

# Corporate Governance

## ■ Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its Mission Statement, the OTSUKA Group aims to adapt nimbly to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

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

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

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

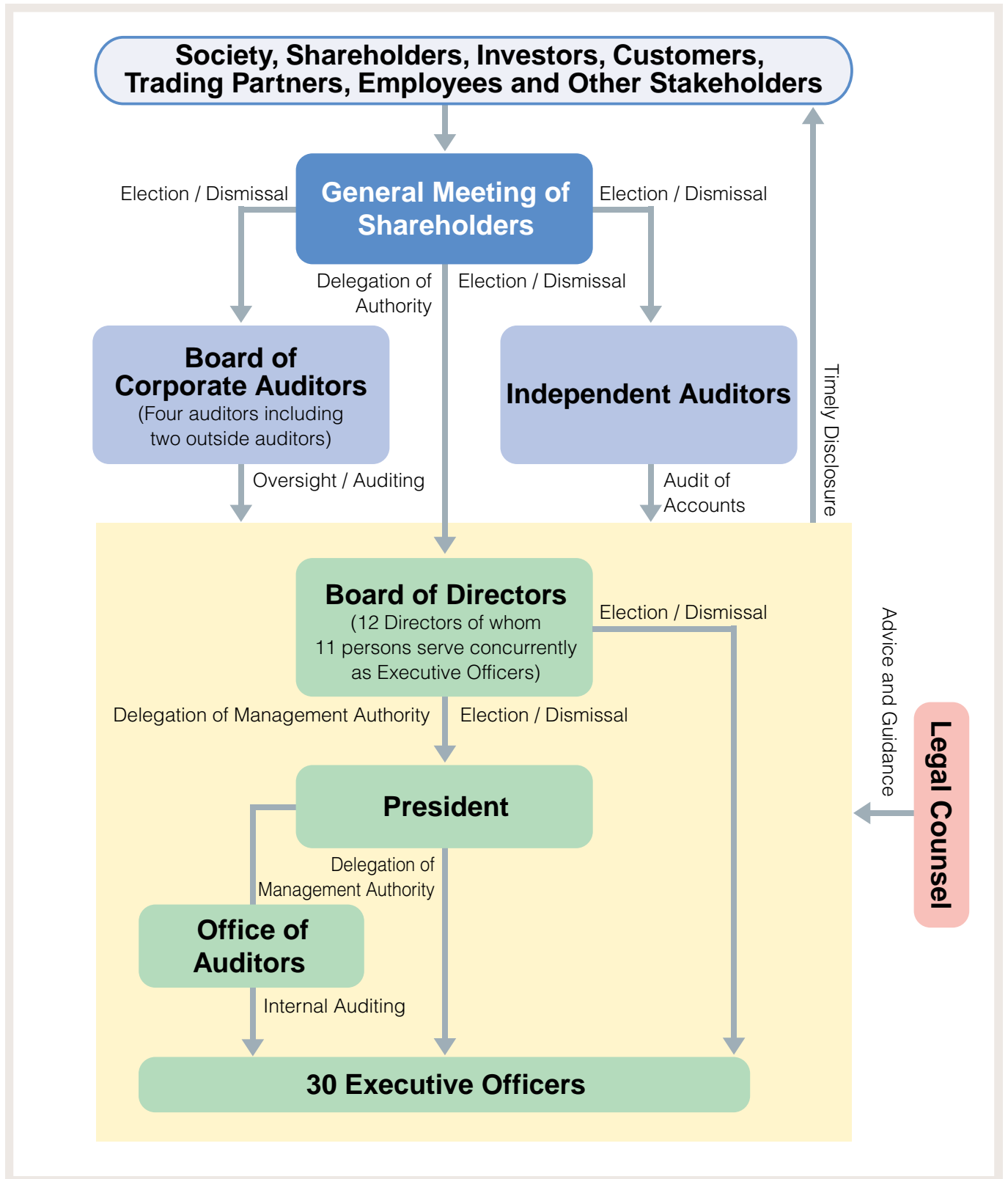
It has been deemed that a governance system led by outside directors would not be suitable due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. A Corporate Auditor System has therefore been adopted.

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 two 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:



## State of Internal Control Systems

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

- Basic policies for internal control systems

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

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

- 2) System for storing and managing information concerning the execution of duties by directors

Information concerning the execution of duties by directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

- 3) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition, or other areas and respond appropriately.

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

- 4) System for ensuring the efficient execution of duties by directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

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

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

Group companies shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. By convening the Group Management Meeting, we shall ascertain the state of management and the progress of profit plans at each Group company. Concurrently, we shall work to strengthen corporate governance at each Group company through the Special Executive Officer System.

- 6) Matters regarding employees assisting corporate auditors when requested and the independence of such employees from directors

In the event that an auditor requests the assistance of an employee, a proper system shall be established upon consultation with the corporate auditor. Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee, the independence of such employees from directors shall be ensured by obtaining the prior consent of the corporate auditor

- 7) System for reporting to corporate auditors by directors and employees and other systems regarding reporting to corporate auditors

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

- 8) System for ensuring effective audits by corporate auditors

Representative directors shall exchange opinions with corporate auditors on a timely basis. The internal auditors office shall maintain close relations with the corporate auditors and undertake inspections in accordance with the requests of corporate auditors.

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

- 1) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no

relations with antisocial forces that threaten the order and safety of society.

## 2) Establishment of measures

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

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

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

### **Corporate Audits**

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

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

Ernst & Young ShinNihon LLC

Kenichi Akiyama, Designated Employee with Limited Liability and  
Managing Partner

Juntaka Sakata, Designated Employee with Limited Liability and  
Managing Partner

Makoto Mukai, Designated Employee with Limited Liability and  
Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs 12

Other individuals 17

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

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

OTSUKA CORPORATION views outside directors as important for strengthening management oversight from an objective and independent perspective. However, it has not appointed any outside directors at this time due to the wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. The Company will continue

seeking appropriate candidates going forward.

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

Jiro Makino and Mikio Sugiyama have been appointed outside auditors to reflect their legal and accounting knowledge, respectively, to the management of the Company. They make reports to the Tokyo Stock Exchange (TSE) as the independent Directors or Auditors, as provided by the TSE.

No personal, capital or business interests exist between outside auditors and OTSUKA CORPORATION.

## 2. Status of Implementation of Risk Management System

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

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department within its scope. At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

## 3. Remuneration of Directors and Corporate Auditors

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

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors	339	254	41	43	13
Corporate Auditors(except outside auditors)	21	20	—	1	2
Outside Auditors	10	10	—	—	2

Notes:

1. The above includes one director who retired on April 30, 2010.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. 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).
4. 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.
5. Retirement Benefits above is the amount of increase of Provision for retirement benefits for Directors and Corporate Auditors in the current fiscal year.

### Total Consolidated Remuneration by Director and Corporate Auditor

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

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

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

#### 4. Principal Stockholdings by the Company

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

Number of securities 67

Total amount on balance sheet ¥2,275 million

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

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	753	To facilitate and maintain business relationship
Ricoh Company, Ltd.	192,916	229	As above
The Bank of Yokohama Ltd.	382,204	160	As above
Daiwa House Industry Co, Ltd.	100,000	99	As above
ThreePro Group Inc.	1,200	85	As above
Uchida Esco Co., Ltd.	180,000	73	As above
Credit Saison Co., Ltd.	50,000	66	As above
Billing System Corporation	500	57	As above
Meiko Network Japan Co., Ltd.	60,000	40	As above
The Keiyo Bank, Ltd.	50,000	20	As above

#### 5. Number of Directors

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

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

Not applicable.

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

The Company's Articles of Incorporation stipulate that a resolution for appointment of Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is decided by a majority of shareholders. In addition, a resolution for appointment of Director shall not be decided by cumulative voting.

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

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

#### 9. Interim Dividend

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

## 10. Purchase of Own Shares

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

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

Not applicable.

## 12. Requirements for Special Resolution of the General Meeting of Shareholders

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

## ■ Remuneration for Independent Auditors

### 1. Breakdown of Remuneration for Independent Auditors

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
OTSUKA CORPORATION	83	1	77	—
Consolidated Subsidiaries	16	—	14	—
Total	99	1	91	—

### 2. Other Major Remuneration

Not applicable.

### 3. Non-Auditing Services by the Independent Auditors for OTSUKA CORPORATION

(Previous Fiscal Year)

OTSUKA CORPORATION pays compensation to the Independent Auditors for non-auditing services that include guidance and advice regarding internal control systems for financial reporting.

(Current Fiscal Year)

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 Independent Auditors can conduct auditing and certification services fairly and in good faith from an independent standpoint.