

# Corporate Governance

## 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 Governance System

##### A. Overview of the Corporate Governance 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. A Corporate Auditor System has therefore been adopted. Additionally, the Company appoints outside directors and outside auditors with the aim of strengthening the monitoring of the execution of duties.

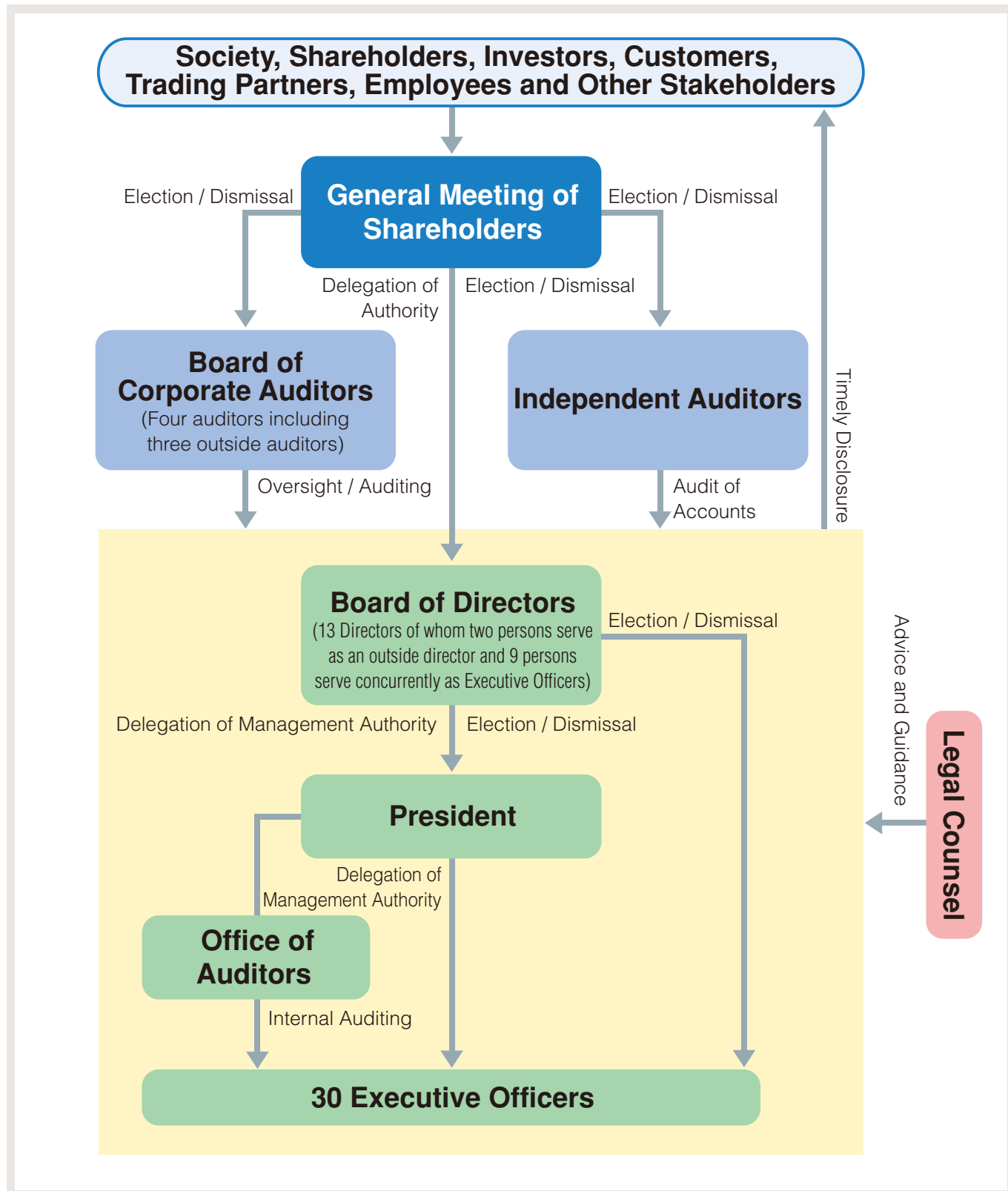
With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

The Board of Directors consists of 13 persons, including two outside directors, 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.

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



## **B. Reason for Adopting Present Corporate Governance System**

It has been deemed that a governance system led by outside directors would not be suitable due to a 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 in the manner above.

The Company assures transparency of decision-making by strengthening management oversight and audit functions by auditors, including outside auditors, and appoints outside directors with no conflict of interest with general shareholders to strengthen management supervision functions. By doing so, the Company aims to contribute to proper decision-making by the Board of Directors.

In this manner, the Company believes that its Corporate Governance system under which Executive Officers handle business execution based on the Board of Directors, including outside directors, and the Board of Corporate Auditors, including outside auditors, functions effectively.

## **C. Other Matters Concerning Corporate Governance**

### **State of Internal Control Systems**

At a meeting of the Board of Directors, the Company has determined the following basic policies for a system for ensuring that the execution of duties by Directors is in compliance with laws and the Articles of Incorporation as well as for a system deemed necessary as prescribed by an ordinance of the Ministry of Justice for ensuring appropriate operations of stock companies and of corporate groups consisting of stock companies and their subsidiaries.

- Basic policies for internal control systems

- a) 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.

- b) 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.

- c) 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.

- d) 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.

- e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

- 1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries

Group Management Meetings are held and these clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans.

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries.

When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or the

Representative Directors on the state of the execution of duties.

2) Regulations and other systems concerning management of risk of losses at subsidiaries

The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

Information regarding recognized risk by consolidated subsidiaries shall be shared at Group Management Meetings and efforts shall be made for the early detection and prevention of risk.

In the event of unexpected contingencies, we shall set up a task force at the Company, collect risk information, collaborate with the relevant consolidated subsidiaries and devise quick and appropriate countermeasures.

3) System for ensuring the efficient execution of duties by directors of subsidiaries

Consolidated subsidiaries shall ensure the autonomy and independence of management and formulate an annual plan in accordance with the Group's policies. The targets and responsibilities of each company shall be clarified and efforts shall be made to attain the intended performance targets through the analyses of variances between budget estimates and actual results. Consolidated subsidiaries shall establish Board of Directors regulations and convene meetings of the Board of Directors to deliberate on and resolve important matters concerning management and monitor the state of the execution of duties. Moreover, details on the execution of duties shall be prescribed in the various types of internal company regulations and efficiency shall be raised.

4) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by Directors and employees

Consolidated subsidiaries 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. Consolidated subsidiaries shall strive to enhance their compliance systems and ensure the execution of business operations is in compliance with laws and the Articles of Incorporation by taking such measures as raising awareness through continuous compliance education, setting up internal audit offices within each company to improve business operations, and properly applying the internal reporting system established by the Company and shared by consolidated subsidiaries.

5) Other systems for ensuring proper operations of the Group consisting of the Company and its subsidiaries

The Company's Office of Auditors shall receive reports on the results of internal audits implemented at each consolidated subsidiary by internal auditing offices established at each consolidated subsidiary. Additionally, it shall implement regular audits of consolidated subsidiaries as well as audit the state of compliance with laws and regulations and provide necessary guidance.

f) Matters regarding employees assisting Corporate Auditors when requested by Corporate Auditors

When a Corporate Auditor makes such a request, an appropriate employee shall be appointed from the Business Administration Headquarters and assigned to a concurrent position as an employee assisting the Corporate Auditor.

g) Matters concerning the independence of such employees from Directors as mentioned in the preceding item and matters related to ensuring the effectiveness of instructions from the Corporate Auditor to the relevant employees

Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee as mentioned in the previous item, the independence of such employees from Directors shall be ensured by obtaining the prior consent of the Corporate Auditor.

Effectiveness shall be ensured by establishing a structure under which the Corporate Auditor provides direct instructions to and receives reports from the relevant employee.

h) System regarding reporting to the Corporate Auditors

1) System for reporting to Corporate Auditors by Directors and employees

A system shall be established that enables Corporate Auditors to receive reports from Directors and employees on the state of the execution of duties. At the same time, collaboration and coordination with internal departments carrying out audits shall be strengthened.

2) System that enables directors, auditors, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, to report to the Corporate Auditors

Directors, auditors, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons shall, depending on the importance and urgency of the matters, report to the Corporate Auditors about any improprieties regarding the execution of duties by directors or employees of the Company or consolidated subsidiaries, about any actual matters in violation of laws and regulations or the Articles of Incorporation or regarding actual matters that could

cause significant damage to the Company.

- i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports  
In accordance with employment regulations, persons reporting matters to the Corporate Auditors shall not be treated unfavorably as a result of such reports.
- j) Matters related to the treatment of expenses and liabilities incurred in business execution by Corporate Auditors  
In the case auditors request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such auditors.
- k) Other systems for ensuring effective audits by Corporate Auditors  
Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. The Company's Office of Auditors 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**

##### a) 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.

##### b) 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, Human Resources and General Affairs Department, and Customer Relationship Office 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.

#### **State of Establishment of Risk Management Structure**

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 in 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.

#### **D. Summary of Details of Contract of Limited Liability**

As prescribed by Article 427-1 of the Companies Act, the Company, each outside director and each auditor conclude a contract that limits liability under Article 423-1 of the Act. The amount limit of the liability based on these contracts shall be the amount prescribed by law.

## **2. Status of Internal Audits and Audits by Corporate Auditors**

As the organization for internal audits and audits by corporate auditors, the Office of Auditors (13 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.

### 3. Accounting 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 13

Other individuals 25

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

### 4. Outside Directors and Outside Auditors

Although Outside Director Jiro Makino had no involvement in corporate management in the past other than serving as an outside officer, he has been appointed as an outside director because of his insights and experience as a lawyer and long years of involvement in the actual practice of legal affairs. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Jiro Makino Law Office legal professional corporation, in which outside director Jiro Makino currently has a key position.

Tetsuo Saito has been appointed as an outside director because of his long years of experience in participating in the management of numerous companies in multiple industries. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Work Two Co., Ltd., Diamond Dining Co., Ltd. and Career Design Center Co., Ltd., in which Tetsuo Saito currently has key positions.

Kazuhiko Nakai has been appointed as an outside auditor because of his qualifications as a certified public accountant and tax accountant 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 Kazuhiko Nakai CPA Office, Kazuhiko Nakai Tax Accountant Office and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has key positions.

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 Murata & Wakatsuki Law Offices and SBI Money Plaza Co., Ltd., in which Tetsutaro Wakatsuki concurrently has key positions.

Etsuo Hada has been appointed as an outside auditor because of his qualifications as a Certified Public Accountant (CPA), licensed tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement the actual practice of corporate accounting and legal affairs. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Hada CPA and Judicial Scrivener Office and Nikkan Kogyo Shimbun Ltd. in which outside auditor Etsuo Hada currently has key positions.

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 outside directors and outside auditors each attend Board of Directors meetings to provide insights and impart opinions based on their extensive experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

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.

## 5. Remuneration of Directors and Corporate Auditors

### A. 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 (excluding outside directors)      | 371                                  | 260                                         | 67    | 42                  | 12                           |
| Corporate Auditors (except outside auditors) | 18                                   | 16                                          | –     | 1                   | 2                            |
| Outside Auditors                             | 39                                   | 39                                          | –     | –                   | 6                            |

Notes:

- The above includes two auditors (including one outside auditor) who resigned from the Company at the conclusion of the 55th regular General Meeting of Shareholders on March 29, 2016.
- Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
- 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).
- 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.
- The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

### B. 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.

### C. 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 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.

## 6. Principal Stockholdings by the Company

### A. Investment Shares Held for Any Purpose Other Than Pure Investment

|                               |                |
|-------------------------------|----------------|
| Number of securities          | 58             |
| Total amount on balance sheet | ¥7,849 million |

### B. 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.                      | 3,000,000        | 5,655                                     | To facilitate and maintain business relationship |
| Ricoh Company, Ltd.                          | 288,280          | 360                                       | Same as above                                    |
| Daiwa House Industry Co, Ltd.                | 100,000          | 350                                       | Same as above                                    |
| The Bank of Yokohama Ltd.                    | 382,204          | 285                                       | Same as above                                    |
| Billing System Corporation                   | 50,000           | 255                                       | Same as above                                    |
| ThreePro Group Co., Ltd.                     | 360,000          | 209                                       | Same as above                                    |
| Daito Trust Construction Co., Ltd.           | 13,100           | 183                                       | Same as above                                    |
| Uchida Esco Co., Ltd.                        | 180,000          | 174                                       | Same as above                                    |
| Credit Saison Co., Ltd.                      | 50,000           | 120                                       | Same as above                                    |
| Meiko Network Japan Co., Ltd.                | 60,000           | 84                                        | Same as above                                    |
| Zeon Corporation                             | 30,265           | 29                                        | Same as above                                    |
| The Keiyo Bank, Ltd.                         | 50,000           | 28                                        | Same as above                                    |
| Mitsubishi Tanabe Pharma Corporation         | 13,300           | 27                                        | Same as above                                    |
| NAMCO BANDAI Holdings Inc.                   | 9,504            | 24                                        | Same as above                                    |
| Mitsubishi UFJ Financial Group, Inc.         | 29,110           | 22                                        | Same as above                                    |
| Nippon Kayaku Co., Ltd.                      | 16,783           | 21                                        | Same as above                                    |
| Kyowa Hakko Kirin Co., Ltd.                  | 8,000            | 15                                        | Same as above                                    |
| Iino Kaiun Kaisha, Ltd.                      | 29,536           | 14                                        | Same as above                                    |
| J ESCOM HOLDINGS, INC.                       | 150,000          | 14                                        | Same as above                                    |
| Iwabuchi Corporation                         | 18,138           | 10                                        | Same as above                                    |
| Morinaga & Co., Ltd.                         | 15,025           | 9                                         | Same as above                                    |
| The Dai-ichi Life Insurance Company, Limited | 4,300            | 8                                         | Same as above                                    |
| HYPER Inc.                                   | 12,000           | 6                                         | Same as above                                    |
| Mizuho Financial Group, Inc.                 | 21,520           | 5                                         | Same as above                                    |
| Rengo Co., Ltd.                              | 7,600            | 3                                         | Same as above                                    |
| Autobacs Seven Co., Ltd.                     | 1,500            | 3                                         | Same as above                                    |
| Canon Marketing Japan Inc.                   | 1,155            | 2                                         | Same as above                                    |
| Maruzen Co., Ltd.                            | 2,000            | 1                                         | Same as above                                    |
| Daikyo Incorporated                          | 9,400            | 1                                         | Same as above                                    |
| Tsuchiya Holdings Co., Ltd.                  | 9,114            | 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.                      | 3,000,000        | 5,439                                     | To facilitate and maintain business relationship |
| ThreePro Group Co., Ltd.                     | 360,000          | 323                                       | Same as above                                    |
| Daiwa House Industry Co., Ltd.               | 100,000          | 319                                       | Same as above                                    |
| Ricoh Company, Ltd.                          | 310,088          | 306                                       | Same as above                                    |
| Daito Trust Construction Co., Ltd.           | 13,100           | 230                                       | Same as above                                    |
| Concordia Financial Group, Ltd.              | 382,204          | 215                                       | Same as above                                    |
| Uchida Esco Co., Ltd.                        | 180,000          | 207                                       | Same as above                                    |
| Billing System Corporation                   | 50,000           | 179                                       | Same as above                                    |
| Credit Saison Co., Ltd.                      | 50,000           | 103                                       | Same as above                                    |
| Meiko Network Japan Co., Ltd.                | 60,000           | 65                                        | Same as above                                    |
| Zeon Corporation                             | 31,511           | 36                                        | Same as above                                    |
| NAMCO BANDAI Holdings Inc.                   | 9,504            | 30                                        | Same as above                                    |
| Mitsubishi Tanabe Pharma Corporation         | 13,300           | 30                                        | Same as above                                    |
| The Keiyo Bank, Ltd.                         | 50,000           | 26                                        | Same as above                                    |
| Nippon Kayaku Co., Ltd.                      | 17,466           | 25                                        | Same as above                                    |
| Mitsubishi UFJ Financial Group, Inc.         | 29,110           | 20                                        | Same as above                                    |
| Morinaga & Co., Ltd.                         | 3,065            | 14                                        | Same as above                                    |
| Iino Kaiun Kaisha, Ltd.                      | 31,034           | 14                                        | Same as above                                    |
| Kyowa Hakko Kirin Co., Ltd.                  | 8,000            | 12                                        | Same as above                                    |
| J ESCOM HOLDINGS, INC.                       | 150,000          | 12                                        | Same as above                                    |
| Iwabuchi Corporation                         | 1,946            | 10                                        | Same as above                                    |
| The Dai-ichi Life Insurance Company, Limited | 4,300            | 8                                         | Same as above                                    |
| HYPER Inc.                                   | 12,000           | 5                                         | Same as above                                    |
| Rengo Co., Ltd.                              | 7,600            | 4                                         | Same as above                                    |
| Mizuho Financial Group, Inc.                 | 21,520           | 4                                         | Same as above                                    |
| Autobacs Seven Co., Ltd.                     | 1,500            | 2                                         | Same as above                                    |
| Maruzen Co., Ltd.                            | 2,000            | 2                                         | Same as above                                    |
| Canon Marketing Japan Inc.                   | 1,155            | 2                                         | Same as above                                    |
| Daikyo Incorporated                          | 9,400            | 2                                         | Same as above                                    |
| Tsuchiya Holdings Co., Ltd.                  | 10,036           | 1                                         | Same as above                                    |

**C. Investment Stocks Held for the Purpose of Pure Investment**

Not applicable

**7. Number of Directors**

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

**8. 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.

**9. 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 are capable of exercising such rights. This aim is to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

## 10. 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.

## 11. Interim Dividend

Pursuant to Paragraph 5, Article 454 of the Companies Act, 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.

## 12. Purchase of Own Shares

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

## 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                                                        | —                                       |
| Consolidated Subsidiaries | 13                                                        | —                                       | 13                                                        | —                                       |
| Total                     | 79                                                        | —                                       | 79                                                        | —                                       |

### 2. Other Major Remuneration

Not applicable

### 3. Non-auditing Services by Independent Auditors for Otsuka Corporation

Not applicable

### 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.