

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, 2008, the Board of Directors consisted of 15 Directors, of which 13 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 once 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 make progress in achieving profitability in addition to working to strengthen corporate governance.

As of March 27, 2009, there were 12 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, 2008, there were 31 Executive Officers, (13 of whom are Directors).

As of March 27, 2009, there were 32 Executive Officers (11 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

Ernst & Young ShinNihon LLC

On July 1, 2008 Ernst & Young ShinNihon transitioned to a limited liability company structure. Accordingly, Ernst & Young ShinNihon LLC has become the Company's independent auditor.

There are no interests among Ernst & Young ShinNihon LLC, 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 LLC

Kenichi Akiyama, Designated Employee with Limited Liability and Managing Partner

Juntaka Sakai, Designated Employee with Limited Liability and Managing Partner

Makoto Mukai, Designated Employee with Limited Liability and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs 6

Assistant CPAs 2

Other individuals 11

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

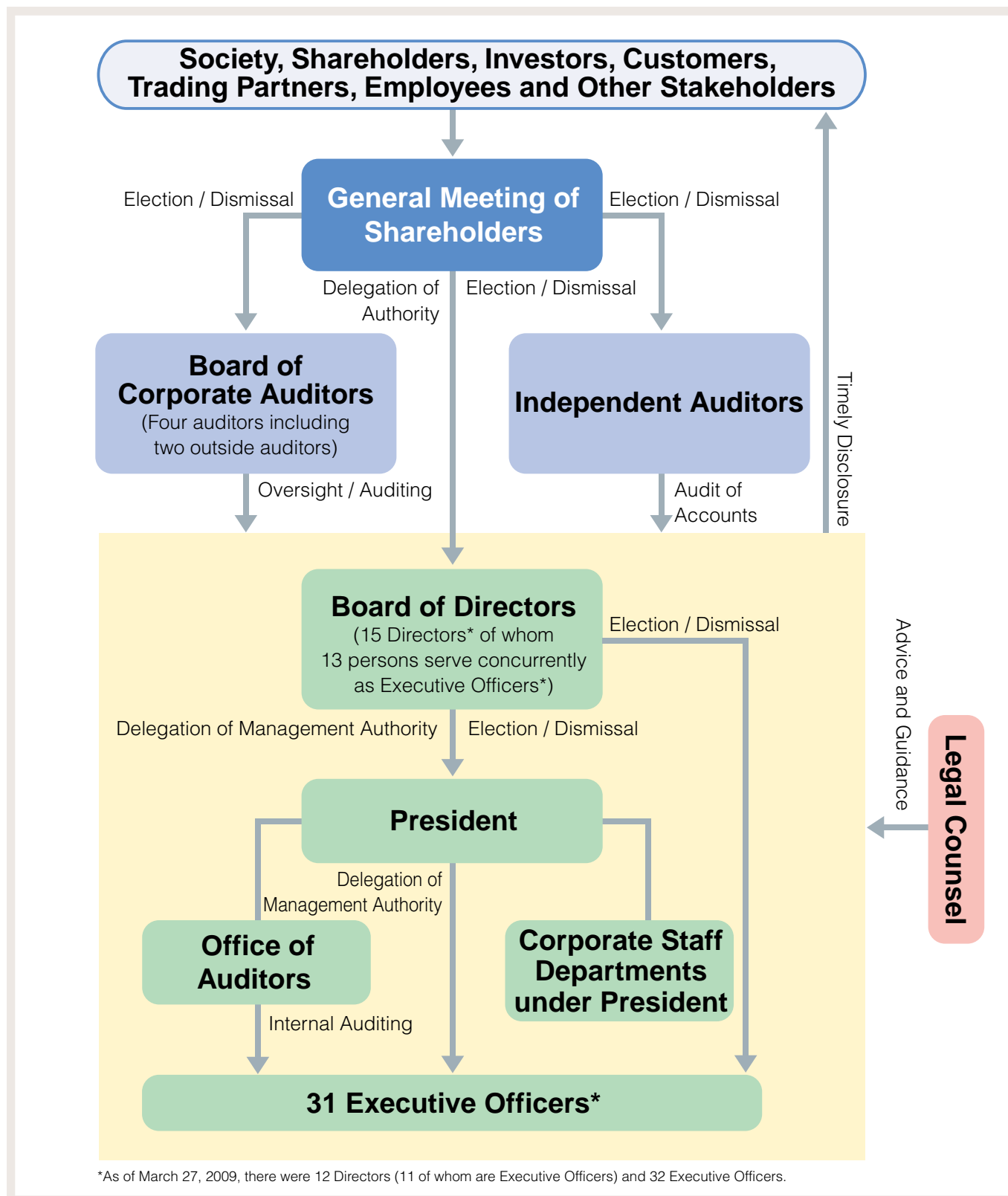
6. Status of Monitoring Operations

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 14 staff as of December 31, 2008.

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, 2008, 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 2009)

1. Participation in Electronic Voting Platform for institutional investors

Beginning from the Annual General Meeting of Shareholders convened in March 2009, OTSUKA CORPORATION is participating in the Electronic Voting Platform for institutional investors operated by Investor Communications Japan (ICJ), Inc. By participating in this platform, we have progressed with the creation of an environment that makes it easy for institutional investors, including foreign investors, to exercise their voting rights.

■ Remuneration for Board Members and Auditors

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

Directors 15 ¥425 million

Auditors 4 ¥30 million (two of which are outside auditors, ¥8 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 Ernst & Young ShinNihon LLC

Remuneration for Auditing & Attestation ¥67 million

Remuneration for Other Services ¥10 million

■ Number of Directors

The Company's Articles of Incorporation as of December 31, 2008 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 shareholders. In addition, a resolution for appointment of Director shall not be decided by cumulative voting.

■ 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 Companies Act, 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.

■ Purchase of Own Shares

The Company's Articles of Incorporation stipulate that the Company shall be able to purchase its own shares through market transactions based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act to enable the execution of a flexible capital policy that responds to changes in economic conditions.

■ Interim Dividends

The Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year.