

# Message from the CEO

**Otsuka will strive to address social issues to support the health and happiness of people around the world and bring about well-being for society as a whole through the creation of unique value.**



A handwritten signature in black ink, appearing to read 'Tatsuro Otsuka'.

President and Representative Director, CEO  
Otsuka Holdings Co., Ltd.

## Medium- to Long-Term Vision as a Total Healthcare Company

The Otsuka group's corporate philosophy is "Otsuka-people creating new products for better health worldwide." As a total healthcare company, Otsuka aims to support the health of people across the world down to local communities through the provision of products, services, and information—in other words, to contribute to the well-being of society as a whole. This corporate philosophy has been our constant and towering aspiration since our humble beginnings in Tokushima in 1921.

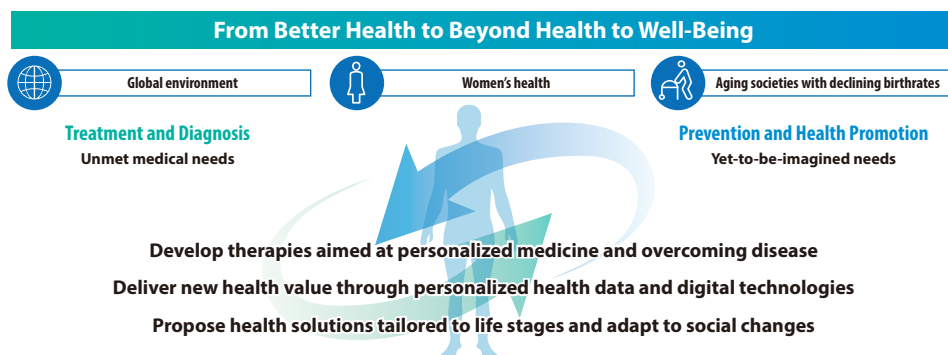
Today, the environment surrounding us is rapidly changing, and a variety of phenomena are emerging that will have a significant impact on society. These include climate change, women's empowerment, declining birthrates, aging societies, infectious diseases, scientific advancements, and technological innovations such as AI. The implications inherent in each will have a significant bearing on our business strategies and product development, so it is essential that we understand and adapt to them.

Based on this recognition, the 4th Medium-Term Management Plan (MTMP) announced in June 2024 identifies three social issues on which the Otsuka group will focus its efforts: the global environment, women's health, and aging societies with declining birthrates, outlining our ideal impacts for 2035. To achieve our goals in these areas, the Otsuka group will develop therapies aimed at personalized medicine and overcoming diseases, deliver new health value by utilizing personalized health data and digital technologies, and propose health solutions tailored to life stages and adapted to social changes. Under the concept of total healthcare, we have covered processes from diagnosis to treatment through the Pharmaceutical Business and from prevention to health promotion through the Nutraceutical Business. Additionally, we will work on the creation of new, complex health value that cannot be clearly categorized to provide more comprehensive healthcare solutions to address the aforementioned three social issues. As for the theme of "From Better Health to Beyond Health to Well-Being," we will take a broader view of health and conduct business in a way that addresses the health experience of each individual person.

Now that the group has grown in scale, we created the new executive position of COO as of January 2024 in order to further develop our business. We have developed a structure in which group companies collaborate in management, by having clearer division of responsibilities and accountability among management and department leaders. This has enabled stronger and more fleshed-out management, letting us create an environment in which we can carefully manage the execution of our strategies toward our medium- to long-term vision.

## Message from the CEO

### Long-Term Vision: Otsuka Group's Vision for 2035



### A Total Healthcare Company Created by a Cycle of Investment and Growth

Otsuka was founded in 1921 in Tokushima Prefecture, Japan, as a manufacturer of chemical raw materials, producing magnesium carbonate in compliance with the Japanese Pharmacopoeia from the liquid called bittern that is left over after taking the salt out of salt pans. In a way, we began as a B2B company supplying raw materials by taking advantage of local characteristics. From there, we decided to make a major investment, which took us a step forward to become one of Japan's leading manufacturers of IV solutions. Following this success, the company worked on the development and growth of *Oronine Ointment* and expanded to B2C businesses, including *ORONAMIN C DRINK* and *POCARI SWEAT*, continuing to realize a cycle in which a series of business challenges and successes lead to investment for the next stage of growth. The growth of *POCARI SWEAT* became a source of funds for clinical development of pharmaceutical products in the U.S., the foundation for the growth of what is now our Pharmaceutical Business. Otsuka has always been quick to identify market and economic trends, and has repeatedly invested profits from its businesses to new businesses with an eye to the next stage of growth. This virtuous cycle of investment and results has led to the current growth of the Otsuka group.

Growth in corporate scale and globalized operations come with greater need to flexibly adapt to diverse cultural and economic conditions. The Otsuka group emphasizes a "multiglocal" approach that combines a global perspective with local practices. For example, our strategy for *POCARI SWEAT* in Asia is tailored to each area, producing locally to meet each area's demand. These strategies based on regional and business characteristics, as well as our efforts to realize new business and product concepts, have led to our current scale of 2 trillion yen in revenue. However, I believe that the context behind these numbers is more important than the numbers themselves. In other words, we need to give more

thought to the quality of the businesses we are currently engaged in, and whether we have been able to plant new seeds that will lead us to the next step.

Each successive head of Otsuka, including founder Busaburo Otsuka, was extremely rigorous in their work, not out of personal greed but out of enthusiasm for the business, while at the same time having a strong sense of appreciation for their employees. I am convinced that this has made Otsuka an attractive organization, earning the trust of employees and other stakeholders. Furthermore, the founding family's enthusiasm and dedication to the business have been passed on as genetic makeup, represented in the Otsuka group's values: *Ryukan-godo* (by sweat we recognize the way), *Jissho* (actualization), and *Sozosei* (creativity). This Otsuka corporate culture has been the cornerstone of many innovations, and I believe we must make our innovations highly reproducible.

### Our Goals in the 4th Medium-Term Management Plan

The 3rd MTMP concluded with revenue exceeding 2 trillion yen in the final year, achieving the plan's target. With the significant growth of our four Global Products in the Pharmaceutical Business and steady growth of functional beverages and supplements in the Nutraceutical Business, business profit before R&D expenses, which represents earning power for our businesses, was approximately 620 billion yen. The Otsuka group allocates about half of this amount to R&D investments, and by making progress on research themes, we are fostering our next drivers of growth. Naturally, we will not have success with all our themes. For example, if we undertake multiple projects, I believe it is fine if half of the projects move forward, and at least one of those significantly contributes to society.

When we went public in 2010, the Otsuka group faced calls to be more accountable for our corporate activities and ensure greater transparency to investors and the stock market, and our awareness of our growth shifted from an internal perspective toward external evaluations. Then, through three medium-term management plans, we worked to steadily nurture large-scale products and were able to turn them into seeds for medium- to long-term growth. Through this 15-year-long process, the quality of our management has steadily evolved, as we have increased the capability of our human resources and organization, made investments from a long-term perspective with positive outcomes, and enhanced our presence and operational capabilities in each region of the world. For the 4th MTMP period we have chosen the theme "Promotion of new business expansion and investment to generate growth for the next generation: Five years of creation and growth," in which we will focus efforts on the social issues of global environment, women's health, and aging societies with declining birthrates as mentioned earlier, under the concept of total healthcare from prevention, health promotion, and diagnosis to treatment.

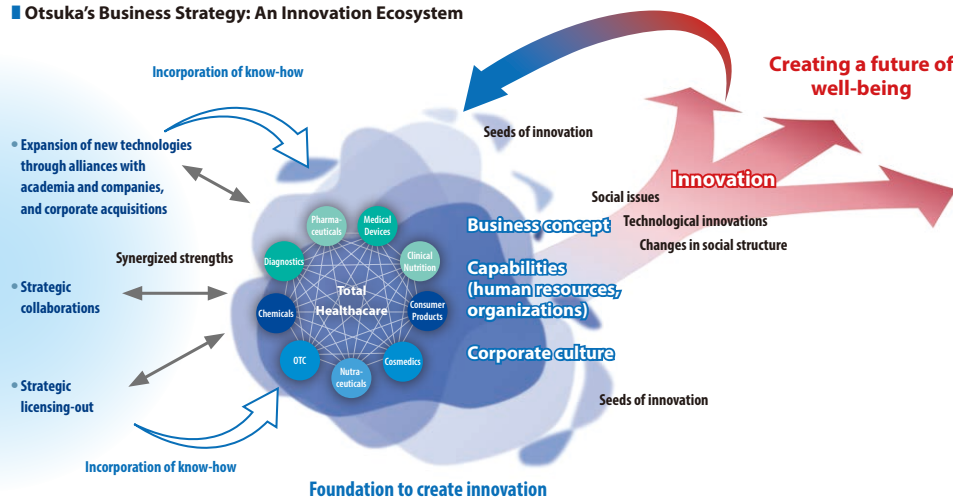
## Message from the CEO

### Establishing Mechanisms to Make Innovation Reproducible

I believe that innovation is born from the constant repetition of gathering information, thinking, forming hypotheses, and then conducting experiments and verifying our hypotheses. To this end, it is essential to expand our knowledge and networks, strengthen internal and external communication, and systematically build mechanisms that lead to innovations from unexpected discoveries. This is my life's work. It is an effort to make a reproducible process out of one that has traditionally been conducted unconsciously.

The key elements of our innovation-creating infrastructure are the development of business concepts, strong capabilities both in human resources and organizations, and the cultivation of a corporate culture, through which we have created an environment conducive to innovation. Improving the capability of our human resources is one of the most important elements; we have provided numerous opportunities to take on challenges through unique businesses, and we expect our human resources to grow by overcoming these challenges. To this end, we plan and implement a variety of training programs, and we expect each employee to be curious about various things on a daily basis and to be in the habit of critical thinking while they are engaged in their work. Furthermore, we are continuing to evolve this into an even stronger innovation-creating foundation by not only using our own assets, but also by expanding new technologies and proactively incorporating know-how through M&A and alliances with

#### Otsuka's Business Strategy: An Innovation Ecosystem



academia and companies that synergistically enhance one another's strengths.

From this innovation-creating foundation, we will generate many seeds, carefully plant and nurture them while responding to changes in social issues and the social structure through the incorporation of technological innovations, and link them to new innovations. Moreover, this mechanism of constant innovation creation, in other words an innovation ecosystem, will evolve through feedback via the insights and knowledge gained from delivering innovations to the world. Through these activities, we hope to create a future of well-being and evolve our business to realize our corporate philosophy.

### Message to Stakeholders for Realizing Our Vision

The Otsuka group will always strive to achieve growth and returns, and to build trust with its stakeholders including shareholders by providing them with timely, clear, and sufficient information. This will enhance management transparency and strengthen the foundation for sound corporate growth.

The Otsuka group is a health-related company. As a manufacturer, it is our greatest commitment to produce quality products, and we will not go in a direction that is inconsistent with our philosophy, even if it means incurring significant costs. We want our employees to identify with this policy and be willing to work together with us.

The Otsuka group, as steward of the long-inherited Otsuka culture of *Ryukan-godo*, *Jissho*, and *Sozosei*, will strive to put into practice what only Otsuka can do. To support the lives of people around the world through a wide range of innovative and creative products and services, we will continue to constantly create new value through innovation and work together with our stakeholders to realize the well-being of society as a whole. We look forward to your continued support as we strive forward toward this mission.

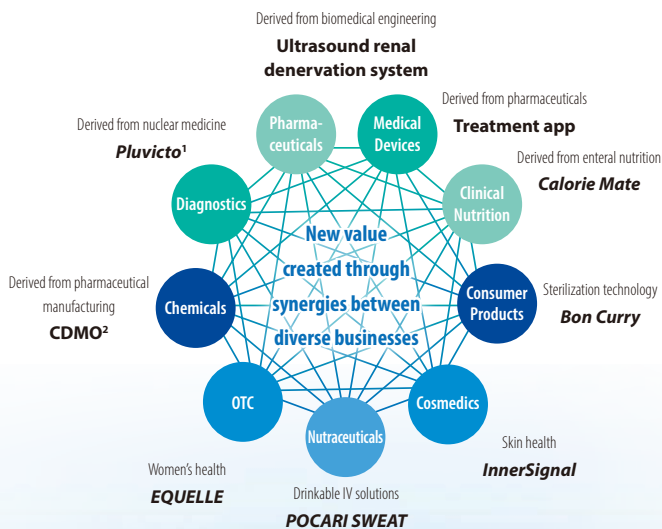
# Uniqueness of Otsuka Group's Value Creation

## Vision as a Company That Provides Unique Total Healthcare

The Otsuka group conducts unique, diverse businesses globally based on the idea of total healthcare. Through its business, the company wants to make contributions to society that are not limited to treatments and health maintenance for individual patients and consumers but also include opportunities to improve the lives of those around patients and consumers. These initiatives lead to well-being, which can be seen in people's health and happiness, and the well-being future that Otsuka aims for. To pursue this future, the company considers it important to create an environment that leads to innovation.

The Otsuka group is distinguished by its stance toward finding the universal essence of things through its unique, diverse businesses. It is Otsuka's belief that this stance gives rise to concepts for new products and services and that providing services and products that embody these concepts—that is to say innovation—to the world leads to not only the physical health but also the mental and social health

### Examples of unique value creation



1. Product licensed to Novartis  
2. Contract Development and Manufacturing Organization

and well-being of people. Otsuka proposes new socially-impactful health value for the world through this innovation.

Otsuka has been able to create innovation for many years because the ideas embodied in *Ryukan-godo* (by sweat we recognize the way), *Jissho* (actualization), and *Sozosei* (creativity), three phrases that have been passed on down from earlier times, have spread throughout the group as corporate culture. This corporate culture has provided a single orientation for the group over many years, serves as a map and compass for its pursuit of uniqueness and innovation, and distinguishes Otsuka as a unique, total healthcare company. The company will continue to pursue Otsuka's vision based on the unwavering management policies.

## Innovation Creation Structure

Otsuka considers a corporate culture that encourages employees to continually take on challenges, human resource development, and a stable financial framework three key elements for providing the world with products and services that embody new concepts and contribute to society that meet the needs of the changing times.

A culture that encourages employees to fearlessly try new ideas is the foundation for promoting new challenges and creating innovation. This makes it possible for each employee to create imaginative ideas, propose new business conceptions, and take actions to achieve them. [▶Our Corporate Culture P.01](#)

Outstanding human resources are indispensable to deliver innovation to the world. Otsuka has not only created an environment in which each individual employee can make the most of their abilities but also provides a place in which diverse human resources can play active roles. In addition, the company offers an extensive range of support in the form of training for greater specialization, career support system, and independent study. These initiatives make it possible to achieve growth for not only the company but also employees. [▶Human Resources P.51](#)

Financial resources generated from a stable financial framework are also an important factor for creating innovation, and the cash flows from Otsuka's diverse businesses are one of its important strengths. Otsuka is able to develop numerous new ideas because of this stable financial framework. The company will verify and deliver to the world new concepts while managing risks through sound financial management and appropriate investment strategy. [▶Message from the CFO P.24](#)

Based on the three elements of corporate culture, human resources, and financial framework, the company will pursue the well-being future that it is aiming for. This entails establishing a virtuous cycle in which the new knowledge acquired by working to improve its drug discovery and product development capabilities, capturing outside assets through corporate mergers and alliances, and delivering innovation to the world, is fed back into the innovation creation infrastructure, and thus evolves it into a business foundation that can contribute to greater new value to the society.

# The Value Creation Process

## Corporate Philosophy Otsuka-people creating new products for better health worldwide

### Inputs Actual for FY2023

#### Financial Capital

- Sound financial structure
- Total capital: ¥2,436.3 billion
- Cash and deposits: ¥513.3 billion

#### Manufacturing Capital

- Number of manufacturing sites: 42 in Japan, 55 overseas\*  
\* Otsuka HD and its consolidated subsidiaries only
- Capital expenditures: Acquired property, plant and equipment: ¥405.4 billion (cumulative 2019–2023)

#### Intellectual Capital

- Number of projects in progress: 72
- R&D expenditures: ¥1,248.0 billion (cumulative 2019–2023)
- R&D sites: 19 in Japan, 15 overseas\*  
\* Otsuka HD and its consolidated subsidiaries only

#### Human Capital

- A well-developed human resources education program (program to develop management human resources, rank specific training, selective training, etc.)
- Strengthened health management
- Total training hours: 150,754 (In Japan: 19 companies, overseas: 4 companies)

#### Social and Relationship Capital

- Social issue-driven global deployment through our core business processes
- Overseas companies engaged in IV solutions business: 17
- Countries/Regions where *POCARI SWEAT* is available: More than 20
- Countries/Regions where delamanid is accessible: More than 120
- Persevering ability to nurture brands
- Brand strength of NC products
- Comprehensive health partnerships with local governments all over Japan, including with the 47 prefectures
- Explanatory briefings held for suppliers: 583\*  
\* Results from 2022 to 2023

#### Natural Capital

- Total energy consumption: 233,500 kL
- Water consumption: 19,400 thousand m<sup>3</sup>

### Society's needs

High quality and stable product supply

Unmet needs

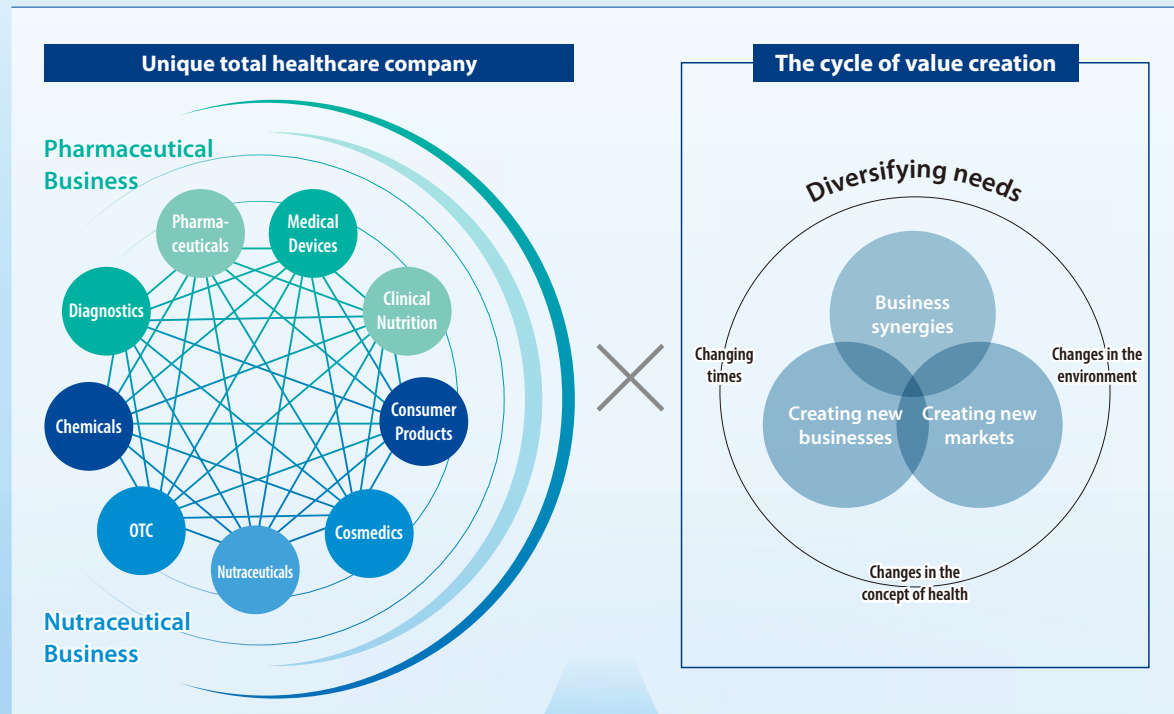
Diverse work styles

Access to medicine

Creating a system for realizing healthy lifestyles

Sustainability (Environment, social, governance)

### Business Model



### Essence of Management (Our Corporate Culture)

Ryukan-godo

Jissho

Sozosei

### Sustainable society Maximization of corporate value



## The Value Creation Process

### Otsuka-people creating new products for better health worldwide

#### Outputs

**Otsuka's innovation**

**Products and services** Revenue: 2,018.6 billion yen Actual for FY2023 ▶ P.30

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**Pharmaceutical Business**

Therapeutic drugs, medical devices, diagnostics, clinical nutrition products

▶ P.31

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**Nutraceutical Business**

Functional beverages and foods / OTC medications and quasidevices / Cosmetics

▶ P.38

POCARI SWEAT	Nature Made	Gerblé

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**Consumer Products Business**

Beverages / Foods / Alcoholic beverages

▶ P.44

Bon Curry	MY SIZE	MATCH, CRYSTAL GEYSER

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**Other Businesses**

Chemicals, warehouse and distribution, packaging, and electronic equipment

▶ P.45

Otsuka Chemical Co., Ltd.	Otsuka Warehouse Co., Ltd.

#### Outcomes Actual for FY2023

<b>Financial Capital</b>	<ul style="list-style-type: none"> <li>Strong financial and earnings base for sustainable growth</li> <li>Rating: AA-</li> <li>Ratio of equity attributable to owners of the company to total assets: 71.2%</li> <li>TSR: +107.5% for the 10-year annual rate of accumulation</li> <li>Dividend: ¥110</li> </ul>
<b>Manufacturing Capital</b>	<ul style="list-style-type: none"> <li>Launched operations of the new cogeneration system at Otsuka Chemical's Tokushima Factory</li> <li>Constructed the SynCrest Corporation Naruto Factory</li> <li>Constructed Otsuka Group Energy Management Building</li> <li>Established Otsuka Pharmaceutical Kobe Analytical Center (see P.65)</li> </ul>
<b>Intellectual Capital</b>	<ul style="list-style-type: none"> <li>Approved/launched compounds: 11 (pharmaceuticals and medical devices)</li> <li>Newly launched products: 8 (NC business)</li> <li>Percentage of in-house drug discovery: 68%</li> <li>Creation of new products and initiatives to launch new products using unique new compounds, and new modalities</li> <li>Co-creation with startups with superior innovation</li> </ul>
<b>Human Capital</b>	<ul style="list-style-type: none"> <li>Participants in the program to develop management human resources: 306 in total</li> <li>Percentage of female managers*: 21.8% * 23 companies in fiscal 2023 (see P.29)</li> <li>21 companies in the Otsuka group certified as 2023 Health and Productivity Management Outstanding Organizations</li> </ul> <div style="text-align: right;">   <small>Program to develop management human resources</small> </div>
<b>Social and Relationship Capital</b>	<ul style="list-style-type: none"> <li>Responding to unmet needs</li> <li>Delamanid has been provided for a cumulative total of more than 100,000 cases, with more than 120 countries/regions accessed. (The goal of providing delamanid for a cumulative total of more than 60,000 cases was achieved ahead of schedule.)</li> <li>Top-share products by pharmaceutical category: 9 in Japan, 3 outside Japan</li> <li>Share of consumers with the experience of using POCARI SWEAT: 85.1% (In-house survey conducted domestically in May 2024: n=2,000)</li> <li>Utilization of health information and know-how cultivated through the Pharmaceutical and Nutraceutical businesses to encourage health promotion with local communities</li> </ul>
<b>Natural Capital</b>	<ul style="list-style-type: none"> <li>Amount of renewable energy introduced: 242,000 t-CO<sub>2</sub></li> <li>Launch of PET bottles made using recycled materials</li> <li>Selected for the CDP Climate Change A-List</li> </ul>

#### Impacts

**Social well-being: Achieve a sustainable, healthy society**

- Contributing to patient's participation in social activities
- Lessening burden on healthcare professionals, caregivers, and families
- Contributing to the development of regional economies

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**Physical well-being: Extension of healthy life expectancy**

- Meeting unmet needs
- Creating products and services that contribute to new health value

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**Mental well-being: Peace of mind regarding and trust in products, services, and the company**

- Making it possible for consumers, patients, and medical professionals to live vibrant lives on their own way
- Conducting transparent, fair, and impartial business activities (employees and suppliers)

## Message from the COO

**Aiming to be an indispensable company to people's health worldwide, we will develop and execute management strategies from a long-term perspective to enhance the Otsuka group's corporate value.**



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**Makoto Inoue**

Representative Director, COO  
Otsuka Holdings Co., Ltd.

### **Strengthening Cooperation Among Operating Companies to Become a Partner in People's Well-being**

With further advances in globalization, Otsuka Holdings is further expanding its scale, with overseas sales accounting for approximately 70% of total sales and market capitalization exceeding 4 trillion yen. Amid this expansion, the group's business environment is in a state of constant flux, requiring the creation of a more resilient management structure. In January 2024, the role of Chief Operating Officer, or COO, was newly established, and as we aim to achieve the goals of the 4th Medium-Term Management Plan (MTMP) by promoting new business expansion and investments that generate the next generation of growth, I recognize that I have three main roles to play as COO.

My first role is to strengthen collaboration among operating companies. The Otsuka group's operating companies with high expertise, including those covering the Pharmaceutical Business, Nutraceutical Business, and Consumer Products Business, provide a wide range of products and services in their respective fields, and organically linking these activities will be a key in the future. To fully support the well-being of people in their life, it is necessary to further strengthen collaboration among these operating companies.

To this end, I will work to encourage information sharing and cooperation among our group companies, facilitate the smooth execution of cross-company initiatives, and leverage our group synergies to provide integrated and solutions to people in their life.

The second role is to accelerate decision-making and execution. I feel the prompt and effective decision making, with close communication with CEO Higuchi, is essential in a wide variety of business domains. By doing so, we will adapt and respond dynamically to changes in market and customer needs and create new business opportunities.

The third role is to bring about sustainable growth as a group. I will work to leverage each operating company's strengths to solve social issues and effectively fulfill my responsibility for the sustainable growth of the Otsuka group as a whole.

### **Direction of the 4th Medium-Term Management Plan**

During the period of the 3rd MTMP, the external environment changed dramatically as geopolitical risks such as the pandemic caused by the outbreak of COVID-19, sharp exchange rate fluctuations, and conflicts around the world became apparent, and technological innovation, including artificial intelligence (AI) progressed. In order to adapt and respond to these changes and promote global expansion, each operating company must autonomously manage business based on the characteristics of each region, rather than work under centralized management by the holding company. While we have seen technological advances, such as telecommuting and other diversifications of work styles, as well as the use of AI in daily work, we still believe that the foundation

## Message from the COO

of business is people-to-people relationships. Because the Otsuka group has a diverse range of operating companies that we work to encourage collaboration through dialogue.

Reflecting on the 3rd MTMP, we have reaffirmed the importance of management that captures the essence of our businesses, and in the 4th MTMP, we will leverage the strengths of the Otsuka group to achieve further growth and value creation.

Our first measure in this area is to achieve both long-term growth and short-term earnings growth. The Otsuka group has a diverse range of businesses with different levels of risk and different cycles, from pharmaceuticals that require R&D with a long-term perspective, to food and beverages that are highly competitive on a day-to-day basis. With a view to sustainable growth beyond the 5th MTMP, we will execute aggressive R&D investments, create new products through in-house clinical development and strategic alliances, and take on the challenge of entering new business domains. In addition to this, we will maximize the value of existing businesses by pursuing greater efficiency and improving brand value to support the growth of the entire group. I believe that my role is to ensure to achieve both growth from a long-term perspective with short-term earnings growth.

The second measure is to create new value that leads to well-being. By strengthening our drug discovery and product development capabilities and promoting the creation of a framework for innovation creation, we will provide advanced pharmaceuticals and healthcare solutions.

The third measure is to conduct business management with an awareness of capital cost from a long-term perspective. By fostering a corporate culture that supports sustainable growth and stabilizing our financial base, we will support Otsuka's innovation, thereby ensuring the economic development of the Otsuka group and stable and continuous returns to our shareholders.

### Human Resources Supporting the Otsuka Group's Growth: the Spirit of Challenge

Otsuka Holdings has a large number of operating companies under its umbrella, consisting of many affiliates. It is therefore key that each operating company steadily manages their businesses under autonomous governance. For myself, I emphasize ensuring a balance between the governance of the group as a whole and the management of each operating company. In this way, we pursue the execution of optimal management strategies.

In addition, from the past to the present, the source of the Otsuka group's growth has been its people. We are tasked with developing excellent human resources who will lead our future businesses, and we will focus on strengthening our human capital by developing the skills and expertise of our employees. The development of human resources is of utmost importance for launching new businesses and expanding markets, and strengthening human capital is essential not only for each operating company but also for the collaboration amongst those operating companies. CEO Higuchi's focus on employee training is also aimed at strengthening this human capital.



Otsuka has a culture of nurturing young talents as leaders of operating companies, creating an underlying support for the growth of the entire group. I am convinced that continuing to challenge ourselves and accumulate experience will pave the way to success. This spirit of challenge is the driving force behind the Otsuka group's growth and strengthened governance.

### Contributing to the World as an Indispensable Company

The Otsuka group aims to deliver total healthcare in a broad sense, as we provide products that cover all phases of people's healthcare, and furthermore, to expand its perspective to the entire society surrounding human beings and to solve social issues related to healthcare. As president of Otsuka Pharmaceutical, I have been involved in both the Pharmaceutical Business and Nutraceutical Business, advancing these two in collaboration with other operating companies. This experience has been an important asset in carrying out my duties as COO of Otsuka Holdings. As medical care is expected to shift more than ever toward health maintenance and prevention, and the contact points between medical care and people's everyday life are expected to grow, I believe that the Otsuka group has a great advantage in having products that address both of the aforementioned areas. Going forward, we will continue to support the realization of people's well-being through innovation from a long-term perspective.

For the Otsuka group, "success" is long-term growth with an emphasis on sustainability, not just growth in scale. I will use my experience and work with the CEO to strengthen the group's management structure. With close communication among top management and with the CEO as the final decision-maker, and myself as the strategic executor in my role as COO, we will oversee the operation of the entire organization. With the aim of becoming an indispensable company to people's health worldwide, I will support the growth and development of the Otsuka group by ensuring the smooth operation of the organization and the execution of management strategies.



# Risks and Opportunities

We analyzed and assessed risks and opportunities for the Otsuka group based on changes in the internal and external environment.

We will continue to examine risks and opportunities, reflecting them in the Otsuka group's initiatives and promoting related activities.

Issues	Risks	Opportunities	Response (specific initiatives)
<b>Changes in healthcare industry laws and regulations</b>	<ul style="list-style-type: none"> <li>Impact of drug price revisions, healthcare systems, and government policies on business performance and financial position</li> </ul>	<ul style="list-style-type: none"> <li>Providing innovative new drugs at fair prices</li> </ul>	<ul style="list-style-type: none"> <li>Establishing a system to ensure regulatory compliance</li> <li>Continuously monitoring government trends around the world</li> <li>Responding to health needs through a diverse business portfolio as a total healthcare company</li> </ul>
<b>Issues in efficacy and safety in clinical trials</b>	<ul style="list-style-type: none"> <li>Delay or cancellation of R&amp;D</li> <li>Shortening of exclusive license periods</li> <li>Emergence of competing products</li> </ul>	<ul style="list-style-type: none"> <li>Proving the value of new drugs</li> <li>Increasing awareness of disease prevention and health due to rising medical costs, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Enhancing the pipeline in priority areas, etc. ▶P31</li> <li>Expanding the range of development items</li> <li>Properly managing the portfolio by appropriately reviewing the R&amp;D policy</li> </ul>
<b>Unexpected side effects or malfunctions caused by drugs, medical devices, etc.</b>	<ul style="list-style-type: none"> <li>Sales discontinuation or recall of products due to occurrence of serious side effects</li> <li>Discontinuation of product development</li> </ul>	<ul style="list-style-type: none"> <li>Responding to unmet needs with Otsuka's unique drugs created from our originality, which is free from fixed ideas</li> </ul>	<ul style="list-style-type: none"> <li>Establishing a global organizational structure for safety management</li> <li>Managing safety information in a global database</li> </ul>
<b>Occurrence of quality or legal issues</b>	<ul style="list-style-type: none"> <li>Instability of supply and loss of brand value and credibility due to sales discontinuation or recall due to quality problems or non-compliance with related laws and regulations</li> </ul>	<ul style="list-style-type: none"> <li>Gaining the trust of stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Ensuring manufacturing and quality control in compliance with regulations in each country and region ▶P65</li> <li>Periodically verifying and evaluating quality assurance systems at contract manufacturers and raw material suppliers</li> </ul>
<b>Changing health values</b>	<ul style="list-style-type: none"> <li>Failure of products to address customer needs</li> <li>Changing or tightening legal regulations</li> <li>Deterioration of economic conditions and manifestation of political instability</li> </ul>	<ul style="list-style-type: none"> <li>Pursuing sustainability at all stages of the value chain</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring and analyzing macro and micro trends</li> <li>Optimizing strategy from a long-term perspective based on product and regional characteristics</li> <li>Cooperating between relevant departments on effectively collecting and analyzing information, and strategizing</li> </ul>
<b>Issues in securing and developing human resources</b>	<ul style="list-style-type: none"> <li>Lack of human resources with highly specialized skills</li> <li>Risk that the corporate philosophy and culture will not be sufficiently disseminated and that business operations will not be carried out in accordance with the group's strategies</li> <li>Outflow of human resources due to lower engagement</li> </ul>	<ul style="list-style-type: none"> <li>Further developing social issue-driven business</li> <li>Creative products and marketing based on scientific evidence</li> </ul>	<ul style="list-style-type: none"> <li>Identifying and developing the next generation of human resources by establishing a program to develop management human resources ▶P51</li> <li>Promoting diversity, equity and inclusion based on the Otsuka Group Global Code of Business Ethics, and providing relevant systems and mechanisms ▶P55</li> <li>Promoting diverse work styles and health management</li> </ul>
<b>Climate change</b>	<ul style="list-style-type: none"> <li>Failure to meet the group's environmental targets (e.g., reduction of greenhouse gas emissions)</li> <li>Increased costs due to laws/regulations, e.g., for the introduction of carbon taxes</li> <li>Changing needs for products and services due to the transition to a decarbonized society</li> </ul>	<ul style="list-style-type: none"> <li>Developing human resources based on our unique corporate culture and philosophy</li> <li>Advancing innovation and globalization through the promotion of diversity, equity and inclusion (DE&amp;I)</li> </ul>	<ul style="list-style-type: none"> <li>Setting 2028 and 2030 targets for material environmental issues and promoting initiatives to achieve them ▶P59</li> <li>Pursuing efficient and highly effective action through acquisition of ISO 14001 integrated certification (for environmental management systems)</li> <li>Building a structure (e.g., establishing committees) for addressing environmental issues ▶P61</li> </ul>
<b>Pandemics and major natural disasters</b>	<ul style="list-style-type: none"> <li>Suspension of plant operations, etc., loss of human resources, and interruption or delay of product development due to a pandemic or major natural disaster</li> </ul>	<ul style="list-style-type: none"> <li>Transitioning to decarbonization through planned introduction of renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Formulating business continuity plans (BCP) and conducting ongoing review and improvement</li> <li>Conducting regular drills and exercises</li> <li>Responding to health needs through a diverse business portfolio as a total healthcare company</li> </ul>
<b>Building a sustainable supply chain</b>	<ul style="list-style-type: none"> <li>Unstable material procurement and supply due to global economic stagnation, heightened geopolitical risks, etc.</li> </ul>	<ul style="list-style-type: none"> <li>Developing products which can adapt to environmental changes and contribute to environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>Conducting due diligence when selecting suppliers</li> <li>Diversifying procurement suppliers and secure alternative raw materials by purchasing from multiple companies, etc.</li> <li>Securing appropriate inventory and spreading production across multiple manufacturing sites</li> <li>Visualizing the upstream supply chain, identifying and addressing risks, and building a stable procurement system</li> </ul>
<b>Supply chain transparency</b>	<ul style="list-style-type: none"> <li>Major non-compliance or misconduct (e.g., relating to human rights, labor, the environment, corruption) in the supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Building a strong supply chain in collaboration with business partners</li> <li>Enhancing corporate value by providing a stable supply of sustainable products</li> </ul>	<ul style="list-style-type: none"> <li>Implementing the Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines ▶P57</li> <li>Operating an ongoing monitoring system</li> <li>Conducting supplier briefings and assessments to ensure responsible procurement</li> </ul>
<b>Promotion of DX</b>	<ul style="list-style-type: none"> <li>Decline in competitive ability due to slow or insufficient digital transformation</li> </ul>	<ul style="list-style-type: none"> <li>Providing digitally-enabled healthcare products</li> </ul>	<ul style="list-style-type: none"> <li>Adopting state-of-the-art technologies, conducting proof-of-concept demonstrations and practical application</li> <li>Developing digital human resources ▶P52</li> </ul>
<b>Information security</b>	<ul style="list-style-type: none"> <li>Large-scale system failure or external cyberattack</li> <li>Falsification, misuse, or leakage of information due to the negligence of employees, contractors, or other third parties</li> </ul>	<ul style="list-style-type: none"> <li>Developing brands through the use of digital marketing</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening security infrastructure and processes</li> <li>Establishing a system to respond to information security incidents by the Computer Security Incident Response Team (CSIRT)</li> <li>Establishing the Otsuka Group Information Security Committee</li> </ul>

# The Otsuka Group's Approach to Sustainability

*"Creating the future: becoming an indispensable contributor to the creation of a healthy and sustainable society."*

The Otsuka group celebrated its 100th anniversary in September 2021. Solving social issues for a better future is the essence of our business activity itself. Our efforts extend beyond providing well-being to people; we also aim to make a positive impact on the global environment. We are united as an entire group and continue on a path of sustainable growth as a total healthcare company for corporate growth and a sustainable society.

## Sustainability Mission

**Guided by its corporate philosophy, the Otsuka group works to solve social issues through its businesses and contribute to the creation of a healthy and sustainable society, while achieving growth.**

## Sustainability of Otsuka group

Beyond our 100-year history, the Otsuka group has strived to pursue quality at every stage of its value chain, from the procurement of raw material to the delivery of its products and services to customers, and to build trust with stakeholders including shareholders, customers, employees, and local communities based on strong governance and a spirit of "Quality First," a principle the group has adhered to since its foundation. Then, we have continually pursued the creation of what has never been done and can only be done by Otsuka, and the resolution of social issues.

We re-assessed our materiality, which is the key areas that the Otsuka group should prioritize, in line with the 4th Medium-Term Management Plan (MTMP) that just started from 2024. ▶P.17

## Materiality

**Contribute to the Health and Well-being of People Around the World**

▶P.31~



**Develop Human Capital at Good Working Environment**

▶P.50~



**Promote Positive Impact on Global Environment**

▶P.59~

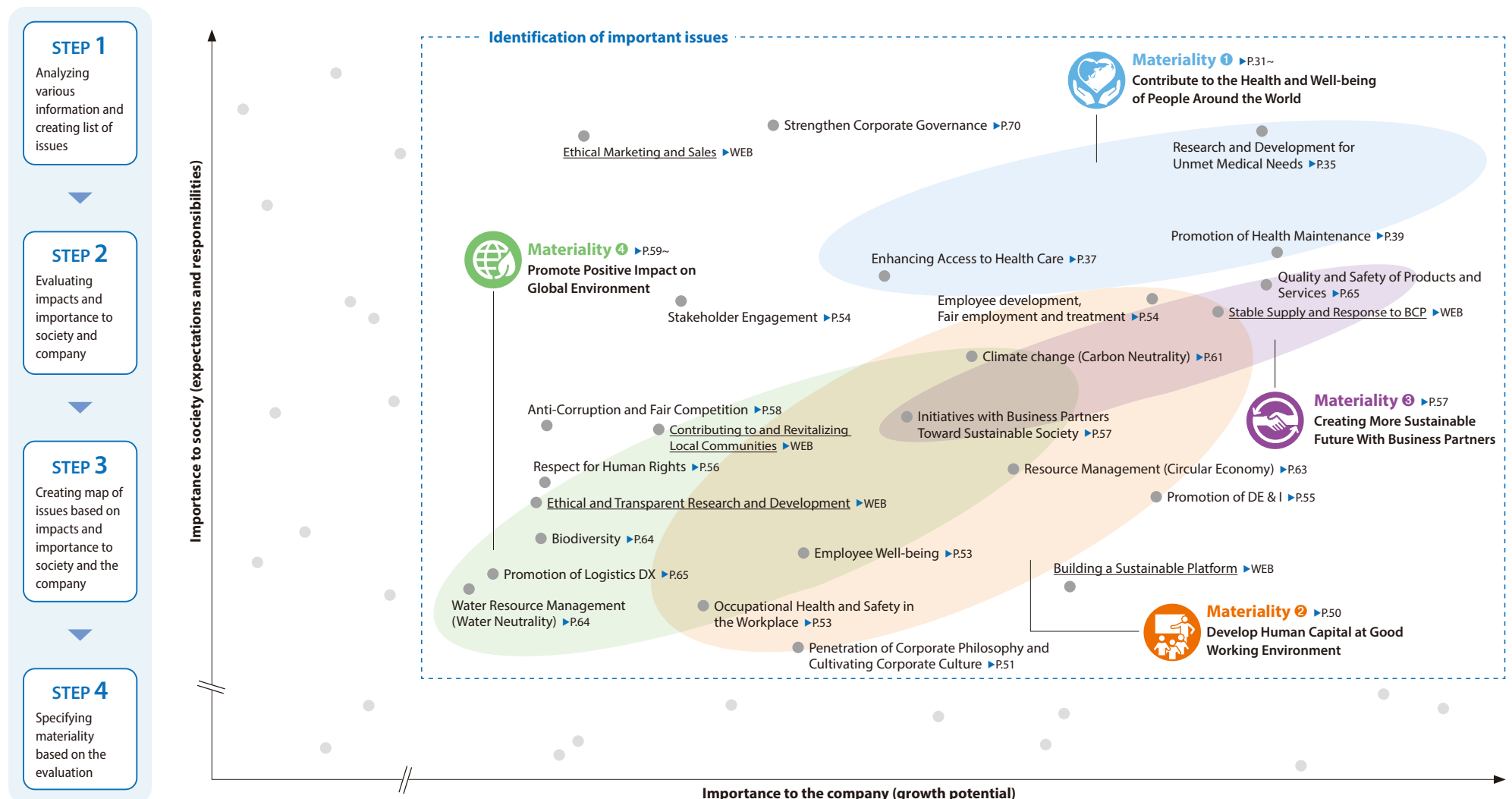


**Create More Sustainable Future With Business Partners**









▶P.57~

# Our Materiality

Materiality means the key area that the Otsuka group should prioritize. In our group, we specified it based on two axes: "importance to society" and "importance to the company." The former refers to external trends in the industry and requirements or expectations of ESG rating agencies and stakeholders including NGOs and investors. The latter refers to internal opinions from major operating companies, questionnaires and interviews of employees. We evaluated the growth potential of our businesses, specified strategies, measures and indicators (P.17), and created a map of materiality as follows.

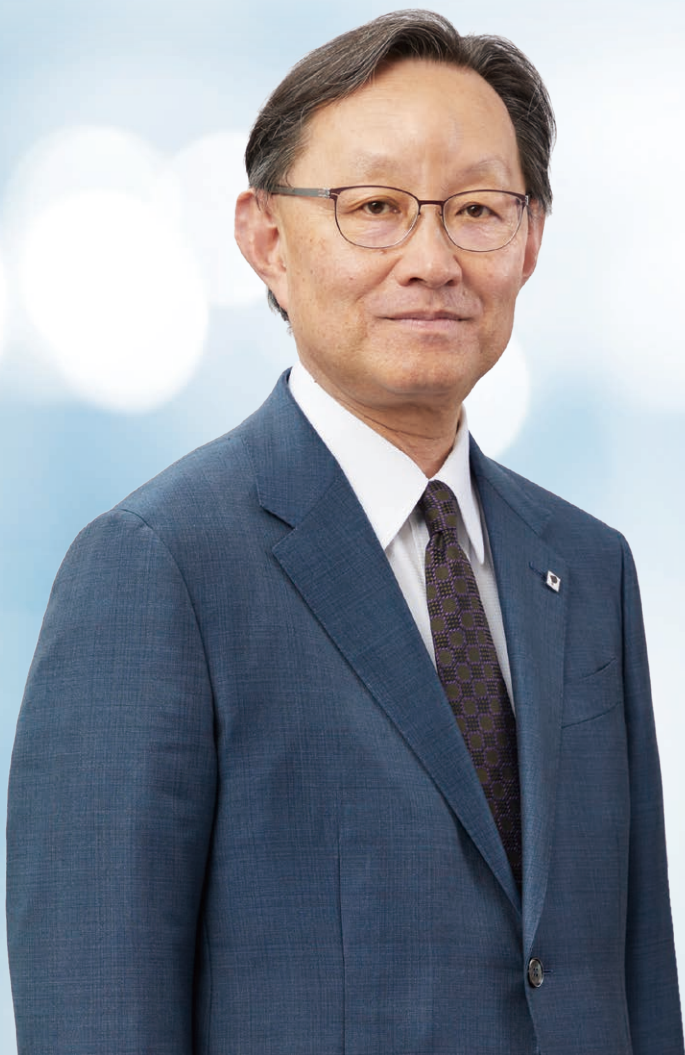


# Our Materiality (cont.)

Materiality	Social Issues	Strategy	Policies	Indicators
 <p><b>Contribute to the Health and Well-being of People Around the World</b></p>  <p>▶P.31~</p>	<ul style="list-style-type: none"> <li>Unmet medical needs/unrecognized health needs by consumers</li> <li>Responding to changing health values</li> </ul>	<ul style="list-style-type: none"> <li>Maximizing product value by leveraging diverse assets within and outside the group</li> <li>Strengthening research and development capabilities to address unmet medical needs</li> <li>Adapting to changes in the world and providing people with complex health solutions</li> </ul>	<ul style="list-style-type: none"> <li>Seamless delivery of diagnostics, therapeutics, and services to overcome unconscious bias toward disease</li> <li>Strengthening in-house drug discovery capabilities by maximizing the use of global research centers and academia networks</li> <li>Strengthen development capabilities using the latest technologies and know-how</li> <li>Raising awareness of hydration and electrolyte supplementation for heat disorders</li> <li>Growth of women's health category</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of global access</li> <li>Promoting awareness of mental, neurological, cancer, cardiovascular and renal diseases</li> <li>Eradication of tuberculosis</li> <li>In-house drug discovery capabilities</li> <li>Product development capabilities that contribute to unmet medical needs</li> <li>Penetration of <i>POCARI SWEAT</i></li> <li>Contribution to women's health</li> </ul>
 <p><b>Develop Human Capital at Good Working Environment</b></p>  <p>▶P.50~</p>	<ul style="list-style-type: none"> <li>Increased global competition, changes in the management competition environment due to increasing digitalization, diversification of individual values and working styles due to the limitations of a one-size-fits-all organization, and increased mobility</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen human resources, a source of innovation, to realize our corporate philosophy</li> <li>Creating an environment to maximize human resources</li> </ul>	<ul style="list-style-type: none"> <li>Cultivate human resources who practice <i>Ryukan-godo</i> (by sweat we recognize the way), <i>Jissho</i> (actualization), and <i>Sozosei</i> (creativity) through our unique human resource development programs</li> <li>Creating a workplace and organization and providing opportunities for a variety of human resources unique to Otsuka, a company with diverse businesses</li> <li>Creating a system to improve employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>Degree of penetration of corporate culture</li> <li>Developing a system to nurture the next generation of human capital</li> <li>Employee challenge index</li> <li>Employee challenge support index</li> <li>Employee engagement to realize Otsuka's corporate philosophy</li> </ul>
 <p><b>Create More Sustainable Future With Business Partners</b></p>  <p>▶P.57~</p>	<ul style="list-style-type: none"> <li>(due to pandemics, geopolitical risks, etc.) destabilization of raw material procurement and product supply due to supply chain disruption</li> <li>Building a sustainable supply chain</li> </ul>	<ul style="list-style-type: none"> <li>Building a strong and stable procurement system to respond to risks</li> <li>Promotion of responsible procurement</li> </ul>	<ul style="list-style-type: none"> <li>Upstream supply chain visualization and risk identification and response</li> <li>Building strong engagement with business partners to realize responsible procurement that takes human rights and the environment into consideration</li> </ul>	<ul style="list-style-type: none"> <li>Response rate to identified risks</li> <li>Percentage of suppliers participating in the measures</li> <li>Response rate to questionnaires when incidents occurred</li> <li>Number of communications with suppliers</li> </ul>
 <p><b>Promote Positive Impact on Global Environment</b></p>  <p>▶P.59~</p>	<ul style="list-style-type: none"> <li>Increasing environmental burden on the Earth due to climate change</li> </ul>	<ul style="list-style-type: none"> <li>Realization of the 2050 environmental vision "Net zero" to reduce all environmental impacts of business activities to zero</li> </ul>	<ul style="list-style-type: none"> <li>Carbon Neutrality: reducing climate change due to global warming</li> <li>Circular Economy: curbing resource use and recycling</li> <li>Water Neutrality: maintenance and conservation of water resources</li> <li>Biodiversity: Sustainable and stable procurement of natural resources</li> </ul>	<ul style="list-style-type: none"> <li>[2028 target]</li> <li>Reduction of CO<sub>2</sub> emissions</li> <li>Scope 1, 2: 50% reduction in CO<sub>2</sub> emissions compared to 2017</li> <li>Scope 3: Initiatives to achieve carbon neutrality by 2050</li> <li>20% self-generated renewable energy</li> <li>[2028 target]</li> <li>50% reduction in simple incineration and landfill disposal compared to 2019</li> <li>Formulation and implementation of food loss reduction plan</li> <li>[2030 target]</li> <li>100% recyclable materials in our PET bottles and use of plant-based materials</li> <li>[2028 target]</li> <li>Planning water use strategies at business sites in water-stressed areas</li> <li>Develop a water use strategy for business locations in water-stressed areas</li> <li>Expand the factory water management program to all locations globally</li> <li>[2028 target]</li> <li>Uses 100% RSPO certified palm oil</li> <li>100% use of sustainable paper</li> </ul>

# Message from the Director in Charge of Sustainability

**We will pursue our sustainability by providing well-being and enhancing the corporate value of the Otsuka group.**



Executive Deputy President and Director  
In charge of Otsuka group sustainability promotion  
Otsuka Holdings Co., Ltd.

## Sustainability of the Otsuka group

“Otsuka-people creating new products for better health worldwide” That is our corporate philosophy. Guided by this outlook, we keep trying to address social issues, and we have continually pursued the achievement of our business growth and a healthy, sustainable society.

In recent years, social situations and business environments have been changing rapidly. Our group consists of 168 companies in 32 countries and regions globally, and it is a mandatory task for us to keep an eye on the changes and tackle them. Based on this background, we re-assessed our materiality (key areas that the Otsuka group should prioritize) in line with 4th Medium-Term Management Plan (MTMP) that started in 2024. We recognize that this materiality is more clarified and integrated with our business strategy toward corporate growth and the promotion of sustainability (▶P.15).

### The achievement of creating additional values with new materiality

#### ■ Contribute to the Health and Well-being of People Around the World

As a total healthcare company, the Otsuka group believes that it is quite important to contribute well-being, including by improving people's quality of life (QOL), and not just provide products. In addition to diagnoses and medical treatments, we provide seamless healthcare solutions including disease awareness, the overcoming of unconscious bias, and support for patients' return to work and social community. For example, in the psychiatry and neurology area, we are committed to activities that support patients and caregivers, such as providing diagnostic and therapeutic support, and reducing the burden of care (▶P.34). In the Nutraceutical and the Consumer Products Businesses, we contribute well-being to people by creating products inspired by the medical field, then discovering yet-to-be imagined needs, and finally creating new categories. Our product *POCARI SWEAT* became widely known as “a drinkable I.V. solution,” which is a good concept from the medical field. Our efforts to communicate the importance of hydration and electrolyte replenishment through *POCARI SWEAT* also contribute to our initiatives to prevent heat disorders (▶P.40). All of these initiatives are based on our values: Ryukan-godo (By sweat we recognize the way), Jissho (Actualization), which then lead us to perform Sozosei (Creativity). We will continually pursue the creation of what had never been done and can only be done by Otsuka, and deliver well-being to people all over the world.

#### ■ Develop Human Capital at Good Working Environment

In order for us to sustain consistent growth and strive towards the achievement of a sustainable society, the development of our human capital is paramount. As our business operations expand, the nurturing of our human resources should be prioritized within our corporate group. Furthermore, we perceive the development of talent—individuals who comprehend our corporate philosophy and possess the ability to actualize the philosophy through their creativity—as crucial. To build the foundation for such talent to

thrive to their maximum potential, we are committed to creating a workplace where employees with diverse backgrounds gather and multiple perspectives intersect.

In addition, we intend to appoint candidates for the next generation of leaders who possess a broad perspective, team-building skills, and innovative thinking regardless of their backgrounds. In order to develop such human resources, it is desirable for them to experience at least two or more different departments or areas. For example, our talent can develop the ability to see things from a variety of perspectives through their experience across departments and areas such as production and headquarters, sales and marketing, U.S. and Japan, etc. In addition, the Otsuka group offers secondments to government ministries and agencies, recruits IT human resources from overseas universities and provides internships, and creates opportunities for employees within the group to gain experience in operating companies globally. In companies and departments where specialized knowledge is expected, we will steadily develop specialized human resources from a long-term perspective in accordance with the capabilities and characteristics of each employees (▶P.50).

### ■ Creating More Sustainable Future With Business Partners

The Otsuka group aims to contribute to the solution of social issues through business activities with our business partners. We established and enacted the Otsuka Group Business Partner Code of Ethics in 2024 to articulate our uncompromising commitment to the highest standards of ethical conduct to be achieved in cooperation with our business partners, since we believe that both the results of our business activities and the creation of a sustainable future with our business partners are of equal importance. We will promote business activities in accordance with these standards and work to ensure that these activities harmonize the entire supply chain with all business partners.

In recent years, we have also focused on sustainable procurement, which aims to solve social issues through procurement activities, while also building a stable procurement system which is able to adapt to social changes. In 2024, we revised our Otsuka Group Procurement Policy and Otsuka Group Sustainable Procurement Guidelines to enhance our sustainable procurement. The Otsuka group is working together with its suppliers to achieve sustainable society and improve the corporate value (▶P.57).

### ■ Promote Positive Impact on Global Environment: "Net Zero," our 2050 environmental vision

The Otsuka group's 2050 environmental vision, "Net Zero," aims to reduce environmental impact of all business activities to zero. Based on this vision, we tackle carbon neutrality, circular economy, and water neutrality. On top of these issues, we added biodiversity, considering the importance of maintaining and preserving ecosystems. We have revised and set medium-term goals for 2028 and 2030, and are working to achieve these targets (▶P.59).

Regarding carbon neutrality, we have completed the Otsuka group energy management building to expand the use of renewable energy and pursue the best group-wide energy mix (▶P.62). The Otsuka group promotes and organizes strategies to enhance integrated energy management, and is now starting trials of next-generation technologies.

Next, we have set a target of 100% use of recycled and plant-based materials used in PET bottles globally by 2030 in terms of circular economy. To achieve this goal, aligned with the implementation of recycled PET

bottles, we are working with organizations, local governments, and business partners to establish a domestic resource recycling scheme for used PET bottles. In addition to domestic initiatives, PT Amerta Indah Otsuka in Indonesia, which is one of our subsidiary, has launched a sustainability program called OTSUKA BLUE PLANET, which aims to contribute to the global environment. This initiative aims at contributing to the environmental sector in Indonesia through recycling and raising awareness in cooperation with national and local governments, including support for the creation of communities so that they build customs regarding environmental consciousness, and manage waste disposal independently.

In addition, we identified biodiversity as a part of this materiality anew. We recognize that the conservation and sustainable utilization of biodiversity is essential for the sustainable growth of the Otsuka group, and we are assessing the impact and level of dependency of our business activities on biodiversity. Moreover, we have set targets for the procurement of raw materials that present a high risk of deforestation, and will continue to promote sustainable and responsible procurement (▶P.64).

## Achieving our sustainability mission

Although the new materiality that we have re-identified should be prioritized, the concept of our sustainability is not limited to materiality (▶P.15). Based on the spirit of "Quality First," we persistently pursue the pinnacle of quality at every stage of our value chain, from research and development, procurement, production, logistics, all the way to the delivery of our products and services to achieve a sustainable society from the perspective of human rights, the environment, and so on. In order to realize our sustainability mission, what our group should tackle is the task of maximizing corporate value. This can be achieved through the promotion of the overall strategy by Otsuka Holdings, and its subsequent implementation by the operating companies. Moreover, strengthening our resilience is essential for our corporate governance so that we can quickly correct course if our overall management were to proceed in the wrong direction. Therefore, we will steadily reinforce our governance in line with the mandatory disclosure of sustainability information surrounding companies, including compliance with legislations and standards such as the Corporate Sustainability Reporting Directive (CSRD) in Europe and the disclosure standards developed by the Sustainability Standards Board of Japan (SSBJ).

We, from our 4th MTMP, have incorporated the achievement of external ESG-related evaluation indicators as non-financial evaluation indicators which was the one of the non-cash remuneration for the eligible directors, in order to focus on sustainability management. In addition, we have introduced a clawback clause\* in contracts with them.

Our entire group will continue on a path of sustainable growth with enhancing each strategy and solving social issues for the achievement of well-being and a sustainable society.

\*A system to refund paid remuneration if any amendments are made to the consolidated financial statements of Otsuka Holdings within 3 years after the lifting of the transfer restrictions, etc.