

Corporate Governance

■ Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its mission statement, the OTSUKA Group aims to adapt nimbly to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

■ Current Status of Implementation of Corporate Governance Measures

As a company with a Corporate Auditors system, OTSUKA CORPORATION aims to augment corporate governance by further enhancement of the General Shareholders Meeting, augmenting the auditing capabilities of corporate auditors, reforming the Board of Directors and making an active and ongoing commitment to disclosure and investor relations (IR) activities.

1. Status of Business Management Framework, Operational Decision-making, Management, Oversight and Other Corporate Governance Structures

1) Enhancement of the General Shareholders Meeting

The OTSUKA Group believes that enhancement of the General Shareholders Meeting is crucial to improving corporate governance, and is working to ensure that as many shareholders as possible attend meetings, while concurrently introducing an electronic voting system that will allow shareholders to exercise their voting rights via the Internet.

2) Board of Directors

As of December 31, 2005, the Board of Directors consists of 13 directors, of which 11 board members concurrently serving as Executive Officers responsible for making decisions and overseeing business operations based on actual on-site conditions. There are no outside directors at present.

The Board of Directors meet regularly twice a month to discuss critical management issues as well as to deliberate on progress regarding businesses performance and make swift decisions toward resolving relevant issues. Group Management Meetings comprising top management of all Group companies are also held to clarify operational conditions at each company and progress in achieving profitability in addition to working to strengthen corporate governance.

3) Executive Officer System

OTSUKA CORPORATION introduced the Executive Officer System on July 1, 2003, and has since been working to realize more rapid decision-making of management policies and execution of business operations as well as to strengthen the oversight structure for more efficient business operations. Consequently, the Board of Directors handles overall decision-making for important management matters as well as supervisory functions pertaining to business operations. Executive Officers elected by the Board of Directors are responsible for execution of business operations as decided by the Board of Directors and under the direction of the President. As of December 31, 2005 there were 30 Executive Officers (32 as of March 30, 2006), of which 11 are serving concurrently as directors.

4) Progress in Establishing Committees

Revisions to the Commercial Code enforced from April 2003 introduced a new corporate governance structure called the Committee System. OTSUKA CORPORATION will deliberate on the advisability of adopting this system within the Group.

5) Corporate Auditors System

OTSUKA CORPORATION uses a Corporate Auditors system. The Board of Corporate Auditors is comprised of four auditors that includes two outside auditors, all of whom attend such important meetings as Board of Directors meetings and management meetings to monitor that the management of operations is being properly carried out. The corporate auditors reinforce auditing at the operational level through such means as identifying potential problems at an early stage by regularly engaging in dialogue via the Board of Corporate Auditors with management along with independent auditors, as well as by collaborating and coordinating with internal departments conducting auditing of subsidiaries and affiliates.

No personal, capital or business interests exist between outside auditors and OTSUKA CORPORATION.

6) Independent Auditors

OTSUKA CORPORATION has designated Chuo Aoyama Pricewaterhouse Coopers as its independent auditor, with the following certified public accountants (CPA) noted below and 20 assistants carrying out auditing related operations. Chuo Aoyama Pricewaterhouse Coopers has also been appointed as stipulated in the Commercial Code's Audit Special Exceptions Law.

Auditing Firm	Name of CPA	Years of Continuous Auditing Experience*
Chuo Aoyama Pricewaterhouse Coopers	Designated Employee and Managing Partner Kazuhiko Nakai	14 years
Chuo Aoyama Pricewaterhouse Coopers	Designated Employee and Managing Partner Kenichi Akiyama	1 year
Chuo Aoyama Pricewaterhouse Coopers	Designated Employee and Managing Partner Tetsuya Ishii	5 years

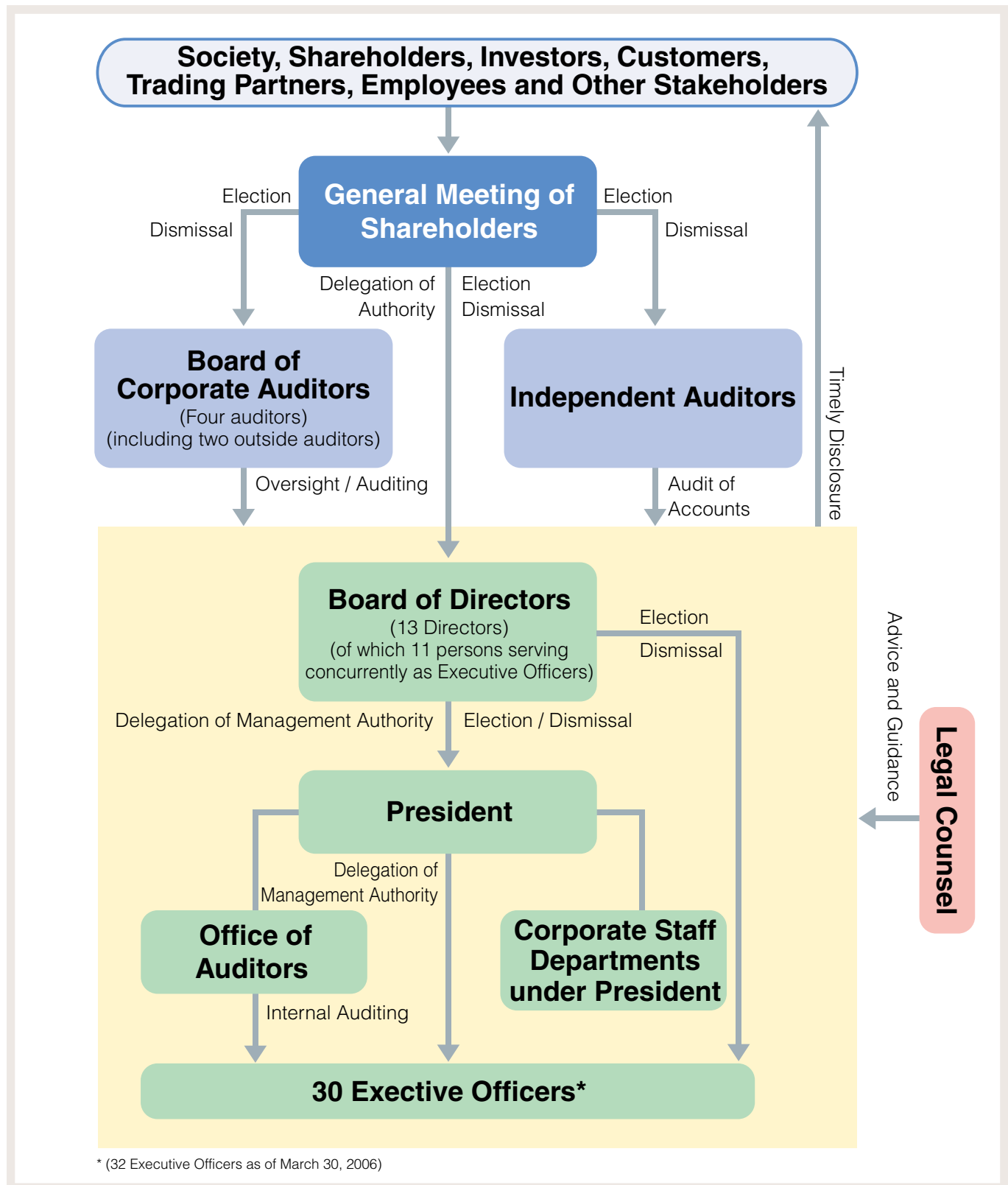
* Years of continuous auditing experience indicates the number of years that the individual has either conducted audits in compliance with Securities and Exchange Laws or in compliance with the Commercial Code's Audit Special Exceptions Law, whichever period is longer.

7) Status of Monitoring Operations

Critical items that impact operations and performance are reported immediately to the Board of Directors and the Board of Corporate Auditors as they arise. Moreover, the Office of Auditors under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation in operations and progress in compliance, as well as to offer concrete advice and recommendations for improving operations and raising awareness. The Office of Auditors has had 11 staffs as of December 31, 2005. OTSUKA CORPORATION has established and operates an Internal Communication and Improvement Advocacy System that allows employees to directly report and propose improvements to the President. The purpose of the system is as follows:

- To quickly identify, address and prevent occurrences pertaining to dishonesty and misconduct in relation to corporate ethics and fair trade.
- To assess, suitably handle and prevent such incidences as abuse of authority and sexual harassment.
- To receive proposals and consultation, as well as to individually address issues related to business operations and work flows.

As of December 31, 2005, the structure for corporate management decision-making, business operations and oversight is as follows:



2. Remuneration for Board Members and Auditors

1) Remuneration for Directors and Corporate Auditors in the current fiscal year is as follows:

Category	Directors		Auditors		Total	
	Number of persons	Compensation (Millions of yen)	Number of persons	Compensation (Millions of yen)	Number of persons	Compensation (Millions of yen)
Remuneration based on Articles of Incorporation or General Meeting of Shareholders resolution (Notes 1, 2, 3 and 4)	13	284	4	30	17	314
Retirement bonuses determined by General Meeting of Shareholders resolution	—	—	—	—	—	—
Total		284		30		314

Notes:

1. Amounts are paid within the range specified below:

Directors: Up to ¥650 million as approved at the General Meeting of Shareholders on March 14, 1990

Auditors: Up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005

2. Directors compensation is based on Chapter 269, Section 1, Article 1 of the Japanese Commercial Code.

3. Aside from the above amounts, ¥113 million is used for compensation to 6 Directors for services rendered outside the realm of their directorships.

4. As of the end of the fiscal year, there were 13 directors and 4 auditors.

5. The Company does not have any outside directors.

2) Remuneration for Independent Auditors in the current fiscal year is as follows:

Category	Compensation (Millions of yen)
Remuneration for Auditing & Attestation	37
Remuneration for Other Services	—
Total	37

3. The following organizational changes were implemented recently in order to strengthen corporate governance.

(As of July 1, 2005)

- 1) The Compliance Office was newly established under the direction of the President in order to help the Company consistently fulfill its legal and social responsibilities based on its Mission Statement.
- 2) The Corporate Planning Office and the Customer Relationship Office were placed under the direction of the President in order to improve the function of internal controls from the standpoint of corporate governance.

(As of March 30, 2006)

- 3) In order to promote the separation of the execution of business operations by Executive Officers and oversight by directors, OTSUKA CORPORATION has separated the positions of Executive Officers to include Senior Executive Operating Officers and Operating Officers. Respective directors' positions, except the Executive Managing Director, will remain the same.