

# Corporate Governance

In order to achieve stable business activities and sustainable growth, the Otsuka group aims to be a company trusted by all of its stakeholders. Toward that end, it has worked to build a sound and highly transparent management structure.

## Basic Position on Corporate Governance

The corporate governance of the Otsuka group, which seeks to promote the increase of its sustainable corporate value over the medium- to long-term by realizing the corporate philosophy, is committed to the basic policy of making transparent, fair and timely decisions and fulfilling social responsibility by living up to the expectations of all stakeholders including customers, suppliers and other collaborators, employees, local communities as well as shareholders, through dialogue with them.

Otsuka Holdings has formulated Corporate Governance Guidelines based on Japan's Corporate Governance Code for companies

listed on the Tokyo Stock Exchange. These guidelines were established to indicate the group's basic approach to corporate governance in light of the Otsuka Group philosophy and business operations.

In April of each year following the annual general shareholders meetings, Otsuka Holdings reports on the current status of group corporate governance initiatives in a Corporate Governance Report filed with the Tokyo Stock Exchange. The Corporate Governance Code and Corporate Governance Reports are also posted on the Otsuka Holdings website.

## Corporate Governance Structure

At Otsuka Holdings, the Board of Directors, which includes outside directors, supervises the execution of management plans to ensure sustainable growth and raise corporate value over the medium- to long-term, and fulfills its roles and responsibilities regarding improving profitability and capital efficiency. At Otsuka Holdings, a company with an Audit & Supervisory Board, the Audit & Supervisory Board members, who are independent from the Board of Directors, take the lead in monitoring the execution of operations by the Board of Directors, while coordinating with accounting auditors and the Internal Audit Department. This ensures the Company's health and maintains a solid corporate governance system that can satisfy society's trust.

## Standards for the Selection of Outside Directors and Outside Audit & Supervisory Board Members

With respect to outside directors and outside Audit & Supervisory Board members, the company has set standards to appoint talented persons who have extensive knowledge and experience, and are able to exert their abilities adequately for oversight to the Directors by supervising, monitoring or auditing Directors' performance of their duties fairly and objectively from a neutral and objective viewpoint. The Company realizes that one criterion for ensuring neutrality and objectivity of outside directors and outside Audit & Supervisory Board members is independence from the management team. Otsuka Holdings has established standards of independence for outside directors in order to ensure their independence in the Corporate Governance Guidelines of the Company. The Company also determines the independency of outside Audit & Supervisory Board members in accordance with the standards.

## Corporate Governance Committee

Otsuka Holdings established a Corporate Governance Committee in February 2017. As an advisory council to the Board of Directors, the Committee discusses the nomination of directors and Audit & Supervisory Board members, director remuneration, and other corporate governance issues, and then reports to the Board of Directors. The Committee consists of the CEO, the director in charge of administration, as well as outside directors. The CEO becomes the chair of the Committee.

## Evaluating Board of Director Effectiveness

Japan's Corporate Governance Code calls for ensuring that boards of directors operate effectively, and this is a matter of increasing interest to stakeholders.

To analyze and evaluate the effectiveness of its board of directors in fiscal 2016, Otsuka Holdings distributed a survey drafted on the advice of outside expert agencies to all directors and Audit & Supervisory Board members in January and February 2017. Following review by the corporate lawyers, the matter was discussed by the Board of Directors in March.

The survey found that the Otsuka Holdings Board of Directors is functioning in a sufficiently effective and productive manner with regard to the current state of operation and its deliberations. Building on these positive findings, the group is taking steps to further improve the quality of the Board of Directors, going forward.

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