

# 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 enhancing 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. 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, 2007, the Board of Directors consisted of 14 Directors, of which 12 board members concurrently serve 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 meets 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.

As of March 27, 2008, there were 15 Directors.

### 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 in regard to 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, 2007, there were 34 Executive Officers, (12 of whom are Directors).

As of March 27, 2008, there were 31 Executive Officers (13 of whom are Directors).

### 4. Corporate Auditors System

OTSUKA CORPORATION uses a Corporate Auditors system. The Board of Corporate Auditors is comprised of four auditors that include 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 with management via the Board of Corporate Auditors 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.

## 5. Corporate Audits

- Independent Auditor  
MISUZU Audit Corporation
- Temporary Independent Auditor  
Ernst & Young ShinNihon

On July 31, 2007, MISUZU Audit Corporation, the Company's independent auditor at that time, was disbanded and ceased independent auditing services. Consequently, the Company appointed Ernst & Young ShinNihon on August 1, 2007 as a temporary independent auditor.

Furthermore, Ernst & Young ShinNihon, the Company's temporary independent auditor, was selected and subsequently approved to assume the position as the Company's independent auditor at the General Meeting of Shareholders on March 27, 2008.

There are no interests among MISUZU Audit Corporation or Ernst & Young ShinNihon, Managing Partners responsible for auditing the Company and OTSUKA CORPORATION.

The names of CPAs involved in auditing-related operations and composition of staff assisting in auditing-related operations for the fiscal year under review are as follows.

### Ernst & Young ShinNihon

Kenichi Akiyama, Designated Employee and Managing Partner

Makoto Mukai, Designated Employee and Managing Partner

### Number of Staff Assisting in Accounting-related Operations

CPAs	6
Assistant CPAs	4
Other individuals	9

\*Summarized, as all members have less than seven years of continuous auditing experience

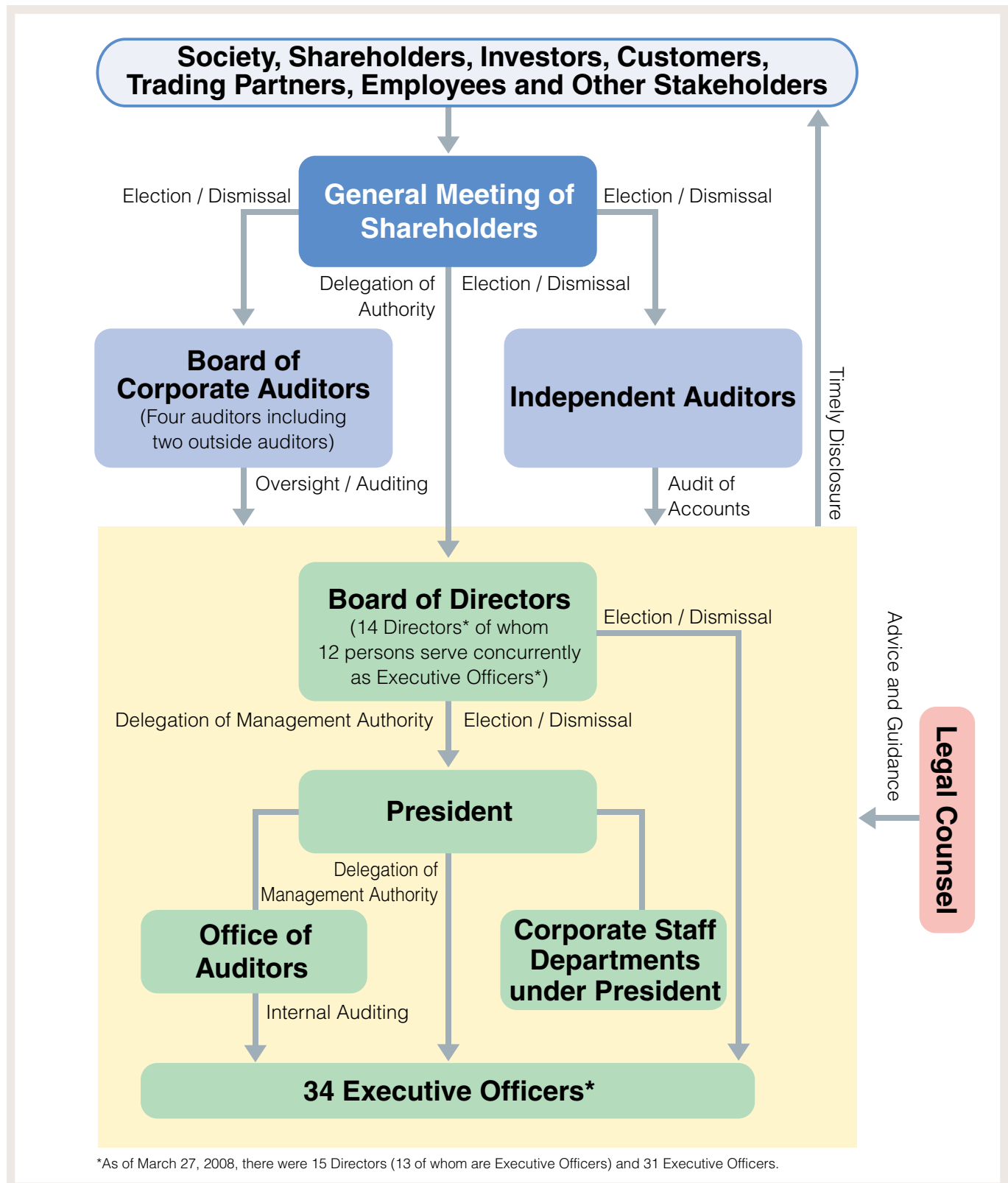
## 6. Status of Monitoring Operations

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 15 staff as of December 31, 2007.

OTSUKA CORPORATION has established and operates an Internal Reporting and Improvement Proposal 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, 2007, the structure for corporate management decision-making, business operations and oversight is as follows:



## ■ The following measures were implemented recently to strengthen corporate governance.

(As of March 30, 2006)

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 Chief Executive Officer and Executive Managing Director, will remain the same.

(As of April 1, 2006)

In response to the Whistleblower Protection Act, which came into effect from April 1 2006, OTSUKA CORPORATION has strengthened its conventional Internal Reporting and Improvement Proposal System by establishing a "Compliance Hotline" as a means of improving the convenience of reporting procedures and explicitly further protecting the confidentiality of informants. In doing so, the Company seeks to take action early on through effective and swift response by rapidly gathering risk-related information from inside and outside the Company.

(As of May 16, 2006)

In order to realize a fundamental stance related to corporate governance, a resolution of the Company's "Basic Policy Regarding Improvement of the Internal Control System" was passed at the Board of Directors meeting on May 16, 2006. As the basic policy of carrying out business operations, the Company aims to respond quickly to environmental changes and enhance its competitiveness by pursuing thorough compliance and greater management transparency and fairness, thereby pursuing agile and continuous improvement and augmentation of its internal control system.

## ■ Remuneration for Board Members and Auditors

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

Directors 14 ¥400 million

Auditors 4 ¥27 million (two of which are outside auditors, ¥6 million)

Notes:

1. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
2. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
3. The amount of annual remuneration for auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
4. The above remuneration includes the increased amount of retirement benefits for Directors in the current fiscal year.

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

Independent Auditor MISUZU Audit Corporation

Remuneration for Auditing & Attestation ¥17 million

Remuneration for Other Services —

Temporary Independent Auditor Ernst & Young ShinNihon

Remuneration for Auditing & Attestation ¥26 million

Remuneration for Other Services ¥2 million

## ■ Number of Directors

The Company's Articles of Incorporation as of December 31, 2007 stipulate that the number of Company Directors shall be 19 or fewer.

## ■ Requirements for Resolution of Director Appointments

The Company's Articles of Incorporation stipulate that a resolution for appointment of Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is decided by a majority of voting rights.

## ■ Requirements for Special Resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Company Law, shall be adopted when it is approved by a vote of two-thirds or more of the voting rights present at a General Meeting of Shareholders, a quorum for which shall be the presence of shareholders of one-third of the aggregate voting rights of the total shareholders capable of exercising such rights. This aims to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.