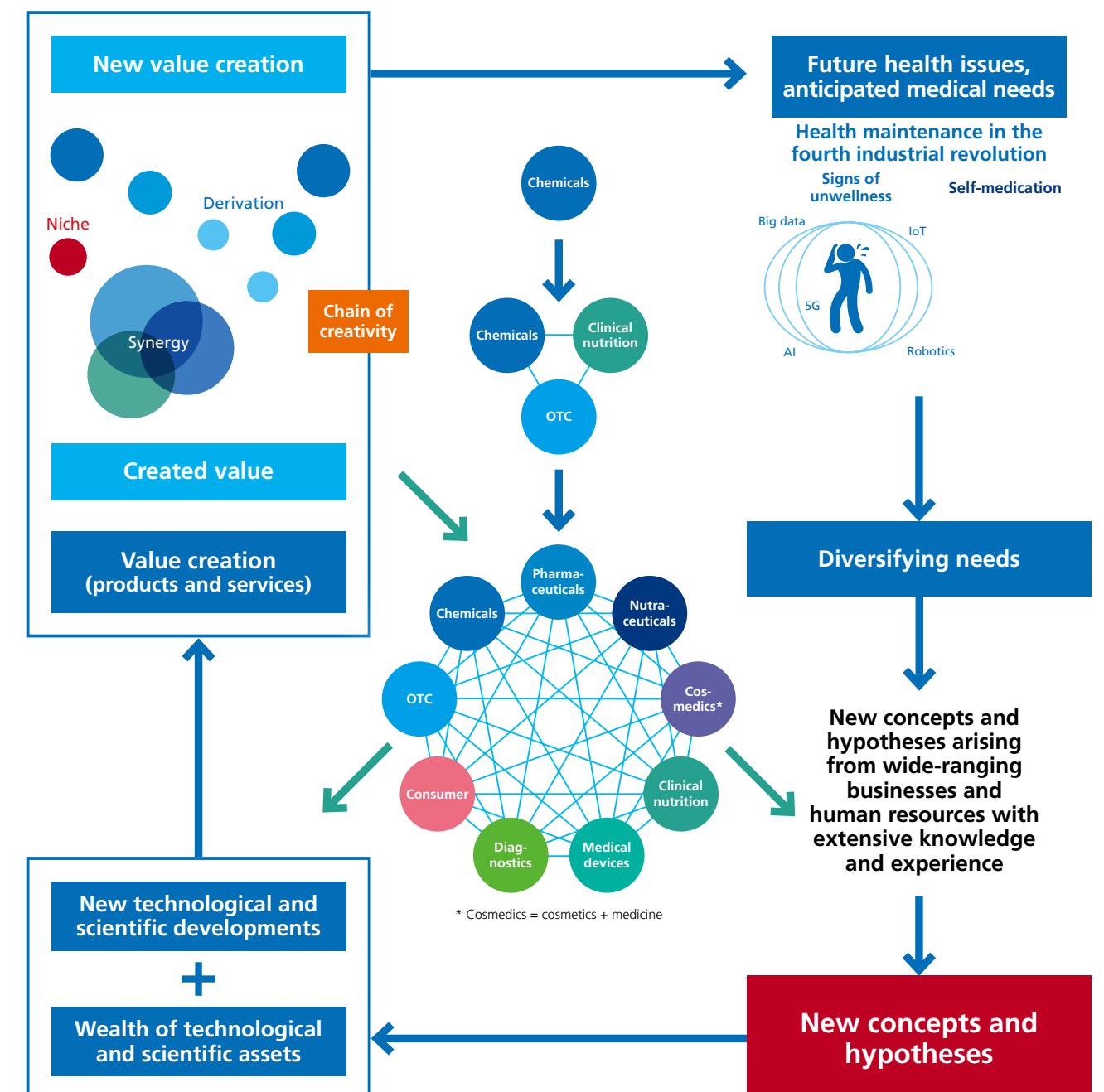
Value Creation Process That Generates Originality

Taking on the challenge of doing what only Otsuka can do

At the heart of the Otsuka group's value creation process is an approach that is always looking to the future in order to anticipate the various needs of healthcare aligned with society's expectations. We try to anticipate the diversifying needs that arise from the changing times, environment, and ways that people think about health. Then, leveraging our group strength of unique, wide-ranging businesses, and our people, who have extensive knowledge and experience, we construct hypotheses and combine new technologies and scientific developments with existing ones to create new value.

While working to resolve social issues we maximize the value we create (products and services). In that process, we capture new needs that emerge, which we harness in turn to create more new value.

Sustainable growth of the Otsuka group through this value creation process leads to steady enhancement of corporate value, while also making it possible for us to continue applying our original approach to the challenge of new healthcare needs.



Realizing a Sustainable Society

Otsuka's Strengths → Page 6

What we can achieve

Business Strategy
Medium-Term
Management Plan

Value Creation Process That Generates Originality → Page 7

What only Otsuka can do

Progress of the Third Medium-Term
Management Plan → Page 24

Essence of Management
(Our Corporate Culture)

Implementation of Sustainability
Initiatives → Page 12

Ryukan-godo
(by sweat we
recognize the way)

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

Jis sho
(actualization)

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

Sozosei
(creativity)

Pursuing that
which only Otsuka is
capable of delivering

Management Resources
Supporting the Otsuka Group

Human Capital

Employees: 47,000*
Japan: 18,000
Outside Japan: 29,000

Relationship and Social Capital

Total Group companies: 195
Japan: 50
Outside Japan: 145
Locations: 31 countries/regions

Manufactured Capital

Manufacturing sites: 173
Japan: 53
Outside Japan: 120

Intellectual Capital

Research sites: 49
Japan: 24
Outside Japan: 25

Financial Capital

Total assets: ¥2,581.3 billion

Natural Capital

* Data for 195 companies including Otsuka Holdings and its subsidiaries and affiliated companies (as of December 31, 2019)

People, Environment, Corporate Governance, Compliance, Risk Management

Corporate Philosophy

Otsuka-people creating new products for better health worldwide

Social Issues

Health

People

Quality in
All We Do

Climate
Change

Resource
Recycling and
Conservation

Water
Conservation

Governance



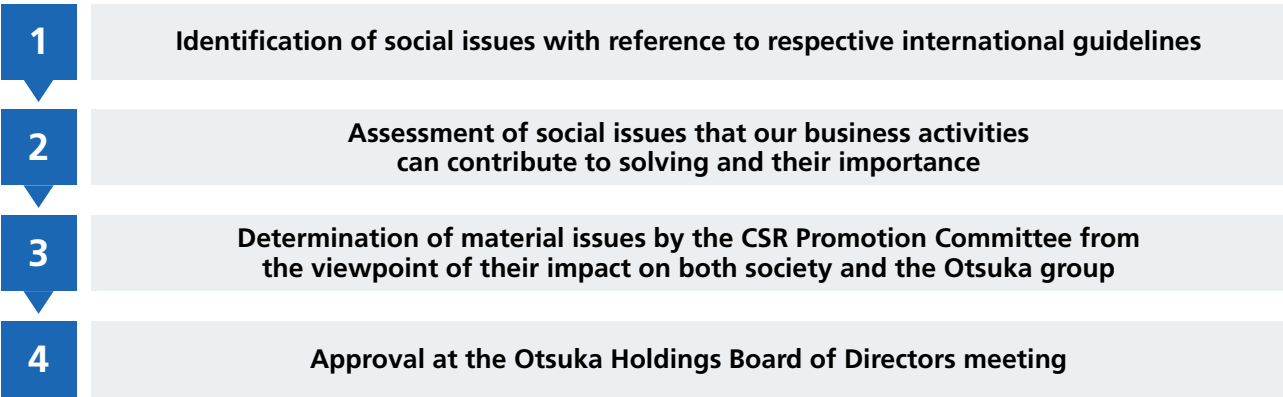
Materiality

In 2019, the Otsuka group determined material issues based on their importance to society and to the group’s businesses.

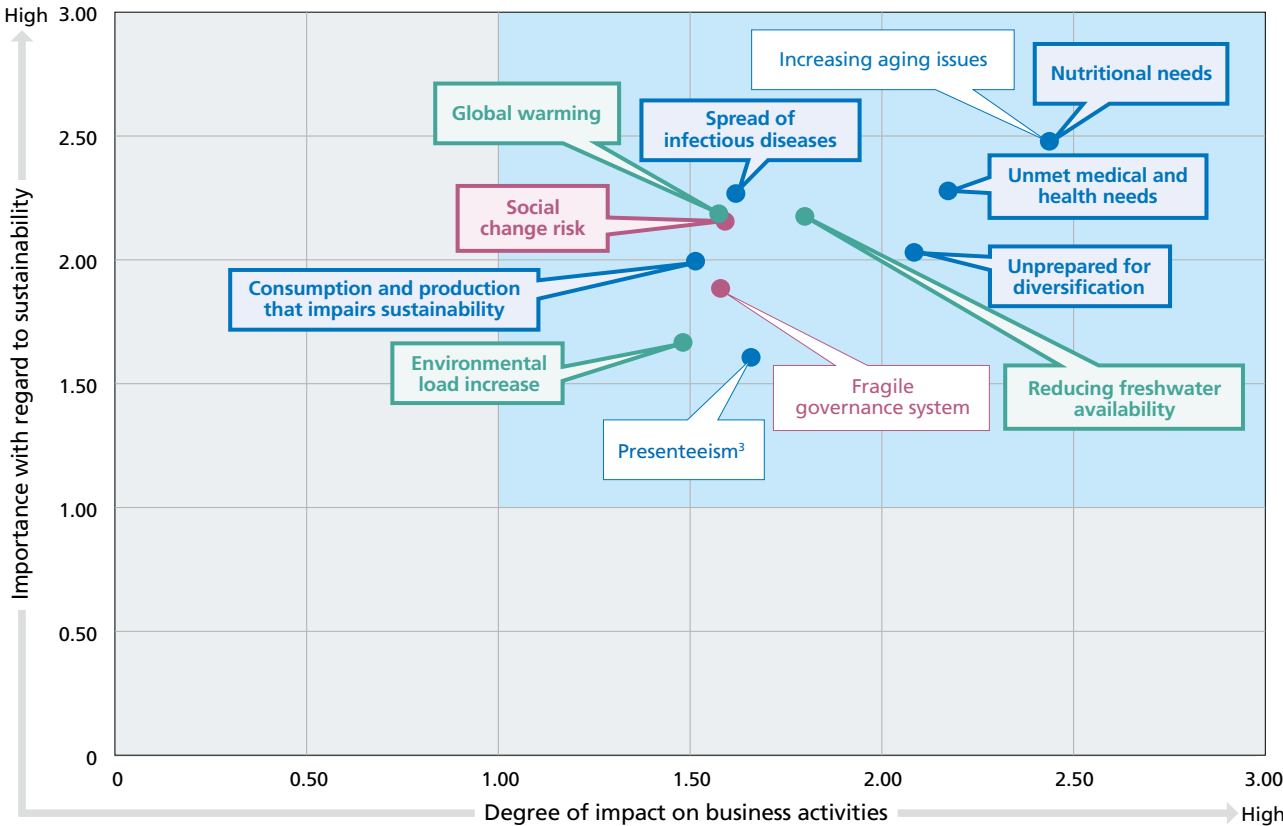
Process for Determining Material Issues

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 CSR Promotion Committee¹ and approved at the Otsuka Holdings Board of Directors meeting. As a result, the material issues of the Otsuka group were determined to be: Society (Health, People, Quality in All We Do), Environment (Climate Change, Resource Recycling and Conservation, Water Conservation), and Governance.

1. The CSR Promotion Committee promotes CSR throughout the Otsuka group. The committee’s responsibilities include discussing and deciding on the direction and plans for CSR activities. The Otsuka Holdings director in charge of CSR promotion serves as the committee chair. Committee members comprise regional group managers involved in CSR and the CSR officers of each company.



Map of Social Issues²



2. Our nine highly important material issues are indicated in bold ➡ Page 12, Initiatives for Sustainability

3. The situation where productivity does not go up due to the poor condition of the mind and body despite coming to work

Materiality

Based on the process described on the preceding page, the material issues of the Otsuka group were determined to be: Society (Health, People, Quality in All We Do), Environment (Climate Change, Resource Recycling and Conservation, Water Conservation), and Governance.

Materiality		Social Issues	Our Goals	Our Activities	Related SDGs
Society (Healthier Society)	Health	• Unmet medical and health needs • Spread of infectious diseases • Nutritional needs • Increasing aging issues	• Contribute to unmet needs solutions • Eradication of tuberculosis • Creation of a system for the realization of a healthful life • Healthy life extension	• Promotion of R&D for unmet needs • R&D of antituberculosis 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	• Presenteeism³ • Unprepared for diversification	• Creation of a corporate culture that stimulates creativity • Enhance employee engagement	• Human resource development • Diversity promotion • Health management	   
	Quality in All We Do	• Consumption and production that impairs sustainability	• Gaining stakeholder trust • Pursuing sustainability at all levels of the value chain • Establishing a quality assurance system for safety and security	• Sustainable procurement and product design • Thorough quality control and stable supply • Responsible promotional activities and information provision • Deepening communication with stakeholders • Promotion of “customer-centric management”	
Environment (Healthier Planet)	Climate Change	• Global warming	• FY 2030 Goal: 30% reduction in CO₂ emissions compared to FY 2017	• Reduce CO₂ emissions throughout the value chain	
	Resource Recycling and Conservation	• Environmental load increase	• FY 2030 Goal: 50% reduction in simple incineration and landfill compared to FY 2019 • FY 2030 Goal: 50% or higher content of recycled and plant-based materials in our PET bottles	• Reduce environmental impact by improving resource efficiency • Promotion of business activities aimed at a sustainable state in both society and the earth	    
	Water Conservation	• Reducing freshwater availability	• FY 2030 Goal: Improvement of water use efficiency by 15% compared to FY 2017	• Understanding water resources risk • Management and effective use of water resources	
Governance		• Fragile governance system • Social change risk	• Long-term improvement of corporate value	• Strengthening corporate governance • Thorough compliance • Risk identification, evaluation and management	

Initiatives for Sustainability

From among the 12 social issues we determined to be the Otsuka group's materialities, we selected 9 that we currently regard as highly important, and set goals related to them for fiscal 2023.

Materiality		Social Issues	Our Goals		FY 2023 Goals	FY 2019 Progress
Society → Page 40	Health	• Unmet medical and health needs	• Contribute to unmet needs solutions		- Promotion of R&D for unmet needs - In areas with unmet needs¹ - New development projects: 10 or more - Late-phase development projects advancing to the next phase: 30 or more	- Maintained ratio of R&D expenses to revenue in Pharmaceutical Business of at least 20% for three consecutive years → Page 68, Financial and Non-Financial Highlights - In areas with unmet needs¹ - New development projects: 1 - Late-phase development projects advancing to the next phase: 6
		• Spread of infectious diseases	• Eradication of tuberculosis		- Provide <i>DELTYBA</i> (generic name: delamanid) for a cumulative total of 60,000 cases - Supply <i>DELTYBA</i> for pediatric patients - Launch clinical trial for new treatment regimen - Increase access to <i>DELTYBA</i> by collaborating with partners	- Provided <i>DELTYBA</i> for approximately 20,000 cases - Expanded countries/regions where <i>DELTYBA</i> is available to over 100 - U.S. National Institutes of Health (NIH) launched a large-scale clinical trial to confirm the preventive efficacy of delamanid for multidrug-resistant tuberculosis - Continued participation in the Global Health Innovative Technology Fund (GHIT Fund)
		• Nutritional needs	• Creation of a system for the realization of a healthful life		- Create new systems and reinforce existing systems for realizing healthy lifestyles - Create new concepts and products keeping an eye on changes in environments - Challenge new categories and new areas	- Executed cooperation agreements with all 47 prefectures and promoted collaboration in health and other fields - Continued to hold Women's Health Seminar → Page 31, Women's Health - Continued providing dietary education app SketchCook and Nature Made Supplement Check 30th anniversary of the Otsuka Health Comic Library - Cumulative total OATHAS² registrants: Approximately 18,000 - Established new company in the health drink business in Myanmar
	People	• Unprepared for diversification	- Creation of a corporate culture that stimulates creativity - Enhance employee engagement		- Further instill the corporate culture and philosophy - Build systems for ongoing human resource development aligned with changes in society and in the times - Further promote and instill diversity as a source of innovation - Build new systems to maintain more comfortable working environments	- Cumulative total participants in executive human resource development programs of Otsuka Global Academy: 141 - Introduced Family Smile Support System and Work Interval System - Cumulative total participants in Health Seminars: 1,050
	Quality in All We Do	• Consumption and production that impairs sustainability	• Pursue sustainability at all levels of the value chain		- Companies implementing SAQ³: 200 - Carry out CSR procurement - Supplier briefings: Over 30 times/companies (commencing in FY 2021)	- Cumulative total of companies implementing SAQ: 34 - Held global production meetings and environmental management information exchange meetings - Held global product quality meetings - Improved products based on customer feedback - Carried out initiatives to reduce food waste
Environment → Page 50	Climate Change	• Global warming	• FY 2030 Goal: 30% reduction in CO ₂ emissions compared to FY 2017		Introduce renewable energy and raise usage rate of CO₂-free electricity	- Set group environmental goals - Introduced CO₂-free electricity - Obtained Science Based Targets (SBT) Initiative certification (Otsuka Pharmaceutical, Taiho Pharmaceutical)
	Resource Recycling and Conservation	• Environmental load increase	- FY 2030 Goal: 50% reduction in simple incineration and landfill compared to FY 2019 - FY 2030 Goal: 50% or higher content of recycled and plant-based materials in our PET bottles		- Strengthen cooperation for reducing simple incineration and landfill volume - Build an internal group system for improving the usage rate of recycled and plant-based materials	Standardized and tracked global data on waste recycling volume
	Water Conservation	• Reducing freshwater availability	• FY 2030 Goal: Improvement of water use efficiency by 15% compared to FY 2017		Improve water use efficiency in accordance with water risk, which is unevenly distributed by country/region	- Carried out water risk assessments using Aqeduct⁴ - Conducted water use questionnaires and clarified issues at each production site
Governance → Page 54		• Social change risk	• Long-term improvement of corporate value		- Strengthen corporate governance to further raise effectiveness - Build a governance system capable of global business development and response to various changes - Build a system to strengthen compliance within the group	- Introduced restricted stock compensation plan - Began full-scale activities by the Global Business Support Department to strengthen oversight of overseas subsidiaries - Carried out activities for directors to raise effectiveness - Board of Directors meeting attendance rate: 100% - Established Global Anti-Corruption Policy and Global Conflict of Interest Policy

1. Unmet needs areas defined by Otsuka based on *PatientsMap2019JP*, *PatientsMap2018US*, M3 & SSRI

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

3. CSR procurement self-assessment questionnaire

4. Aqeduct Water Risk Atlas: A water risk mapping tool developed by the World Resources Institute

Message from the President

The Otsuka group of companies will contribute to society while achieving sustained growth by doing what only Otsuka can do.



Tatsuo Higuchi
President and Representative Director, CEO
Otsuka Holdings Co., Ltd.

Under our enduring corporate philosophy “Otsuka-people creating new products for better health worldwide,” the Otsuka group of companies creates innovative products that fulfill a universal human desire to be healthy.

The core of our management approach is to leverage our strengths and capabilities described on the following pages that enable us to do what only Otsuka can do. In doing so, we are also contributing to, and advancing, a sustainable society. As we stand at a juncture of ever-larger social change, our philosophy serves as a solid foundation, guiding us amidst the trends and tides of the times, and from which we take on new challenges and opportunities.

Q1. What is the Otsuka group’s long-term vision?

We create and provide a comprehensive portfolio of products and services that meet the specific healthcare needs of the times in each community. Factors that influence these needs include the emergence of new disease trends, and demographic trends such as aging populations and rates of population growth that are uneven around the world. Simultaneously, factors that influence the ability to address these needs include the evolution of gene therapies, an area that Otsuka is investing in; artificial intelligence; and other technologies. Becoming an indispensable contributor to people’s health worldwide requires us to anticipate society’s expectations in 10 and 20 years’ time.

What kind of contributions can our Pharmaceutical Business make? As populations continue to age, treatments, or better yet, preventions are needed for diseases such as Alzheimer’s disease and various forms of cancer. At the same time, infectious diseases such as tuberculosis will become even more pressing global challenges. At the other extreme, many hereditary, orphan diseases lack any treatments. Otsuka is contributing through research in many of these disease areas. For COVID-19, contributions by our group

companies around the world have mainly taken the form of philanthropy.

Simultaneously, maintaining and improving health is an integral part of our Nutraceutical Business. Otsuka continues to invest in research that clarifies how people can maintain a healthy lifestyle and thereby avoid illness. A fundamental demand driver for nutraceutical products is people’s greater proactivity in managing their health across their entire lifespans. This includes, for example, women who balance professional and family demands, athletically minded people aiming to improve their overall fitness and stamina, and older people seeking extended quality-of-life benefits. Our contribution in nutraceuticals also takes a research-based approach. Here the aim is to create products that offer tangible, health-supportive benefits in areas such as immune function, quality of sleep, and special dietary needs, and even intangible benefits that support individual lifestyles and work styles. Given the time required for product development, we must construct hypotheses that look 10 and 20 years into the future, and start developing products now.

Q2. What business risks and opportunities do you see in the long term?

Changes in human needs, and in business and other landscapes are the largest sources of risk and opportunity. Risks that our management factors into decision making include macroeconomic and geopolitical climates; the physical climate, with increasingly frequent natural disasters caused in part by global warming; and demographic changes. In order to devise optimal responses or solutions, we must identify root causes. On the opportunity side, this involves evolution of product development and technologies, expansion of our presence in new regions, and the forging of new research and commercial collaborations. Focusing our energies on opportunities, while

managing but not being overwhelmed by risks, is the right approach for Otsuka.

As a total healthcare company, our operations encompass products and services for the diagnosis and treatment of diseases, as well as for the maintenance and improvement of health. Medical cost inflation due to aging populations and the increasing sophistication of medical treatment is a serious global issue. As a provider of total healthcare solutions, we recognize these developments as responsibilities and opportunities. Our diverse portfolio enables us to turn risks into opportunities.

Q3. What does Otsuka need to do to improve corporate value while achieving sustainable growth?

In keeping with our corporate philosophy and our long-standing ESG-informed commitment to contributing to human health, we set forth our CSR Mission when we announced the Third Medium-Term Management Plan in May 2019. The CSR Mission defines material issues

in three categories: *Society* (Health, People, Quality in All We Do), *Environment* (Climate Change, Resource Recycling and Conservation, Water Conservation), and *Governance*. Within each category, we carry out initiatives under related themes.



For *Society*, we focus on human resources. In order to achieve sustainable growth, continuous improvement of capabilities as individuals, teams, and organizations is required in addition to management principles and corporate culture. We recognize employee growth as an important management issue. To that end, Otsuka Holdings launched the executive human resource development programs of the Otsuka Global Academy in 2016 to foster human resources capable of driving future growth. Three programs are offered to group employees. The Senior Leadership Program and Middle Leadership Program are designed to nurture management candidates, while the Global Leadership Program, launched in 2019, is fostering a global managerial cadre comprised of employees from around the world.

Each group company is also actively involved in human resource development. For instance, Otsuka Pharmaceutical has operated WING, a voluntary leadership study group, since 2009. Participants identify internal and external issues, and work in teams to discuss potential solutions before formulating a proposal for consideration. At Taiho Pharmaceutical, “Global One Academy” was established in 2016.

In addition to individual growth, we believe that diversity is vital. The variety of innate qualities that individuals bring to our teams is important to us, and we actively welcome people of all nationalities, races, ages, genders, and abilities, in the belief that breaking down barriers to inclusion is the key to sparking innovation and furthering our globalization.

For *Environment*, our initiatives focus on sustainability throughout the supply chain. We have been steadily implementing various measures, which in 2019 included the introduction of CO₂-free electricity and co-generation systems. Moreover, in response to the pressing issue of plastic usage and

subsequent pollution, we issued the Otsuka Group Plastic Policy, which defines goals for achievement by 2030, and are undertaking group-wide initiatives.

For *Governance*, we have built a framework in which four of 13 directors are outside directors, and three of four Audit & Supervisory Board members are outside auditors (as of April 2020). Our outside directors are: Yukio Matsutani, who has extensive experience in, and deep insights into, the medical welfare field; Ko Sekiguchi, who has extensive management experience and high-level expertise in the pharmaceutical industry; Yoshihisa Aoki, who has extensive management experience and deep expertise in the food industry; and, starting this year, Mayo Mita, who is highly knowledgeable regarding finance and markets. The diverse experience and expertise of these outside directors complements the knowledge and skills of the nine inside directors, and together they form an effective governance body, capable of vigorous discussion.

The sheer number of companies in the Otsuka group means that effectively managing our subsidiaries in Japan and around the world necessitates a different approach from a single-purpose company. Such management requires oversight with detailed knowledge of each company's business. We are also working to solidify the management platform underpinning our global operations through standardization and better efficiencies, including expansion of shared services and optimization of procurement. In addition, we are strengthening internal control functions to ensure disciplined management. Enhancing management functions can have an impact that amplifies across the organization to boost corporate value.

We leverage these together with other advantages of our wide-ranging businesses—such as a diverse wealth of technological and scientific assets—to create novel ideas and ultimately new value.

In this way, the Otsuka group is able to help society achieve sustainable growth, increase corporate value over the medium to long term, and ultimately make its vision a reality—to become an indispensable contributor to people's health worldwide.

Q5. What will be essential to Otsuka's further development?

In order to better recognize where we stand and what we strive for, we must continually question ourselves from the perspectives of *Strategy*, *Culture*, and *Capabilities*.

Strategy is closely tied to our corporate philosophy, which guides our thinking because it is the very foundation of our business strategy, and is an expression of our determination to constantly take on new challenges and generate innovation.

Culture is best defined by the words of our founders, *Ryukan-godo*, *Jissho* and *Sozosei*.

Companies with a solid philosophical foundation are the strongest in turbulent times. Our ability to embrace change and continually take on new challenges is not down to individual leaders acting alone, but to generations of employees who have been inspired by our founders.

Upholding this strategy and culture takes formidable *Capabilities*, and each individual must constantly review what he or she is capable of and swiftly address deficiencies.

Ryukan-godo

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

Jissho

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

Sozosei

Pursuing that which only Otsuka is capable of delivering

Q4. Can you describe the Otsuka group's value creation model and its contribution to a sustainable society?

Guided by our corporate philosophy “Otsuka-people creating new products for better health worldwide,” and our essence of management—*Ryukan-godo*, *Jissho* and *Sozosei*—we seek to demonstrate our unique capabilities and achieve our unique potential, thereby contributing to the realization of a sustainable society and stable growth.

Six strengths underlie our success: 1) An enduring corporate philosophy and a managerial essence, passed down and practiced throughout the group; 2) a business model centered on total healthcare; 3) an

unwavering quest for originality; 4) a global reach incorporating solutions to social issues with our core business processes; 5) an ability to nurture enduring brands; and 6) a solid financial foundation and strong earnings power, which drive sustainable growth.

Also, our value creation process enables Otsuka to do things that other companies cannot. First, we seek to anticipate emerging needs from the broad consumer and patient populations who use our products, as well as needs arising from the evolving environments around the world where we do business.

Q6. How do you ensure engagement with Otsuka's philosophy and approach among employees around the world?

We believe that an effective way to instill our philosophy is to share stories of our successes, and failures along the way. Stories, in other words, through communication grounded in experience and fact. Philosophies and approaches cannot be shared properly in the abstract alone; they must be accompanied by concrete examples. Take, for instance, the development of *Samsca/JINARC¹/JYNARQUE²*, the first-in-the-world therapy for ADPKD.³ It took more than ten years to conduct phase III trials in the U.S., but it has since grown into our next blockbuster product following *ABILIFY*, with overall

global brand sales exceeding one billion U.S. dollars in 2019. A concrete example like this inspires a better understanding of how Otsuka's innovation contributes to people's health. Generating engagement with Otsuka's philosophy and culture through our successes has brought us to where we are today, and will build the Otsuka of tomorrow.

Otsuka will celebrate its 100th anniversary in 2021. This is an ideal opportunity for group companies in Japan and around the world to deepen employee understanding of Otsuka's philosophy and approach as we prepare to embark on another century of success.

1. Brand name for ADPKD treatment in multiple regions outside Japan 2. Brand name for ADPKD treatment in the U.S. 3. Autosomal dominant polycystic kidney disease

Message from the CFO



Targeting sustainable growth and increased corporate value, we will enhance our cash flow generation and capital efficiency through optimal resource allocation.

Y. Makino

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

Business Management with a Corporate-wide Awareness of Capital Cost

The Third Medium-Term Management Plan is positioned as a period for adopting business management with a corporate-wide awareness of capital cost under a strategy of maximizing existing business value and creating new value. We will promote this approach throughout the group as we target sustainable growth.

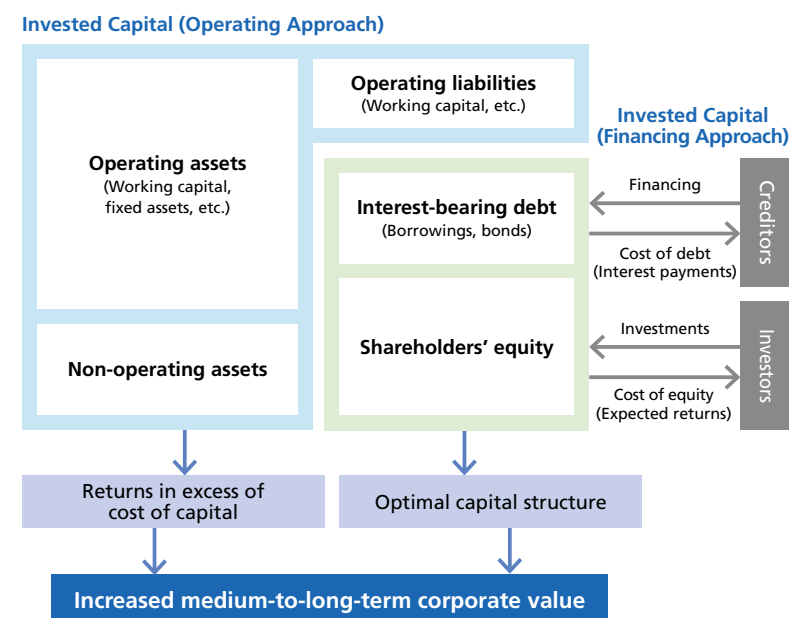
While we already consider cost of capital in deciding on individual investments or recognizing impairment losses, we included “business management with a corporate-wide awareness of capital cost” in the Third Medium-Term Management Plan so as to instill a broad awareness of cost of capital throughout the group, not just as it relates to individual investments. This will lead to sustainable, more effective cash flow generation and greater investment efficiency.

Under the Second Medium-Term Management Plan, we pursued a policy of active strategic investment using revenues from growing global sales of *ABILIFY*, and succeeded in diversifying our revenue structure. Furthermore, given that looming patent expirations were a major management issue, we executed this diversification with a focus on restructuring our revenue base from the perspective of our income statement.

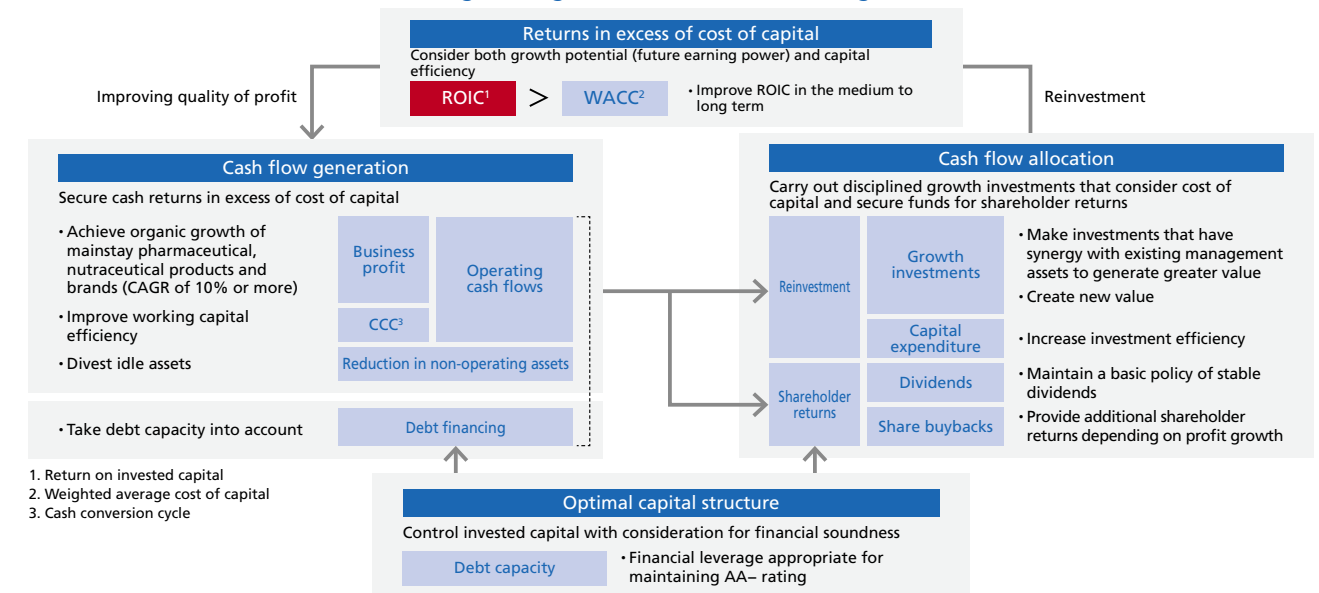
Our plan is to further strengthen investment as a driver for medium-to-long-term growth during the period of the Third Medium-Term Management Plan and beyond. This will require us to not only look at revenues in the income statement, but to adopt a more pronounced group-wide focus on balance sheet management.

We are applying ROIC to maximize investment efficiency, with a group-wide target of at least 1.0% above the cost of capital (5.5%). On the other hand, contributing to society through ongoing innovation is important to us, so if investments that include a certain amount of risk are aligned with the group's corporate philosophy or are conducive to sustainable growth, then we will continue to take on these challenges.

To implement this stance, we believe a comprehensive group-wide financial framework is essential. It must be based on steady cash flow generation from existing assets, and other measures that include issuing bonds and commercial paper or borrowing from financial institutions when necessary.



Maximizing Existing Business Value and Creating New Value



A Financial Framework Conducive to Improving Medium-to-Long-Term Corporate Value

Securing Cash Returns in Excess of Cost of Capital

Achieving true improvement in corporate value means more than simply generating profit; we must enhance free cash flow generation. We will therefore focus more strongly on improving our profit structure.

We will secure operating cash flows through organic business growth, reinvest in growth areas and distribute returns to shareholders, while maintaining an appropriate level of financial leverage. Furthermore, we will establish a framework that achieves returns from reinvested capital in excess of the cost of capital, which will drive profit growth, and in turn enable us to make further growth investments and enhance shareholder returns.

Cash Flow Allocation Policy

We will balance the allocation of cash flows between prioritizing growth investments aimed at generating ongoing increases in medium-to-long-term returns in excess of cost of capital, and delivering stable shareholder returns.

For growth investments, we will consider investments that have synergy with existing management assets to generate greater value.

In the Pharmaceutical Business, our main investments will be aimed at enhancing our products and pipeline in the psychiatry and neurology, oncology, and cardiovascular and renal areas.

In the Nutraceutical Business, we will actively invest in new businesses that meet society's future needs.

Our basic policy for shareholder returns is to maintain stable dividends. While emphasizing the continuity and stability of dividends, we will consider additional shareholder returns depending on profit growth, applying a comprehensive approach by securing sufficient cash returns, to pursue growth investments, a solid financial standing and the optimal capital structure.

Capital Structure Optimization Policy

When considering the optimal capital structure, as the basis we use the debt capacity level needed to maintain our current AA- rating, taking into account factors such as the required level of shareholders' equity given our credit rating and business risks, as well as the rate of return expected by investors.

At the same time, we will appropriately control the scale of invested capital in accordance with our debt capacity, and maintain financial discipline in our growth investments.

Tax Policy

As a multinational enterprise, the Otsuka group recognizes that the appropriate payment of taxes in adherence with applicable laws and regulations in each country and region contributes to local economies. Among increased calls for tax transparency worldwide, we are committed to making improvements in this regard. In accordance with the Otsuka Group Global Code of Business Ethics, the Otsuka group works to ensure appropriate payment of taxes under a principle of compliance that is shared by all employees, including those at departments outside the purview of the CFO.

Moreover, we strive to build constructive relationships with relevant tax authorities by maintaining and providing reliable data.

In accordance with its tax compliance policy (see page 66), the Otsuka group will implement effective management, strengthen governance, build constructive and positive relationships with respective tax authorities and fulfill its tax obligations in all countries and regions.

Feature: Realizing Better Health Worldwide through Fluids and Electrolytes Essential to Life

—A 40-Year History and the Future of *POCARI SWEAT*—

History

Raising Awareness of Heat Disorders and the Importance of Replenishing Fluids and Electrolytes

Founded as a chemical raw material manufacturer in 1921, the Otsuka group launched its intravenous solutions business in 1946. Leveraging expertise cultivated in the intravenous solutions business, we developed *POCARI SWEAT* as a beverage that replenishes the body's fluids and electrolytes, which are important for maintaining and improving day-to-day physical health. Later, in 1992, we participated in the Japan Amateur Sports Association (now Japan Sport Association (JSPO)) Study Group for Prevention of Heat Disorders in Sports Activities, and began full-fledged activities to raise awareness of heat disorders and their prevention. Since then, we have used scientific evidence to raise awareness of the importance of fluid and

electrolyte replenishment in various aspects of life.

This brings us to the present day. The pathology of heat disorders, which was not well known in those early days, and the concept of supplying electrolytes together with fluids as a countermeasure, are now widely understood and recognized throughout society. *POCARI SWEAT* has become a popular staple in all kinds of situations where people sweat, including sports, commuting, outdoor work, and after a bath or waking up. Today, we continue to promote awareness of the importance of replenishing fluids and electrolytes in various contexts, including children's sports activities, occupational safety and hygiene, and hydration for the elderly.



1980
Launched in Japan

1982
First overseas market entry

1987
Cumulative units sold: 3 billion¹

1993
Cumulative units sold: 10 billion¹

1998
Cumulative units sold: 20 billion¹

2008
Cumulative units sold: 30 billion¹

2020
40th anniversary

Supplying quality fluids and electrolytes to people all around the world



1. One unit equals 340 ml; units sold includes overseas sales

1992

Began cooperation with Japan Amateur Sports Association² Study Group for Prevention of Heat Disorders in Sports Activities

2. Now Japan Sport Association (JSPO)

1993

Began cosponsoring JSPO heat disorder prevention awareness activities and cosponsored production of *A Guidebook for the Prevention of Heat Disorder in Sports Activities (First Edition)*



2007

Began cosponsoring production of a guidebook on heat disorder prevention, based on the *Guidelines for Prevention of Heat Disorders in Everyday Life (Ver. 1)* published by the Japan Society of Biometeorology



2007

Conducted lectures on hydration for 500,000 members of junior sports clubs nationwide as part of the Sports Activities Campaign



2010

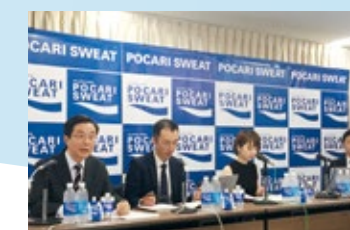
Commenced activities at public and other health centers across Japan to raise heat disorder awareness among seniors

2012

Co-sponsored production of the Heat Disorders Prevention website (NPO Weather Caster Network)

2012

Began Live On Seminar as a lecture for industrial physicians and public health nurses, nurses, nutritionists, and health and safety staff working at business offices in Japan



2016

Received Best Communicator and Top Runner Award at the Heatstroke Prevention Communication Project Hitosuzumi Awards 2016

2017

Participated in the reprinting of the Ministry of the Environment's *Environmental Health Manual on Heat Disorders*

POCARI SWEAT is a health beverage that easily replenishes the body with fluids and electrolytes lost due to perspiration. When people sweat to regulate their body temperature, they lose electrolytes along with fluids. Just drinking water may upset the balance between fluids and electrolytes, which can negatively affect physical condition and performance. Proper hydration is necessary. As a beverage that is similar to fluids already present in the human body, *POCARI SWEAT* enables efficient fluid replenishment.





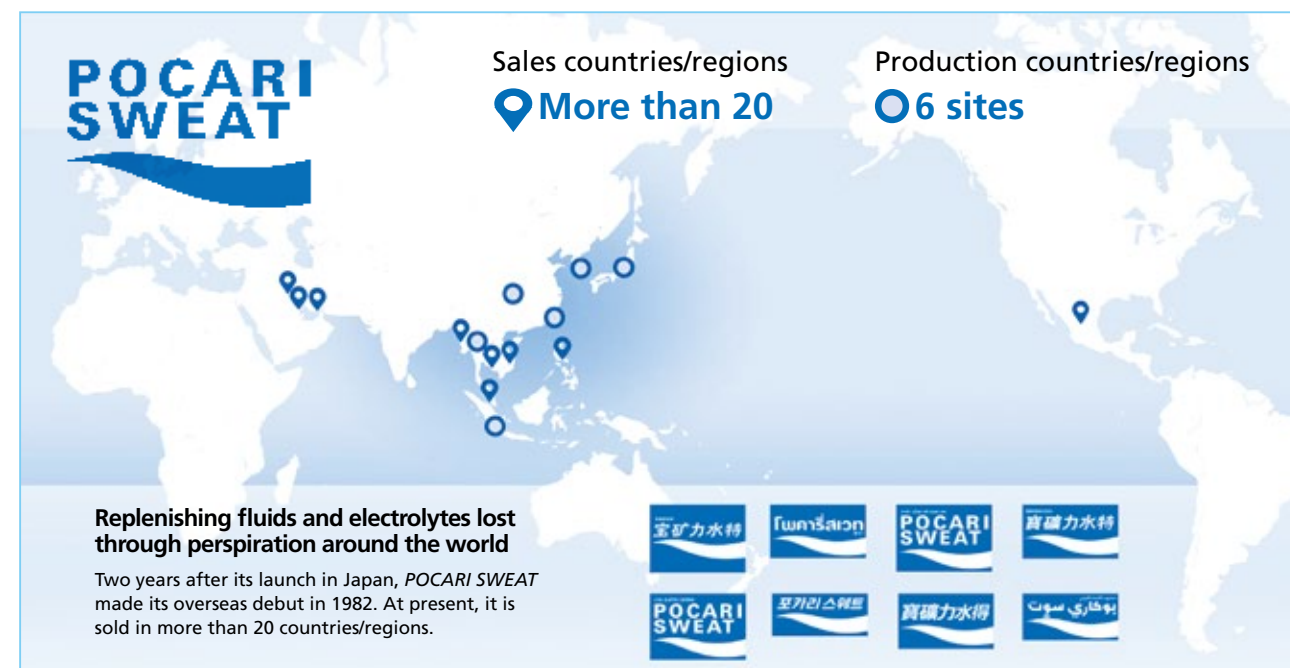
Present

Why *POCARI SWEAT* Continues to Create New Value

Situations in which the body becomes dehydrated are various, and are not limited to any particular time or place.

Otsuka Pharmaceutical's marketing of *POCARI SWEAT* includes activities to raise awareness of the importance of hydration in more than 20 countries/regions around the world.

POCARI SWEAT continues to create new value—meeting the challenge of changes in the environment and people's values, and social diversification. This is because *POCARI SWEAT* continues to be closely intertwined with people's lives, and to uncover and address underlying issues. As a science-based solution for universal needs, it generates value that leads to better health and better lifestyles.



Future

The World *POCARI SWEAT* Aims to Create

Global warming is having a major worldwide impact on climate and the natural environment, as well as people's lives. Should global warming continue, as many as 1.2 billion people could be at risk of heat disorders every year by the year 2100. Also, it is estimated that due to the expansion of habitats conducive to the propagation of organisms that carry tropical diseases, including Zika fever and dengue fever, the number of people at risk of infection could increase by 383–725 million by 2050.* Meanwhile, the importance of and proper methods for fluid and electrolyte replenishment as “first aid” for heat disorders and tropical disease infection have not yet become globally recognized.

We explore and identify underlying issues in each country, consider solutions, convey the scientific grounds and encourage consumers to try *POCARI SWEAT*. Through simple measures such as these, we contribute to the health of people worldwide.

Fluids and electrolytes are essential to life. Our vision is to use our enduring spirit of inquiry and our ability to flexibly address the needs of a diversifying society to make *POCARI SWEAT* a health beverage like no other.

Around the world, there are many people who have difficulty maintaining their health because they lack access to a quality source of hydration. *POCARI SWEAT* aims to change the world by being an industry leader and contributing to solving social issues.

* Daniel Li et al., Environ Res Lett 2020



Otsuka Pharmaceutical's Saga Nutraceuticals Research Institute gathers various kinds of evidence through clinical trials on the replenishment of fluids and electrolytes under various conditions.

In 2018, leveraging our expertise from research into heat disorders, we launched *POCARI SWEAT ICE SLURRY*. We developed this product using proprietary technology for creating a formulation that freezes in the form of ice slurry (in which solid particles are dispersed in a liquid), which is known for its high cooling properties. This “drinkable ice” efficiently cools the body from its core, and offers people a new option for combating heat disorders when active in hot environments.

Otsuka Pharmaceutical Ion Supply Drink Research Lab

▶ <https://www.otsuka.co.jp/en/nutraceutical/about/rehydration/researchlab/>



Positioning of the Third Medium-Term Management Plan

Advance in the Global Market
as a Unique Total Healthcare Company
—Five-Year Growth Phase (2019–2023)—

Existing Business Value Maximization and New Value Creation

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

Business Strategy: Existing Business Value Maximization and New Value Creation

Strategic initiatives for mainstay products and brands to accelerate growth

- Strengthen strategic initiatives for growth drivers—4 Global Products in the Pharmaceutical Business; 3 Major Brands and 3 Nurture Brands in the Nutraceutical Business

Initiatives for next-generation businesses and products

- Launch and nurture new drivers for sustainable growth in Pharmaceutical and Nutraceutical Businesses

Third Medium-Term Management Plan Targets	Business profit CAGR: 10% or more
	Revenue and business profit before R&D expenses: All-time highs
	ROE: 8.0% or higher
	R&D ratio in the Pharmaceutical Business: 20% or higher (versus revenue)

Social Issues Relating to Strategies, and KPIs

	Social Issue	Strategic Theme	KPIs in the Third Medium-Term Management Plan
Pharmaceutical Business	Unmet medical and health needs	Existing Business Value Maximization	Revenue from 4 Global Products: Increase by ¥200 billion
		Challenge New Frontiers: Do what only Otsuka can do	Revenue from New Products: Increase by ¥90 billion
			Address unmet needs in the psychiatry and neurology area Projects to be filed for regulatory approval • REXULTI and AVP-786: Agitation associated with dementia of the Alzheimer's type • REXULTI: PTSD • centanafadine: ADHD • fremanezumab: Migraine
			Create first-in-class products in the oncology area Projects to be filed for regulatory approval • TAS-116: Gastrointestinal stromal tumor • TBI-1301: Synovial sarcoma • TAS-120: Intrahepatic cholangiocarcinoma
		Generate Innovation From Creative and Diverse Research Platforms	Create first-in-class products in the cardiovascular and renal area Projects to be filed for regulatory approval • vadadustat: Renal anemia • Ultrasound-based renal denervation system: Refractory hypertension
Nutraceutical Business	Nutritional needs	Challenge New Categories and New Areas	Revenue from 3 Major Brands: Increase by ¥40 billion
			Revenue from 3 Nurture Brands: Increase by ¥40 billion
			POCARI SWEAT overseas revenue CAGR: 9.4%
		Continuous High Profit Structure	Daiya Foods revenue CAGR: 25%
			Fiscal 2023 business profit margin of Nutraceutical Business: 14.4%

Linking Investments and Results

Across our entire value chain, we are investing in anticipation of changes and issues five to ten years in the future, and working to steadily generate results from those investments.

A. 4 Global Products driving the group's growth

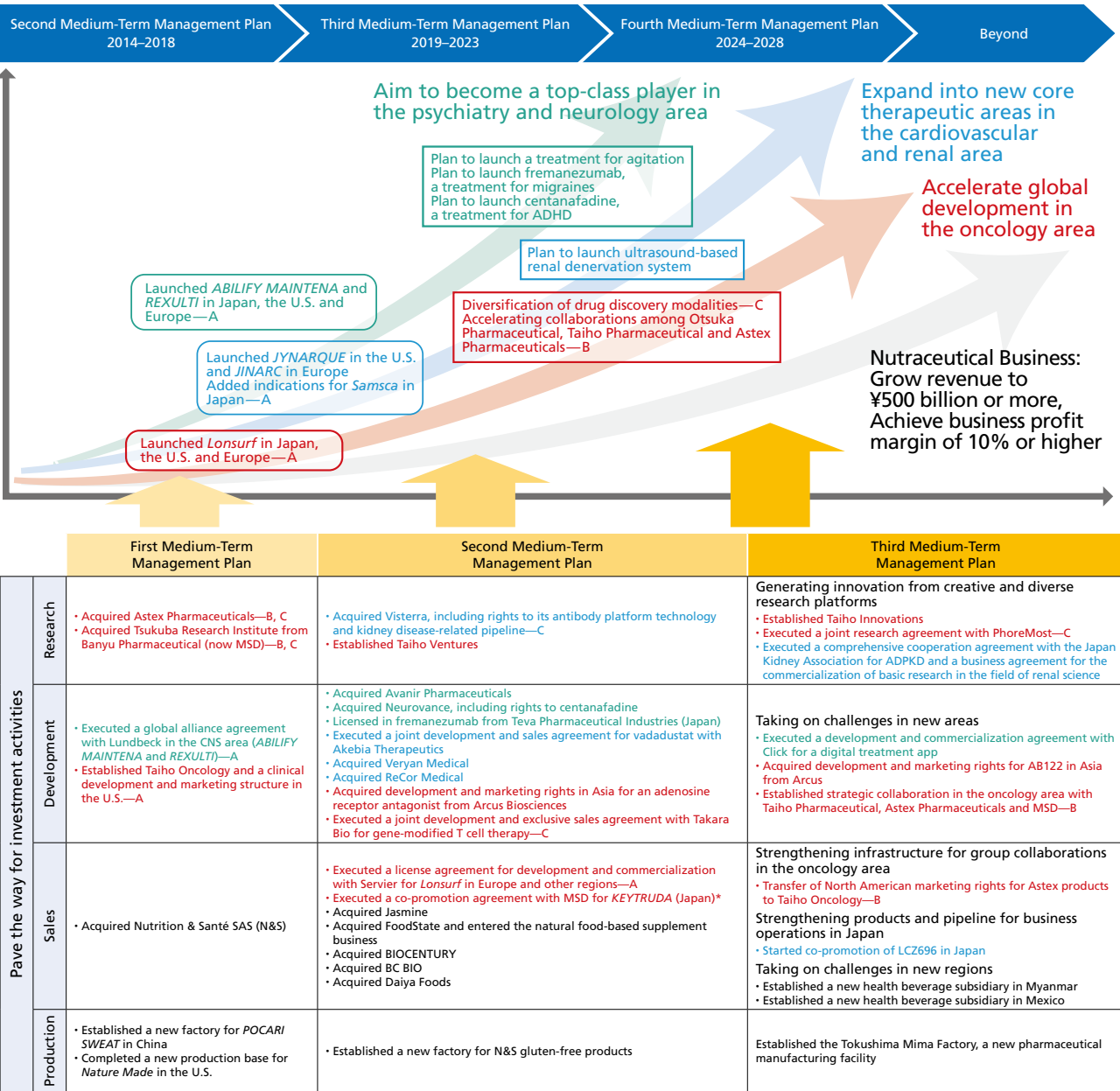
To maximize the value of our 4 Global Products—*ABILIFY MAINTENA*, *REXULTI*, *Samsca/JINARC/JYNARQUE*, and *Lonsurf*—we continued to invest for growth, including signing a joint development and sales agreement with Lundbeck for *ABILIFY MAINTENA* and *REXULTI*, establishing an in-house development and sales system in the U.S. oncology business, and signing a European licensing contract with Servier for *Lonsurf*. As a result, these products are now driving the group's growth.

B. Accelerating collaborations among Otsuka Pharmaceutical, Taiho Pharmaceutical and Astex Pharmaceuticals

We are sharing proprietary cutting-edge technologies cultivated by each operating company.

C. Diversification of drug discovery modalities

With a focus on generating innovation from creative and diverse research platforms, we plan to diversify drug discovery modalities and strengthen our in-house drug discovery platforms mainly by collaborating with and acquiring organizations with innovative and highly original drug discovery technologies.



Progress of the Third Medium-Term Management Plan

Overview of Fiscal 2019

In fiscal 2019, the first year of the Third Medium-Term Management Plan, we steadily executed priority measures aimed at maximizing existing business value. As a result, revenue was 1,396.2 billion yen, an increase of 8.1% from the previous year, indicating solid growth. Furthermore, business profit was 187.2 billion yen, a substantial increase of 54.8% from the previous year, outperforming the Third Medium-Term Management Plan forecast for the year.

	Progress to date			Third Medium-Term Management Plan Announced May 2019		
	2018A	2019A	2020E	2021E	2023E	CAGR 2018–2023
Revenue	1,292.0	1,396.2	1,445.0	1,500.0	1,700.0	5.6%
Business profit before R&D expenses	313.8	403.0	415.0	390.0	460.0	7.9%
R&D expenses	192.9	215.8	220.0	230.0	260.0	6.1%
Business profit	120.9	187.2	195.0	160.0	200.0	10.6%
ROE	4.7%	7.3%	8.0%	6.0% or higher	8.0% or higher	—

Pharmaceutical Business

The Third Medium-Term Management Plan calls on us to maximize existing business value and create new 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 4 Global Products—*ABILIFY MAINTENA*, *REXULTI*, *Samsca/JINARC/JYNARQUE* and *Lonsurf*—as growth drivers. We will further accelerate growth, targeting 200 billion yen in revenue, an increase of 90 billion yen, on the back of New Products scheduled to be launched during the current Medium-Term Management Plan.

Progress of 4 Global Products

The 4 Global Products made smooth progress overseas, expanding regions and adding indications. Revenue in fiscal 2019 rose 34.9% from the previous year, outperforming plan targets and making a considerable contribution to growth in consolidated performance.

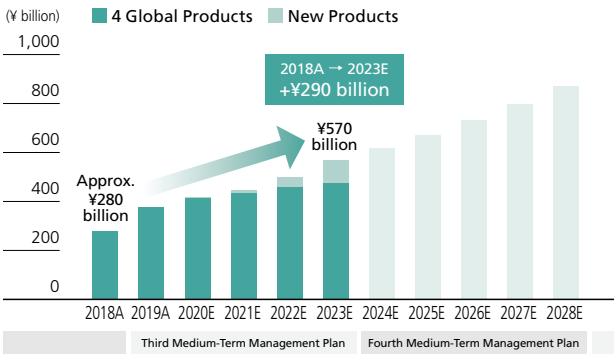
ABILIFY MAINTENA

aripiprazole | Atypical 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 I disorder, prescriptions are increasing. In September 2019, we also filed for an additional indication for bipolar disorder in Japan.

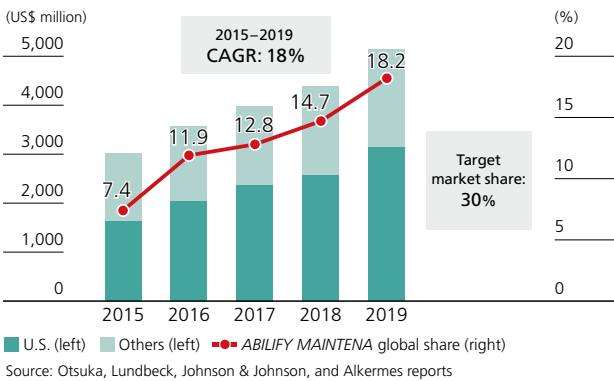
The global market for atypical antipsychotic long-acting injectables continues to grow as they can address the issue of medication adherence in schizophrenia and bipolar disorder. We will continue to contribute to patients around the world and aim to achieve a 30% global market share for *ABILIFY MAINTENA*.

Revenue Plan for the 4 Global Products and New Products



	Fiscal 2019 revenue	Year-on-year	Achievement rate	Fiscal 2020 revenue plan
ABILIFY MAINTENA	101.8	+15.7%	102%	110.5
REXULTI	89.8	+29.3%	101%	106.0
Samsca/JINARC/JYNARQUE	149.1	+65.1%	102%	160.5
Lonsurf	34.5	+13.6%	101%	38.0
Total	375.1	+34.9%	102%	415.0

Atypical Antipsychotic Long-Acting Injectables Market



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, prescriptions have grown significantly following the lifting of restrictions on maximum prescription period in May 2019. 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.

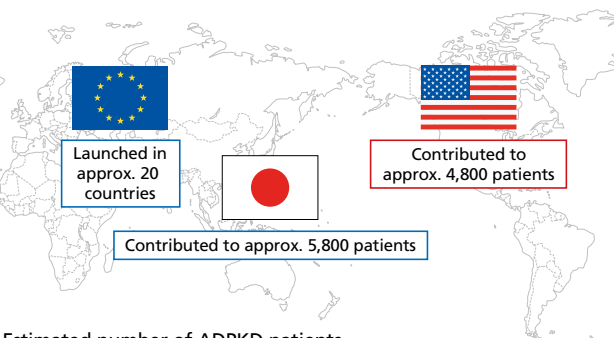
Samsca/JINARC/JYNARQUE

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 the intractable disease ADPKD are increasing due to the promotion of proper use guidelines and disease awareness activities.

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, resulting in a steady increase in prescriptions. In Europe also, *JINARC* is sold in approx. 20 countries and the number of patients receiving treatment through the drug is on the increase.

Global Use as an ADPKD Treatment



Lonsurf

trifluridine/tipiracil | Anti-cancer agent

Lonsurf is growing as a treatment option for advanced colorectal cancer with the help of enhanced promotion activities. *Lonsurf* has also received marketing authorization for the additional indication of previously treated metastatic gastric cancer in the U.S. (February 2019), Japan (August 2019), and Europe (September 2019). Further clinical studies are currently ongoing or being planned with business partners and academia to maximize the value of *Lonsurf*.

	Treatment line	Regimen	Country/Region	Development status
Colorectal cancer	First-line	Study in combination with bevacizumab for patients who are not candidates for intensive therapy (SOLSTICE study)*	Europe	Phase III
	Second-line	Study in combination with bevacizumab (Specified Clinical Study)	Japan	Phase II/III
Gastric cancer	Second-line/ Third-line	Study in combination with ramucirumab	Japan	Phase II

* Trial sponsored by Servier (As of March 31, 2020)



Kabir Nath
President and
CEO, Otsuka
North America
Pharmaceutical
Business

Initiatives to Maximize the Value of Global Products

In 2019, our North American prescription Pharmaceutical Business contributed to an impressive start of the Third Medium-Term Management Plan.

We continued to see strong revenue growth across our CNS and nephrology franchises. Established products like *REXULTI*, *ABILIFY MAINTENA*, and our newest, *JYNARQUE*, continued to perform well and exceeded sales forecasts.

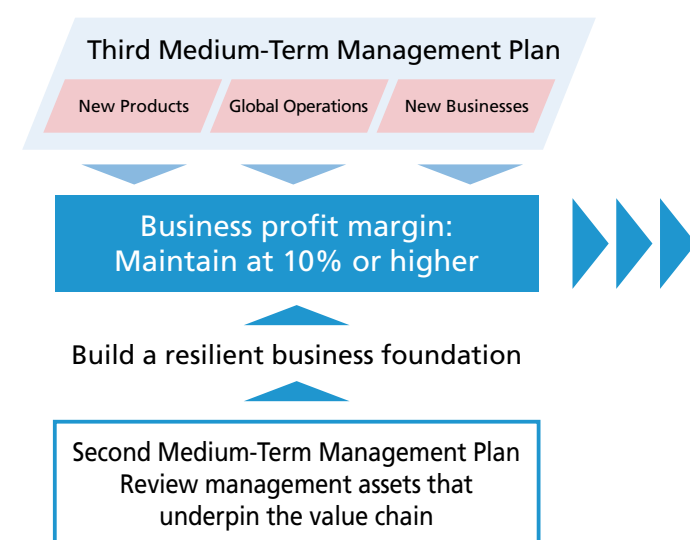
This not only speaks to the efficacy and clinical value that these products are bringing to patients and healthcare professionals, but it is also a direct result of the hard work and dedication of Otsuka people across the organization.

The whole leadership team of the North American Pharmaceutical Business is committed to maximizing the value of our entire portfolio of global products. Concurrently, we seek out new business opportunities to drive future growth and ensure that we continue to operate from a position of strength and innovation.

Nutraceutical Business

The Third Medium-Term Management Plan calls for revenue growth of 40 billion yen in the 3 Major Brands—*POCARI SWEAT*, *Nature Made*, and *N&S*—and 40 billion yen in the 3 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 by creating new product concepts in anticipation of changes in business and other landscapes and by expanding into new categories and new regions.

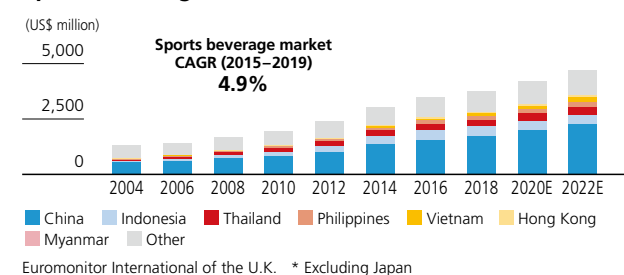


Progress of 3 Major Brands

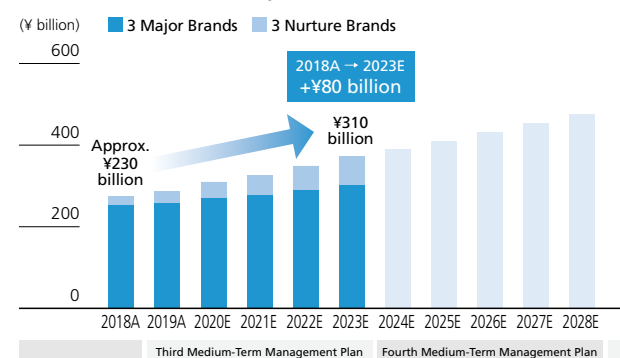
POCARI SWEAT

Overseas, mainly in Asia, sales volume for *POCARI SWEAT*, a beverage for replenishing fluids and electrolytes, is increasing due to awareness activities tailored to the characteristics and needs of each region. The CAGR of the Asia-Pacific sports beverage market was 4.9% for the period 2015 to 2019. We intend to outpace recent market growth, forecasting a CAGR of 9.4% in overseas revenue for *POCARI SWEAT* during the period of the Third Medium-Term Management Plan.

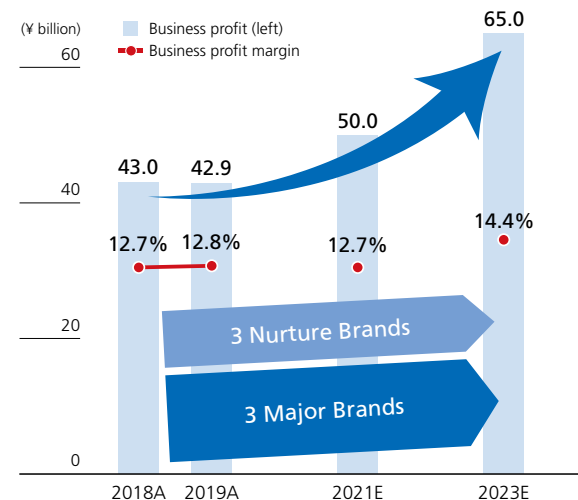
Sports Beverage Market (Asia-Pacific*)



Revenue Plan for 3 Major Brands and 3 Nurture Brands



Business Profit Plan



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.



Nature Made

Pharmavite is a leading company in the U.S. supplement industry. Under the *Nature Made* supplement brand, Pharmavite develops and markets products free from flavorings, colorings and preservatives. With a lineup of high-quality supplements, key items of which have been verified as meeting the strict quality criteria set by the United States Pharmacopeia (USP), *Nature Made* is the leading choice of U.S. pharmacists in nine product categories.



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 29, 2019. ©2020 Information Resources Inc.

2. INTAGE SRI Health Food Multivitamin Market, cumulative market share by brand for January–December 2019

3. US News & World Report and *Pharmacy Times* 2019 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



Nutrition & Santé (N&S)

The organic food market in Europe has grown in recent years as more health-conscious consumers demand safer and more trustworthy foods. Trends such as “free-from” foods and alternative products are attracting the attention of the millennial generation. In fiscal 2019, the European meat-free food market was worth approximately 1.8 billion U.S. dollars, having grown rapidly over the past five years at a CAGR of 11.9%, while the gluten-free food market was worth around 2.5 billion U.S. dollars after expanding at a CAGR of 12.3%.⁴

N&S, a health and nutritional food company, provides health foods and other products in more than 40 countries around the world, centered on Europe. At each of its factories, N&S has obtained ISO 14000 and ISO 12000, as well as IFS Food Standard certification, the international

4. Euromonitor International of the U.K. (Retail Value RSP)



standard for auditing food manufactures, and conducts production with concern for the environment and a high level of quality management. In 2017, N&S built a new factory for gluten-free products in France and strengthened the development of free-from products to meet evolving consumer needs.



Progress of 3 Nurture Brands

BODYMAINTÉ

BODYMAINTÉ was commercialized based on research conducted by Otsuka Pharmaceutical on the themes of “intestines and nutrition” and “exercise and nutrition.” Focusing on health management for athletes exposed to risks related to intense training, we developed *BODYMAINTÉ Jelly*, a conditioning food that has won the support of many athletes and sports trainers. Its main ingredients include lactic acid bacteria B240, a proprietary ingredient, as well as BCAA, arginine and whey protein. In addition, we developed *BODYMAINTÉ Drink*, a conditioning beverage containing lactic acid bacteria B240, to help replenish fluids and electrolytes that support proper hydration. *BODYMAINTÉ Drink* expands the value of this product line by supporting the health management of more consumers.



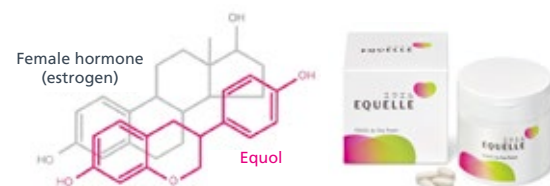
Plant-Derived Lactic Acid Bacteria B240

Lactic acid bacteria B240 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

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.



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.

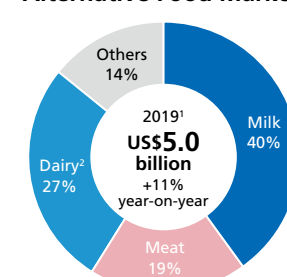
Daiya

Daiya Foods develops, manufactures, and sells high-quality, creative plant-based food products such as cheese alternatives, yogurt 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 a core product. Under the Third Medium-Term Management Plan, we plan to achieve a revenue CAGR of 25%.



U.S. Plant-Based Alternative Food Market



1. PBFA-commissioned data from Nielsen (52 weeks U.S. dollar sales ending December 2019)
2. Ice cream, yogurt, cheese, creamer, butter and dressing

Daiya Foods
Revenue Plan
CAGR
(2018–2023)
25%

Social Issues Targeted by the Nutraceutical Business

Today, pressing social issues include extended healthy life expectancy, declining birthrates, aging populations, and soaring medical costs. The Otsuka group engages in product development and awareness activities aimed at solving a variety of social and health issues.

Social Issues Targeted by Otsuka

1. Irregular and Unbalanced Diets

While there is seemingly an abundance of food in the developed world, diversification in daily routines and an increase in single-person households contribute to eating alone, skipped meals, and unbalanced diets. This can lead to poor physical and mental well-being. The Otsuka group is tackling various social issues related to nutrition by developing nutritional products and implementing dietary education activities.

Leveraging expertise in concentrated liquid diets from our clinical nutrition business, we created *Calorie Mate*, which provides nutrition for general consumers. It supports healthy dietary life in busy modern lifestyles, and is a pioneer in nutritionally balanced foods in Japan. As the top-selling brand,* it continues to lead the field. Compact and with a long shelf life, *Calorie Mate* is convenient as

a nutritional food for use during sports, when there is no time for breakfast or other meals, and during work or study, and can also be kept as a disaster provision.

* Intage SRI, Nutritionally Balanced Food Product Market (category: cookies, biscuits, cereals and cakes), January–December 2019



2. Women's Health

Women experience mental and physical changes throughout their lives. The effects of rapid hormonal changes are felt by women in their 40s and 50s in particular, which can impact their social life.

The Otsuka group has identified women's health as one of the priority areas of its Nutraceutical Business. We are disseminating information to promote better understanding of physical changes in women and developing related products.

Otsuka Pharmaceutical's Saga Nutraceuticals Research Institute conducts research on total health maintenance for women in their 40s and older, including research into symptoms of menopause, bone and skin issues, and blood vessel health, and continues to generate evidence on active ingredients. In addition, our experts in women's health carry out activities across Japan to spread accurate understanding of the mental and physical changes experienced by women and related health issues, as well as solutions to those issues.



3. Environmental Issues

Given that global warming is a major social issue, public attention is focused on CO₂ emissions from food production as part of realizing a carbon-free society. The plant-based foods that Daiya Foods develops, manufactures and sells have a low carbon footprint, reduce environmental load, and are more sustainable. Daiya Foods was founded on the belief that plant-based living is better for people's health and better for the planet. Its range of plant-based foods resonates with many people and as a category leader it is evolving into a high-growth company.

Soybeans are a part of Japan's traditional food culture and contain quality dietary proteins, and have been referred to as “the meat of the fields.” Focusing on the high nutritional value and potential of soybeans, Otsuka Pharmaceutical has developed and commercialized soy-derived nutritional foods under three brands at its in-house research center—

SOYJOY, *SOYSH* and *SoyCarat*. Soybeans directly consumed by people around the world account for a mere 6% of total soybean production. Beef is one source of protein, but to produce 1 kilogram of beef, it is said to take 10 kilograms of grain, such as soybeans. There is data suggesting that the production of soybeans requires one-fiftieth the water and one-twentieth the amount of energy needed to produce the same volume of beef. Based on the concept of “Soylution” (soy + solution), Otsuka Pharmaceutical provides solutions for both human health and environmental issues through a range of soy products.



Looking ahead to the Fourth Medium-Term Management Plan

Opportunities and Risks

As a total healthcare company, the Otsuka group conducts activities not only related to diagnosis and medication, but also to contribute to maintaining and improving the health of healthy people. Medical cost inflation due to aging populations and the increasing sophistication of medical treatment are a serious issue for Japan and the rest of the world, and in particular pose a risk to the Pharmaceutical Business. However, from the perspective of the Nutraceutical Business, we regard increased awareness of self-medication, prevention and daily health as an opportunity.

Pharmaceutical Business

Strength • Providing total healthcare solutions, from diagnosis to treatment. • Global R&D and marketing assets in the psychiatry and neurology area, and the cardiovascular and renal area • Presence in the oncology area in Japan • Stable profit in the intravenous solutions business	Weakness • Global operations in the oncology business • Management personnel for diversifying businesses • Patent expiration of mainstay products
Opportunity • Advances in science and technology, progress of basic research related to diseases • Promotion of personalized medicine	Threat • Global drug price control policies and promotion of generic drug use due to medical cost inflation • Intensifying competition in core areas • Restrictions on sales promotion activities due to stricter regulations

Nutraceutical Business

Strength • Creative products and marketing backed by scientific evidence • Ability to nurture brands • Overseas businesses that incorporate solutions to social issues with their core business processes • Steady earnings power	Weakness • Management personnel for diversifying businesses • Cultural differences regarding raw materials and taste preferences
Opportunity • Rising consumer awareness of self-medication, prevention and daily health in tandem with medical cost inflation • Diversification of diet	Threat • Sluggish overall beverage market due to unseasonal weather • Intensification of competition in core areas due to entry of new competitors

Our Approach to Issues

Global operations in the oncology business	In recent years, Taiho Pharmaceutical, a pioneer in oral oncology products in Japan, has been actively promoting further globalization, mainly by establishing its own marketing structure in the U.S. and expanding its sales networks in other regions. In addition, group companies, including Otsuka Pharmaceutical, Astex Pharmaceuticals and Taiho Pharmaceutical, are combining their assets to strengthen group-wide global operations, as well as promoting strategic alliances with external partners.	➡ Page 34 Maximizing business value by combining group strengths
Management personnel for diversifying businesses	Otsuka Holdings plans and implements executive human resource development programs, and collaborates with external organizations to train managers capable of leading the next generation. In addition, individual group companies are vigorously promoting human resource development.	➡ Page 43 People
Intensifying competition in core areas	Based on our unique and diverse businesses, we will continue to create new value by taking on challenges, applying an original approach that addresses the health needs of people, always looking to the future.	➡ Page 6 What we can achieve because we are Otsuka ➡ Page 7 Taking on the challenge of doing what only Otsuka can do

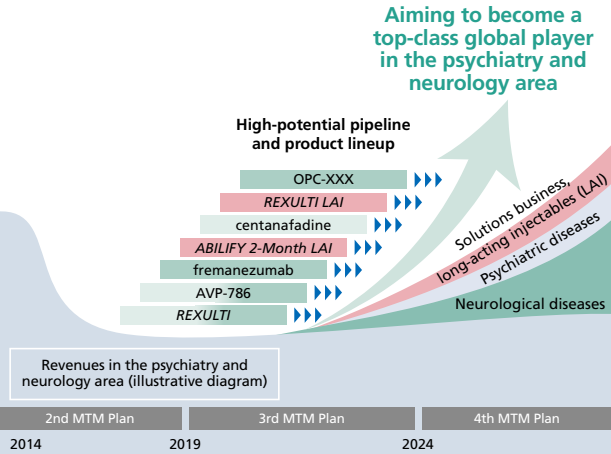
Initiatives in the Pharmaceutical Business

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, concerns are growing about the increasing frequency of Alzheimer's-related dementia as populations worldwide continue to age. 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.

We have a high-potential pipeline and product lineup, and aim to become a top-class global player in this area.



Agitation Associated with Dementia of the Alzheimer's Type

It is estimated that approximately 3.4 million people* 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 (REXULTI) and AVP-786.

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(As of March 31, 2020)				
Pipeline	Features	Indication	Country/Region	Development status
aripiprazole (long-acting injectable)	Dopamine partial agonist	Bipolar disorder	Japan	Filed ●
		Major depressive disorder	Japan/Europe/China	Phase III
brexpiprazole	Dopamine partial agonist	Agitation associated with dementia of the Alzheimer's type	Japan/U.S./Europe	Phase III
		Post-traumatic stress disorder	U.S.	Phase III ●
		Borderline personality disorder	U.S.	Phase II ●
		Schizophrenia; long-acting injectable	U.S.	Phase I
OPC-64005	Serotonin, norepinephrine and dopamine reuptake inhibitor	Attention deficit hyperactivity disorder	U.S.	Phase II
AVP-786	NMDA receptor antagonist; serotonin and norepinephrine reuptake inhibitor; sigma-1 receptor agonist	Agitation associated with dementia of the Alzheimer's type	U.S./Europe	Phase III
		Negative symptoms of schizophrenia	U.S.	Phase II/III ●
		Traumatic brain injury	U.S.	Phase II
centanafadine	Norepinephrine, dopamine and serotonin reuptake inhibitor	Intermittent explosive disorder	U.S.	Phase II
		Attention deficit hyperactivity disorder	U.S.	Phase III ●
TAS-205	PGD synthase inhibitor	Duchenne muscular dystrophy	Japan	Phase II
fremanezumab	Anti-CGRP antibody	Migraine	Japan	Phase II/III ●
OPC-214870	—	Epilepsy	U.S.	Phase I ●

■ Development project in an unmet needs area (defined by Otsuka based on data from PatientsMap) ● Project that has advanced in or after fiscal 2019

Oncology
Maximizing business value by combining group strengths

Taiho Pharmaceutical engages in drug discovery, leveraging its long-standing proprietary platform focused on biochemical modulation, as well as drug discovery based on its research platform, such as the newly established Cysteinomix and kinase target drug discovery. Furthermore, through its collaboration with relation to Astex Pharmaceuticals' fragment-based drug discovery technology, Taiho Pharmaceutical continues to discover new molecular targeting drugs.

Meanwhile, centering on external collaborations, Otsuka Pharmaceutical is taking on the challenge of establishing therapies with a focus on the future. This includes creating synergies with new modalities, in areas such as gene-modified T cell therapies and oncolytic virus therapies. Individual group companies are combining their drug discovery technologies and assets to bolster global operations and enhance business value.



Teruhiro Utsugi
Managing Director,
Taiho Pharmaceutical

Strengths in Drug Discovery at Taiho Pharmaceutical

As a specialty pharmaceutical company in the oncology area, Taiho Pharmaceutical is utilizing its proprietary drug discovery platforms and developing highly-effective, novel anti-cancer agents that contribute to the diversification of cancer treatment. In addition to further developing and enhancing our platform technologies for drug discovery, we are accelerating our R&D by complementing our proprietary technologies through collaborations with research organizations both in and outside Japan. Furthermore, through our corporate venture capital, we have built a proprietary network that gives us access to creative and innovative technologies and drug discovery seeds outside the company. Through research and development of promising new drugs, Taiho Pharmaceutical will contribute to a society enriched by smiles, and pursue the realization of a sustainable society.



Harren Jhoti
CEO,
Astex Pharmaceuticals

Strengths in Drug Discovery at Astex Pharmaceuticals

As an established world leader in fragment-based drug discovery, Astex celebrated its 20th anniversary in 2019. In that time we have created a broad portfolio of programs in oncology and CNS and a successful track record of strategic alliances with pharmaceutical collaborators resulting in two approved anti-cancer agents within the last three years. Our innovative culture and collaborative spirit have continued to flourish as part of the Otsuka group as we have established new collaborations and further developed our technology that we hope will result in many new product approvals in the future.

(As of March 31, 2020)

Pipeline	Features	Indication	Country/Region	Development status
TAS-118	Anti-metabolite	Gastric cancer	Japan	Phase III
		Ovarian cancer	U.S./Europe	Phase II
guadecitabine	DNA methyltransferase inhibitor	Acute myeloid leukemia	Japan/U.S./Europe	Phase III
		Myelodysplastic syndromes	Japan/U.S./Europe	Phase III
			U.S.	Filed ●
ASTX727	DNA methyltransferase inhibitor	Myelodysplastic syndromes	Japan	Phase I ●
		Acute myeloid leukemia	Europe	Phase III ●
			U.S.	Phase II
ASTX660	IAP inhibitor	Solid tumors, lymphomas	U.S.	Phase II
ASTX029	ERK1/2 inhibitor	Solid tumors	U.S.	Phase I/II
ASTX295	MDM2 inhibitor	Solid tumors	U.S.	Phase I/II ●
OPB-111077	—	Diffuse large B-cell lymphoma	Japan	Phase I ●
		Hematological cancer	U.S.	Phase I
TAS-114	dUTPase inhibitor	Non-small cell lung cancer	Japan/U.S./Europe	Phase II
TAS-115	Multi-kinase inhibitor	Prostate cancer	Japan	Phase II
TAS-116	HSP90 inhibitor	Gastrointestinal stromal tumor	Japan	Phase III
		Solid tumors	U.S./Europe	Phase I
TAS-117	—	Solid tumors	Japan	Phase I
TAS-119	—	Solid tumors	U.S./Europe	Phase I
futibatinib	FGFR inhibitor	Intrahepatic cholangiocarcinoma	Japan/U.S./Europe	Phase II
TAS0313	Peptide vaccine	Urothelial cancer	Japan	Phase II ●
TAS3681	—	Prostate cancer	U.S./Europe	Phase I
TAS0728	—	Solid tumors	U.S./Europe	Phase I/II
trabectedin	—	Ovarian cancer	Japan	Phase I
canerpaturev	Oncolytic virus	Pancreatic cancer	Japan	Phase I
TBI-1301	NY-ESO-1 siTCR™ gene therapies	Synovial sarcoma	Japan	Phase I/II
TBI-1501	CD19 CAR gene therapies	Acute lymphoblastic leukemia	Japan	Phase I/II
fosnetupitant	NK1 receptor antagonist	Chemotherapy-induced nausea and vomiting	Japan	Phase III ●

■ Development project in an unmet needs area (defined by Otsuka based on data from PatientsMap) ● Project that has advanced in or after fiscal 2019

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 Akebia Therapeutics for vadadustat, and the acquisition of Visterra, a company with a renal disease-related pipeline. We also strive to find solutions to unmet needs in non-pharmaceutical areas too. We are advancing development of unique medical devices, drawing on our innovative technology and our strengths in drugs and clinical research. Examples include a device for ultrasound renal denervation treatment and a peripheral artery stent system. We aim to create first-in-class products leveraging these new drug discovery technologies and medical devices.

(As of March 31, 2020)

Pipeline	Features	Indication	Country/Region	Development status
tolvaptan	V ₂ -receptor antagonist	Syndrome of inappropriate antidiuretic hormone secretion	Japan	Filed ●
OPC-61815	V ₂ -receptor antagonist	Cardiac edema	Japan	Phase III ●
vadadustat	HIF-prolyl hydroxylase inhibitor	Renal anemia	U.S./Europe	Phase III

● Project that has advanced in or after fiscal 2019

Initiatives in the Nutraceutical Business

Our two research institutes of the Nutraceutical Business investigate themes such as nutrition and exercise from original viewpoints that utilize expertise honed in our Pharmaceutical Business. Their goal is to develop and provide the world with creative products that maintain and improve people's health and are backed by scientific evidence.

Saga Nutraceuticals Research Institute

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 up to 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.



Beyond 2030

Envisaging a variety of changes, including an increase in aging populations, rapid climate change, and advances in precision medicine* associated with the spread of preventive medicine and genetic testing, the Otsuka group aims to be an indispensable provider of products and services that meet the healthcare needs of the times.

* Therapeutic approaches that achieve greater precision by applying detailed genetic and other information about each patient

Pharmaceutical Business

Driven by the corporate philosophy “Otsuka-people creating new products for better health worldwide,” the Otsuka group aims to achieve highly innovative drug discovery to find solutions for unmet medical needs. With this goal in mind, we engage in drug discovery research through multiple approaches. We will strengthen our proprietary drug discovery platform to be capable of generating new strengths and innovation. This will include utilizing the

fragment-based drug discovery technology of Astex Pharmaceuticals, the unique antibody manufacturing platform technology from Visterra, and the cysteinomix drug discovery platform of Taiho Pharmaceutical, as well as building a network with and providing research support to academia and bio-ventures that possess advanced research technologies and drug discovery seeds.

Initiatives for Innovation in Research and Development Areas



* Consortium members: Alzheimer's Research UK, AbbVie, Astex, CRL, Eli Lilly, Eisai, Evotec, MSD, JPNV, and Takeda

Nutraceutical Business

Awareness of health issues is rising, including issues related to aging populations, medical costs, and the spread of infectious diseases. Our goal in the Nutraceutical Business is to support the maintenance and improvement of people's health worldwide, and thereby contribute to longer healthy life expectancy. To this end, we will utilize the expertise we have cultivated in the Pharmaceutical Business while proposing solutions based on new concepts that address yet-to-emerge needs and social issues. With an eye on changes in the global landscape, we will take on the

challenge of creating new value and expanding into new categories and regions by combining cutting-edge scientific and technological developments with our unique business model. Going forward, we will respond to various health-related social issues by continuing to implement health awareness activities that bring those issues to the forefront and offering solutions from each brand. Furthermore, we will promote these activities by strengthening collaborations with external institutions.

The Otsuka Group's CSR (Corporate Social Responsibility)

—Toward Realizing a Sustainable Society—

The Otsuka group recognizes CSR is integrated into our businesses and proactively promotes CSR based on its corporate philosophy.

Corporate Philosophy

Otsuka-people creating new products for better health worldwide

Otsuka's Goal

To become an indispensable contributor to people's health worldwide

Otsuka's CSR Mission

CSR is integrated into our businesses across the Otsuka group of companies, which aims to grow while contributing to the creation of a healthy and sustainable society. We pursue these objectives supported by a comprehensive governance system.

Contribution to a Sustainable Society



Otsuka's business activities = Solving social issues = CSR

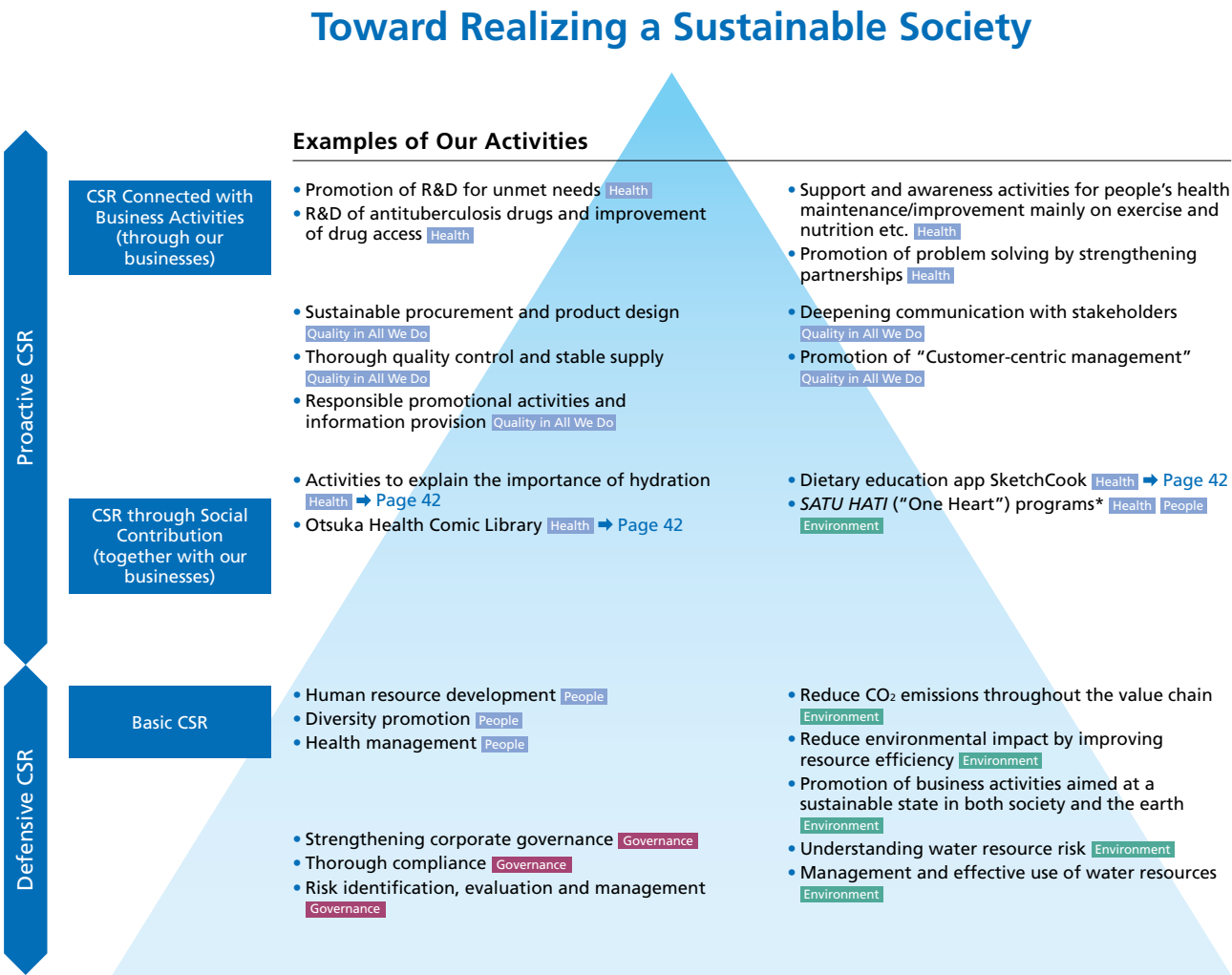
Otsuka-people creating new products for better health worldwide

Healthier Society (Society)
Health, People, Quality in All We Do

Healthier Planet (Environment)
Climate Change, Resource Recycling and Conservation, Water Conservation

Governance
Corporate Governance, Compliance, Risk Management

The Otsuka Group’s Approach to CSR



*To give back to the local community in Indonesia, POCARI SWEAT manufacturer and distributor P.T. Amerta Indah Otsuka has implemented a social action program based on three core pillars: SATU HATI Cerdaskan Bangsa ("One Heart for Education"), SATU HATI Peduli Lingkungan ("One Heart for Environment"), and SATU HATI Sehatkan Bangsa ("One Heart for Health").

Based on our belief that CSR is integrated into our businesses across the Otsuka group, we aim to contribute to the realization of a sustainable society by solving social issues through our businesses. Therefore, we are focusing on "CSR connected with business activities" in pursuing sustainable growth and the realization of a healthy and sustainable society, or in other words, the creation of social value, including financial value and ESG aspects.

Also, we recognize that "CSR through social contribution" (which includes donation activities) and "basic CSR" (which includes governance and risk management as the foundation of our business) are indispensable parts of corporate social responsibility. We define CSR broadly as responsible efforts that companies should make to coexist with society and the environment. We are actively advancing those CSR initiatives.

Support for the United Nations Global Compact

Otsuka Holdings became a signatory to the United Nations Global Compact (UNGC) in 2016. While supporting the UNGC's 10 principles, we also consider the UN's Sustainable Development Goals (SDGs) in contributing to the realization of a sustainable society through our business activities.



Materiality

Process for Determining Material Issues → Page 10

In 2019, the Otsuka group determined material issues based on their importance to society and to the group's businesses. These material issues were determined to be: Society (Health, People, Quality in All We Do), Environment (Climate Change, Resource Recycling and Conservation, Water Conservation), and Governance.

Materiality		Social Issues	Our Goals	Our Activities	Related SDGs
Society (Healthier Society)	Health	• Unmet medical and health needs • Spread of infectious diseases • Nutritional needs • Increasing aging issues	• Contribute to unmet needs solutions • Eradication of tuberculosis • Creation of a system for the realization of a healthful life • Healthy life extension	• Promotion of R&D for unmet needs • R&D of antituberculosis 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	• Presenteeism • Unprepared for diversification	• Creation of a corporate culture that stimulates creativity • Enhance employee engagement	• Human resource development • Diversity promotion • Health management	
	Quality in All We Do	• Consumption and production that impairs sustainability	• Gaining stakeholder trust • Pursuing sustainability at all levels of the value chain • Establishing a quality assurance system for safety and security	• Sustainable procurement and product design • Thorough quality control and stable supply • Responsible promotional activities and information provision • Deepening communication with stakeholders • Promotion of "customer-centric management"	
Environment (Healthier Planet)	Climate Change	• Global warming	• FY 2030 Goal: 30% reduction in CO₂ emissions compared to FY 2017	• Reduce CO₂ emissions throughout the value chain	
	Resource Recycling and Conservation	• Environmental load increase	• FY 2030 Goal: 50% reduction in simple incineration and landfill compared to FY 2019 • FY 2030 Goal: 50% or higher content of recycled and plant-based materials in our PET bottles	• Reduce environmental impact by improving resource efficiency • Promotion of business activities aimed at a sustainable state in both society and the earth	
	Water Conservation	• Reducing freshwater availability	• FY 2030 Goal: Improvement of water use efficiency by 15% compared to FY 2017	• Understanding water resources risk • Management and effective use of water resources	
Governance		• Fragile governance system • Social change risk	• Long-term improvement of corporate value	• Strengthening corporate governance • Thorough compliance • Risk identification, evaluation and management	



Health



Under its corporate philosophy “Otsuka-people creating new products for better health worldwide,” the Otsuka group actively implements CSR initiatives based on the recognition that CSR is an integral part of our business. The desire to be healthy is universal. Every day, the Otsuka group carries out activities to prevent and treat diseases and to contribute to the maintenance and improvement of people’s health worldwide. The world continues to face a host of healthcare issues, such as the spread of infectious diseases, inadequate medical care facilities, and lack of effective therapies.

In aiming to solve these issues, we constantly ask ourselves if it is something that only Otsuka can do, and work to find solutions for unmet medical needs that the majority of other companies have yet to address.

Moreover, issues such as medical cost inflation mean that maintaining and improving health is now an issue that society as a whole, not just individuals, must face head on. In addition to initiatives that raise awareness of health among individuals, the Otsuka group undertakes initiatives for maintaining and improving health in society at large, including through collaboration with local communities.

Pharmaceutical Business The Challenge of Addressing Unmet Medical Needs

→Page 24,
Business Strategy
Section

1. Psychiatry and Neurology

Japan’s Ministry of Health, Labour and Welfare has defined psychiatric disorders as one of the five major disease areas. The rising number of patients with such disorders poses a pressing global issue. However, while the list of psychiatric and neurological diseases is long, including schizophrenia, depression, bipolar disorder, and Alzheimer’s-related dementia, R&D in this area is challenging. The underlying causes of these diseases have yet to be precisely elucidated, and satisfaction with current treatment methods is low. However, patients and their families are in immediate need of new therapies. Psychiatry and neurology is a key focus area in which the Otsuka group has been making headway, namely with the development of antipsychotic drugs *ABILIFY MAINTENA* and *REXULTI*, as well as *Selincro*, a drug that helps in the reduction of alcohol consumption in patients with alcohol dependency. We are also taking on the challenge of developing therapeutic drugs for diseases with no effective medicines.

2. Oncology

As medical science advances, year by year progress is being made in the diagnosis and treatment of cancer. Nevertheless, there are still many diseases for which effective treatments have yet to be found, cancer remaining to be one of the leading causes of death. The oncology area, where there are still many unmet needs, is another of the Otsuka group’s key focus areas. This stems from our track record since the 1970s as a pioneer in developing oral anti-cancer agents, which at that time were not widely used anywhere in the world. In addition to conventional

chemotherapy and molecular targeting drugs used to treat specific organs, we are taking on challenges in the new fields of gene therapy and cell therapy in order to keep pace with the shift toward genomic medicine and personalized medicine tailored to the characteristics of the cancer in each individual patient. Going forward, we will continue to advance our R&D to deliver innovative therapeutic drugs to patients with greater speed.

3. Infectious Diseases

Tuberculosis is one of the world’s three major infectious diseases, the others being AIDS and malaria. It is the single infectious disease that accounts for the largest number of deaths. Multidrug-resistant tuberculosis is difficult to treat because it is resistant to a number of existing therapeutic drugs, and poses a serious public health hazard. Otsuka’s long period of research and development into a tuberculosis treatment culminated in the 2014 approval of tuberculosis drug *DELTYBA*. We are expanding access and bringing *DELTYBA* to more patients by obtaining regulatory approval in each country/region, and through programs developed by governments and international organizations, the Global Drug Facility launched by the Stop TB Partnership and by working with alliance partners. As of December 2019, *DELTYBA* is available in more than 100 countries/regions. Furthermore, we are responding to unmet medical needs by expanding indications for pediatric care and cooperating in a U.S. NIH-led prevention trial for multidrug-resistant tuberculosis. Moreover, in order to eradicate tuberculosis, there is need of a new therapeutic drug that is effective for all forms of tuberculosis, including multidrug-resistant tuberculosis. Given this need, we are advancing R&D for OPC-167832, a new therapeutic drug to follow *DELTYBA*.

Partnerships

1. Eradicating Tuberculosis

The Global Health Innovative Technology Fund (GHIT Fund) is a public interest incorporated association and international public-private partnership involving the Japanese government, private corporations, the Bill & Melinda Gates Foundation, the Wellcome Trust, and the United Nations Development Program (UNDP). It funds drug, vaccine, diagnostic and other R&D in order to leverage Japan’s high level of technology and innovation in the fight against the world’s three major infectious diseases and neglected tropical diseases, which mainly affect developing countries. Since June 2016, Otsuka Pharmaceutical has contributed to the GHIT Fund as an associate partner.

Also, in line with the goal of eradicating tuberculosis, we have participated in the planning of the Project to Accelerate New Treatments for Tuberculosis (PAN-TB collaboration) since February 2020. This world-first global cross-industry collaboration between charitable and non-profit organizations and the drug industry aims to satisfy the Target Regimen Profiles (TRP) proposed by the World Health Organization (WHO) for tuberculosis by speeding up the development of a new pan-TB regimen suitable for all tuberculosis patients.

2. Initiatives in Kidney Disease

Autosomal dominant polycystic kidney disease (ADPKD) is a hereditary, intractable orphan disease. It involves the progressive development and enlargement of a large number of fluid-filled cysts in both kidneys due to gene mutations. The kidneys grow to many times their original size, resulting in the gradual deterioration of kidney function. Otsuka Pharmaceutical has signed a comprehensive partnership agreement on ADPKD with the Japan Kidney Association, and is working to raise awareness about ADPKD and improve the level of medical care.

Otsuka Pharmaceutical has signed a collaborative agreement—also with the Japan Kidney Association—aimed at the practical application of basic research by young researchers in the kidney field. We are openly soliciting drug discovery research themes from academia through the Kidney Research Initiative-Japan (KRI-J)—a platform for collaboration between academia, industry and government established by the Japan Kidney Association. The signing of joint research agreements between the research institutions and Otsuka Pharmaceutical will enable us to carry out research on the selected themes.

Supplying Pharmaceuticals to More Patients

1. Fair Pricing and Improved Healthcare Infrastructure

With the aim of contributing to improved access to pharmaceuticals, the Otsuka group researches, develops and extends therapeutic drugs and IV solutions that address unmet medical needs. We also work to provide pharmaceuticals at fair prices to support improved healthcare infrastructure.

One example is Otsuka Pharmaceutical Factory’s approach to IV solutions, which are defined as basic drugs (a drug with high clinical necessity whose manufacturing and sales will continue to be required without interruption).* Group companies manufacture IV solutions locally, which contributes to local communities, such as through the supply of products at fair prices and the creation of employment opportunities.

* Vision for the Pharmaceutical Industry 2013, Ministry of Health, Labour and Welfare

2. Expanding Access to Medicine

There are patients who cannot expect satisfactory outcomes from existing treatments, and also are not eligible to participate in clinical trials with critical, life-threatening diseases. Such patients are unable to access investigational drugs that might be a potential treatment option. Through its Expanded Access Program, Otsuka group provides patients that are ineligible to participate in clinical trials with access to investigational drugs based on application by their physician and if they meet pre-specified conditions.

Nutraceutical Business

Initiatives for Yet-To-Be-Imagined Needs

To be healthy is a desire of people worldwide. Advances in medical technology and improvements in public health have extended life expectancy globally, but have also given rise to new health issues. The Otsuka group’s Nutraceutical Business is centered on functional beverages and functional foods that support the maintenance and improvement of day-to-day health. Our activities enable people worldwide to live healthy and independent lifestyles. Our contribution to health is not only helping to treat diseases, but also helping healthy people stay healthy through nutrition. Current social issues include extending healthy life expectancy, responding to decreasing birthrates and aging populations, and controlling medical costs. We have set “the essence of life” as a theme for contributing to health. Under this theme, we are engaged in product development and information provision activities that are backed by scientific evidence based on applied expertise from the Pharmaceutical Business.

1. Health Maintenance and Improvement Initiatives in Coordination with All 47 Prefectures of Japan

The Otsuka group is promoting community-based health maintenance and improvement initiatives, as well as disaster prevention and relief activities. As an example, Otsuka Pharmaceutical has concluded health-related partnership agreements with all 47 prefectures of Japan. We are cooperating with local governments to find solutions to the health issues of people living in each region, which includes applying our knowledge and expertise on topics such as dietary education, prevention of lifestyle-related diseases, prevention of heat disorders, sports promotion, women’s health and disaster countermeasures.

2. Raising Awareness of Proper Hydration

Since the launch of *POCARI SWEAT*, Otsuka Pharmaceutical has been promoting the importance of hydration in various contexts. Spurred by the establishment of the Japan Amateur Sports Association (now Japan Sport Association (JSPO)) Study Group for Prevention of Heat Disorders in Sports Activities, our cooperation in efforts to prevent heat disorders through awareness activities began in 1992. Since then, we have provided information on such themes as children's sports activities, occupational safety and hygiene, and hydration for the elderly. Otsuka Pharmaceutical's website includes an information section titled Protect Yourself From Heat Disorders and a section presenting content based on JSPO'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 for Oshiete! "Kakure Dassui" linkai, an organization that raises awareness of ways to prevent and treat dehydration before it becomes critical.

→Page 20, Feature

3. Raising Awareness of Women's Health

The Japanese average life expectancy is over 80 years for both men and women. Healthy life expectancy is defined as the period in which a person can live without being bedridden and without limitation to daily activities due to health issues. The difference between average life expectancy and healthy life expectancy is about 9 years for men and 12 for women in Japan. Therefore, extending healthy life expectancy is a central issue under the Health Japan 21 (the second term) plan established by the Ministry of Health, Labour and Welfare. With greater participation in the workforce, women are faced with the issues of balancing work with childcare, nursing care, and personal health. The effects of rapid hormonal changes are felt by women in their 40s and 50s in particular, which can impact their everyday work and private lives. Furthermore, care taken during this period may impact their future healthy life expectancy. In response, Otsuka Pharmaceutical has developed a product containing equol, a soy-derived ingredient. It can help maintain and improve the health of women at a time when they can experience a range of mental and physical changes. Based on expertise obtained during the R&D process, we conduct activities to spread accurate understanding of the mental and physical changes experienced by women and related health issues, as well as solutions to those issues and evidence for the efficacy of equol. A wide range of other information on nutrition in relation to women's health and other topics can be found on the Otsuka Pharmaceutical website.

→Page 30, Progress of 3 Nurture Brands

4. Conveying the Importance of Nutrition

We continue to conduct dietary education activities that explain the importance of nutrition, based on expertise gained through product development of nutritional products.

Our activities are aimed at all generations. For children, our app SketchCook helps teach proper dietary habits and knowledge of nutrition in a world where such information can be difficult to acquire. For busy modern adults, we provide, in Japan, Nature Made Supplement Check, an app that allows users to easily analyze the nutritional content of a meal by taking a smartphone picture.



Dietary education app
SketchCook

Group-wide Activities

1. 30 Years of the Otsuka Health Comic Library

We began publishing the Otsuka Health Comic Library in 1989 to promote sound growth and development of health habits among children of the next generation. Produced with editorial supervision from the Japan Medical Association and the Japan Society of School Health, and endorsed by the Japan Pediatric Society, the library seeks to convey basic health knowledge to children, covering topics such as the makeup of the human body and nutrition, in a broad, easy-to-understand manner through the medium of comics. Every year we choose a different theme and publish a new volume. The comics are donated* to elementary schools, special needs schools, Japanese schools overseas, and public libraries.



Each year's theme is decided based on requests from schools and the opinions of organizations involved in school health. With the cooperation of experts in various fields, we are finding ways to deliver factual, accurate health information to children in a fun way. We are also working to make the comics a more useful part of school health education. Since 2015, together with the Japan Society of School Health, we cosponsored lectures by health experts and usage demonstrations of the library at schools. We are continuing to evolve 30 years after the first volume, and deepening our ability to communicate the value of health.

* Approx. 23,000 books each year

2. Disaster Relief and Other Support

In light of our obligation as a company that handles items needed during emergencies, such as IV solutions, therapeutic drugs, foods and beverages, we actively engage in disaster relief activities and disaster victim assistance.

Our support for measures to counteract COVID-19 is one such example. In Japan, we supplied products such as beverages as well as masks and protective clothing for medical use. Overseas, we donated group products such as beverages and medical products to local healthcare facilities and chapters of the Red Cross Society, in addition to making monetary donations to such organizations.

People

The Otsuka group believes that the active participation of a diverse range of employees in a free and open-minded workplace environment generates innovation and sustainable corporate growth. To this end, we aim to foster a corporate culture that encourages creativity, invest in the development of human resources, and actively promote diversity among our personnel. We have a safe workplace environment and strive for fair hiring, evaluation, and promotion processes that respect human rights.



Development of Human Resources

Participants in executive human
resource development programs of
Otsuka Global Academy:

More than 140

Employees interviewed by
the Human Resources Department
(Otsuka Pharmaceutical):

More than 1,500

Basic Policy

Throughout history, innovation has always been generated by people. At the Otsuka group, we strive to attract talented personnel, develop their individual abilities on an ongoing basis, and enable them to fulfill their potential. This enables us to continuously generate innovation.

Approach

In addition to medium-to-long-term business investments, the development of next-generation executive human resources is essential if we are to constantly achieve creative, innovative, and sustained growth in the medium and long term, as well as significant growth in corporate value.

In 2016, we launched the Otsuka Global Academy (OGA), human resource development program, with the aim of early identifying and nurturing talented personnel that will underpin the development of the next generation. Executive human resource development programs are produced and run in-house across the Otsuka group, while also aiming to realize effective HR development through collaboration with external agencies. The programs emphasize the handing down of corporate culture and seek to identify the kind of candidates required to lead the Otsuka group in the future. As of December 31, 2019, a total of 141 employees from across the group had participated in the programs. In April 2020, we launched the Global E-learning Platform in cooperation with Harvard Business School Publishing. Approximately 1,000 Otsuka group employees in Japan and overseas use this global platform to improve their business literacy and skills.

In addition, individual group companies are vigorously promoting human resource development. For instance, Otsuka Pharmaceutical has operated WING, a voluntary leadership study group, since 2009. Participants identify internal and external issues, and work in teams to discuss potential solutions before formulating a proposal for consideration. Taiho Pharmaceutical established "Global One Academy," a corporate university, in 2016. In the

one-year program, selected participants learn about the corporate DNA, and acquire leadership, task-setting and problem-solving skills. Recognizing that good input produces good output, Otsuka Warehouse conducts various programs intended to inspire participants to generate unique new ideas. Programs offer ambitious employees a variety of opportunities, including the opportunity to attend business school courses, or to go on overseas tours of cutting-edge technology facilities in order to improve their IT literacy.

The Otsuka group is building an educational framework that enables each member of its diverse workforce to continue developing and displaying his or her individual potential and reflects the characteristics of each group company's business.

We have also established an open recruitment system¹ and self-assessment system² for the purpose of enhancing the capabilities of employees at each company.

At Otsuka Pharmaceutical, the Human Resources Department holds individual interviews with every employee, and follows up on the issues they raise. Interviews are conducted with more than 1,500 employees every year.

- Under this system, the Otsuka group internally discloses requirements of a certain position or job and then fills it from among those who apply. Employees that satisfy the requirements can apply directly to the company offering the position and be transferred if expectations of both parties are in agreement. The open recruitment system can be utilized by employees working at group companies in Japan, and is aimed at boosting employee capabilities and motivation, as well as invigorating exchange within the group.
- Under this system, employees can submit opinions and suggestions regarding their current work duties and workplace, as well as career plan aspirations, to the Human Resources Department. The self-assessment system is implemented on a once yearly cycle, with the goals of further developing employee potential, ensuring assignment to appropriate jobs, and improving the workplace environment.

Diversity & Inclusion



Basic Policy

The Otsuka group actively promotes diversity based on the belief that active participation by a wide range of employees further advances innovation and globalization. Accordingly, as a corporate group constantly in pursuit of innovation, we are endeavoring to establish a richly diverse workplace environment.

Approach

Since the 1980s, a time when the concept of diversity had yet to gain wide acceptance, our top management has actively promoted diversity in the belief that active contributions from personnel with diverse nationalities, races, ages, genders, disabilities, sexual orientations and other characteristics are essential in creating innovative products and ideas that drive corporate growth.

The Otsuka group has stated its commitment to promoting diversity in the Otsuka Group Global Code of Business Ethics. Furthermore, in 2017 the group became a signatory to the Women's Empowerment Principles (WEPs), a set of corporate principles jointly developed by the United Nations Global Compact (UNGC) and UN Women² that offers guidance on how to empower women in the workplace.

To demonstrate our commitment as a signatory to the WEPs, we have introduced a number of systems that meet WEPs at group companies in Japan. Notable examples are the Work Interval System, which mandates minimum rest periods for workers, and the Family Smile Support System,³ which encourages employees to work from home if necessary to deal with childbirth, childcare, childrearing, and nursing care, thus achieving better work efficiency,

productivity, and work-life balance. We also regularly hold group-wide training on women's empowerment. In order to support our diverse employees in pursuing career continuity, we have enhanced childcare, nursing care, and other systems at each group company and have opened daycare centers at three of our business premises (in Tokushima, Osaka, and Tsukuba) to help employees balance childcare and work.

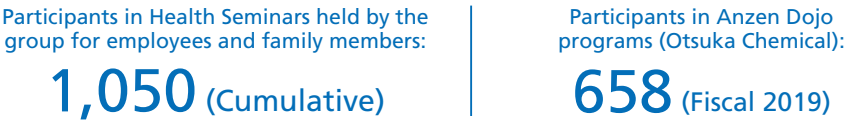
Moreover, we are actively conducting diversity promotion initiatives such as group-wide seminars with the theme of LGBT, with the aim of achieving a more inclusive workplace.

As a company developing and supplying anti-cancer agents, Taiho Pharmaceutical has a team to realize "Workplace support for employees with cancer." This team, mainly composed of the Human Resources Department and occupational nursing staff, aims to create a workplace where employees with cancer or other diseases can receive treatment while continuing to work. Taiho Pharmaceutical has been recognized with an Excellence Award from the Tokyo Metropolitan Government for its outstanding initiatives under this support framework that helps cancer patients balance treatment and work.

Furthermore, Otsuka Pharmaceutical established Heartful Kawauchi in Tokushima City in 2011 as a special purpose subsidiary. This subsidiary enables people with disabilities to fully realize their potential.

1. Scope: Figures for 2019 at nine companies (Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Warehouse, Otsuka Chemical, Otsuka Foods, Otsuka Pharmaceutical D&C, Otsuka America Pharmaceutical, and Pharmavite)
2. United Nations Entity for Gender Equality and the Empowerment of Women
3. Revised telework system for increased flexibility

Health & Safety



Basic Policy

The Otsuka group recognizes that the mental and physical well-being of each and every employee is indispensable to realizing the group's shared corporate philosophy. To this end, we are committed to creating a safe workplace environment and are continuously implementing initiatives to help employees maintain and improve their health.

Approach

The major Otsuka group companies have issued a declaration on health under which they strive to create a workplace environment conducive to employee health maintenance and improvement. As part of efforts led by Otsuka Holdings, officers in charge of health management at each group company cooperate with the Otsuka Pharmaceutical Health Insurance Association and medical professionals in activities aimed at improving the health of employees. One such activity is the hosting of Health Seminars for group employees and their families. Held in major cities across Japan, these seminars are aimed at communicating the group's initiatives on health, introducing the Otsuka Pharmaceutical Health Insurance Association, and disseminating information relevant to improving the health of employees and their families. Another activity is the group-wide Tokushima Health Project, known as TOK-J, launched in 2017 under the theme of creating lively and cheerful workplaces by lowering the risk of lifestyle diseases. This project targets the Tokushima region—where the greatest concentration of group employees live and work—and focuses on raising awareness of health issues in the region as a whole. The project promotes walking, exercise and a healthy diet.

Improving Workplace Health and Safety

For the purpose of creating a safe and secure workplace, at factories and other business sites of each group company in Japan we have established safety and health committees, as defined in the Industrial Safety and Health Act. We actively carry out workplace health and safety inspections, as well as the necessary activities to ensure appropriate management of health, operations and the workplace environment, in addition

to relevant education and training. These activities are reported at health and safety committee meetings and form the basis for improvements to the workplace environment. Furthermore, major group companies hold a joint meeting every year to share reports on workplace accidents and recurrence prevention measures.

Otsuka Chemical, which handles chemical substances, conducts various workplace safety initiatives. Major initiatives include a system for swift information sharing on issues related to factory operations among all domestic and overseas locations, as well as regular reporting of group safety at Board of Directors meetings. Another key initiative is Anzen Dojo, an experience-based safety training center which opened in 2012 as part of measures to prevent occupational accidents. The center runs training programs aimed at improving safety awareness for group employees, employees of overseas affiliates, and third parties. Through classroom instruction and simulations of past accidents, the center reinforces lessons from failures and safety knowledge, sharpens awareness of danger, and develops the ability to identify potential risks. In recognition of its activities to improve health and safety education and establish a safety culture through Anzen Dojo, Otsuka Chemical received an RC Outstanding Award from the Japan Chemical Industry Association at the 8th Annual Responsible Care Awards in 2014.



Anzen Dojo

External Recognition

Nadeshiko Brand
System for selecting companies that actively promote the employment and advancement of women. (Ministry of Economy, Trade and Industry; Tokyo Stock Exchange)
Selected in 2020: Otsuka Holdings*
* Scope of survey: Otsuka Holdings and Otsuka Pharmaceutical

Platinum Kurumin and Kurumin
Certification system based on the Act on Advancement of Measures to Support Raising Next-Generation Children. Platinum Kurumin is a certification for Kurumin-certified companies that have carried out higher-level initiatives. (Ministry of Health, Labour and Welfare)
Platinum Kurumin: Otsuka Pharmaceutical Factory, Taiho Pharmaceutical
Kurumin: Otsuka Pharmaceutical, and others

Eruboshi
Certification system based on the Act on Promotion of Women's Participation and Advancement in the Workplace. Companies are recognized for excellent efforts to empower women in the workplace. (Ministry of Health, Labour and Welfare)
Eruboshi (highest grade): Otsuka Chemical

Diversity Management Selection 100
System recognizing companies that have improved corporate value through diversity management. (Ministry of Economy, Trade and Industry)
2014 Award: Otsuka Pharmaceutical

External Recognition

健康経営優良法人 2020
Health and productivity
ホワイト500
Health & Productivity Management Outstanding Organization* (large enterprise category)
Otsuka Holdings, Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory

健康経営優良法人 2020
Health and productivity
Health & Productivity Management Outstanding Organization* (large enterprise category)
Taiho Pharmaceutical, Otsuka Techno

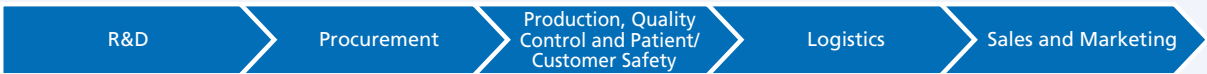
健康経営優良法人 2020
Health and productivity
Health & Productivity Management Outstanding Organization* (SME category)
Otsuka Electronics, JIMRO, Otsuka Wellness Vending

* The Health & Productivity Management Outstanding Organization Recognition Program examines organizations working to overcome health-related challenges in local communities or to promote health-conscious activities led by the Nippon Kenko Kaigi, and recognizes organizations for outstanding efforts in health and productivity management.

Quality in All We Do



To help build a sustainable society, the Otsuka group seeks to achieve sustainability by addressing environmental and social issues and by establishing a quality assurance structure that ensures safety and reliability at every stage of the value chain.



R&D

1. Ethical Considerations Concerning Appropriate R&D

The use of experimental animals to verify efficacy and safety in R&D is at times necessary. The Otsuka group complies with all related laws, ordinances, and guidelines while striving to uphold scientifically valid methodologies and ethical considerations from the viewpoints of animal protection and welfare, including the lives of the animals; preservation of the environment; and the safety of experimenters.

As an in-house management system, we have developed and implemented rules on experiments that involve animals, have established an Animal Experiment Committee, and properly carry out animal experiments and breeding. The Animal Experiment Committee evaluates whether each proposed animal experiment plan is appropriate based on the 3Rs principles. These are Replacement/avoidance or

replacement of animal use, Reduction/minimization in the number of animals used, and Refinement/minimization of animal suffering. Based on these, we conduct researcher education and internal inspections and evaluations of the implementation of experiments involving animals.

2. Ethics in Development

In the development of pharmaceuticals, we confirm the safety and effectiveness of candidate compounds by conducting clinical trials with the cooperation of healthy individuals and patients. Recognizing the importance of ethical considerations regarding human rights and personal information, the Otsuka group implements clinical trials in compliance with ethical principles and standards, including ICH-GCP, an international standard for the implementation of clinical trials for pharmaceutical products.

Procurement

Partners surveyed through the self-assessment questionnaire:
34 (Cumulative)

Basic Policy

The Otsuka group, together with its business partners, aims to contribute to the building of a sustainable society by promoting CSR procurement that takes into consideration factors such as legal and regulatory compliance, the environment, and the protection of human rights.

Approach

Across the entire value chain, the Otsuka group engages in business activities that are safe, reliable, socially acceptable, and in compliance with laws and regulations. When commencing transactions with a supplier, we perform screening and checks to ensure the quality of raw materials and to guarantee stable procurement. We also conclude a basic transaction agreement. In the case of a new supplier, transactions are determined only after we have carried out due diligence.

We aim for mutually sustainable development through fair, equitable and transparent procurement and the establishment of healthy relationships with business partners. To achieve this, we have formulated and share with all business partners the Otsuka Group Sourcing/Procurement Vision & Policy, which takes into account factors such as human rights, labor issues, the environment and anti-corruption measures.

We have also formulated the Sourcing/Procurement

Guidelines to provide more specific descriptions of the provisions of the above vision and policy. In order to ensure a stable supply of products, we perform advance risk assessments on key raw materials to identify potential risks so that we can take countermeasures. We also make sure to source raw materials from multiple companies, in principle. For products that use palm oil, for example, Otsuka Pharmaceutical confirms that its business partners are RSPO* members before purchasing raw materials.

* Roundtable on Sustainable Palm Oil

1. Collaboration with Business Partners

We conduct surveys of business partners using the CSR procurement self-assessment questionnaire* published by UN Global Compact Network Japan. In 2018, we asked 26 companies to complete the survey, and received responses from 25. In 2019, nine companies were selected, all of whom responded.

We assess our business partners not only with respect to legal and regulatory compliance but also with respect to their activities regarding human rights, labor, the environment, and anti-corruption measures. Results of the survey are provided to partners as feedback to further promote CSR procurement. Going forward, we will hold briefing sessions for our partners.

* Questionnaires are sent to business partners that meet predefined criteria.

2. Joint Business Partner Audit by Pharmaceutical Companies

In the Otsuka group, four pharmaceutical companies conduct joint business partner audits for shared suppliers of raw materials. We began these audits in 2016, applying proprietary methodologies and including an auditor skills training program.

For details on the Otsuka Group Sourcing/Procurement Vision & Policy, please visit our website:

<https://www.otsuka.com/en/csr/society/quality/procurement.html>



Production, Quality Control and Patient/Customer Safety

Basic Policy

The Otsuka group always puts its customers first. In seeking to make products that gain their trust, we promote collaboration and joint activities among group companies, taking into account the characteristics of each of our businesses, which include pharmaceuticals, foods and beverages, chemicals, and cosmetics.

Approach

The Otsuka group is strongly committed to quality. This commitment began with the words of Busaburo Otsuka, the founder of the Otsuka group: "Quality is vital in a factory and so is packaging. We have to manufacture and market, putting ourselves in the consumer's position." This commitment has been passed down by employees ever since. We believe that ensuring a stable supply of high-quality products contributes to a sustainable society. As such, we believe we should focus active efforts on ensuring quality through human resource development and by building appropriate systems.

The Otsuka group's production, quality, and safety control systems comply with legal and regulatory requirements, and with governmental and industry standards, including the Pharmaceutical and Medical Devices Act and the Food Sanitation Act. Group companies also work to acquire international certifications such as ISO 9001 for quality, and ISO 22000 and FSSC 22000 for food safety.

1. Production

Production departments at the Otsuka group employ a traceability system covering all stages of the value chain, from raw material procurement to production, distribution, and sales, thereby enabling thorough management throughout the entire value chain.

Moreover, for over 30 years, production departments have held a global production meeting aimed at group-wide improvements by sharing techniques and information. In 2019, the meeting was attended by approximately 100 employees involved in production at group companies in 13 countries/regions. In addition, failure case study meetings and environmental management information exchange meetings began in 2017 and 2018, respectively. At these meetings, participants share presentations and opinions on case studies of collaborative measures and technological development to address quality, safety, cost and environmental issues, the future outlook, and overseas development.

At the global production meeting, we also present awards to employees who have made significant contributions to production activities, lay the foundations for further improvements in productivity, and conduct personnel training.

2. Quality Control and Patient/Consumer Safety

The Otsuka group always puts its customers first. To this end, it has built and maintains safety control and operation systems that take into account the characteristics of each of its businesses, which include pharmaceuticals, foods and beverages, chemicals, and cosmetics. Proper assurance of quality is the foundation for the efficacy and safety that enable pharmaceutical products to be used in medical care.

In addition, while complying with the laws and regulations in each country, for example the Pharmaceutical and Medical Devices Act in Japan, we engage in quality control and post-marketing surveillance to ensure safety in accordance with GQP¹ and GVP² standards. We also make reports, as well as compile and revise various documentation, for submission to the relevant regulatory authorities. We have also established a system for constant global pharmacovigilance that collects and assesses product safety information, including on side effects. We continue to promptly provide the results of our monitoring to medical institutions and other relevant parties.

1. GQP: Good Quality Practice
2. GVP: Good Vigilance Practice

3. Global Product Quality Team Activities for the Pharmaceutical Business

Since 2016, Otsuka Pharmaceutical and its group companies have conducted activities to enhance compliance with GxPs* for a range of processes from development through to the finished product. Among initiatives to improve quality control systems, we hold meetings attended by management personnel, as well as group-wide meetings.

The Pharmaceutical Business established global product quality policies in 2017. Activities are carried out globally, and include ensuring the reliability of quality data and compiling procedural manuals.

* GxP: Umbrella term for GCP, GVP, GMP, GDP, etc.

4. Quality Control Activities for the Nutraceutical Business

In 2018, Otsuka Pharmaceutical established the Quality Division for the purpose of further facilitating quality improvement and safety control for products in the Nutraceutical Business. Furthermore, with the establishment of the Quality Assurance Office, we have implemented a system based on GMP for pharmaceuticals. The system enables centralized management of all processes from identifying and verifying risks arising from changes, to investigating causes and taking remedial action when risks manifest. As of May 2020, all our factories in Japan that manufacture nutraceuticals are certified for the FSSC 22000 food safety standard.

5. Collaboration between Pharmaceutical and Nutraceutical Departments

Product quality departments of the Pharmaceutical Business and Nutraceutical Business jointly hold an annual global product quality meeting. The 2019 meeting was attended by around 100 managers and quality supervisors for pharmaceuticals and nutraceuticals from 22 companies in nine countries.

The meeting is an opportunity for participants to review the preceding year's quality control performance and to work on improving quality control and developing personnel by sharing reports that illustrate the need for predictive risk management in production activities, based on the importance of learning from examples of issues as well as successes.

Logistics

Basic Policy

The Otsuka group handles products that relate directly to human life, including pharmaceuticals, foods and beverages. As such, we ensure the rigorous control and maintenance of product quality throughout distribution, and actively take measures to ensure stable supply in the event of a natural disaster or other emergency situation. The group also promotes environmentally friendly logistics operations through measures such as reducing CO₂ emissions.

Approach

The Otsuka group delivers products throughout Japan, mainly via group company Otsuka Warehouse. To ensure the control and maintenance of product quality, Otsuka Warehouse has set up the GDP* Promotion Office to facilitate appropriate logistics in accordance with the GDP guidelines for pharmaceuticals. We disseminate the principles of the GDP guidelines among personnel engaged in the manufacture and distribution of pharmaceuticals through training and drills on quality management systems, document control, administration of outsourced processes, facility and equipment maintenance, storage and transport operations, assessment of supplier and customer eligibility, among others. In addition, we conduct regular training to ensure compliance with internal standards and procedures.

We also strive to standardize data management system specifications in order to facilitate collaboration and cooperation between shippers and logistics operators.

* GDP: Good Distribution Practice

Specifically, we are improving logistics quality by introducing IT systems for truck dispatch and vehicle monitoring, which enable better tracking of transport and delivery status.

Other initiatives include computerizing warehouse operations to reduce incorrect shipments and mispicks, thereby helping quality improvement through higher efficiency.



Warehouse navigation system

The diverse assortment of shipping forms has been standardized and digitalized, with benefits that include lower mishandling rates when orders are changed.

Otsuka Warehouse is working to ensure stable supply by establishing distributed storage facilities across Japan to maintain adequate product stocks that reflect product characteristics. Furthermore, for pharmaceuticals, a framework for business continuity planning (BCP) has been established that ensures essential products can be delivered to where they are needed. In addition to securing stock, measures include developing an emergency response system for transporting products, for example registering vehicles for authorized access to restricted areas and exchanging MOUs with shippers, warehouse owners and other partners for cooperation in the transport of emergency relief supplies.

Sales and Marketing

Basic Policy

The Otsuka group believes that it has a responsibility to deliver higher-value products and services to customers. To do so, we will engage in suitable promotion and advertising activities that comply with laws and regulations, and communicate with customers in an appropriate manner.

Approach

The Otsuka group has expanded on the JPMA Promotion Code for Prescription Drugs—a code of behavior for healthcare professionals issued by the Japan Pharmaceutical Manufacturers Association (JPMA)—to formulate its own Code of Practice covering each group company in an effort to engage in appropriate collaboration based on relationships of trust with all stakeholders, including medical practitioners.

Given that society demands transparency in relationships between pharmaceutical companies and healthcare organizations, we are striving to ensure code adherence in order to fulfill our duty as a pharmaceutical company and ensure the practice of ethical, patient-oriented medical care.

1. Approach in the Nutraceutical and Consumer Products Businesses

The Nutraceutical Business contributes to solutions for social issues by providing creative products directed at maintaining and improving people's health while offering useful health information. Otsuka Pharmaceutical has established the Scientific Affairs Department to gather and disseminate information about products, related knowledge and the latest academic information in order to provide appropriate information to

consumers. To develop personnel who can help resolve social issues, we hold monthly training programs in three formats: group seminars, e-learning and satellite broadcasting.

In a similar fashion to the Pharmaceutical Business, we have established a dedicated unit comprising multiple departments to review marketing plans and sales promotion materials for nutraceutical and consumer products. This ensures that our marketing and sales promotion activities are appropriate and comply with laws and regulations.

2. Reducing Food Loss

The Otsuka group seeks to address food loss issues by producing foods and beverages with longer shelf lives and with expiration dates that are indicated by the month rather than day. Some products are unsuitable for the consumer market due to being short-dated, in poor condition external packaging or other reasons. From 2019, to further reduce food loss, we began selling these products to group employees. These initiatives helped us eliminate approximately 131 tons of food loss in 2019.

Promotion of Customer-centric Management

Basic Policy

In October 2018, the Otsuka group announced its Declaration of Customer-centric Commitment, as a way of putting the corporate philosophy into practice. Promotion of customer-centric management has been targeted in activities for material issues. In conducting business, we recognize that respecting consumer rights is an important human rights issue. Our Declaration of Customer-centric Commitment establishes basic policies stating our commitment to our social responsibilities as a corporation, which we fulfill by pursuing customer-centric management and making appropriate decisions that are based on dialogue with all stakeholders.

1. Inculcating a Customer-centric Mindset in Employees

Customer-facing employees from group companies in Japan meet twice yearly to share best practices for customer service and product improvements. This helps foster a customer-centric corporate culture.

2. Enhancing Information Exchange with Customers and Mechanisms for Reflecting Customer Feedback

Each group company establishes dedicated customer contact points for patients, healthcare professionals and general consumers, and provides appropriate training for the employees who work there. For example, the assignment of specially trained female operators enables us to better answer inquiries about products designed for women. This approach helps us deepen communication with customers, provide appropriate information and reflect customer requests and suggestions in product improvements.

One such product improvement was for OS-1* and OS-1 Jelly,* produced by Otsuka Pharmaceutical Factory. These products are foods for persons with medical conditions. We received feedback from elderly individuals, customers receiving

treatment, those in need of nursing care and others who said that they had difficulty opening the cap because of muscular strength issues. Based on this feedback, we redesigned the container to be easier to open. We have also created websites that provide product information in Japanese, English, Chinese and Spanish, and added QR codes to product labelling that link with these websites.

* OS-1 is approved as a food for persons with medical conditions and is intended to provide water and electrolytes in order to maintain the proper water and electrolyte balance in persons with mild-to-moderate dehydration (Approved by the Consumer Affairs Agency)

Example of Improved Product: OS-1 Jelly
Enlarged cap diameter by 5 millimeters.

Previous design

New design

For packaging produced by group companies in Japan, with the exception of certain products such as those with space limitations, we ensure the understandability of labelling. In addition to information required by law, the following information is presented: instructions for storage after opening, precautions for use, an easy-to-read list of allergens contained (mandatory and recommended items), and a clear indication of packaging materials. Based on customer feedback, we continue to make further improvements. For example, Otsuka Foods has redesigned allergen labelling by adding a list of allergens on the package in a separate location from the comprehensive list of instructions and precautions. For *Bon Curry for Children*, illustrations have been added to make the information easier to understand, so that consumers can purchase it with peace of mind.

Previous design

New design

For details on the Declaration of Customer-centric Commitment, please visit our website:
<https://www.otsuka.com/en/company/customer/>

Environment

Otsuka Group's Environmental Policy

The Otsuka group of companies strives to advance as an essential company that contributes to the health of people worldwide. We will help to realize a sustainable society by always taking account of the global environment in the value chain as we pursue our business activities based on our trademark qualities of autonomy, proactiveness and creativity.

Guidelines

1. Climate Change

Play a part in controlling global warming by reducing CO₂ emissions.

2. Resource Recycling and Conservation

Continue to improve resource efficiency and help create a zero-waste society.

3. Water Conservation

Promote sustainable use of water through conservation, recycling and clean return.

4. Environmental Compliance

Continue to improve our environmental management system, increase effectiveness of compliance, and reduce risks.

The Otsuka group has determined the materialities of its environmental initiatives to be climate change, resource recycling and conservation and water conservation. We have set goals for 2030, and are carrying out activities aimed at achieving them. As part of these initiatives, the Otsuka group's five major companies in Japan¹ are working to acquire integrated ISO 14001 certification, the international standard for environmental management systems, as part of efforts to promote activities that are more efficient and highly effective.²

Going forward, the group will work together toward the realization of a decarbonized society, and ultimately a sustainable society, raising awareness and understanding of environmental issues by conducting environmental training for employees and generating synergy through collaborations between group companies.

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

2. As of December 31, 2019, 20 Otsuka group companies in Japan and overseas are ISO 14001-certified. To accelerate efforts to achieve group goals, we are working to acquire integrated ISO 14001 certification for the group.

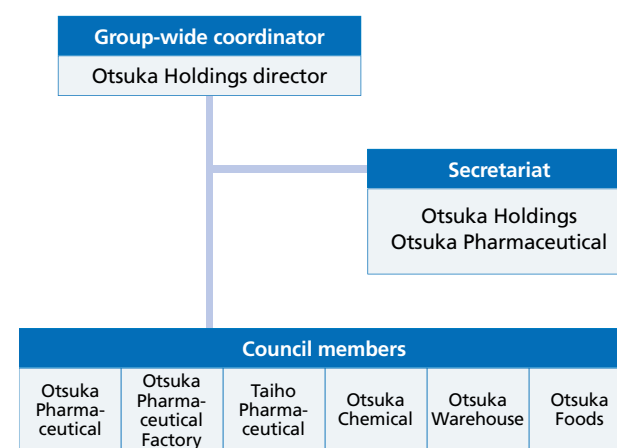


Otsuka Group Global Environmental Council

As a global group that contributes to the health of people worldwide, the Otsuka group works sincerely to reduce the impact its businesses have on the global environment, and seeks to contribute to the creation of a sustainable society that can protect nature and the future of the earth.

The Otsuka Group Global Environmental Council comprises the group-wide coordinator at Otsuka Holdings, executive officers at each group company who are responsible for and have jurisdiction over matters related to the environment, and a secretariat. Matters deliberated on by the council are approved by the Board of Directors of Otsuka Holdings, and shared as the environmental management policies of the Otsuka group. The council promotes initiatives that contribute to solutions to global social issues related to the earth's environment.

■ Otsuka Group Global Environmental Council Organization



Climate Change

FY 2030 Goal: 30% reduction in CO₂ emissions compared to FY 2017

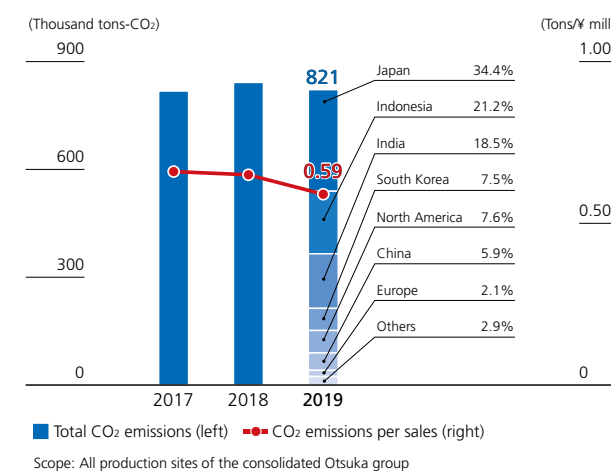
Climate change due to global warming is causing serious environmental issues on a worldwide scale, such as by severely impacting biological and water resources. We recognize it as a major risk to our global operations. The Otsuka group is committed to creating a decarbonized society, and thereby a sustainable society. We are aiming to reduce greenhouse gas (GHG) emissions across the entire value chain in order to help achieve the Paris Agreement goal of holding the global average temperature increase below 2°C above pre-industrial levels.

1. Initiatives for Efficient Energy Use and CO₂ Reduction

In Tokushima Prefecture, where a number of Otsuka group production sites are concentrated, we have installed cogeneration systems at Otsuka Chemical and Otsuka Pharmaceutical Factory. These systems generate electric power from natural gas, while converting waste heat into steam and hot water, which are then supplied to nearby group companies. Furthermore, the cogeneration system introduced in February 2020 at Otsuka Pharmaceutical Factory's Toyama Factory supports our business continuity plan, reduces annual CO₂ emissions by approximately 1,800 tons, and contributes to energy efficiency and stable drug supply.

We are working to reduce CO₂ emissions by switching to renewable energy. In July 2019, we started introducing CO₂-free electricity, which is derived from renewable energy sources and does not emit CO₂, at Otsuka group factories and research centers in Tokushima Prefecture and at Otsuka Pharmaceutical's Fukuroi Factory. In November 2019, we expanded its introduction to Otsuka Foods' Shiga Factory, and overseas to Nutrition & Santé's Spain Factory.

■ Total CO₂ Emissions



2. Validation of Otsuka Pharmaceutical and Taiho Pharmaceutical Goals under the SBT Initiative¹

GHG reduction goals set by Otsuka Pharmaceutical and

Taiho Pharmaceutical have been validated under the Science Based Targets (SBT) Initiative.

In order to achieve these new goals, we will optimize energy use and introduce renewable energy, and continue to promote reduction of GHG emissions throughout the value chain.

2030 Goals

- Reduction of greenhouse gas emissions (Scope 1² and 2³) by 30% compared to 2017
- Reduction of greenhouse gas emissions (Scope 3⁴) by 20% compared to 2017

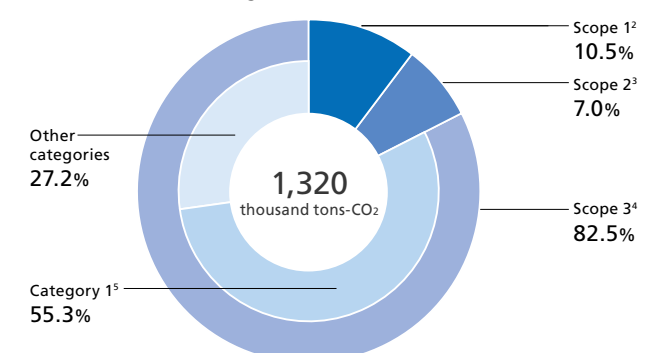
1. An international initiative led by the United Nations Global Compact (UNGC), World Resources Institute (WRI), and World Wide Fund for Nature (WWF). Validates companies' CO₂ emission reduction targets that align with scientifically-based reduction scenarios, in order to achieve the Paris Agreement goal of holding the global average temperature increase below 2°C above pre-industrial levels.
2. Scope 1: Direct emissions
3. Scope 2: Indirect emissions from energy sources
4. Scope 3: Other indirect emissions



3. Third-Party Verification of GHG Emissions

In order to improve the transparency and reliability of its environmental data, the Otsuka group has its GHG emissions Scopes 1 and 2 (CO₂ emissions from energy sources, including energy consumption), and Scope 3 (Category 1) verified by third-party organizations. This helps us identify emissions trends and implement improvements. We will continue to expand the scope of verification and further enhance the reliability of our data.

■ GHG Emissions throughout the Value Chain



5. Purchased goods and services
Scope: Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, and Otsuka Foods

Resource Recycling and Conservation

**FY 2030 Goals: 50% reduction in simple incineration and landfill compared to FY 2019
50% or higher content of recycled and plant-based materials in our PET bottles**

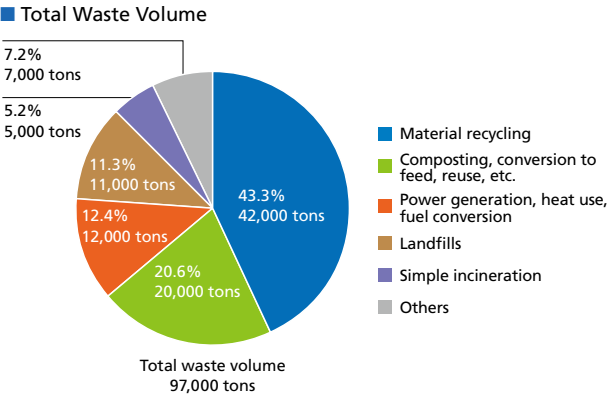
In order to realize both a sustainable society and ongoing corporate growth, a global shift to sustainable business models that grow without impacting the environment is necessary. To continue providing products that contribute to the health of people worldwide, the Otsuka group will raise resource efficiency throughout the value chain and build a sustainable system for recycling and conservation of resources, including biological resources.

1. Initiatives to Achieve Zero Waste¹

In fiscal 2019, the Otsuka group's total global waste volume was 97,000 tons. The effective use amount including material recycling,² composting, and heat recovery³ was 74,000 tons, or about 76% of the total.

Furthermore, the simple incineration volume was 5,000 tons (mainly in Japan) and the landfill volume was 11,000 tons (mainly overseas). Going forward, we will promote activities to reduce waste and disposal volumes together with group companies in Japan and overseas.

1. Approach seeking to reduce waste generation and wasted resources to zero
2. Reuse of recycled materials as raw materials
3. Generation and use of heat energy from incineration (in accordance with EU or Japanese standards); includes use as fuel and solid fuel conversion



Scope: All production sites of the consolidated Otsuka group

2. Initiatives Targeting the Issue of Plastic Waste

As an initiative aimed at solving the issue of plastic waste, we have formulated the Otsuka Group Plastic Policy to contribute to the sustainable recycling of resources. As a group that provides products that contribute to people's health, the Otsuka group will continue measures to assure the safety and quality of containers and packaging.

Otsuka Group Plastic Policy

■ Fundamental Concept

PET bottles comprise the majority of plastic containers and packaging used for consumer products by our group companies. For this reason, we believe that by promoting PET bottle recycling, we can reduce our reliance on fossil fuel and thereby contribute to environmental conservation. Our plan is to use PET bottles manufactured from recycled and plant-based materials and increase the percentage of such sustainable resource use in our production processes globally to 50 percent by 2030 and 100 percent by 2050. Moreover, to advance PET material recycling, it is essential to recycle PET bottles for use as raw material. Together with our various stakeholders, we will advance our global efforts on proper collection and recycling of used PET bottles.

■ Our Vision for 2050

For our entire line of consumer products, we will endeavor to use packaging that supports a sustainable society:

- No use of plastics made from petroleum-based materials
- Promote use of recycled, plant-based, and biodegradable materials
- Promote use of reusable packaging

■ Our Goal for 2030

- Achieve a 50 percent or higher content of recycled and plant-based materials in our PET bottles.
- Introduce alternative packaging (e.g., paper) and increase use of cans for our drink products.
- Step up promotion of drink bottle recycling by introducing reusable packaging through a zero-waste sales and circular distribution model, which also includes the use of sports bottles for our powder products.

We will promote the use of alternative packaging and concurrently pursue using more recyclable materials for drink containers.

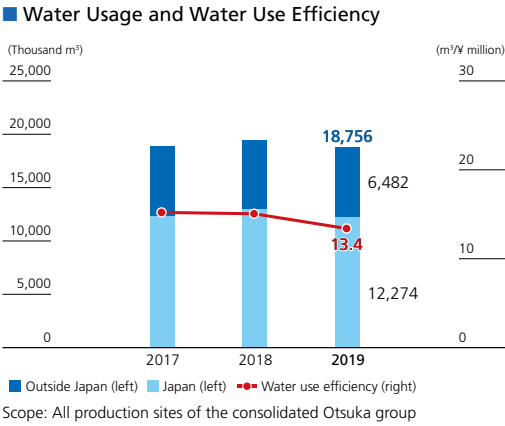
Water Conservation

FY 2030 Goal: Improvement of water use efficiency by 15% compared to FY 2017

Since its establishment, the Otsuka group's operations have had a deep connection to water, a resource essential to life. Through products that use water as a raw material, we have actively contributed not only to the treatment and prevention of diseases, but also the maintenance and promotion of health. We therefore recognize water as an important resource, and consider its conservation to be a critical global issue. Moreover, water resources are unevenly distributed across different countries and regions, each of which faces different risks. The Otsuka group therefore cooperates with all stakeholders, and conducts ongoing water conservation initiatives from intake to discharge (including cultivation of water resources, conscientious use and clean return), in the aim of sustainable water use.

Evaluating Water Risk at Production Sites

Considering environmental risk in each region is also important to sustainable growth in the diverse business models of the Otsuka group operating around the world. Since 2017, the Otsuka group has conducted water risk assessments at all production sites using the water risk assessment tool "Aqueduct," developed by the World Resources Institute (WRI), so as to understand and minimize the impact of such risk on water-related business activities. Going forward, we will conduct more specific assessments and promote activities tailored to each region that target the effective management and use of water, with the aim of conservation and sustainable use of water resources.



Scope: All production sites of the consolidated Otsuka group

Environmentally Friendly Products of the Otsuka Group

Going beyond making our products themselves low impact, in development, we consider environmental impact throughout the value chain, from raw material procurement to disposal, as well as the needs of the times resulting from changes in society. In this way, we contribute to solutions to global environmental issues and increasingly diverse social issues.

A unique formulation allows POCARI SWEAT ICE SLURRY to be stored at room temperature

We developed POCARI SWEAT ICE SLURRY with a focus on core body temperature regulation to support active people in hot environments. The unique formulation of this drinkable ice product allows it to be stored at room temperature and conveniently frozen before use. Even if it melts, the liquid can be returned to a slurry state by refreezing. This also enables energy savings when transporting or storing the product.



Bon Curry can be warmed in the microwave while still in the box

Launched in 1968, Bon Curry was the world's first commercial retort pouch food product and can be heated in the microwave while still in the box. It saves consumers the time and trouble of boiling water or putting the curry on a plate to warm it. This product is environmentally friendly because it does not require open flame or water for preparation.*

* Does not apply to Okinawa limited Bon Curry products



The world's first quad-chamber infusion bag

Otsuka Pharmaceutical Factory develops products under its management vision of being "The Best Partner in Clinical Nutrition." It is focusing above all on the development of kit products that are easy for healthcare workers to use, and which also reduce medical errors and the risk of infection. Otsuka Pharmaceutical Factory was behind the development of the first-ever quad-chamber bag, which is used for ELNEOPA, a high-calorie infusion vitamin mixture containing glucose, electrolytes, amino acid, multivitamin, and trace elements. Its groundbreaking design makes it possible to aseptically prepare the mixture with a single push. It also saves resources, enables efficient transportation and reduces disposal waste.





Governance



Corporate Governance

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.

Board of Directors meeting attendance:

100%

Outside directors:

30.8%

Female directors:

23.1%

The Company discloses its basic approach to corporate governance in its Corporate Governance Guidelines, available on the corporate website.

Corporate Governance Guidelines

<https://www.otsuka.com/en/company/governance/pdf/guideline.pdf>



Corporate Governance Report

<https://www.otsuka.com/jp/company/governance/pdf/report.pdf> (available only in Japanese)



Overview of Corporate Governance Structure

The Board of Directors, which also includes outside directors, advances the execution of management plans, supervises the Company's management, and also assumes roles and responsibilities to enhance the profitability and capital investment efficiency in order to promote the sustainable growth of the Company and the increase of corporate value over the medium to long term. The Company secures its soundness and establishes the solid corporate governance structure living up to social expectations by ensuring that the Audit & Supervisory Board and its members, which are independent from the Board of Directors, can audit the Directors' performance of their duties in collaboration with the Accounting Auditor, as well as the Internal Audit Department.

1. Corporate Organization

As a company with an audit and supervisory board as defined by the Companies Act, the Company has established a Board of Directors and an Audit & Supervisory Board, and also engages an accounting auditor. The Articles of Incorporation stipulate that the number of directors shall not exceed 18, and that the number of Audit & Supervisory Board members shall not exceed five.

Initiatives to Strengthen Corporate Governance

2008	- Establishment of Otsuka Holdings - Term of directors set at one year - Decision not to adopt a directors' retirement benefits system - Corporate officer system adopted - Two outside Audit & Supervisory Board members
2010	- Three outside Audit & Supervisory Board members - Stock options as performance-linked remuneration introduced - Stock publicly listed in December
2011	First Medium-Term Management Plan announced
2013	Two outside directors; three outside Audit & Supervisory Board members
2014	- Second Medium-Term Management Plan announced - Three outside directors; two outside Audit & Supervisory Board members - Otsuka Group Global Code of Business Ethics 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	- Three outside directors; three outside Audit & Supervisory Board members - Effectiveness of Board of Directors evaluated - System for granting stock options conditional on progress with the medium-term management plan introduced
2017	- Corporate Governance Guidelines revised - Corporate Governance Committee established - 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	- Two female directors - Corporate Governance Guidelines revised
2019	- Third Medium-Term Management Plan announced - Restricted stock-based compensation plan introduced - Otsuka Group Global Conflict of Interest Policy established
2020	Four outside directors; three female directors

Governance Structure (As of March 27, 2020)

Form of organization	Company with an Audit & Supervisory Board
Directors [Outside directors]	13 [4 (independent directors)]
Term of directors	1 year
Audit & Supervisory Board members [Outside Audit & Supervisory Board members]	4 [3 (independent auditors)]
Accounting auditor	Deloitte Touche Tohmatsu LLC

2. Board of Directors Meetings

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.

3. Director Selection Criteria

The Company aims to become "an indispensable contributor to people's health worldwide" by targeting sustainable growth and enhanced corporate value over the medium to long term. Toward this aim, 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 in particular, 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.

4. Corporate Governance Committee

In February 2017, the Company established the Corporate Governance Committee with the aim of increasing transparency and objectivity in management. As an advisory body to the Board of Directors, the committee discusses matters relating to corporate governance, including the nomination of directors and Audit & Supervisory Board members, and the remuneration system and standards for directors, and reports the results of its deliberations to the Board of Directors. The committee consists of the president, the director in charge of administration, and all four outside directors. The president serves as the chair of the committee.

Content of Deliberations

(1) Nomination

The Corporate Governance Committee discusses the validity and fairness of matters related to the appointment and dismissal of directors and Audit & Supervisory Board members, and reports to the Board of Directors. Regarding

candidates for Audit & Supervisory Board members, the committee obtains approval from the Audit & Supervisory Board prior to reporting to the Board of Directors.

Candidates are those put forward by the representative director(s).

(2) Remuneration

The Corporate Governance Committee discusses matters related to the remuneration system and standards for directors and Audit & Supervisory Board members, and reports to the Board of Directors.

(3) Corporate Governance Structure

In addition, the Committee deliberates on matters related to the enhancement of the corporate governance structure, and reports to the Board of Directors as necessary.

5. Audit & Supervisory Board and Its Members

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. In striving to improve the effectiveness of audits, Audit & Supervisory Board members also share information and exchange opinions as appropriate with relevant departments, including the Internal Audit Department, Internal Control Department, Administration Department, and Finance and Accounting Department, as well as the accounting auditor.

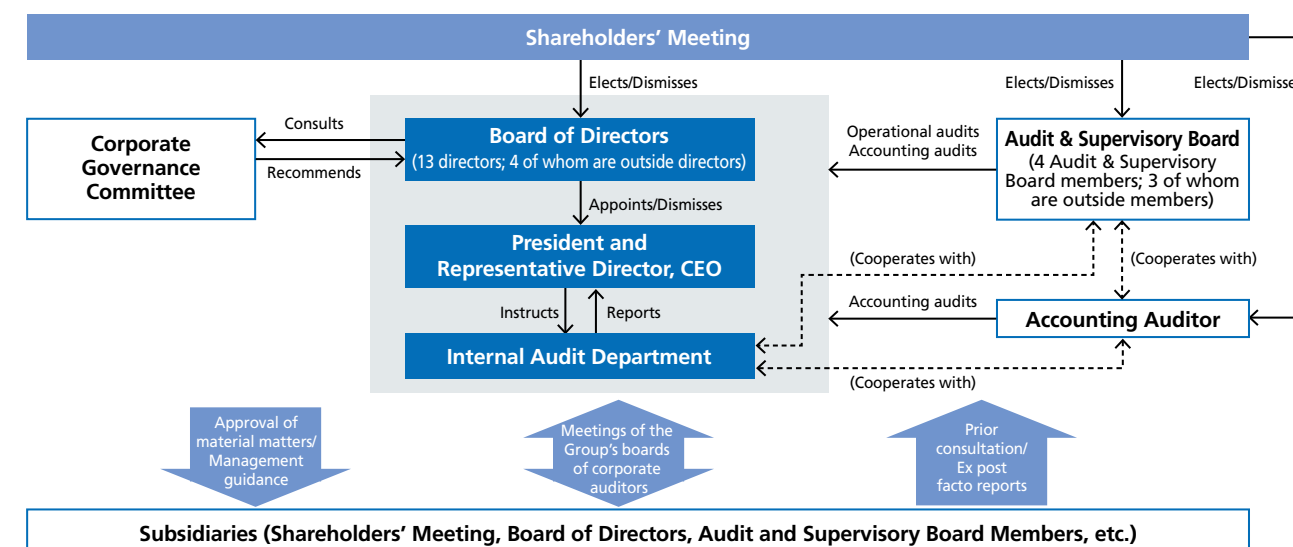
6. Evaluation of Effectiveness of Board of Directors

From January through February every year, the Company conducts a questionnaire survey of all directors and Audit & Supervisory Board members. Results of the survey are reviewed by a company attorney, and then reviewed and evaluated at the Board of Directors meeting in March.

Questionnaire items are 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)Overall functioning of the Board of Directors from the perspective of effectiveness

Summary of Evaluation in Fiscal 2019

The results of the analysis and evaluation of the overall effectiveness of the Board of Directors in fiscal 2019 are summarized below.

There was an increase in opinions stating improvement from the previous year regarding the 12 items in the questionnaire. The opinions noted particular improvement in (3) Cooperation with outside directors, (4) Cooperation with the Audit & Supervisory Board, (6) i. Function of the Board of Directors in determining the direction of management strategy and (6) ii. Monitoring of each business with respect to the execution of management strategy.

With regard to (5) Operation of Board of Directors meetings, there was agreement that deliberations have improved. However, issues were identified, such as criteria for whether items should be deliberated by subsidiaries or be deliberated and subject to resolution of the Board of Directors, appropriate allocation of deliberation time, and early provision of reference materials. This confirms the need to further review matters relating to this item.

On the basis of this evaluation, we believe that the Company's Board of Directors is functioning appropriately from the perspective of effectiveness. Nonetheless, we will strive to make further improvements on issues that have been identified through evaluation and review. In addition, we will work to strengthen corporate governance by discussing best practices in our role as a holding company, and in cooperating with and monitoring subsidiaries.

7. Independence Criteria for Independent Officers

When selecting outside directors and outside Audit & Supervisory Board members, 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. The Independence Standards for Outside Directors are defined in our Corporate Governance Guidelines, and form the basis for judgements on the independence of outside directors. In addition, we require that they have not previously been engaged in the execution of operations at any of our group

companies. Furthermore, given that all outside directors and outside Audit & Supervisory Board members satisfy requirements of independent directors/auditors prescribed by the Tokyo Stock Exchange (TSE), the Company has registered them as such with the TSE.

8. 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. The department also shares information and cooperates in audits by Audit & Supervisory Board members and the accounting auditor.

9. Internal Control Department

The Company's 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.

Our basic approach to the internal control system and its current status are described in the Corporate Governance Report that we submit to the TSE (available only in Japanese).

10. Accounting Audit

The Company has signed an auditing agreement with Deloitte Touche Tohmatsu LLC as the accounting auditor to audit its accounts from a fair and impartial standpoint. The certified public accountants that audited the Company's accounts were Yukitaka Maruchi, Koichi Niki, and Hirofumi Otani. They were assisted by eight other certified public accountants and six other individuals. All of the certified public accountants that audited the Company's accounts have done so for less than seven consecutive years, therefore that description is omitted.

11. Succession Plan

The Company continues to develop and implement executive human resource development programs to identify talented personnel early and systematically nurture next-generation management candidates equipped with the qualities and skills called on by the corporate philosophy. The status of these programs is regularly reported to the Board of Directors.

Skill Matrix for Directors and Audit & Supervisory Board Members

In order to establish an effective corporate governance structure that supports sustainable growth, the Company appoints individuals with wide-ranging business experience, advanced expertise in broad fields, and extensive knowledge, as directors and Audit & Supervisory Board members. The table below summarizes areas of experience and expertise of directors and Audit & Supervisory Board members.

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

Rationale for Selection of Outside Directors and Outside Audit & Supervisory Board Members

Rationale for selection ¹			Attendance rate	
			Board of Directors meeting	Audit & Supervisory Board meeting
Outside directors	Yukio Matsutani	Mr. Matsutani has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience and extensive knowledge in the healthcare and welfare fields and high level of expertise in overall healthcare.	100% (16/16 times)	—
	Ko Sekiguchi	Mr. Sekiguchi has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience and extensive knowledge as a corporate manager and high level of expertise in Pharmaceutical Business.	100% (16/16 times)	—
	Yoshihisa Aoki	Mr. Aoki has provided appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint based on his abundant experience, track record, and extensive knowledge as a corporate manager and abundant experience, expertise and network in the food industry.	100% (13/13 times)	—
	Mayo Mita	Ms. Mita, as a securities analyst, has abundant experience in corporate analysis and based on that, a high level of insight in objectively observing and analyzing companies. She is expected to provide appropriate suggestions and advice to the Company's management from an independent standpoint as an outside director, and from an objective and expert viewpoint.	— ²	—
Outside Audit & Supervisory Board members	Hiroshi Sugawara	Mr. Sugawara has specialized knowledge as a certified public accountant, as well as abundant business experience, and the Company has determined that he will be able to use such experience and expertise in audits of the Company.	100% (16/16 times)	100% (17/17 times)
	Yoko Wachi	As an attorney, Ms. Wachi is well-versed in corporate legal affairs, and the Company has determined that she will be able to use such experience and expertise in audits of the Company.	100% (16/16 times)	100% (17/17 times)
	Kazuo Takahashi	Mr. Takahashi has held major positions in IT and internal control departments for many years and has abundant experience in corporate management, and the Company has determined that he will be able to use such experience and expertise in audits of the Company.	100% (16/16 times)	100% (17/17 times)

1. For all outside directors and outside Audit & Supervisory Board members, given no risk of conflict of interest with general shareholders, the Company believes each outside officer qualifies as an independent director/auditor.

2. Attendance for Board of Directors meetings and Audit & Supervisory Board meetings by Mayo Mita is not listed because she was newly appointed as an outside director at the 12th General Meeting of Shareholders held on March 27, 2020.

Remuneration for Directors and Audit & Supervisory Board Members

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

1. 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.

2. 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. In addition to cash remuneration, the Company also provides share-based payments more closely linked to shareholder value. Outside directors and Audit & Supervisory Board Members are paid fixed remuneration; they are not paid any remuneration that varies according to performance.

3. Governance of Remuneration-related Decisions (Activities of the Remuneration Committee and the Board of Directors)

Decisions related to remuneration for directors and Audit & Supervisory Board members are made by the Board of Directors based on a report from the Corporate Governance Committee, an advisory body to the Board of Directors. The committee deliberates on matters including the remuneration system and levels of remuneration. When deciding on remuneration, efforts are made to enhance objectivity through such means as utilizing external data.

In determining remuneration for directors and Audit & Supervisory Board members in the current term, the Board of Directors and the Corporate Governance Committee deliberate a number of times. The Board of Directors makes final decisions after receiving the Corporate Governance Committee's report that those decisions are appropriate.

In addition, following extensive study by the Board of Directors and the Corporate Governance Committee, the decision was made to design and implement a restricted stock-based compensation system starting fiscal 2019.

4. Composition of Remuneration
a) Remuneration for directors of Otsuka Holdings (holding company of the Otsuka group)

Remuneration for directors (excluding outside directors) of the Company consists of fixed remuneration according to title or position, bonuses linked to results of operations (short-term incentive), as well as stock-based compensation (medium-to-long-term incentive). Remuneration for outside directors and Audit & Supervisory Board members consists only of fixed remuneration.

b) Composition of remuneration for directors (excluding outside directors)

Performance-linked remuneration as a percentage of total remuneration varies according to the Company's single-year and medium-to-long-term consolidated results of operations. The system emphasizes medium-to-long-term enhancement of corporate value. Performance-linked bonuses are designed to be variable over the range of 0–100% of fixed remuneration, and stock-based compensation over the range of 0–100% of fixed remuneration. Maximum performance-linked remuneration as a percentage of total remuneration is 66% (200% of 300% total).

c) Remuneration for directors of subsidiaries (operating companies of the Otsuka group)

Remuneration for directors of subsidiaries that are operating companies is determined based on their duties and responsibilities (including execution of business of operating companies based on group strategies formulated by the Company, formulation of strategies for operating companies, and strengthening corporate governance) and is not to exceed the cap on director remuneration resolved at the General Meeting of Shareholders.

It should be noted that the restricted stock-based compensation system newly implemented in fiscal 2019 will also apply to about 40 directors (excluding outside directors) of some of the group's major subsidiaries.

Content of Remuneration to Directors

Fixed remuneration	- Fixed remuneration for directors of the holding company is determined based on their duties and responsibilities including formulation of group strategies, monitoring group operations, and strengthening corporate governance. - Remuneration for Directors who serve concurrently as Directors of subsidiaries that are operating companies is determined based on their duties and responsibilities including execution of business based on group strategies formulated by Otsuka Holdings, formulation of strategies for the operating company, and strengthening corporate governance. (Remuneration shall not to exceed the upper limit of remuneration resolved at the shareholders meeting.)
Performance-linked bonus	- Remuneration is determined based on (1) rate of achievement of the fiscal year's targets for consolidated revenue, consolidated operating profit, and consolidated business profit before R&D expenses; (2) progress with respect to medium-to-long-term consolidated performance targets; and (3) appropriate business management in compliance with corporate governance, along with the individual's personal performance. - The Corporate Governance Committee deliberates upon the above items and reports the results of its deliberations to the directors. Decisions are then made by the Board of Directors.
Share-based payment	At a meeting of the Board of Directors held on February 13, 2019, the Company resolved to introduce a restricted stock remuneration plan as an incentive plan to sustainably improve the medium-to-long-term performance and corporate value of the Company. - The plan is designed to provide an effective remuneration system by combining multiple release conditions for the transfer restrictions, including a set performance evaluation period and performance achievement, and by in principle granting shares with transfer restrictions requiring evaluation of performance over several fiscal years simultaneously in the first fiscal year. - The shares with transfer restrictions issued under this plan are intended to comprise a remuneration system that reflects progress in achieving the medium-term management plan. To this end, the remuneration plan combines multiple performance achievement requirements based on performance indicators in the Third Medium-Term Management Plan announced on May 30, 2019.

Total Remuneration by Officer Category and by Type, and Number of Applicable Officers

	Total remuneration, etc. (¥ million)	Total remuneration, etc. by type (¥ million)			Eligible officers
		Fixed remuneration	Stock compensation	Bonus	
Directors (excluding outside directors)	544	296	104	144	9
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	24	24	—	—	1
Outside directors and Audit & Supervisory Board members	54	54	—	—	7

Regarding Directors' Conflict of Interest

All operational judgements and decisions are not to be made in relation to the interests of individuals, but in the best interests of the Otsuka group. The Otsuka group has established the Otsuka Group Global Conflict of Interest Policy to prevent such conflicts of interest. It also applies to directors.

➡ [Page 64, Compliance](#)

Directors and Audit & Supervisory Board Members

(As of March 27, 2020)

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. (current) Chairman and Representative Director, Otsuka Holdings Co., Ltd. (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
Senior Managing 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. (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)

Shuichi Takagi
Executive Director, Business Portfolio Management



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

Sadanobu Tobe
Executive Director



Profile	
Apr. 1976	Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (now Otsuka Foods Co., Ltd.)
Jul. 1993	Executive Deputy President and Representative Director, Otsuka Foods Co., Ltd.
Nov. 2004	Executive Deputy President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (now Otsuka Chemical Co., Ltd.)
May 2006	President and Representative Director, Otsuka Chemical Holdings Co., Ltd.
Jul. 2008	Executive Director, Otsuka Holdings Co., Ltd.
Jun. 2009	Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.
Jun. 2011	Chairman and Representative Director, Otsuka Chemical Co., Ltd.
Jun. 2012	Vice Chairman, Otsuka Foods Co., Ltd.
Jun. 2013	Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.
Nov. 2013	President and Representative Director, Otsuka Foods Co., Ltd.
Jun. 2014	Executive Director, Otsuka Holdings Co., Ltd. (current)
Mar. 2018	Chairman, Otsuka Foods Co., Ltd.
Mar. 2019	Executive Director, Otsuka Foods Co., Ltd. (current)

Masayuki Kobayashi
Executive Director



Profile	
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, Daiya 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)

Outside Directors

Yukio Matsutani
Outside Director



Profile	
Apr. 1975	Intern, Pediatric Department, St. Luke's International Hospital
Oct. 1981	Vice President, 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 (current)
Mar. 2016	Outside Director, Otsuka Holdings Co., Ltd. (current)
Jun. 2019	President, Japan Public Health Association (current)

Ko Sekiguchi
Outside Director



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

Outside Directors

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)

Audit & Supervisory Board Members

Yozo Toba
Standing Audit & Supervisory Board Member



Profile	
Apr. 1979	Joined Otsuka Chemical Holdings Co., Ltd. (now Otsuka Chemical Co., Ltd.)
Jan. 1995	Director, Information Center, Otsuka Chemical Holdings Co., Ltd.
Jan. 2006	CFO, Trocenen 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)
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)

Yoko Wachi
Outside Audit & Supervisory Board Member



Profile	
Apr. 1989	Registered as an attorney at law (Dai-ichi Tokyo Bar Association) Joined Kajitani Law Offices (current)
Jun. 2015	Corporate Auditor, Nichias Corporation
Mar. 2016	Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)
Jun. 2019	Outside Director, Nichias Corporation (current)

Kazuo Takahashi
Outside Audit & Supervisory Board Member



Profile	
Apr. 1975	Joined Ebara-Udylite Co., Ltd. (now JCU Corporation)
Mar. 1986	Executive Director, Strategic Planning, RA Institute Co., Ltd.
Nov. 1992	Executive Director, General Manager of the System Division, Sunkus & Associates, Inc.
Oct. 2004	Executive Director, Head of the Information System Division, Circle K Sunkus Co., Ltd.
May 2006	Executive Director, Chief of the Management Strategy Office, the Customer & Franchisee Relations Office, and the Internal Control & Environmental Management Office, Circle K Sunkus Co., Ltd.
May 2008	Executive Director, Head of Area Franchise, Circle K Sunkus Co., Ltd.
May 2010	Executive Director, Head of Information Systems Division, Circle K Sunkus Co., Ltd.
Mar. 2018	Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (current)

Messages from Outside Directors

Enhancement and Expansion of Businesses Critical to Life through Stronger Governance



Each year, members of the Board of Directors are asked to evaluate the Board's effectiveness and give a detailed account of the roles of the Board and each of its members. It is a robust assessment. As a medical doctor, I am expected to contribute opinions based on my broad expertise from many years of involvement in clinical medicine, public health, and healthcare administration, and I have strived to live up to those expectations.

Healthcare is an essential aspect of social infrastructure and everybody needs healthcare. Given that healthcare is critical to life, the level of quality must be paramount, while other requirements and demands are also significant. Healthcare costs rise year after year. It is therefore essential to make the most effective use of finite resources. In Otsuka's Pharmaceutical Business, this entails the efficient creation of drugs, medical devices, and diagnostic agents that in turn supports their efficient provision to patients. In the Nutraceutical Business, it means creating products that help people to maintain or improve their well-being. Going forward, Otsuka Holdings must continue to offer value to society in both of these areas.

Yukio Matsutani
Outside Director

High Expectations for Otsuka's Contributions to a 100-Year Lifespan through Preventive Medicine



The chairman has ensured that Board meetings are a forum where members can discuss matters freely, which fosters meaningful discussions. Furthermore, I believe that the appointment of a new president at Otsuka Pharmaceutical has strengthened the governance framework.

In China, it has been a long-held belief that herbal medicines and a proper diet share similar principles, and today it is widely accepted everywhere that a balanced diet is the basis of good health. The Otsuka group's strong footing in food and nutrition may be attributable to its belief in this philosophy. Otsuka is doing good work with respect to safety and security, and consumers appreciate that. We are approaching an age when it will be common for people to live to 100, and preventive medicine will play a vital role in that. Not many companies are able to offer solutions in both treatment and prevention solutions. Indeed, many businesses give up if they are unable to make a quick profit, but the Otsuka group is ready for the long haul; even if a product does not sell well initially, Otsuka has the patience and determination to go the distance. I hope that Otsuka will continue in this vein, because it will benefit society.

Yoshihisa Aoki
Outside Director

Meeting the Expectations of Stakeholders Worldwide Based on Sincerity



The provision of information prior to Board meetings has been enhanced, including its timing. Important information is shared at individual briefings, and explanations are provided regarding the status of group companies and other operational data.

I feel that one of the strengths of Otsuka's corporate culture is its embodiment of integrity and humility. This goes a long way to earning the trust of customers and business partners. Otsuka is committed to providing consumers and patients with the solid value that generates revenues and profits.

Results in the Pharmaceutical Business have been excellent, but from a medium-to-long-term perspective, a look at the drug pipeline indicates there is no room for complacency. It is also vital that Otsuka becomes a truly global company, and evolves to the next stage rather than simply operating as a collection of companies. Only by adopting this approach can Otsuka develop a clear roadmap for the future.

Ko Sekiguchi
Outside Director

Sharing Otsuka's Unique Corporate Story Will Build Broad Stakeholder Loyalty



My first impression of the Otsuka group was its uniqueness. Operating for many years in pharmaceuticals and healthcare, as well as food and nutrition, I expect it to sustain its operations long into the future. Indeed, with its centenary approaching in 2021, I look forward to seeing how Otsuka advances into its second century.

I see my role as a bridge between company management, and analysts, shareholders, and investors. As an outside director, I hope to support Otsuka's development by pointing out opportunities to management and diligently raising concerns as necessary.

When an enterprise comprises such a broad range of businesses as Otsuka, I believe it is important to identify the common threads that unite them all. The key is how to effectively convey that story not only to shareholders and the investment market, but also to customers, consumers, and employees. If Otsuka is able to convey the story of its passion, it is sure to acquire many more long-term fans.

Mayo Mita
Outside Director

Compliance

Legal compliance is the cornerstone of all our business activities. The Otsuka group maintains high ethical standards and conducts its business activities with integrity in order to secure the trust of all stakeholders and achieve sustainable growth.

Universal compliance training participation rate:

98.4%

Approach

We have established the Otsuka Group Global Code of Business Ethics and we openly convey information about our stance on related initiatives on our website in the form of a message from the president of Otsuka Holdings. Furthermore, we have formulated the Otsuka Group Global Anti-Corruption Policy, which expresses our stance against corruption at all sites worldwide; the Otsuka Group Global Conflict of Interest Policy, aimed at maintaining objectivity in business; and the Otsuka Group Global Privacy Policy, which defines our stance and guiding principles on privacy protection. These policies form the basis for conducting our business with high ethical standards.

1. Otsuka Group Global Anti-Corruption Policy

The Otsuka Group Global Anti-Corruption Policy embodies and reiterates our steadfast commitment to conducting business with integrity and in compliance with all relevant anti-corruption laws. This Policy outlines how to prevent, detect and deter violations of anti-corruption laws. It sets forth our global minimum standards regarding the prevention of corruption and applies to all our worldwide business operations.

2. Otsuka Group Global Conflict of Interest Policy

The Otsuka group recognizes conflicts of interest between the group and individual employees as a matter that could impact the integrity of the organization, and one that has a great bearing on the group’s future. Based on this thinking, we formulated the Otsuka Group Global Conflict of Interest Policy to prevent such conflicts and we are working to instill the policy at a global level.

3. Otsuka Group Global Privacy Policy

In recent years, many countries have enacted privacy protection legislation, such as the European Union’s General Data Protection Regulation (GDPR) implemented in May 2018. The Otsuka group is working to strengthen privacy protection. In addition to formulating the Otsuka Group Global Privacy Policy to define our stance and guiding principles on privacy protection, we establish related rules and review management systems in accordance with the laws and regulations related to privacy protection in each country.

4. Training System

The Otsuka group conducts universal compliance training at least once annually based on the content of the Global Code of Business Ethics, the Global Anti-Corruption Policy, and the Global Conflict of Interest Policy. Employees at subsidiaries attend training, and materials are available in Japanese, English, Chinese, and Indonesian. Furthermore, the implementation status of training is regularly reported to the Board of Directors of Otsuka Holdings.

5. Monitoring

As a holding company whose role is to maximize the Otsuka group’s corporate value, Otsuka Holdings has established a system to ensure 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, affiliated companies report to Otsuka Holdings as necessary regarding items specified in the Affiliated Company Management Regulations, and obtain approval on relevant important items.

Examples of overseas initiatives include the appointment of compliance officers at each group company in Asia and the holding of regular meetings for sharing the status of progress in each country. The director in charge of compliance also visits companies to gather information and offer suggestions on how improvements may be made.

In addition, an Internal Audit Department under the direct authority of the president has been established. It 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 its affiliated companies. The department submits its audit reports to the president, directors, and Audit & Supervisory Board members. In cases where it finds the need for improvements, the department issues improvement advisories. It then follows up to check the implementation status of measures and ascertain that the execution of duties has been suitably improved. In addition, the department shares information with Audit & Supervisory Board members and the accounting auditor and coordinates a unified stance.

6. Whistleblowing Hotline

a) Internal Whistleblowing Hotline

At Otsuka Holdings and domestic and overseas group companies, we have established an internal whistleblowing hotline within the group and at the offices of an attorney that can be accessed safely and anonymously. Through this hotline, we work to ensure that any improper acts, including acts of bribery, as well as violations of policies, laws and regulations, can be quickly uncovered and corrected. Rules for accepting reports extend beyond full-time employees to include contract, dispatched, and part-time employees. Information about whistleblowers and their reports is strictly managed in order to prevent any negative repercussions. Information on the operational status of the internal whistleblowing hotline at major group companies is regularly reported at meetings of the Board of Directors of Otsuka Holdings.

b) External Inquiries and External Whistleblowing Hotline

Otsuka Holdings and its major group companies have established a whistleblowing hotline that accepts inquiries and opinions from external stakeholders and general customers. Furthermore, certain channels of the hotline also accept anonymous consultations and reports.

7. Due Diligence

Each group company has established a due diligence policy and conducts due diligence for new business partners as needed to evaluate corruption-related risk.

Guiding Principles: Synopsis

Adhering to Anti-Corruption Laws and Policies	We respect and uphold the letter and the spirit of all applicable anti-corruption laws, domestic and foreign.
Prohibiting Bribery	We never give or accept, directly or indirectly, “anything of value” (e.g., bribes, kickbacks, gifts or entertainment) to improperly influence any person to obtain or retain a financial, business or other advantage.
Working with Third-Party Suppliers	We require third-party suppliers to ensure compliance with this policy as well as relevant anti-corruption laws and regulations.
Conducting Due Diligence	We perform due diligence to obtain an informed assessment of the nature and extent of potential corruption risks associated with the retention of all third-party suppliers working on Otsuka’s behalf.
Refusing to Make Facilitating Payments	We will not make facilitating payments of any kind.
Providing Training	We provide annual training regarding this Policy and anti-corruption laws, incorporating them into Otsuka’s global compliance program.
Recording	We keep complete books and records in reasonable detail, accurately and fairly documenting and reflecting all transactions including expenses, disbursements, receipts and the disposition of assets.
Monitoring	We maintain internal controls focused on detecting and deterring improper business practices.
Reporting Concerns	We promptly report instances or activities that may violate or appear to violate this policy to our internal Legal/Compliance Department. We will not tolerate any form of retaliation against anyone for making a good faith report of a potential violation.

(Excerpt from the Otsuka Group Global Anti-Corruption Policy)

Working with Third-Party Suppliers

Conducting our business according to rigorous legal, ethical and professional standards, we require the same standards from all third-party suppliers who perform services on Otsuka's behalf. Otsuka can be held liable for the actions of the third parties who act as intermediaries for and on behalf of Otsuka in the conduct of business dealings. Prohibitions that apply to our employees apply equally to all individuals and entities acting on our behalf. Accordingly, our commitment to anti-corruption activities includes use of special care in our business dealings through third-party suppliers or intermediaries.

At the outset of our relationship with third-party suppliers, we should clearly articulate and effectively communicate our policy against corruption as well as our commitment to transparent and responsible business conduct. We expect third-party suppliers to share and uphold this dedication.

We will reevaluate our business relationship with third-party suppliers who fail to ensure compliance with the relevant laws and regulations and this policy. Upon any indication of misconduct, we all have a duty to report the misconduct to our internal Legal/Compliance Department.

Anti-Corruption Due Diligence

Due diligence includes investigations into the third-party supplier's background, reputation, financial records, codes of conduct and training, and business conduct as well as written agreements and monitoring controls. The following circumstances typically necessitate anti-corruption due diligence: (a) Engaging the services of a third-party supplier; (b) Entering into a joint venture with another entity; and (c) Merging with or acquiring another entity. We perform due diligence before and after proceeding with the proposed business transaction, continuously evaluating the third-party suppliers' adherence to relevant anti-corruption laws.

We conduct risk-tailored and risk-based due diligence. The due diligence process must be a fact-based inquiry closely tailored to the specific business operations of the third-party suppliers. We define the proper level of due diligence for each third-party supplier, depending on key risk factors (e.g., the industry, geographic location, reputation, beneficial ownership, professional capability, experience, financial standing and credibility of the third-party supplier and the history of that third-party supplier's compliance with applicable anti-corruption laws and regulations, the scope of the services performed).

Not intended to be a one-time event, due diligence should be considered an ongoing process. We must periodically re-examine our relationship with third-party suppliers. The frequency of the re-examination may depend on the level or risk presented by the party as well as the context in which they are engaged.

Tax Compliance

The Otsuka 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 complexity of tax oversight increases as our businesses become more global. By continuously updating information and engaging in prior consultations with tax experts where necessary, we are appropriately responding in order to minimize tax risk.

1. Correspondence with Tax Authorities

The Otsuka group engages in constructive relationships with tax authorities in the 31 countries/regions in which it operates. We will continue to improve the reliability of tax data and establish systems to provide it promptly.

2. 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. In recent years, the OECD has issued an action plan on base erosion and profit shifting (BEPS), in which multinational corporations engage in international transactions that lead to double non-taxation. We will properly execute our obligations to make submissions to

relevant authorities. Also, when necessary, we make use of advance pricing agreements (APAs) to obtain ahead-of-time consensus from tax authorities.

3. Governance

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

Risk Management

The Otsuka group carries out risk management under the supervision of top management based on the recognition that pursuing management efficiency and controlling the risks inherent in business activities is important to enhancing corporate value.

Risk Management System

In establishing a risk management system for the Otsuka group, we have put in place the Risk Management Policy and set up a Risk Management Committee. The committee comprises the President and Representative Director as the chair, the director in charge of administration as the vice chair, as well as the information disclosure officer and the internal control officer. Leveraging the controls operated by each risk management department, the Risk Management Committee assesses and comprehensively manages risks that could jeopardize the sustainable enhancement of group value.

Responsibilities of the Risk Management Committee

The Risk Management Committee examines group risk management policies, coordinates between all companies and departments and issues instructions when a risk manifests, reports risk information to the Board of Directors, issues instructions to all companies, and promotes compliance.

Approach

The Otsuka group individually assesses risks in each of its businesses. Risk management officers are responsible for analyzing and evaluating risk, and formulating and executing action plans so that each organization can meet its objectives and targets. We also periodically implement employee training with reference to events that could pose a risk within the organization. Training related to topics such as corruption prevention and the protection of human rights based on the Otsuka Group Global Code of Business Ethics is another part of this approach. Furthermore, we regularly hold drills to prepare for unexpected events such as disasters.

1. Business Continuity Planning and Management

The Otsuka group has business continuity plans (BCPs) in place to ensure that the group continues to operate as effectively as possible in order to maintain the stable supply of products, even when large-scale earthquakes and disasters strike.

From the perspective of business continuity management (BCM), Otsuka Holdings and its group companies are cooperating to construct a group-wide business continuity framework. In August 2012, we acquired ISO 22301 certification for the production and stable supply of pharmaceutical products, beverages, and foods, and we have since gradually expanded the scope of certification. We acquired additional certification for the stable supply of intravenous solutions in April 2015, and for the stable supply of anticancer agents in May 2016. The acquisition of ISO 22301 certification demonstrates that our organization

is fully equipped and prepared from a BCM standpoint.

Through collaboration mainly between Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, and Otsuka Warehouse, the Otsuka group is making every effort to strengthen its countermeasures and systems so that the group as a whole can effectively continue its business activities and thereby ensure stable product supply even during times of disaster. In 2018, major group companies jointly conducted a desktop simulation drill for the scenario of an earthquake with an epicenter directly below Tokyo. Then in 2019, they jointly conducted another desktop simulation drill, this time for the scenario of a typhoon passing directly over western Japan. These drills provided opportunities for testing cooperation systems under close-to-realistic conditions, with a focus on ensuring stable product supply.

2. Risk Management Training

Risk management training is held annually for directors, Audit & Supervisory Board members, executive officers, and department heads of major group companies. Training includes simulation drills and lectures by outside experts, and involves discussions and reviews on the subject of domestic and overseas risk, referencing serious incidents and other matters. Topics include initial response and coordination of information among the group when a crisis occurs, measures to ensure business continuity, and corporate social responsibility.

3. Information Security

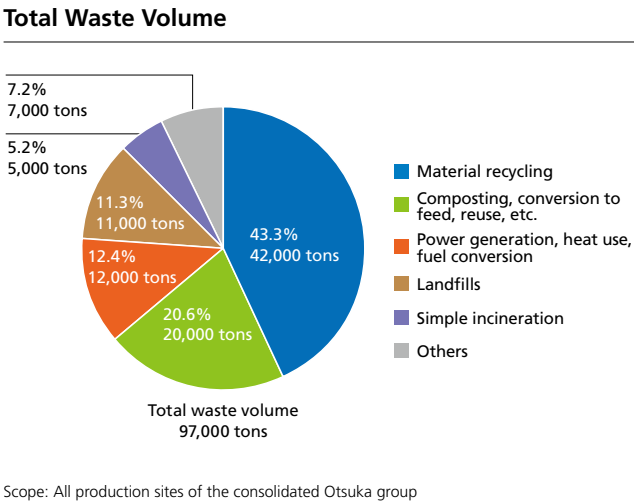
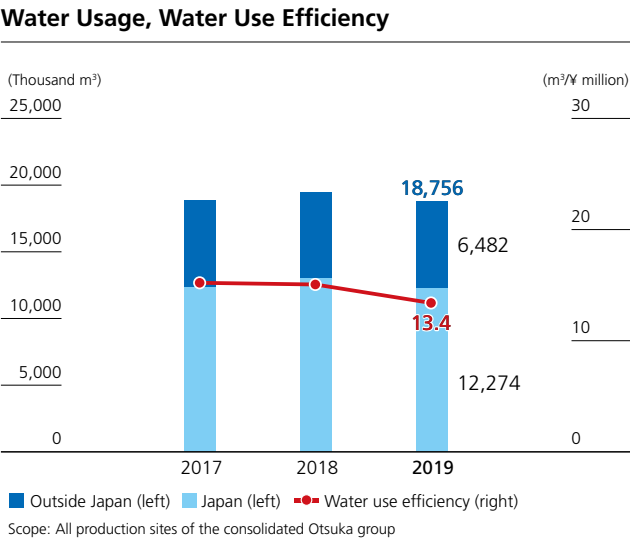
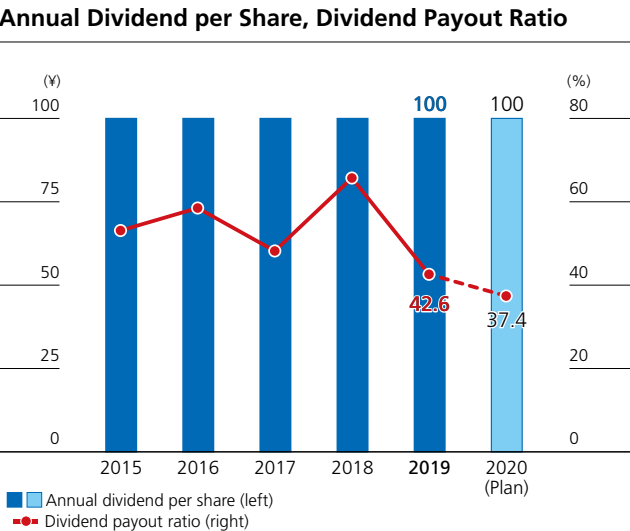
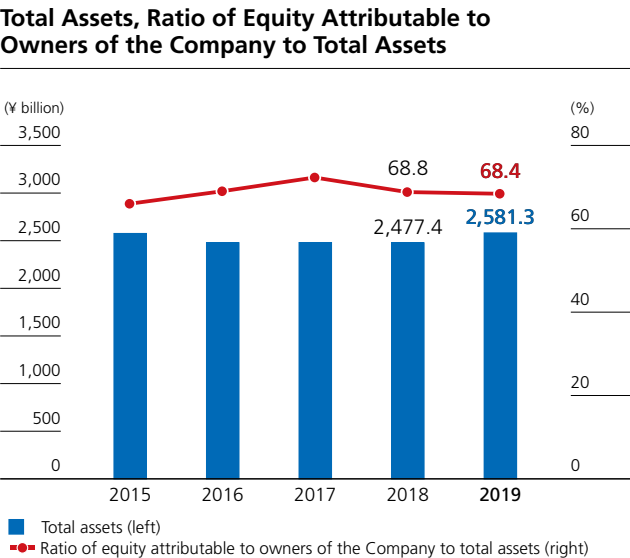
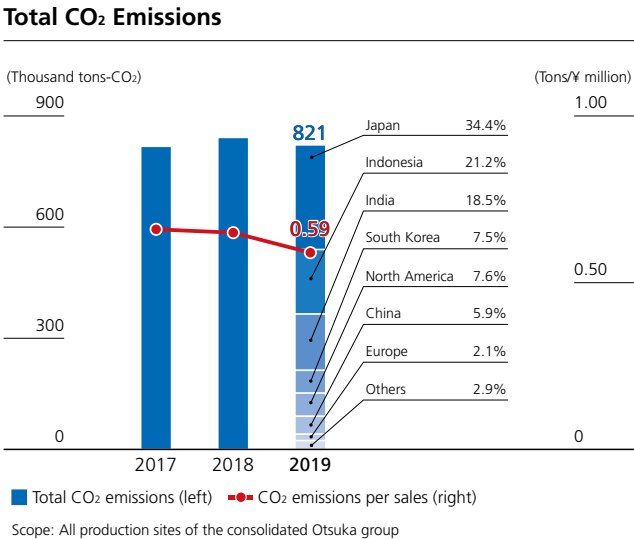
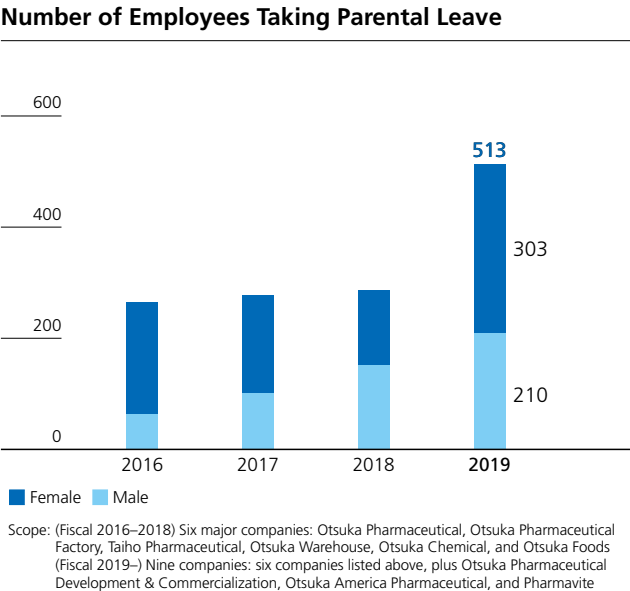
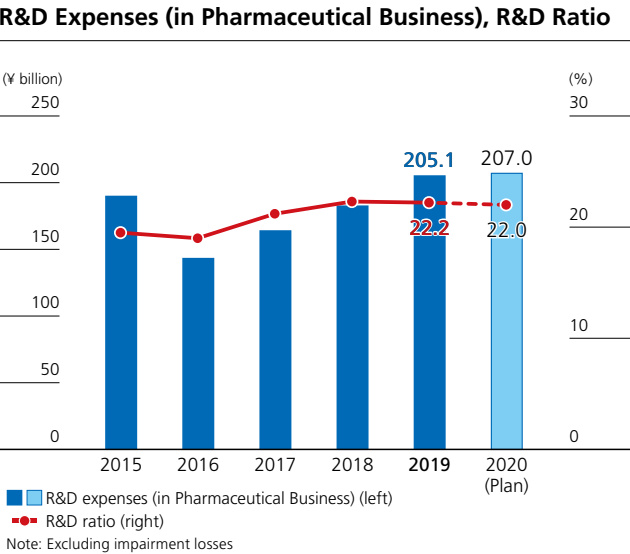
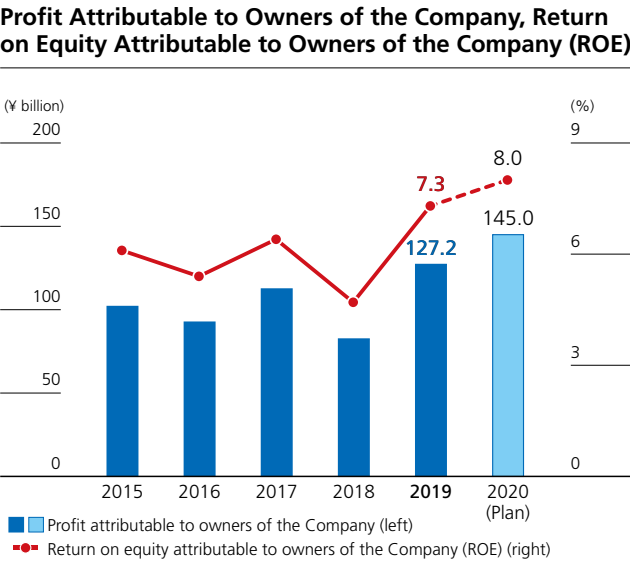
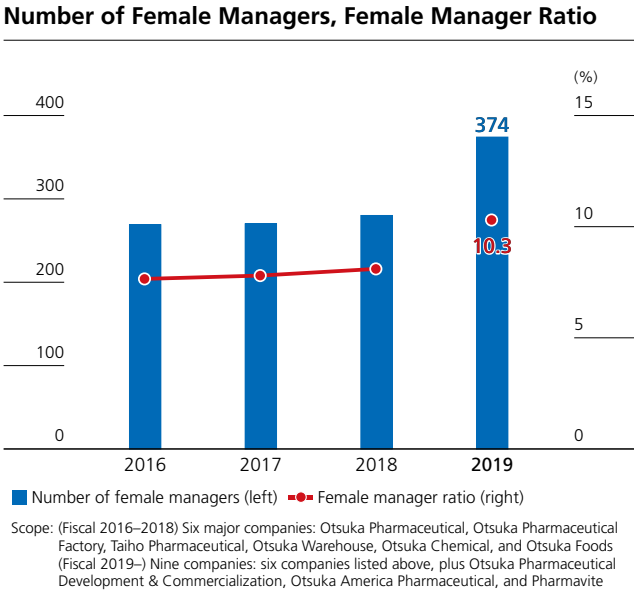
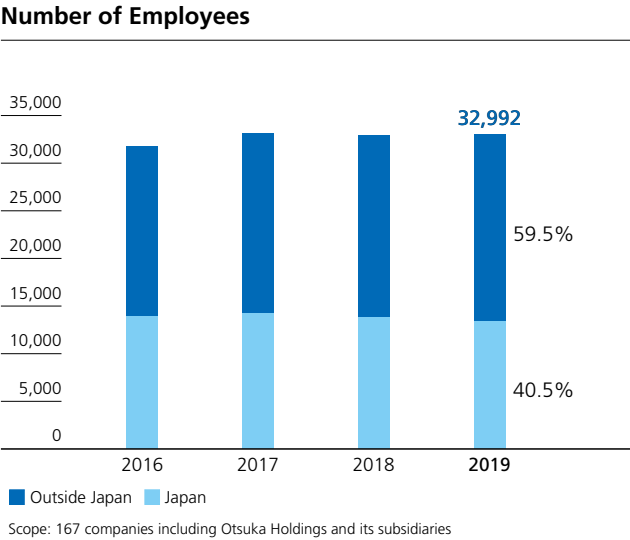
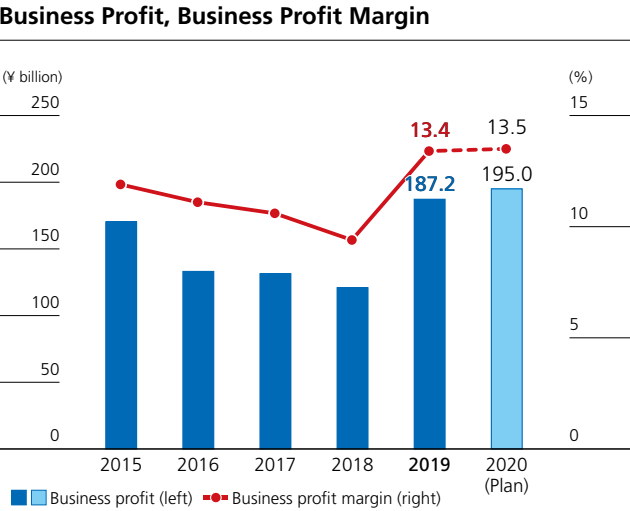
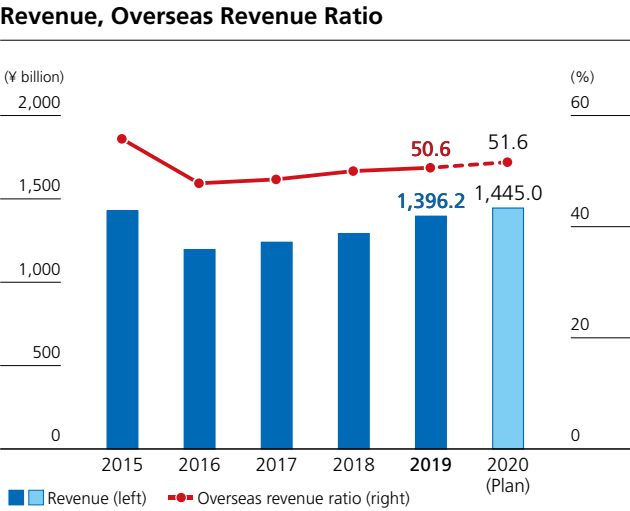
The Otsuka group has established the Otsuka Group Global Security Policy as its basic policy on information security. We endeavor to ensure shared awareness of the policy at all group companies, including overseas subsidiaries. In striving to raise the level of, and constantly improve, comprehensive security across the group, we set up the Otsuka Group Information Security Committee to examine specific measures and to share up-to-date information with regard to information security based on the policy. In order to counter the risk of cyberattacks, the Otsuka group employs a number of measures, such as arranging system security audits by external specialists, diagnosing website vulnerabilities, conducting drills related to targeted email attacks, and monitoring posts on social media. The group also conducts regular emergency drills with a focus on the core systems that construct data. In addition, we have built capabilities for responding to cybersecurity emergency situations, including the establishment of the Computer Security Incident Response Team (CSIRT), which preempts the occurrence of damage from cyberattacks targeting personal information and trade secrets held by respective group companies.

Financial and Non-Financial Highlights

Visit the Otsuka Holdings website for major CSR data:

 https://www.otsuka.com/en/csr/hd_activity/download/MajorCSRData_en.pdf





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			
			2012/3	2013/3	2014/3	2014/12 ⁵
Results of Operations	Item ¹					
	Revenue	(¥ billion)	¥1,154.6	¥1,218.1	¥1,452.8	¥1,224.3
	Selling, general and administrative expenses ^{2,3}	(¥ billion)	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)	159.2	192.4	249.0	172.9
	R&D ratio	(%)	13.8	15.8	17.1	14.1
	Business profit ⁴	(¥ billion)				
	Business profit margin	(%)				
	Operating profit	(¥ billion)	148.7	169.7	198.7	196.5
	Operating profit margin	(%)	12.9	13.9	13.7	16.1
Profit attributable to owners of the Company	(¥ billion)	92.2	122.4	151.0	143.1	
Financial Position	Total assets	(¥ billion)	¥1,666.8	¥1,779.2	¥2,028.4	¥2,178.2
	Total equity	(¥ billion)	1,222.8	1,325.1	1,510.8	1,658.6
	Ratio of equity attributable to owners of the Company to total assets	(%)	72.5	73.7	73.2	74.7
	ROE	(%)	7.8	9.7	10.8	9.2
Cash Flows	Net cash flows from operating activities	(¥ billion)	¥ 147.6	¥ 119.3	¥ 226.5	¥ 88.5
	Net cash flows from (used in) investing activities	(¥ billion)	(107.6)	(91.2)	(108.5)	(28.7)
	Free cash flows	(¥ billion)	40.0	28.1	117.9	59.9
Dividends	Annual dividend per share	(¥)	¥ 45	¥ 58	¥ 65	¥ 75
	Dividend payout ratio	(%)	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
	Stock price at year-end	(¥)	¥ 2,450	¥ 3,300	¥ 3,087	¥ 3,617
Number of Employees ⁸	Total	(Persons)	24,595	25,330	28,288	29,482
	Japan	(Persons)	13,808	13,732	14,116	14,285
	Outside Japan	(Persons)	10,787	11,598	14,172	15,197

IFRS				IFRS	
2015/12	2016/12	2017/12	2018/12 ⁶	2019/12	2019/12 ⁷
¥1,427.4	¥1,195.5	¥1,240.0	¥1,292.0	¥1,396.2	(US\$ million) \$12,744
617.5	519.5	531.4	552.8	557.6	(US\$ million) 5,090
369.8	285.7	305.4	313.8	403.0	(US\$ million) 3,678
25.9	23.9	24.6	24.3	28.9	(%) 28.9
199.6	152.6	174.0	192.9	215.8	(US\$ million) 1,970
14.0	12.8	14.0	14.9	15.5	(%) 15.5
170.2	133.1	131.4	120.9	187.2	(US\$ million) 1,708
11.9	11.1	10.6	9.4	13.4	(%) 13.4
148.9	101.1	104.2	108.3	176.6	(US\$ million) 1,612
10.4	8.5	8.4	8.4	12.6	(%) 12.6
102.0	92.6	112.5	82.5	127.2	(US\$ million) 1,161
¥2,575.3	¥2,478.3	¥2,480.3	¥2,477.4	¥2,581.3	(US\$ million) \$23,561
1,727.4	1,738.4	1,822.0	1,732.3	1,795.4	(US\$ million) 16,388
66.0	69.0	72.3	68.8	68.4	(%) 68.4
6.1	5.4	6.4	4.7	7.3	(%) 7.3
¥ 257.9	¥ 142.0	¥ 102.8	¥ 135.8	¥ 192.6	(US\$ million) \$ 1,758
(422.6)	(135.1)	(40.1)	(93.3)	(52.3)	(US\$ million) (477)
(164.7)	6.9	62.8	42.5	140.4	(US\$ million) 1,281
¥ 100	¥ 100	¥ 100	¥ 100	¥ 100	(US\$) \$ 0.91
53.1	58.5	48.2	65.7	42.6	(%) 42.6
557,836	557,836	557,836	557,836	557,836	(Thousand shares) 557,836
¥ 4,317	¥ 5,093	¥ 4,948	¥ 4,493	¥ 4,883	(US\$) \$ 44.57
31,940	31,787	32,817	32,935	32,992	
14,082	13,909	13,880	13,757	13,356	
17,858	17,878	18,937	19,178	19,636	

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 ¥109.56 = US\$1.
8. Number of employees at 167 companies including Otsuka Holdings Co., Ltd. and its subsidiaries (as of December 31, 2019).

Corporate Information, Global Network

Corporate Profile

(As of December 31, 2019)

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	104 (Consolidated: 32,992)
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.

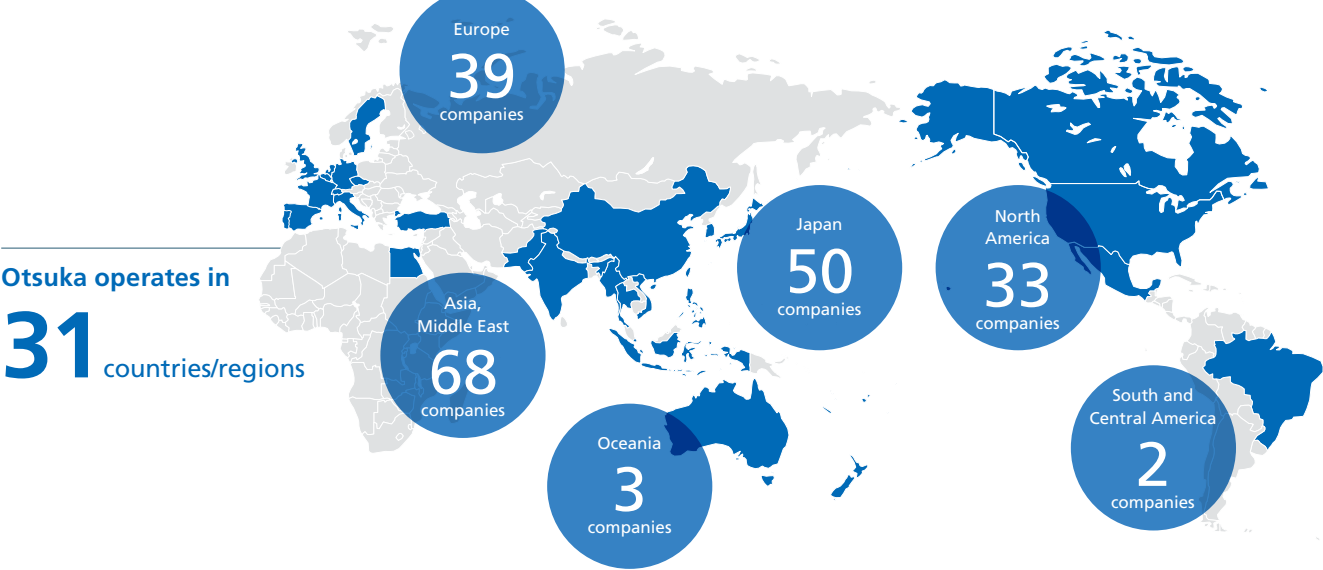
Company Organization

(As of April 1, 2020)



Global Network

(As of December 31, 2019)



Group Structure and Overview of Main Operating Companies

Otsuka Group Corporate Philosophy

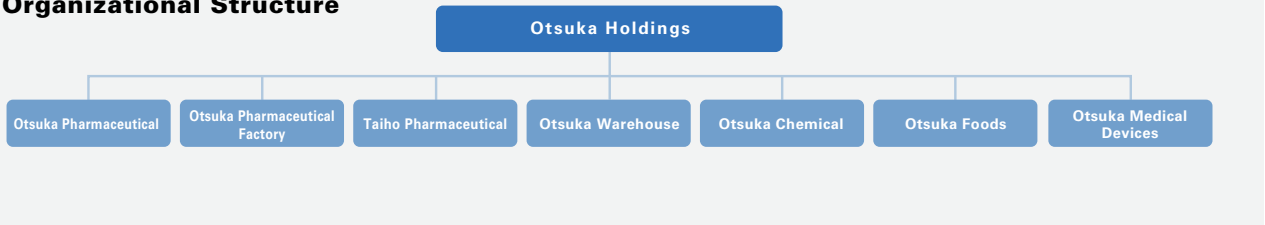
Otsuka-people creating new products for better health worldwide

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 195 group companies in 31 countries and regions who strive to create and market unique products and services.

*1. Nutraceuticals: nutrition + pharmaceuticals *2. As of end of December, 2019. Otsuka Holdings and subsidiaries and affiliates.

Organizational Structure



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 in two core businesses: the Pharmaceutical Business, which provides breakthrough treatments for patients around the world, and the Nutraceutical Business, which helps healthy people maintain good 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.

A pioneer of oral anticancer agents in Japan for half a century

"We strive to improve human health and contribute to a society enriched by smiles."—This is the corporate philosophy of Taiho Pharmaceutical, an R&D-driven specialty pharmaceutical company focusing in the fields of oncology, allergy and immunology, and urology. In the oncology field in particular, Taiho Pharmaceutical is recognized as one of Japan's leading companies and is actively expanding its global presence. In the consumer healthcare business, it seeks insights into people, and focuses on creating new products better attuned to their lifestyles.

Otsuka Warehouse Co., Ltd.

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

Since its founding, Otsuka Warehouse has operated businesses with an emphasis on pharmaceutical and food product logistics. This includes building a common distribution platform for the Otsuka group's three core categories: pharmaceuticals, foods and beverages, and daily necessities. In recent years, Otsuka Warehouse has been working to extend its logistics solutions to outside the group.

Otsuka Chemical Co., Ltd.

Creatively giving shape to the power of materials for the future, together with 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.

Creating high-value-added products that offer new dietary lifestyles since 1955

Otsuka Foods operates under the motto "the company begins with people and food begins with spirit," with "deliciousness, safety, peace of mind, and better health" at the heart of the "spirit of food" shared by all employees. Today, the aging of societies is among the many issues relating to health, the environment and demographic change that are transforming the social landscape. Otsuka Foods will continue to pursue solutions that address this kind of social change by creating and providing the products that customers need, and be a company that contributes to people of the world.

Otsuka Medical Devices Co., Ltd.

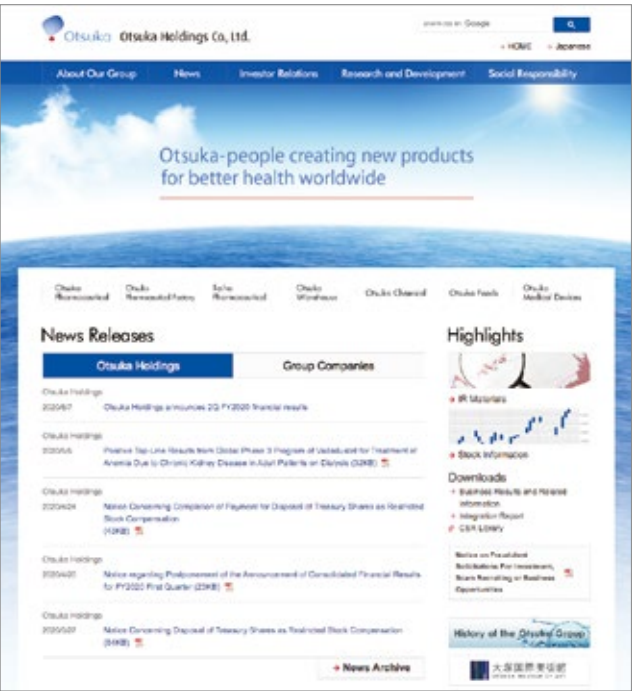
Introducing new technologies that make Otsuka's medical devices business unique

Otsuka Medical Devices seeks to grow the medical devices business, which operates mainly in Japan, China, and other Asian countries, into a core business for the Otsuka group. Otsuka Medical Devices is achieving further growth by bringing together the group's experience and know-how in medical devices in order to integrate the latest technology into new devices that meet emerging healthcare needs.

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/



■ 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.

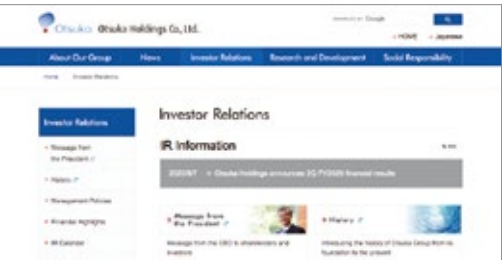
■ Reporting Period
Fiscal 2019 (January 1, 2019 to December 31, 2019).
Note that certain information from January 2020 onward is also included.

■ Scope of Reporting
In principle, this report covers Otsuka Holdings Co., Ltd. and its subsidiaries ("the Otsuka group"). 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



Investor Relations
https://www.otsuka.com/en/ir/



The Otsuka group's CSR
https://www.otsuka.com/en/csr/



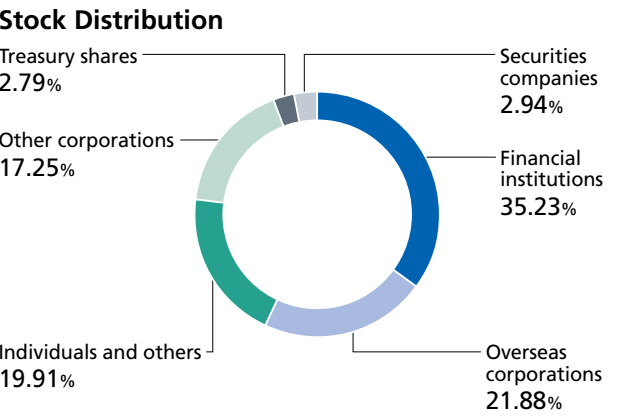
■ Cautions Regarding Forward-Looking Statements
This integrated report summarizes the operating and financial results of Otsuka Holdings Co., Ltd. and its subsidiaries for fiscal 2019 (January 1, 2019 to December 31, 2019). It also includes information regarding select material events that occurred between January 1, 2020 and the date of publication. The report contains forward-looking statements pertaining to plans, projections, strategies, and prospects 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.

Shareholder Information

(As of December 31, 2019)

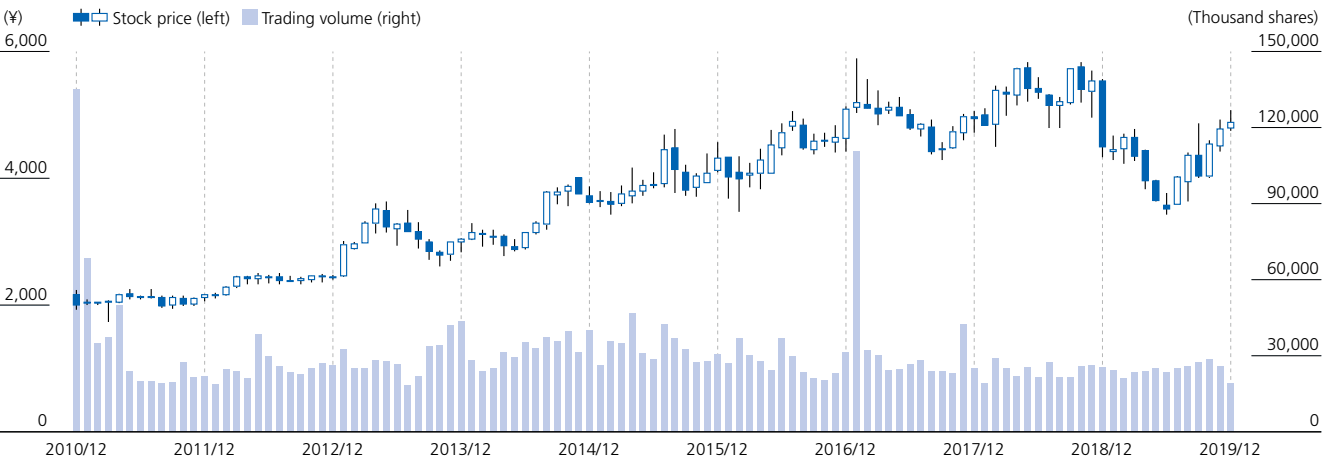
Number of shares authorized	1,600,000,000 shares
Number of shares issued	557,835,617 shares
Number of shareholders	62,219



Maximum/Minimum Stock Price and Volatility by Year

Fiscal	Maximum stock price (¥)	Minimum stock price (¥)	Volatility (%) (standard deviation)
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%

Stock Performance



Principal Shareholders (Top 10)

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	57,815	10.66
The Master Trust Bank of Japan, Ltd. (trust account)	40,246	7.42
Otsuka Estate Co., Ltd.	23,296	4.29
Japan Trustee Services Bank, Ltd. (trust account)	22,991	4.23
Otsuka Group Employee Shareholding Fund	12,998	2.39
The Awa Bank, Ltd.	10,970	2.02
Japan Trustee Services Bank, Ltd. (trust account 5)	7,728	1.42
Otsuka Asset Co., Ltd.	7,380	1.36
Japan Trustee Services Bank, Ltd. (trust account 9)	6,920	1.27
JP MORGAN CHASE BANK 385151	6,755	1.24

Number of shares held rounded down to the nearest thousand. Excluding treasury stock held by the Company (15,564,187 shares). Shareholding ratio is calculated excluding treasury stock.

Total Shareholders' Return

Fiscal	2015	2016	2017	2018	2019
(%)	122.1	146.3	145.1	135.3	148.8
(Comparison: TOPIX Total Return Index)	(112)	(112)	(137)	(116)	(136)



Significance of the Corporate Symbol

A symbolic representation of the Otsuka group's corporate philosophy, the corporate symbol adopts the initial 'O' of the corporate name as its motif. Representing the sky above, the large 'O' is rendered in gradations of Otsuka Blue and the small 'O' in Otsuka Red represents the focused energy of Otsuka, the wellspring of these tenets. Offsetting the two Os, the Otsuka name is spelled out in an open and friendly typeface. The corporate symbol conveys the Otsuka group's energetic commitment to human happiness through good health.

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.