

# 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.

### 1. Corporate Structure and Implementation Status of Internal Control Systems

#### Corporate Governance System and Reason for Employing System

OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Corporate Auditors and Board of Corporate Auditors and Independent Auditors.

It has been deemed that a governance system led by outside directors would not be suitable due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. A Corporate Auditor System has therefore been adopted. Additionally, the Company appoints an outside director and outside auditors with the aim of strengthening the monitoring of the execution of duties.

With regard to an outside director and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

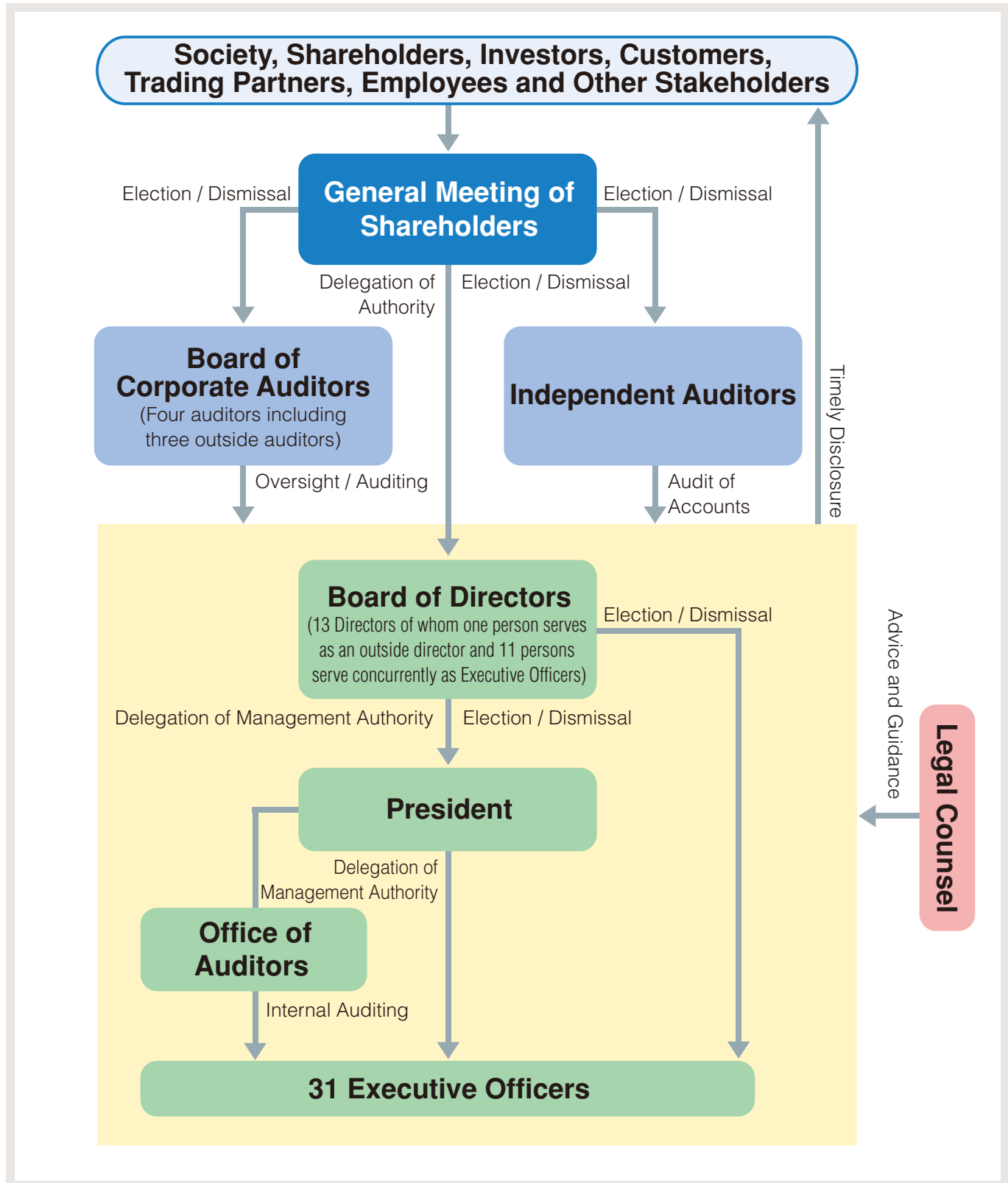
The Board of Directors consists of 13 persons, including one outside director, and the Board of Directors meets regularly once a month to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Corporate Auditors handle the oversight of business execution.

The Board of Corporate Auditors is comprised of four auditors, including three outside auditors. The Corporate Auditors attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor that suitable management is being carried out and closely audit the execution of duties by Directors.

Group Management Meetings comprising top management of all Group companies (Special Executive Officers) are also held to clarify operational conditions at each company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

Note: At the Regular General Meeting of Shareholders to be convened on March 27, 2015, the Company will newly appoint one outside director.

The structure for corporate management decision-making, business operations and oversight is as follows:



## State of Internal Control Systems

Pursuant to Paragraph 5, Article 362 of the Companies Act, the Company has determined the following basic policies at a meeting of the Board of Directors for systems that ensure the proper execution of business operations.

- Basic policies for internal control systems

- 1) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees  
Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

Directors and employees shall strive to enhance the compliance system by taking such measures as improving awareness through continuous compliance education, improving business operations through internal audits, and properly applying the internal reporting system in working to ensure compliance with laws and the Articles of Incorporation in the execution of their duties.

- 2) System for storing and managing information concerning the execution of duties by directors  
Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.
- 3) Regulations and other systems concerning management of risk of losses  
Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition, or other areas and respond appropriately.

In the event of unexpected contingencies, we shall set up a task force, collect risk information and devise quick and appropriate countermeasures.

- 4) System for ensuring the efficient execution of duties by directors  
The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while specific details shall be stipulated in Duty Authority Regulations and Separation of Duty Regulations and efficiency shall be raised.

- 5) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries  
Group companies shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. An internal auditing office shall be established within each Group company and contribute to the rationalization of management by making improvements to business operations. By convening the Group Management Meeting, we shall ascertain the state of management and the progress of profit plans at each Group company. Concurrently, we shall work to strengthen corporate governance at each Group company through the Special Executive Officer System.

- 6) Matters regarding employees assisting Corporate Auditors when requested and the independence of such employees from Directors  
In the event that an auditor requests the assistance of an employee, a proper system shall be established upon consultation with the Corporate Auditor. Concerning the Determination of matters related to the delegation of authority over personnel matters to the relevant employee, the independence of such employees from directors shall be ensured by obtaining the prior consent of the Corporate Auditor.

- 7) System for reporting to Corporate Auditors by Directors and employees and other systems regarding reporting to Corporate Auditors  
A system shall be established that enables Corporate Auditors to receive reports from Directors and employees on the state of execution of duties. At the same time collaboration and coordination with internal departments carrying out audits shall be strengthened.

- 8) System for ensuring effective audits by Corporate auditors  
Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. An internal auditing office shall maintain close relations with the Corporate auditors and undertake inspections in accordance with the requests of Corporate Auditors.

- Basic thinking on the elimination of antisocial forces and establishment of measures

1) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no relations with antisocial forces that threaten the order and safety of society.

2) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office and Human Resources and General Affairs Department as the department and office responsible for responding to antisocial forces. The Company shall collaborate with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence. At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

### Status of Internal Audits and Audits by Corporate Auditors

The Office of Auditors (12 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Office of Auditors receives reports on the results of internal audits implemented at each Group company from the Internal Auditing Office established within each Group company.

The Board of Corporate Auditors formulates auditing policies and assigns relevant duties regarding audits. Each Corporate Auditor complies with the standards set by the Board of Corporate Auditors when conducting audits and works to gather information and ensure smooth lines of communication with Directors and the Office of Auditors in order to create an effective environment for auditing. Corporate Auditors attend the Board of Directors meetings and other important meetings to hear reports from Directors and others on the status of execution of duties and to examine the condition of business operations and assets at the Head Office and key business locations. Other functions include oversight and inspection of the status of internal control systems.

Corporate Auditors and staff from the Office of Auditors meet regularly once a month to exchange information regarding such matters as auditing plans as well as the condition of audit implementation and business execution, and take appropriate steps as required.

Corporate Auditors and the Independent Auditors meet on a timely basis to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information confirming the legality of actions taken by Directors, and take appropriate steps as required.

### Corporate Audits

OTSUKA CORPORATION contracts Ernst & Young ShinNihon LLC to handle its accounting auditing.

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

Ryuzo Shiraha, Designated Employee with Limited Liability and  
Managing Partner

Shigeyuki Kano, Designated Employee with Limited Liability and  
Managing Partner

Sei Eshita, Designated Employee with Limited Liability and  
Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs 18

Other individuals 18

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

### **Relationship with Outside Directors and Outside Auditors**

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE).

The following individual has been appointed as an outside director. This person attends the Board of Directors meetings to provide insight and impart opinions based on extensive experience. This strengthens the monitoring of the execution of duties by the Board of Directors.

Jiro Makino has been appointed as an outside director because of his qualifications as a lawyer to the management of the Company and long years of involvement in the actual practice of corporate legal affairs. In addition, he was appointed as an outside auditor of the Company in March 2004 and has served in this position for 11 years. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

The following three persons have been appointed as outside auditors. They attend the Board of Directors meetings to provide insight and impart opinions based on extensive experience. This facilitates the decision-making process of the Board of Directors.

Mikio Sugiyama and Kazuhiko Nakai have been appointed as outside auditors because of their qualifications as certified public accountants, respectively, to the management of the Company. They make reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has a key position.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Tetsutaro Wakatsuki has been appointed as an outside auditor because of his qualifications as a lawyer to the management of the Company. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and TPC Co., Ltd. and SBI Life Living Co., Ltd., in which Tetsutaro Wakatsuki concurrently has key positions.

There are no special interests or otherwise relationship between the Company and the above-mentioned persons.

### **Mutual Collaboration between Surveillance or Audits by Outside Auditors and Internal Audits, Corporate Auditor Audits and Independent Audits, and Relations with Internal Control Department**

The outside auditors receive on a regular basis auditing reports at the Board of Corporate Auditors, reports concerning the state of establishment and operation of internal controls from the Internal Control Committee and reports on internal audits from the Office of Auditors. This enables the outside auditors to understand the current state of the Group and pertinent issues, and when the need arises they express their opinions from a specialist standpoint at the Board of Directors. Additionally, outside auditors exchange information and opinions with the Independent Auditors and internal auditing departments, beginning with the Office of Auditors, at their discretion and work to share auditing information.

## **2. Status of Implementation of Risk Management System**

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management as part of a risk management system.

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department within its scope. At the same time, efforts are made to enhance

crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

### 3. Remuneration of Directors and Corporate Auditors

#### Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Classification

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors	386	259	83	43	12
Corporate Auditors(except outside auditors)	18	16	–	1	1
Outside Auditors	16	16	–	–	3

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 Corporate Auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
4. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

#### Total Consolidated Remuneration by Director and Corporate Auditor

Not disclosed since there are no Directors or Corporate Auditors that receive consolidated remuneration of ¥100 million or more.

#### Policy for Determination of Remuneration Policy and its Calculation Method for Directors and Corporate Auditors

Remuneration for Directors comprises basic pay, bonus and retirement benefits. The method of calculation for each is as follows. Basic pay refers to fixed remuneration determined based on the maximum annual income of the employee and the importance of their role in each position. It is set within the limit determined by a resolution passed at the General Meeting of Shareholders. In order to link contribution to business performance, bonuses are determined based on target achievement for operating income and the degree of contribution of each Director. Remuneration for Corporate Auditors is determined based on deliberation by the Board of Corporate Auditors and set within the limit determined by a resolution passed at the General Meeting of Shareholders. In principle, the Company sets an annual basic total amount for retirement benefits for each class of Standing Officer. Retirement benefits are paid at the time of retirement in an amount adjusted for company and individual performance. The Company does not employ a stock option system.

### 4. Principal Stockholdings by the Company

#### Investment shares held for any purpose other than pure investment

Number of securities	57
Total amount on balance sheet	¥5,968 million

#### Name, number, amount on balance sheet of investment shares held for any purpose other than pure investment and purpose for holding them

(Previous Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	2,797	To facilitate and maintain business relationship
Billing System Corporation	50,000	400	Same as above
Ricoh Company, Ltd.	257,029	287	Same as above
The Bank of Yokohama Ltd.	382,204	223	Same as above
Daiwa House Industry Co, Ltd.	100,000	203	Same as above
Uchida Esco Co., Ltd.	180,000	139	Same as above

Credit Saison Co., Ltd.	50,000	138	Same as above
Daito Trust Construction Co., Ltd.	13,100	128	Same as above
ThreePro Group Co., Ltd.	360,000	82	Same as above
Meiko Network Japan Co., Ltd.	60,000	67	Same as above
Zeon Corporation	28,480	28	Same as above
The Keiyo Bank, Ltd.	50,000	25	Same as above
Nippon Kayaku Co., Ltd.	15,711	23	Same as above
NAMCO BANDAI Holdings Inc.	9,504	22	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	20	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	19	Same as above
Iino Kaiun Kaisha, Ltd.	27,506	17	Same as above
J ESCOM HOLDINGS, INC.	150,000	12	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	9	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	7	Same as above
Iwabuchi Corporation	16,023	6	Same as above
Mizuho Financial Group, Inc.	21,520	4	Same as above
Rengo Co., Ltd.	7,600	4	Same as above
Tsuchiya Holdings Co., Ltd.	7,929	3	Same as above
HYPER Inc.	6,000	3	Same as above
Morinaga & Co., Ltd.	13,801	2	Same as above
Daikyo Incorporated	9,400	2	Same as above
Autobacs Seven Co., Ltd.	1,500	2	Same as above
Maruzen Co., Ltd.	2,000	1	Same as above
Canon Marketing Japan Inc.	1,155	1	Same as above

(Current Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	3,805	To facilitate and maintain business relationship
Ricoh Company, Ltd.	272,637	335	Same as above
The Bank of Yokohama Ltd.	382,204	251	Same as above
Daiwa House Industry Co, Ltd.	100,000	229	Same as above
Uchida Esco Co., Ltd.	180,000	189	Same as above
Billing System Corporation	50,000	184	Same as above
Daito Trust Construction Co., Ltd.	13,100	179	Same as above
ThreePro Group Co., Ltd.	360,000	133	Same as above
Credit Saison Co., Ltd.	50,000	112	Same as above
Meiko Network Japan Co., Ltd.	60,000	73	Same as above
The Keiyo Bank, Ltd.	50,000	33	Same as above
Zeon Corporation	29,367	31	Same as above
Nippon Kayaku Co., Ltd.	16,256	24	Same as above
NAMCO BANDAI Holdings Inc.	9,504	24	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	23	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	19	Same as above
Iino Kaiun Kaisha, Ltd.	28,485	19	Same as above
J ESCOM HOLDINGS, INC.	150,000	11	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	9	Same as above
Iwabuchi Corporation	17,155	8	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	7	Same as above

HYPERS Inc.	6,000	5	Same as above
Morinaga & Co., Ltd.	14,633	4	Same as above
Mizuho Financial Group, Inc.	21,520	4	Same as above
Rengo Co., Ltd.	7,600	3	Same as above
Autobacs Seven Co., Ltd.	1,500	2	Same as above
Canon Marketing Japan Inc.	1,155	2	Same as above
Maruzen Co., Ltd.	2,000	2	Same as above
Tsuchiya Holdings Co., Ltd.	8,411	2	Same as above
Daikyo Incorporated	9,400	1	Same as above

#### **Investment stocks held for the purpose of pure investment**

Not applicable

#### **5. Number of Directors**

The Company's Articles of Incorporation stipulate that the number of Company Directors shall be 19 or fewer.

#### **6. Outline of Contracts for Limitation of Liability**

Not applicable.

#### **7. Resolutions for Appointment and Dismissal of Director**

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a 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 the appointment of a Director shall not be decided by cumulative voting.

#### **8. Decision-Making Body for the Distribution of Retained Earnings**

The regular General Meeting of Shareholders shall serve as the decision-making body for the distribution of retained earnings at year-end.

#### **9. Interim Dividend**

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. This is in order to allow the flexible return of profits to shareholders.

#### **10. 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.

#### **11. Exemption from Liability of Directors and Corporate Auditors**

Not applicable.

#### **12. 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 if the total shareholders capable of exercising such rights. This aim to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.



## ■ Remuneration for Independent Auditors

### 1. Breakdown of Remuneration for Independent Auditors

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	65	—	65	0
Consolidated Subsidiaries	13	—	13	—
Total	79	—	79	0

### 2. Other Major Remuneration

Not applicable.

### 3. Non-Auditing Services by Independent Auditors for Consolidated Companies

(Previous Fiscal Year)

Not applicable.

(Current Fiscal Year)

Non-auditing services for which the Company pays remuneration to independent auditors consist of services related to seminars for customers and other services.

### 4. Audit Remuneration Policy

The Company determines an appropriate amount of audit remuneration based on a number of factors, including the number of days of auditing work, the nature of auditing duties and scale of work to ensure the Accounting Auditor can conduct auditing and certification services fairly and in good faith from an independent standpoint.