

(Translation)

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March 5, 2015
Tatsuo Higuchi
President and Representative Director
Otsuka Holdings Co., Ltd.
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

Notice for the Calling of the 7th Annual Shareholders Meeting
(for FY2014)

Dear Shareholders,

You are cordially invited to attend the 7th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the “Company”). The meeting will be held as described below.

If you are unable to attend the meeting in person, you may exercise your voting rights by either of the following methods. Prior to voting, please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights so that your vote is received by 5:30 p.m. (the close of business hours) on Thursday, March 26, 2015 (JST).

To exercise your voting rights by post

Please indicate on the enclosed “Voting Form” whether you approve or disapprove of each proposal and return the completed form by the designated time above. → Please refer to page 3.

To exercise your voting rights via electromagnetic method (Internet, etc.)

Please access to the Website for Exercising Voting Rights designated by the Company (<http://www.evotep.jp/>) and follow the instructions on the screen to input your approval or disapproval for each proposal by the designated time above. → Please refer to pages 3 and 4.

Details

1. Date and Time:

Friday, March 27, 2015, at 10:00 a.m.

The reason the date is considerably different from the date of the previous Annual Shareholders Meeting held last year (June 27, 2014) is because, effective the 7th Fiscal Year, the closing date of the Company's fiscal year has been changed from March 31 to December 31.

2. Place:

ANA InterContinental Tokyo, B1F, Prominence
1-12-33 Akasaka, Minato-ku, Tokyo

3. Purpose of the Meeting

Matters to be reported:

- a. Business Report and Consolidated Financial Statements, as well as the audit reports of the Accounting Auditors and the Audit & Supervisory Board for Consolidated Financial Statements, for the 7th Fiscal Year (from April 1, 2014 to December 31, 2014)
- b. Financial Statements for the 7th Fiscal Year (from April 1, 2014 to December 31, 2014)

Matter to be resolved:

Proposal: Election of Nine (9) Directors

Notes:

- * You are kindly requested to present the enclosed "Voting Form" to the receptionist when you attend the meeting.
- * You may designate one other shareholder with voting rights as your proxy to exercise your voting rights in accordance with the Articles of Incorporation. In such a case, your proxy will be required to submit documentation indicating his/her authority in advance to act as your proxy.
- * If any changes have been made to items in the Reference Documents for Shareholders Meeting, Business Report, Financial Statements, or Consolidated Financial Statements, such changes will be posted on our website.

Our website <http://www.otsuka.com/>

(Translation)

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–8).

You may exercise your voting rights using the following three methods.

1. Attendance

Please present the enclosed “Voting Form” to the receptionist.

Please also bring with you “Notice for the Calling of the 7th Annual Shareholders Meeting” (this document).

If you choose this first method, you are not required to exercise voting rights by the other two methods; 2. Mail (“Voting Form”), or 3. Internet.

2. Mail

Please indicate on the “Voting Form” whether you approve or disapprove of each proposal and mail it.

The voting forms that arrive by mail before 5:30 p.m. on Thursday, March 26, 2015 (JST) will be valid.

3. Internet

Please access the Website for Exercising Voting Rights designated by the Company

(<http://www.evotec.jp/>), using a personal computer (PC), a smartphone or a cellular phone and follow the instructions on the screen to input your approval or disapproval for each proposal.

The deadline by which voting rights must be exercised is 5:30 p.m. on Thursday, March 26, 2015 (JST). Please refer to the following page for details.

Key Points When Exercising Voting Rights via the Internet, etc.

Website for exercising voting rights

- You may exercise your voting rights via the Internet only by visiting the Website for Exercising Voting Rights designated by the Company (<http://www.evote.jp/>), using a personal computer (PC), a smartphone or a cellular phone (i-mode, EZweb, Yahoo! Keitai)*. (However, the website is closed from 2:00 a.m. to 5:00 a.m. (JST) every day.)
 - When exercising your voting rights using a PC, a smartphone or a cellular phone, please note that you might not be able to exercise your voting rights via the Internet depending on the Internet environment, services provided, or the model of the cellular phone. For details, please direct your inquiries to the Help Desk shown below.
- * i-mode, EZweb, and Yahoo! are the trademarks or the registered trademarks of NTT DOCOMO, INC., KDDI CORPORATION and Yahoo! Inc. of the U.S., respectively.

How to exercise your voting rights via the Internet

- Please access the Website for Exercising Voting Rights (<http://www.evote.jp/>) using the login ID and provisional password provided on the Voting Form, and follow the instructions that appear on the screen to input approval or disapproval to each of the agenda items.
- Shareholders who utilize the Website for Exercising Voting Rights will be asked to change the provisional password on the Website for Exercising Voting Rights in order to prevent people other than shareholders from accessing it illegally (impersonating shareholders) or falsifying the content of votes.
- Shareholders will be notified of a new login ID and provisional password each time we call for a Shareholders Meeting.

Handling of voting rights when they are exercised more than once

- Please note that your online vote will prevail should you exercise your voting rights both by post and via the Internet.
- If you exercise your voting rights more than once via the Internet, only the last vote shall be deemed effective. (In addition, if you exercise your voting rights more than once using a PC, a smartphone and a cellular phone, only the last vote shall be deemed effective.)

Expenses necessary to access the Website for Exercising Voting Rights

- Expenses necessary to access the Website for Exercising Voting Rights (including those for Internet connection, etc.) shall be borne by shareholders. When you utilize a cellular phone, etc., expenses necessary for packet communication or other cellular-phone usage shall also be borne by shareholders.

For inquiries about the system for exercising voting rights, please contact: Corporate Agency Division (Help Desk), Mitsubishi UFJ Trust and Banking Corporation Phone: 0120-173-027 (toll free (Japan only); 9:00 to 21:00 (JST))
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Electronic voting platform

If nominal shareholders (including standing proxies), such as management trust banks, apply in advance for the use of the platform for electronic exercise of voting rights for institutional investors, which is operated by ICJ, Inc., a joint venture set up by Tokyo Stock Exchange, Inc. and other companies, they may utilize the said platform as a method for exercising voting rights via an electromagnetic method for this Shareholders Meeting of the Company, in addition to the exercise of voting rights via the Internet, specified above.

Reference Documents for Shareholders Meeting

Proposal: Election of Nine (9) Directors

Akihiko Otsuka, Chairman and Representative Director of the Company, passed away on November 28, 2014. In addition, the terms of office of nine (9) incumbent Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect nine (9) Directors.

The candidates for Directors are as follows:

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
1	<p style="text-align: center;">Reappointment</p> <p>Ichiro Otsuka (February 15, 1965)</p> <p>Position and areas of responsibility in the Company: Vice Chairman and Representative Director</p>	<p>April 1987 Joined Otsuka Pharmaceutical Factory, Inc.</p> <p>June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</p> <p>May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>December 2003 Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2010 Vice President and Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc. (Current Position)</p> <p>June 2014 Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Representative Director, Otsuka Pharmaceutical Factory, Inc. President and Representative Director, Otsuka Estate Ltd. President and Representative Director, Otsuka Asset Co., Ltd.</p>	6,338,920
2	<p style="text-align: center;">Reappointment</p> <p>Tatsuo Higuchi (June 14, 1950)</p> <p>Position and areas of responsibility in the Company: President and Representative Director</p>	<p>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)</p> <p>November 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>December 2011 Executive Director, Otsuka Chemical Co., Ltd. (Current Position)</p> <p>February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Chemical Co., Ltd.</p>	90,000

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
3	<p><u>Reappointment</u></p> <p>Atsumasa Makise (June 17, 1958)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director, Corporate Finance</p>	<p>December 1987 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2002 Operating Officer, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>May 2009 Chairman and CEO, Otsuka America Inc.</p> <p>April 2010 Chairman, Otsuka America Inc. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Chairman, Otsuka America Inc.</p>	50,000
4	<p><u>Reappointment</u></p> <p>Yoshiro Matsuo (November 3, 1960)</p> <p>Position and areas of responsibility in the Company: Managing Director, Corporate Administration</p>	<p>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>January 2003 Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>November 2007 Senior Operating Officer, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)</p>	30,760
5	<p><u>Reappointment</u></p> <p>Sadanobu Tobe (April 18, 1941)</p> <p>Position and areas of responsibility in the Company: Executive Director</p>	<p>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)</p> <p>July 1993 Vice President and Representative Director, Otsuka Foods Co., Ltd.</p> <p>November 2004 Vice President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)</p> <p>May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.</p> <p>June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.</p> <p>June 2012 Vice Chairman, Otsuka Foods Co., Ltd.</p> <p>June 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.</p> <p>November 2013 President and Representative Director, Otsuka Foods Co., Ltd. (Current Position)</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Foods Co., Ltd.</p>	1,591,126

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	<p><u>Reappointment</u></p> <p>Tatsuro Watanabe (August 10, 1954)</p> <p>Position and areas of responsibility in the Company: Executive Director</p>	<p>March 1978 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2000 Status of Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2002 Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Senior Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2008 Managing Director, responsible for Human Resources, General Affairs, Legal Affairs, and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2010 Managing Director, responsible for Human Resources and Legal Affairs, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>November 2013 Executive Director, Otsuka Pharmaceutical Europe Ltd. (Current Position)</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Managing Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Pharmaceutical Europe Ltd.</p>	37,000
7	<p><u>Reappointment</u></p> <p><u>Candidate for Outside Director</u></p> <p>Yasuyuki Hiroto mi (June 15, 1954)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1978 Joined The Daiwa Bank, Ltd. (present day Resona Bank, Limited)</p> <p>October 2003 Executive Officer, Resona Bank, Limited</p> <p>June 2005 Managing Executive Officer, Resona Bank, Limited</p> <p>April 2008 Senior Executive Officer, Resona Bank, Limited</p> <p>June 2008 Director and Senior Executive Officer, Resona Bank, Limited</p> <p>June 2009 Vice President and Representative Director and Executive Officer, Resona Bank, Limited</p> <p>June 2011 Director, The Kinki Osaka Bank, Ltd.</p> <p>June 2013 President, The Resona Foundation for Asia and Oceania (Current Position)</p> <p>June 2013 Outside Director, ELECOM CO., LTD. (Current Position)</p> <p>June 2013 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>June 2014 Board Director and Senior Vice President, KYOEI STEEL LTD. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President, The Resona Foundation for Asia and Oceania Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD.</p>	0
8	<p><u>Reappointment</u></p> <p><u>Candidate for Outside Director</u></p> <p>Juichi Kawaguchi (November 1, 1937)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>March 1963 Joined Osaka Sanso Kogyo, Ltd. (present day AIR LIQUIDE Japan Ltd.)</p> <p>February 1985 Chief of the Secretarial Section, Osaka Sanso Kogyo, Ltd.</p> <p>May 1987 Representative Director, Daisan Inc.</p> <p>July 1990 General Manager of the General Affairs Department, Osaka Sanso Kogyo, Ltd.</p> <p>December 1997 Audit & Supervisory Board Member, Osaka Sanso Kogyo, Ltd.</p> <p>June 2013 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p>	0

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
9	<p>Reappointment</p> <p>Candidate for Outside Director</p> <p>Tadaaki Konose (July 26, 1946)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1970 Joined Snow Brand Milk Products Co., Ltd. (present day MEGMILK SNOW BRAND Co., Ltd.)</p> <p>June 2002 President and Representative Director, Snow Brand Milk Products Co., Ltd.</p> <p>October 2009 President and Representative Director, MEGMILK SNOW BRAND Co., Ltd.</p> <p>April 2011 Director and Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>June 2011 Special Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>September 2011 Administrative Council member, University of Miyazaki, a National University Corporation (Current Position)</p> <p>June 2014 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Administrative Council member, University of Miyazaki, a National University Corporation</p>	0

Notes:

- The candidate Yasuyuki Hirotoomi was Vice President and Representative Director of Resona Bank, Limited until March 2013. The aforesaid company is a major creditor of the Group. The other candidates have no special interests in the Company.
- The numbers of the Company's shares owned by Ichiro Otsuka and Sadanobu Tobe are those actually held, including shares in the Otsuka Founders Shareholding Fund Trust Account.
- Yasuyuki Hirotoomi, Juichi Kawaguchi and Tadaaki Konose are candidates for Outside Directors. The Company has registered Juichi Kawaguchi and Tadaaki Konose as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc.
- The Company deems that Yasuyuki Hirotoomi can provide useful statements from an impartial and objective viewpoint based on abundant experience and extensive knowledge gained through many years in corporate management. Therefore, the Company elected him as candidate for Outside Director. His term of office as Outside Director will be one year and nine months at the conclusion of this Shareholders Meeting.
- The Company expects Juichi Kawaguchi can perform the function of supervising and checking the corporate management of the Company based on his knowledge and experience as a corporate executive acquired through his career. Therefore, the Company elected him as candidate for Outside Director. His term of office as Outside Director will be one year and nine months at the conclusion of this Shareholders Meeting.
- The Company deems that Tadaaki Konose can provide useful statements based on abundant experience and extensive knowledge gained through many years in corporate management in the food industry. Therefore, the Company elected him as candidate for Outside Director. His term of office as Outside Director will be nine months at the conclusion of this Shareholders Meeting.
- Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has executed agreements with Yasuyuki Hirotoomi, Juichi Kawaguchi and Tadaaki Konose which limit their indemnity liability under Article 423, Paragraph 1 of the same Act, and if their reappointments are approved, the Company plans to continue these agreements. Their indemnity liability based on these agreements is limited to the amount provided for in the laws and regulations. The limitation of liability specified in these agreements shall be limited to times when the Outside Directors are without knowledge and not grossly negligent in performing the duties as Outside Director that cause liability.

Attached documents**Business Report**

(For the fiscal year from April 1, 2014 to December 31, 2014)

1. Business Progress and Achievement of the Otsuka Group**(1) Overview of business during the current fiscal year**

In order to improve the timeliness and accuracy of the Company's disclosure in light of its global activities and the large overseas portion of sales generated by its group companies, the Company changed the fiscal year end for its consolidated accounts from March 31 to December 31, following resolution regarding the partial amendments to the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014. Furthermore, 23 consolidated domestic subsidiaries changed their fiscal year end from March 31 to December 31.

As a result, the Consolidated Statement of Income for the current fiscal year comprise earnings from all companies for the period from April 1, 2014 (or upon commencement of consolidation in case of companies that were newly consolidated during the term) to December 31, 2014. The Consolidated Statement of Income for the previous fiscal year were comprise earnings for the period from April 1, 2013 to March 31, 2014 for companies with a March year end, and for the period from January 1, 2013 to December 31, 2013 for companies with a December year end.

To enable a comparison with results for the previous fiscal year, we have calculated results for the period from April 1, 2013 to December 31, 2013 for all consolidated companies, which are shown for reference purposes below.

i) Business activity and results

During the fiscal year under review, the business environment underwent several significant changes. These include the advancement of yen depreciation in the second half of 2014 in particular influenced by expanding trade deficits and expected continuation of the Bank of Japan's quantitative easing policy aimed at stimulating Japan's economic growth and consumer spending. While official inflation and GDP forecasts were lowered, signs of mild economic recovery are emerging partly aided by lower oil prices.

In our overseas' markets, while U.S. economic growth was solid and some of the emerging economies continued to grow, the European economy remained unstable in the aftermath of the financial crisis. Within this global operating environment, the Otsuka Group (the "Group") reported consolidated net sales of ¥1,224,298 million (up 7.9% from ¥1,134,204 million for the same period in the previous fiscal year) for the current fiscal year, with operating income of ¥196,528 million (up 7.4% from ¥183,054 million for the same period in the previous fiscal year), ordinary income of ¥217,210 million (up 8.9% from ¥199,529 million for the same period in the previous fiscal year) and net income of ¥143,143 million (up 2.7% from ¥139,355 million for the same period in the previous fiscal year).

Results by business segment are as follows:

Net sales by business segment during the current fiscal year (Millions of yen)

	Pharmaceuticals	Nutraceuticals*	Consumer Products	Other	Adjustments	Consolidated
Net sales	883,519	238,156	34,529	102,246	(34,153)	1,224,298
Segment income (loss)	204,791	21,867	(1,404)	5,533	(34,259)	196,528

*nutraceuticals = nutrition + pharmaceuticals

(Reference: Results for the same period in the previous fiscal year)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer Products	Other	Adjustments	Consolidated
Net sales	801,136	233,821	34,760	98,417	(33,932)	1,134,204
Segment income (loss)	185,073	26,767	(1,750)	5,904	(32,941)	183,054

ii) Major business activities (as of December 31, 2014)

Business segment	Business activities
Pharmaceuticals	Manufacture, purchase, and sale of pharmaceutical products Consignment of research and development of new drugs Manufacture and sale of analytical and measurement equipment Manufacture, sale, and consigned analysis of reagents for research use Development and sale of therapeutic systems
Nutraceuticals	Manufacture, purchase, and sale of functional foods, quasi-pharmaceuticals, nutritional supplements, and others
Consumer products	Manufacture, purchase, and sale of consumer products
Other	Warehousing and transport business Liquid crystal and spectroscope business Manufacture and sale of printing and packaging goods Manufacture and sale of resin compound Manufacture and sale of chemical products

Pharmaceuticals

In the area of central nervous system (“CNS”) disorders, antipsychotic agent *ABILIFY* continued to register strong sales worldwide, rising more than 10% compared with the same period in the previous fiscal year. In the U.S., sales of *ABILIFY* grew more than 10% compared with the same period in the previous fiscal year by increased prescriptions for adjunctive therapy in major depressive disorder and for bipolar disorder as a result of enhanced promotion. In Europe, sales of *ABILIFY* continued to grow compared with the same period in the previous fiscal year on the back of co-promotions with H. Lundbeck A/S (“Lundbeck”). In Asia, sales of *ABILIFY* continued to grow, supported by an increase in prescriptions for adjunctive therapy in major depressive disorder and for pediatric indication with Tourette disorder in South Korea. In Japan, *ABILIFY* prescriptions for orally disintegrating tablets increased for the three indications of schizophrenia, manic episodes of bipolar disorder and major depressive disorder.

Aripiprazole intramuscular depot formulation *Abilify Maintena* (once-monthly injection) registered steady sales growth in the U.S., supported by ongoing efforts to promote the drug’s efficacy for the treatment of schizophrenia. In addition, in September 2014, the U.S. Food and Drug Administration (FDA) approved a new injectable formulation of *Abilify Maintena* in a ready-to-use prefilled syringe. In Europe, *Abilify Maintena* had been launched in 14 countries, including the United Kingdom, as of December 31, 2014. *Abilify Maintena* was also launched in Canada in April 2014, adding to the growing number of markets where the drug is now available.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions due to the drug’s recognized efficacy and approval granted for additional pediatric indication and dosage. As a result, *E Keppra* remained the top-selling brand^{*1} in the domestic antiepileptic drug market in April–December 2014 and saw further growth in market share. *Neupro Patch*, the world’s only transdermal dopamine agonist, was approved for long-term prescriptions for the treatment of Parkinson’s disease and restless legs syndrome in March 2014. The drug has also been gaining recognition for its ability to improve wearing-off symptoms in Parkinson’s disease^{*2}, supporting strong growth in sales.

In the area of cardiovascular system, *Samsca*, a vasopressin V₂-receptor antagonist developed by Otsuka Pharmaceutical Co., Ltd. (“Otsuka Pharmaceutical”) and sold in 14 markets worldwide, is gaining more acceptance among medical specialists due to the new value it brings and its method of use as an oral aquaretic agent. As a result, global sales of the drug have risen more than 30% compared with the same period in the previous fiscal year. In Japan, *Samsca* was approved as a treatment for autosomal dominant polycystic kidney disease (ADPKD), becoming the world’s first drug therapy for this intractable kidney disease. A new formulation for the condition, *Samsca 30mg tablets*, was also launched in May 2014 and prescriptions are increasing steadily. Sales of antiplatelet agent *Pletaal/Pletal* declined due to the impact of promotion of generics in hospitals and NHI price revision in Japan.

In the area of oncology, we continued to provide information in Japan about anti-cancer agent *TS-1*, utilizing evidence-based medicine (EBM) approaches for colorectal cancer, head and neck

cancer and pancreatic cancer. However, sales declined compared with the same period in the previous fiscal year mainly due to NHI price reductions. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined mainly due to the impact of rival products. Sales of *Aloxi*, a long-acting 5-HT₃ receptor antagonist antiemetic agent, were steady, while sales of anti-cancer agent *Abraxane* grew strongly compared with the same period in the previous fiscal year, supported by an increase in prescriptions due to its approval for the additional indications of gastric cancer and non-small-cell lung cancer in February 2013. *Lonsurf*, an anti-cancer agent with a new mechanism of action, was launched in Japan in May 2014 for the indications of unresectable advanced or recurrent colorectal cancer (limited to cases where standard treatments are not practical). Sales of the drug are growing steadily.

In the area of hematological cancer, anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with BMS^{*3}, registered solid sales growth worldwide due to its position as a first-line treatment for chronic myeloid leukemia. *Busulfex*, which is the only allogeneic hematopoietic stem cell pre-transplanting regimen approved by the U.S. FDA, is now sold in more than 50 markets worldwide, and its growing recognition worldwide as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation is driving strong sales growth.

In April 2014, new tuberculosis drug *Detyba* was granted approval by the European Commission (EC) for the indications of multidrug-resistant tuberculosis after many years of development. *Detyba* was launched in the United Kingdom in May 2014, and then in Germany after that. The drug was also launched in Japan in September 2014, making it the first novel scaffold-based tuberculosis drug to be sold in the domestic market for 40 years.

Sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* dropped due to the impact of promotion of generics in hospitals and NHI price revision in Japan.

In the area of clinical nutrition, sales were maintained compared with the same period in the previous fiscal year with prescriptions growing for the high-calorie TPN solution *ELNEOPA*, reflecting recognition of the solution as a TPN kit product containing trace elements recommended in the 2013 guidelines of the Japanese Society for Parenteral and Enteral Nutrition (JSPEN), and evaluation of the solution's other benefits, such as lower risk of infection and a reduction in time and labor required for mixing and preparation.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2014 totaled ¥883,519 million (up 10.3% from the same period in the previous fiscal year), with operating income of ¥204,791 million (up 10.7%).

*1: © 2014 IMS Health. Estimated based on “Japan Pharmaceutical Market, April–December 2014.” All rights reserved, no reproduction without permission.

*2: Wearing-off is a complication of dopamine agonist treatments, where symptoms of Parkinson's disease can repeatedly improve and worsen over the course of a day. It is one of the most serious issues affecting the everyday lives of Parkinson's disease sufferers.

*3: Bristol-Myers Squibb Company

Nutraceuticals

In the *Pocari Sweat* electrolyte supplement drink range, sales promotion efforts in Japan were focused on younger consumers through events such as the All Japan Inter High School Tournament (Inter High) and the All Japan Junior High School Sports Festival. However, sales volume declined compared with the same period in the previous fiscal year due to the impact of unseasonal weather and rival products. *Pocari Sweat Ion Water* has been promoted by stepping up its appeal as a beverage for new drinking occasions. Overseas, where *Pocari Sweat* is sold in 16 markets worldwide, sales volume increased compared with the same period in the previous fiscal year, supported by ongoing efforts to cultivate consumers and promote the product's benefits.

In the balanced nutrition food *Calorie Mate*, a new item – *Calorie Mate Block Plain* – was added to the range in September 2014. Amid increasingly diverse mealtime styles and eating habits, this new simple flavor was launched to suit everyday lifestyles by providing a balanced source of the five major nutritional elements “any time, any place, for everyone.” The *Calorie Mate* brand overall registered growth in sales volume compared with the same period in the previous fiscal year, exceeding the rate of market growth^{*4}. This reflected the success of efforts to raise awareness

of the product's concept as a balanced nutrition food.

Sales volume for carbonated nutritional drink *Oronamin C* declined compared with the same period in the previous fiscal year, affected by the impact of intensifying competition due to the launch of new rival energy drinks.

The Otsuka Group operates its soy-related business in 11 markets worldwide, based on the concept of "Soylution," which sees soy as a solution to various health and environmental issues faced by consumers today. In Japan, a new flavor, *SOYJOY Almond & Chocolate*, was added to the *SOYJOY* soy bar range in April 2014. Efforts to promote the product based on its strengths and low GI led to growth in the number of users, including an increase in desk workers. As a result, market share increased^{*5} and sales volume expanded at a double-digit pace compared with the same period in the previous fiscal year. In *SoyCarat*, a healthy soy snack, *SoyCarat Chili Pepper* was added to the range in September 2014, which continued to enhance the product's value. In order to further develop the brands in the soy product range, the Group continued to work on building brand value through activities such as public seminars run by nutritionists and cultivation events including one that gives consumers hands-on experience in soy cultivation, and through seminars for occupational health nurses and other activities.

The Group launched women's health food product *EQUELLE* in April 2014 as a readily available daily source of equol. The Group continues to work to raise awareness of the product among consumers and sales of *EQUELLE* are growing steadily.

Subsidiary Pharmavite LLC of the U.S. supplies *Nature Made* supplements, which have been selected as the leading pharmacist-recommended brand in the U.S. and have been the number one retail national vitamin and supplement brand in the U.S. for eight consecutive years, from 2007 through 2014^{*6}. Although the market was weak in the first half of 2014, sales at the moment are firm.

At Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, sugar-free and gluten-free food products sold under the *Gerblé* nutrition and health food brand continued to drive growth, while sales of organic food products and soy products also grew steadily. In Japan, *Milical*, a diet food that has been sold in France for more than 50 years, was launched in April 2014.

In the cosmetics area, where the focus is on the concept of "healthy skin," sales remained firm for men's skincare brand *UL•OS* products due to the launch in August 2014 and successful promotional campaigns over summer of *UL•OS Skin Conditioner*, an easy-to-use product aimed at men. In South Korea, sales of *UL•OS* products increased compared with the same period in the previous fiscal year, supported by steady efforts to develop the brand and growth in the number of stores that stock the *UL•OS* range. Sales of the *InnerSignal* brand aimed at women who seek healthy and beautiful skin increased compared with the same period in the previous fiscal year as a result of steady progress in building a loyal base of customers by using the mail-order sales channel to acquire new customers and boost repeat business.

Sales volume for nutrient tonic *Tiovita* declined compared with the same period in the previous fiscal year, mainly due to the shrinking market for nutrient tonics.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2014 totaled ¥238,156 million (up 1.9% from the same period in the previous fiscal year), with operating income of ¥21,867 million (down 18.3%).

*4: INTAGE SRI (Cumulative revenues, nutritionally balanced foods market April–December 2014 +4.2%)

*5: INTAGE Beverage/Food SRI-M (04/01/2013 to 12/31/2013: *SOYJOY* share 12.1%, 04/01/2014 to 12/31/2014: *SOYJOY* share 13.6%)

*6: Pharmavite calculation based in part on data reported by Nielsen through its Scantrack® service for the Dietary Supplements category in dollar and unit sales, for the 52-week period ending 12/29/2007 and 12/28/2008 in U.S. Food Drug Mass channels; and for the 52-week period ending 12/26/2009, 12/25/2010, 12/24/2011, 1/5/2013, 1/4/2014 and 1/3/2015 in U.S. xAOC channels. ©2015 The Nielsen Company.

Consumer Products

Sales volume for *Match*, a carbonated electrolyte drink containing vitamins, increased compared with the same period in the previous fiscal year. This growth reflected the ongoing implementation of an aggressive marketing strategy and sales promotion activities mainly targeting the high school student market, and the launch of new product *Match Pink* in March 2014, which led to growth in new customers that reconnected the product with the market and reenergized the brand. Despite stepped up marketing activities and efforts to boost brand value, sales volume for mineral water products, centered on *Crystal Geyser*, declined compared with the same period in the previous fiscal year. Sales volume for *Bon Curry Gold*, a range of instant curry dishes, increased compared with the same period in the previous fiscal year due to various initiatives. Products were upgraded so they can be heated in a microwave oven without removing the curry pouch from the box, and in the fiscal year under review, marketing strategy and sales promotion activities were reinforced to boost brand value, including adding new items to the range and launching special products for limited period only.

In the consumer products segment, the Group is continuing its efforts to quickly improve profitability by reviewing marketing strategies and sales promotion activities and improve the expense-to-sales ratio.

Net sales in the consumer products segment for the fiscal year ended December 31, 2014 totaled ¥34,529 million (down 0.7% from the same period in the previous fiscal year), with operating loss of ¥1,404 million (compared with an operating loss of ¥1,750 million for the same period in the previous fiscal year)

Other

In the specialty chemical business, sales of tire additives and brake friction material modifiers *TISMO* and *Terracess* as well as capacitor electrolyte solution increased compared with the same period in the previous fiscal year amid strong demand from the automotive sector. Sales of flame retardants and potassium nitrate for glass strengthening, which are used in mobile terminals, were also strong. In the construction field, while sales of foaming agents used in building materials declined, mainly due to the impact of the hike in consumption tax, sales of aldehyde catcher agents and other products rose. Sales overall in the specialty chemical business increased compared with the same period in the previous fiscal year.

In the fine chemical business, sales volume for pharmaceutical intermediate *YTR* increased due to the addition of new end product formulations. However, sales overall in the fine chemical business declined compared with the same period in the previous fiscal year due to the impact of increased competition from rival products on pharmaceutical intermediate *DACTA*.

In the transportation and warehousing business, the volume of products handled increased, driven by increase in external customers in line with the promotion of a common distribution platform (distribution of products to market for the Group as well as for other firms). However, sales overall were flat compared with the same period in the previous fiscal year, mainly due to weaker volumes of beverages caused by unseasonal weather.

As a result, net sales in the other businesses for the fiscal year ended December 31, 2014 totaled ¥102,246 million (up 3.9% from the same period in the previous fiscal year), with operating income of ¥5,533 million (down 6.3%).

iii) Research and Development Activities

Research and development expenses for the current fiscal year totaled ¥172,851 million.

Research and development expenses for the pharmaceutical business amounted to ¥166,077 million, those for the nutraceutical business amounted to ¥3,833 million, those for the consumer products business amounted to ¥337 million and those for the other businesses amounted to ¥2,602 million.

Pipeline information

The following compounds are in phase III or later stage of development as of December 31, 2014.

Therapeutic area	Code / (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Central nervous system	OPC-14597 (<i>ABILIFY</i>) <aripiprazole>	Schizophrenia / Depot injection		•				
		Autism / Oral	•					
		Tourette's disorder / Tablet				approved		
		Bipolar I / Depot injection	•		•		•	
	L059 (<i>E KEPPRA</i>) <levetiracetam>	Agitation associated with dementia of the Alzheimer's type / Oral	•					
		Epilepsy (generalized onset seizures) / Oral	•					
	OPC-34712 <brexiprazole>	Epilepsy (partial onset seizures/mono therapy) / Oral and Injection		•				
		Adjunctive therapy for major depressive disorder / Oral				•	•	
		Schizophrenia / Oral	•			•	•	
		Agitation associated with dementia of the Alzheimer's type / Oral			•		•	
	Lu AE58054 <idalopirdine>	Posttraumatic stress disorder (PTSD) / Oral			•		•	
		Alzheimer's disease / Oral			•		•	
ASC-01 <aripiprazole, sertraline>		Major depressive disorder / Oral	•					
AVP-825* ¹ (sumatriptan)	Acute migraine / Inhalations				•			
Oncology	S-1 (<i>TS-1</i>) Japan, Korea (<i>TEYSUNO</i>) EU <tegafur, gimeracil, oteracil>	Uterocervical cancer / Oral	•					
	TAS-102 (<i>Lonsurf</i>) <trifluridine, tipiracil>	Colorectal cancer / Oral				•	•	
	(<i>SATIVEX</i>) <nabiximols>	Cancer pain / Oral spray			•			
	TAS-118 <tegafur, gimeracil, oteracil, folinate>	Pancreatic cancer / Oral	•					
	ABI-007 (<i>Abraxane</i>)	Pancreatic cancer / Injection		approved				
Cardiovascular	OPC-41061 (<i>SAMSCA</i>) <tolvaptan>	Autosomal dominant polycystic kidney disease / Oral			•		•	

(Translation)

Therapeutic area	Code / (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Other areas	YP-18 (<i>ZOSYN</i>) <tazobactam, piperacillin>	Febrile neutropenia / Injection		•				
	OPC-12759E (<i>Mucosta Ophthalmic Suspension</i>) <rebamipide>	Dry eyes / Eye drops MD (Multi Dose)	•					
	ACU-4429 <emixustat>	Dry AMD / Oral			•*2			
	OPC-67683 (<i>Delyba</i>) <delamanid>	Multidrug-resistant tuberculosis / Oral			•			
	TAC-202 <bilastine>	Allergic rhinitis / Oral	•					
		Chronic urticaria, pruritus associated with skin disease / Oral	•*2					
	OPC-1085EL <carteolol, latanoprost>	Glaucoma / Eye drops	•					
	OPB-2045G (<i>OLANEDINE</i>) <olanexidin>	Patient preoperative preparation / Topical		•				
	OPF-105 <Amino Acid, Carbohydrate, and Fat Emulsion Injection with Electrolytes and Vitamins>	Peripheral parenteral nutrition solution / Injection	•					
OPF-108 <Amino Acid, Carbohydrate, Electrolytes and Vitamins>	High-calorie TPN solution / Injection	•						

*1 (Additional information) Added in January 2015

*2 Phase II / III

a. Therapeutic drugs

The Otsuka Group conducts research and development with a primary focus on addressing unmet medical needs in the areas of the central nervous system and oncology. The Group also conducts research and development in fields such as cardiovascular system and ophthalmology.

Research and development activities carried out during the current fiscal year in the area of therapeutic drugs are summarized below.

Category	Brand Name (Generic Name) Development Code	Status
Central nervous system	(brexpiprazole) OPC-34712	[U.S.] <ul style="list-style-type: none"> An application was accepted in September 2014 for the indications of schizophrenia and adjunctive therapy in major depressive disorder.
	<i>ABILIFY</i> (aripiprazole)	[U.S.] <ul style="list-style-type: none"> Approval was received in December 2014 for an additional indication of Tourette disorder (pediatric indication). [Japan] <ul style="list-style-type: none"> Phase III trials for the treatment of agitation associated with dementia of the Alzheimer's type were initiated in June 2014.
	<i>Abilify Maintena</i> (aripiprazole)	[U.S.] <ul style="list-style-type: none"> Approval was granted in September 2014 for a pre-filled syringe. An application was accepted in December 2014 for using the deltoid muscle as a new administration route. Approval was granted in December 2014 for a labeling update to include new clinical data for the treatment of acutely relapsed adults with schizophrenia.
	<i>E Keppra</i> (levetiracetam)	[Japan] <ul style="list-style-type: none"> Approval was received in July 2014 for <i>E Keppra IV Drip Infusion</i> for an additional indication of epileptic partial-onset seizure. An application was filed in July 2014 for <i>E Keppra IV Drip Infusion</i> for an additional indication of monotherapy treatment of epileptic partial-onset seizure.
	(dextromethorphan, quinidine) AVP-923	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug's development status is as follows: [U.S.] <ul style="list-style-type: none"> Currently in Phase II trials for the treatment of agitation associated with dementia of the Alzheimer's type. Currently in Phase II trials for the treatment of dyskinesia associated with Parkinson's disease.
	(deuterium-modified dextromethorphan, quinidine) AVP-786	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug's development status is as follows: [U.S.] Currently in Phase II trials for the treatment of major depressive disorder.

Category	Brand Name (Generic Name) Development Code	Status
	(sumatriptan) AVP-825	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug's development status is as follows: [U.S.] NDA filing for an indication of acute migraine currently being reviewed by the U.S. FDA.
Oncology	<i>Abraxane</i> ABI-007	[Japan] • Approval was received in December 2014 for an additional indication of unresectable pancreatic cancer.
	(rebamipide) OPC-12759	[Japan] • Phase II trials for the treatment of oral mucositis during chemoradiation therapy for cancer were initiated in April 2014.
	<i>Lonsurf</i> TAS-102	[Japan] • An application for an approval of partial change in accordance with the results from Phase III trials for the treatment of colorectal cancer was filed in September 2014. [U.S.] • A rolling submission of new drug application based on the results from Phase III trials for the treatment of colorectal cancer was initiated in October 2014 after the U.S. FDA granted fast track designation. The submission of the application was completed in December 2014.
Cardiovascular system	<i>Samsca</i> (tolvaptan)	[U.S.] • Phase III trial for the treatment of autosomal dominant polycystic kidney disease (ADPKD) was initiated in June 2014.
Other categories	<i>Delyba</i> (delamanid)	[Europe] Approval was granted by the EC in April 2014 for an indication of multidrug-resistant tuberculosis. [Japan] Marketing approval was granted in July 2014 for an indication of multidrug-resistant tuberculosis and sales began in September 2014.
	<i>OLANEDINE</i> (olanexidin) OPB-2045G	[Japan] An application was filed in May 2014 for <i>OLANEDINE</i> antiseptic solution 1.5%, applicator 10 ml for <i>OLANEDINE</i> antiseptic solution 1.5%, and applicator 25 ml for <i>OLANEDINE</i> antiseptic solution 1.5%, for an indication of antiseptic preparation for skin subjected to surgery.
	OPF-108	[Japan] Phase III trials for an indication of treatment of post-operative digestive organ patients receiving total parenteral nutrition were initiated in June 2014.
	(carteolol, latanoprost) OPC-1085EL	[Japan] Phase III trials for the treatment of glaucoma were initiated in April 2014.
	(bilastine) TAC-202	[Japan] Phase II and Phase III trials for the treatment of chronic urticaria and cutaneous pruritus were initiated in May 2014. Phase III trials for the treatment of allergic rhinitis were initiated in August 2014.

Category	Brand Name (Generic Name) Development Code	Status
	OPA-15406	[U.S.] Phase II trials for the treatment of atopic dermatitis were initiated in June 2014.
	Zosyn (tazobactam, piperacillin)	[Japan] An application was filed for an additional indication of febrile neutropenia in July 2014.

b. Diagnostic

Launched in Japan in April 2014, *QuickNavi Strep A* is a test kit for the detection of group A beta-hemolytic streptococcal antigen, and is the sixth product in the *QuickNavi* series of easy-to-use rapid testing kits. The *Otsuka Major BCR-ABL mRNA Measurement Kit*, which is used as a marker to monitor treatment effectiveness for chronic myeloid leukemia, was launched in Japan after obtaining manufacturing and marketing approval in September 2014. Also, Phase II trials were initiated in Japan in August 2014 to evaluate the performance of in vivo diagnostic agent C13-CAC in patients with gastric disorders.

iv) Capital Investments

Capital investments during the current fiscal year amounted to ¥88,226 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥31,658 million. Principal investments included the renewal of existing facilities.

Capital investments in the nutraceutical business totaled ¥31,873 million. Principal investments included the acquisition of Jasmine Ltda. and Food State Inc., the *Pocari Sweat* manufacturing facility at Otsuka Pharmaceutical Co., Ltd. and the renewal of existing facilities.

Capital investments in the consumer business totaled ¥2,868 million, while those in other businesses totaled ¥18,607 million, and corporate investments (common) totaled ¥3,218 million.

(2) Key issues to be addressed

The Otsuka Group announced its Second Medium-Term Management Plan in August 2014, aimed at realizing its corporate philosophy, “Otsuka-people creating new products for better health worldwide.”

<Management policy and positioning of Second Medium-Term Management Plan>

The Otsuka Group is working to expand business opportunities using its people, technologies and products, guided by its corporate philosophy and the concept of total healthcare provision, which is aimed at delivering long-term growth. During the Second Medium-Term Management Plan, the Group aims to expand each of its core business areas in order to create a diversified earnings structure that supports sustained growth.

i) Strengthen core therapeutic areas

- In CNS, one of the core therapeutic areas, the Group will expand its reach into other areas where it can contribute to the treatment of CNS disorders, as well as provide new solutions that target unmet medical needs. This will include stepping up efforts to maximize the medical and commercial value of *Abilify Maintena* and brexpiprazole – both proprietary drugs.
- In the field of oncology, another core therapeutic area, the Group will develop its business in a wide range of areas, including hematological cancer, solid cancer and cancer-supportive care, and actively work to increase the medical value of its portfolio of oncology products. In particular, the Group will maximize the value of proprietary anti-cancer agent *Lonsurf* by accelerating the rollout of the drug worldwide.
- In Japan, the Group will further expand new products such as *E Keppra*, *Abraxane*, *Aloxi*, which were launched during the period of the First Medium-Term Management Plan, and focus on developing new products launched during the period of the Second Medium-Term Management Plan.
- In the clinical nutrition business, the Group pursued overseas development, mostly in Asia, and in the medical devices business, the Group focused efforts on diversifying treatment solutions.
- The Otsuka Group will tackle unmet medical needs of patients, aiming to create a wide range of new values including new drugs in order to satisfy those needs.

ii) Structural reform, evolution and growth of the nutraceutical business

- The Group will accelerate research and development related to the theme of “healthy life expectancy,” carry out product value appealing sales promotion and cultivate new products.
- The Group will expand the *Pocari Sweat* business in Asia, the *Nature Made* business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
- Aiming for sustainable growth over the long term, the Group will invest strategically and actively promote proprietary brands overseas.
- The Group will review business assets that support the value chain and work toward implementing structural reforms.

Initiatives to achieve the goals of the Second Medium-Term Management Plan

<div style="border: 1px solid black; border-radius: 50%; padding: 10px; width: 80px; margin: 0 auto;"> Theme of the Second Medium-Term Management Plan </div>	<div style="border: 1px solid black; border-radius: 50%; padding: 10px; width: 80px; margin: 0 auto;"> Five Year Period to Establish a Diversified Business Portfolio </div>	<ul style="list-style-type: none"> • Strengthen core therapeutic areas (the central nervous system and oncology) • Structural reform, evolution and growth of the nutraceutical business • Active investment in growth areas and shareholder return
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<Progress on Principal Measures>

The Group has formulated its Second Medium-Term Management Plan, starting in FY2014, and positioned the five year plan period as one to establish a diversified business portfolio.

Progress with the plan's principal measures is as follows:

- Sales of *Abilify Maintena*, an aripiprazole intramuscular depot formulation, are growing steadily in the U.S. and Europe.
- New drug applications for the indications of schizophrenia and adjunctive therapy in major depressive disorder were filed with U.S. FDA for brexpiprazole, the successor drug to aripiprazole.
- *Lonsurf*, an anti-cancer drug for the treatment of unresectable advanced or recurrent colorectal cancer, was launched in Japan in May 2014. Sales are growing steadily. A new drug application for the treatment of colorectal cancer was filed in the U.S.
- International sales in the nutraceutical business are firm.

<Second Medium-Term Management Plan: Second-Year Outlook>

The Group is working to achieve the following targets by focusing on maximizing the value of new products.

(Billions of yen)

Items	FY2015 forecasts	FY2016 targets	FY2018 targets
Net sales	1,370.0	1,190.0	1,440.0
R&D expenses	230.0	170.0	170.0
Operating income	110.0	100.0	200.0
Net income	80.0	70.0	140.0

(3) Trends in consolidated operating results and assets for and at the end of the current fiscal year and the most recent three fiscal years

Item	The 4th fiscal year (Ended March 31, 2012)	The 5th fiscal year (Ended March 31, 2013)	The 6th fiscal year (Ended March 31, 2014)	The 7th fiscal year (Ended December 31, 2014)
Net sales (Millions of yen)	1,154,573	1,218,055	1,452,759	1,224,298
Ordinary income (Millions of yen)	152,119	184,462	215,235	217,210
Net income (Millions of yen)	92,174	122,429	150,989	143,143
Net income per share (Yen)	165.20	221.90	278.07	264.20
Total assets (Millions of yen)	1,666,767	1,779,207	2,028,399	2,178,184
Net assets (Millions of yen)	1,222,764	1,325,071	1,510,759	1,658,600
Net assets per share (Yen)	2,166.55	2,381.64	2,740.89	3,004.38

Note: The 7th Fiscal Year is a period of nine months from April 1, 2014 to December 31, 2014 as a result of changing the fiscal year end.

(Translation)

(4) Significant subsidiaries (as of December 31, 2014)

Company name	Country	Capital	Percentage of voting rights held by the Company	Major business activities
Otsuka Pharmaceutical Co., Ltd.	Japan	20,000 million yen	100.00%	Manufacture and sale of pharmaceuticals, clinical inspections and medical devices, food products, and cosmetic products
Otsuka Pharmaceutical Factory, Inc.	Japan	80 million yen	100.00%	Manufacture and sale of pharmaceutical products
Taiho Pharmaceutical Co., Ltd.	Japan	200 million yen	100.00%	Manufacture and sale of pharmaceutical products
Otsuka Warehouse Co., Ltd.	Japan	800 million yen	100.00%	Warehousing and transport business
Otsuka Chemical Co., Ltd.	Japan	5,000 million yen	100.00%	Manufacture and sale of chemical products
Otsuka Foods Co., Ltd.	Japan	1,000 million yen	*100.00%	Manufacture and sale of food and beverages, sale of alcoholic drinks (wine)
Otsuka America Pharmaceutical, Inc.	U.S.	50,000 thousand U.S. dollars	*100.00%	Manufacture and sale of pharmaceutical products
Pharmavite LLC	U.S.	1,032 thousand U.S. dollars	*100.00%	Manufacture and sale of nutritional products
Otsuka Pharmaceutical Europe Ltd.	U.K.	140,652 thousand euro	*100.00%	Manufacture and sale of pharmaceutical products
Nutrition & Santé SAS	France	45,150 thousand euro	*100.00%	Manufacture and sale of food products

Note: The asterisk (*) in "Percentage of voting rights held by the Company" includes the percentage of voting rights held indirectly.

(5) Major offices and factories (as of December 31, 2014)

The Company

Head Office	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo
Tokyo Headquarters	2-16-4 Konan, Minato-ku, Tokyo

Significant subsidiaries

Company name	Location
Otsuka Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Pharmaceutical Factory, Inc.	Naruto City, Tokushima
Taiho Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Warehouse Co., Ltd.	Minato-ku, Osaka
Otsuka Chemical Co., Ltd.	Chuo-ku, Osaka
Otsuka Foods Co., Ltd.	Chuo-ku, Osaka
Otsuka America Pharmaceutical, Inc.	Maryland, U.S.
Pharmavite LLC	California, U.S.
Otsuka Pharmaceutical Europe Ltd.	Buckinghamshire, U.K.
Nutrition & Santé SAS	Midi-Pyrénées, French Republic

(Translation)

(6) Employees (as of December 31, 2014)

i) Employees of the Otsuka Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	17,057	(1,198)	up 479	(up 25)
Nutraceuticals	7,022	(1,437)	up 617	(up 236)
Consumer products	540	(98)	down 114	(up 2)
Other	3,207	(659)	up 279	(up 50)
Corporate (Common)	1,656	(354)	down 67	(up 9)
Total	29,482	(3,746)	up 1,194	(up 322)

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

ii) Employees of the Company

Number of employees	Increase / Decrease from the previous fiscal year	Average age	Average service years
73 (94)	down 2 (up 9)	44.3	3.1

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

(7) Major creditors (as of December 31, 2014)

Creditor	Balance of borrowings
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	37,453 million yen
Mizuho Bank, Ltd.	19,487 million yen
Resona Bank, Limited	14,279 million yen
Sumitomo Mitsui Banking Corporation	3,703 million yen
Sumitomo Mitsui Banking Corporation Europe, Limited	2,930 million yen

(8) Other Significant Matters Related to the Present State of the Otsuka Group

Acquisition of Avanir Pharmaceuticals, Inc.

On December 2, 2014, a consolidated subsidiary of the Company, Otsuka Pharmaceutical Co., Ltd., agreed to make an all-cash tender offer followed by a merger for cash with Avanir Pharmaceuticals, Inc. ("Avanir"), through a wholly-owned subsidiary of Otsuka America, Inc. Avanir is a company engaged in the research and development, as well as manufacturing and marketing of pharmaceuticals.

In accordance with this agreement, the Tender Offer and the subsequent Merger, resulting in Avanir as the surviving company, were completed on January 13, 2015 (U.S. Eastern Standard Time), resulting in Avanir becoming a consolidated subsidiary of Otsuka Holdings.

(Translation)

2. Current Status of the Company

(1) Shares (as of December 31, 2014)

- i) Total number of authorized shares: 1,600,000,000 shares
- ii) Total number of issued shares: 557,835,617 shares
- iii) Number of shareholders: 57,667
- iv) Principal shareholders (top 10 shareholders):

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	62,674	11.56
Otsuka Estate Ltd.	22,871	4.22
Otsuka Group Employee Shareholding Fund	16,592	3.06
Japan Trustee Services Bank, Ltd. (trust account)	13,569	2.50
The Master Trust Bank of Japan, Ltd. (trust account)	13,038	2.40
The Awa Bank, Limited	10,970	2.02
Otsuka Asset Co., Ltd.	7,380	1.36
The Bank Of New York Mellon SA/NV 10	6,403	1.18
MEDIPAL HOLDINGS CORPORATION	6,148	1.13
CBNY-Government Of Norway	5,820	1.07

- Notes: 1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 16,037,940 of its own shares, treasury stock is excluded from the above list.
3. Shareholding ratio is calculated after treasury stock is deducted.

(2) Status of stock acquisition rights

Holding of stock acquisition rights issued as compensation for the execution of duties by
Directors and Audit & Supervisory Board Members of the Company

(as of December 31, 2014)

	No. 2 stock acquisition rights
Date of resolution on issuance	June 29, 2010
Number of stock acquisition rights	4,000
Class and number of shares underlying stock acquisition rights	Common stock: 4,000 shares (One share per stock acquisition right)
Amount to be paid in for stock acquisition rights for subscription	No payment required
Value of property to be contributed when such stock acquisition rights are exercised	¥2,100 per stock acquisition right (¥2,100 per share)
Period during which stock acquisition rights may be exercised	From July 23, 2012 to July 31, 2015
Conditions for exercise of stock acquisition rights	(See Note)
Status of holdings of Directors and Audit & Supervisory Board Members	Number of Audit & Supervisory Board Members of the Company: 1

Note: Matters relating to conditions for exercise of stock acquisition rights are as follows:

- a. A party having received an allotment of stock acquisition rights (hereafter, "holder of stock acquisition rights") must hold the same position in the Company at the time of exercising the stock acquisition rights as that held at the time of the allotment of stock acquisition rights. However, the Company's Board of Directors may waive this limit if they deem it appropriate.
- b. A holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights in the event the holder of stock acquisition rights, without obtaining prior approval from the Board of Directors of the Company or a subsidiary, assumes or agrees to assume an office either as an executive or employee of another company, or engages in a business that competes directly or indirectly with the business of the Company or its subsidiary.
- c. A holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights in the event the holder of stock acquisition rights commits a major violation of laws and regulations or the internal rules of the Company or a subsidiary.
- d. A holder of stock acquisition rights shall not pledge or dispose of the stock acquisition rights in any other way.
- e. In the event of the death of a holder of stock acquisition rights, the heirs of the deceased holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights.
- f. A stock acquisition right shall not be split for exercising.
- g. Other conditions for exercising of stock acquisition rights shall be as provided in the agreement for the allotment of stock acquisition rights entered into between the Company and the holders of stock acquisition rights based on the resolution of the Company's Board of Directors.

(3) Directors and Audit & Supervisory Board Members of the Company

i) Directors and Audit & Supervisory Board Members (as of December 31, 2014)

Position in the Company	Name	Areas of Responsibility and Significant Concurrent Positions
Vice Chairman and Representative Director	Ichiro Otsuka	Representative Director, Otsuka Pharmaceutical Factory, Inc. President and Representative Director, Otsuka Estate Ltd. President and Representative Director, Otsuka Asset Co., Ltd.
President and Representative Director	Tatsuo Higuchi	Executive Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Chemical Co., Ltd.
Senior Managing Director	Atsumasa Makise	In charge of Corporate Finance Chairman, Otsuka America, Inc.
Managing Director	Yoshiro Matsuo	In charge of Corporate Administration
Executive Director	Sadanobu Tobe	President and Representative Director, Otsuka Foods Co., Ltd.
Executive Director	Tatsuro Watanabe	Managing Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Pharmaceutical Europe Ltd.
Executive Director	Yasuyuki Hiroto	President, The Resona Foundation for Asia and Oceania Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD.
Executive Director	Juichi Kawaguchi	
Executive Director	Tadaaki Konose	Administrative Council member, University of Miyazaki, a National University Corporation
Standing Audit & Supervisory Board Member	Takaharu Imai	Outside Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd
Audit & Supervisory Board Member	Akihito Nakai	Standing Audit & Supervisory Board Member, Otsuka Pharmaceutical Factory, Inc. Audit & Supervisory Board Member, Otsuka Warehouse Co., Ltd.
Audit & Supervisory Board Member	Norikazu Yahagi	Outside Audit & Supervisory Board Member, T.D.I. CO., LTD.
Audit & Supervisory Board Member	Hiroshi Sugawara	Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. Vice President, Will Capital Management Co., Ltd.

- Notes: 1. Executive Directors, Yasuyuki Hiroto, Juichi Kawaguchi and Tadaaki Konose are Outside Directors.
2. Audit & Supervisory Board Members, Norikazu Yahagi and Hiroshi Sugawara are Outside Audit & Supervisory Board Members.
3. Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
4. The Company appoints Executive Directors Juichi Kawaguchi and Tadaaki Konose as well as Audit & Supervisory Board Members Hiroshi Sugawara and Norikazu Yahagi as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc. and have registered them with the Exchange.
5. Changes in Directors and Audit & Supervisory Board Members during the current fiscal year are as follows:
[Assumption of Office]
Executive Director, Sadanobu Tobe (assumed his office as of June 27, 2014)
Executive Director, Tatsuro Watanabe (assumed his office as of June 27, 2014)
Executive Director, Tadaaki Konose (assumed his office as of June 27, 2014)
Standing Audit & Supervisory Board Member, Takaharu Imai (assumed his office as of June 27, 2014)
Audit & Supervisory Board Member, Akihito Nakai (assumed his office as of June 27, 2014)
- [Retirement]
Executive Director, Yujiro Otsuka (retired from office due to expiration of his term of office as of June 27, 2014)
Executive Director, Yukio Kobayashi (retired from office due to expiration of his term of office as of June 27, 2014)
Audit & Supervisory Board Member, Yasuhisa Katsuta (retired from office due to expiration of his term of office as of June 27, 2014)

(Translation)

[Significant Concurrent Positions] Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
Chairman and Representative Director, Akihiko Otsuka (retired from office due to his death on November 28, 2014)

[Significant Concurrent Positions] Chairman, Otsuka Pharmaceutical Co., Ltd.
Executive Director, Otsuka Pharmaceutical Factory, Inc.
President and Representative Director, Otsuka Estate Ltd.
Chairman and Representative Director, Otsuka Asset Co., Ltd.

ii) Total compensations paid to Directors and Audit & Supervisory Board Members

Classification	Number of persons paid	Amount of compensations paid (millions of yen)
Directors	12	411
[incl. Outside Directors]	(3)	(14)
Audit & Supervisory Board Members	5	36
[incl. Outside Audit & Supervisory Board Members]	(3)	(19)
Total	17	448
[incl. Outside Directors and Audit & Supervisory Board Members]	(6)	(33)

- Notes:
1. There are no Directors of the Company who concurrently serve as employees.
 2. The above includes two Directors and one Audit & Supervisory Board Member who retired at the conclusion of the 6th Annual Shareholders Meeting held on June 27, 2014 and one Director who retired on November 28, 2014.
 3. The upper limit of compensation for Directors is set at ¥1,500 million per year (does not include the portion of salary for an employee position) as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010.
 4. The upper limit of compensation for Audit & Supervisory Board Members is set at ¥80 million per year as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010. Issuance of stock acquisition rights of up to 32,000 shares of common stock of the Company as stock options was resolved separately at the 2nd Annual Shareholders Meeting on June 29, 2010. For details, please refer to the section of "2. Current Status of the Company (2) Status of stock acquisition rights: Holding of stock acquisition rights issued as compensation for the execution of duties by Directors and Audit & Supervisory Board Members of the Company."
 5. The above amounts of compensation include ¥151 million in bonuses for six Directors.

iii) Matters concerning Outside Directors and Outside Audit & Supervisory Board Members

a. Significant concurrent positions at other companies and relationships between the Company and such other companies

Executive Director, Yasuyuki Hirotomi, serves as President of The Resona Foundation for Asia and Oceania, Board Director and Senior Vice President of KYOEI STEEL LTD. as well as Outside Director of ELECOM CO., LTD. The Group has no transactions with the said firms.

Executive Director, Tadaaki Konose, serves as Administrative Council member of University of Miyazaki, a National University Corporation. The Group has no transactions with the said firms.

Audit & Supervisory Board Member, Norikazu Yahagi, serves as outside Audit & Supervisory Board Member of T.D.I. CO., LTD. The Group has no transactions with the said firm.

Audit & Supervisory Board Member, Hiroshi Sugawara, serves as outside Audit & Supervisory Board Member of Otsuka Pharmaceutical Co., Ltd., and Vice President at Will Capital Management Co., Ltd. Otsuka Pharmaceutical Co., Ltd. is a wholly-owned subsidiary of the Company. The Group has no transactions with Will Capital Management Co., Ltd.

b. Major activities during the current fiscal year

Executive Director, Yasuyuki Hirotomi attended all twelve (12) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his extensive experience and high-level insights acquired throughout many years in corporate management.

Executive Director, Juichi Kawaguchi attended all twelve (12) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his knowledge and experience as a corporate executive acquired through his career.

Executive Director, Tadaaki Konose attended all eight (8) meetings of the Board of Directors held since his appointment as Executive Director of the Company and provided appropriate

comments based on his abundant experience and extensive knowledge gained through many years in corporate management.

Audit & Supervisory Board Member, Norikazu Yahagi attended all twelve (12) meetings of the Board of Directors and all eleven (11) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights acquired primarily as an outside Audit & Supervisory Board Member at other listed companies.

Audit & Supervisory Board Member, Hiroshi Sugawara attended all twelve (12) meetings of the Board of Directors and all eleven (11) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his expertise as a certified public accountant.

c. Overview of the agreement for limitation of liability

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has executed agreements with Outside Directors and Outside Audit & Supervisory Board Members which limit the Outside Directors and Outside Audit & Supervisory Board Members' indemnity liability under Article 423, Paragraph 1 of the same Act to the amount provided for in the laws and regulations.

(4) Accounting auditor

i) Name of accounting auditor (Independent Auditor): Deloitte Touche Tohmatsu LLC

ii) Amount of compensations

	Payment (millions of yen)
Total compensations for the current fiscal year	80
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	429

- Notes:
1. The Company compensates the accounting auditor for advice and guidance, etc. concerning international financial reporting standards, which is a service other than the services prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act.
 2. Of the Company's principal subsidiaries, Otsuka America Pharmaceutical, Inc. and three other companies are audited by a certified public accountant or an audit corporation (including parties holding qualifications comparable to those of a certified public accountant or an audit corporation in a country besides Japan) other than the accounting auditor of the Company (provided, however, that such parties fall under the provisions of the Companies Act or the Financial Instruments and Exchange Act (or foreign laws comparable to the said Acts)).
 3. As compensations for audits based on the Companies Act and that based on the Financial Instruments and Exchange Act are not clearly distinguished under the audit agreement concluded between the Company and the accounting auditor nor can they be classified in practice, the amount of compensations for the accounting auditor in the current fiscal year represents the aggregate amount for these audits.

iii) Policy for determining dismissal or non-reappointment of accounting auditor

In the event any deficiency is found in the execution of duties by the accounting auditor, or if judging the necessity thereof, the Board of Directors shall, with prior consent obtained from the Audit & Supervisory Board or based on a request from the Audit & Supervisory Board, address dismissal or non-reappointment of the accounting auditor as an item of the agenda of a shareholders meeting.

The Audit & Supervisory Board shall, if recognizing that the accounting auditor falls under any of the items in Article 340, Paragraph 1 of the Companies Act, dismiss the accounting auditor based on the unanimous consent of all Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board shall report the dismissal of accounting auditor and the reason thereof at the first shareholders meeting convened after dismissal.

(5) System to ensure appropriate operations

The Company defines the basic policies on internal control to ensure the appropriateness of operations (internal control system) as follows:

- i) System to ensure that the execution of the duties by the Directors and employees complies with the laws and regulations and the Articles of Incorporation

The Otsuka Group adopts a pure holding company system within the Company to strengthen corporate governance by separating the management supervisory function from the business execution function.

The Company formulates the Otsuka Group Code of Conduct in order to ensure compliance with laws and regulations, the Articles of Incorporation, and other relevant rules and the underlying concepts, and to ensure corporate activities are carried out based on high ethical standards. The Otsuka Holdings Compliance Program is established to provide specific guidelines that reflect the Otsuka Group Code of Conduct, based on which the Risk Management Committee leads efforts to ensure thorough education for employees and to promote establishment, maintenance, and improvement of the compliance system.

While promoting the establishment of an internal control system to perform appropriate accounting processes and ensure reliability of financial reporting based on the Financial Instruments and Exchange Act and other relevant laws and regulations, the Company continually assesses whether or not the said system is functioning appropriately, and implements necessary corrective action when it is inadequate.

The Company is resolute in its stance toward all anti-social forces and organizations that threaten social order and corporate soundness and has zero tolerance toward relations with such forces and organizations.

An Internal Audit Department established under the direct reporting line to the President shall periodically perform internal audits of the assets and the overall operations of the Company based on Internal Audit Regulations, and report the results to the President. Should a need for improvement be found, the Internal Audit Department provides comments on such improvement and subsequently follows up the status of such improvement.

- ii) System for preserving and managing information regarding the execution of duties by Directors

The Company shall appropriately and securely retain and manage records of meetings of the Board of Directors and circulars for managerial approval, etc., in accordance with Corporate Document Control Regulations and maintain a system to allow such records and circulars to be accessed as necessary.

- iii) Regulations and other systems for the management of risk of loss

To establish a risk management system for the Company and each of the Group companies, a Risk Management Committee along with Risk Management Rules shall be established. The Risk Management Committee shall evaluate and comprehensively manage risks that may impair improving the sustainable value of the Otsuka Group by managing each of the risk management departments within the organization.

In the event of an unforeseen situation, the Company shall promptly implement responsive measures to minimize any damage caused by the emergent situation.

- iv) System to ensure efficient execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting shall be held on a monthly basis and an extraordinary meeting whenever deemed necessary to discuss and determine important matters such as management policies and strategies.

A Corporate Officer system shall be put in place that clearly defines the roles of Corporate Officers executing business operations separately from the Board of Directors, which serves as the management decision-making and supervisory function, to ensure the transparency of management and prompt execution of business operations.

- v) System to ensure appropriate operations in the business group comprising the Company and its subsidiaries

The Company, as the holding company that undertakes the role of maximizing the corporate value of the Otsuka Group, shall put in place a system to secure the appropriateness of operations from the viewpoint of the entire Otsuka Group.

Subsidiaries and affiliates shall report matters provided for in the Affiliate Management

Regulations to the Company as necessary, and seek approval from the Company for any significant matters under the framework to establish a collaborative system within the Otsuka Group.

The Company shall ensure that audits of subsidiaries and affiliates are managed and conducted in accordance with the Internal Audit Regulations and promote the development of risk management and compliance systems across the Group to ensure that operations are uniformly and appropriately performed.

vi) Matters concerning employees in the event where Audit & Supervisory Board Members issue requests for employees to take charge of assisting them with their duties

The Company establishes an Audit & Supervisory Board Member's Office responsible for administering the convocation of meetings of the Audit & Supervisory Board and supporting the duties of Audit & Supervisory Board Members independently from the supervision of Directors.

vii) Matters concerning the independence of employees from Directors, as mentioned in the preceding paragraph

Personnel transfers and evaluations relating to the Audit & Supervisory Board Member's Office shall be determined by the Board of Directors based on prior approval obtained from the Audit & Supervisory Board and shall secure independence from Directors.

viii) Systems for reporting to Audit & Supervisory Board Members by Directors and employees and other systems for reporting to Audit & Supervisory Board Members

The Company shall ensure that specific means are in place to allow Audit & Supervisory Board Members to collect information concerning the execution of duties by Directors, including a system to have Directors and employees report to Audit & Supervisory Board Members in the event any of the following takes place.

- a. Any incident that has caused or may cause material damage to the Company
- b. Any violation of laws, regulations, or the Articles of Incorporation and any other important compliance matter
- c. Progress of business execution by the Company and each of the Group companies
- d. Status of internal audits performed
- e. Matters to be resolved at important meetings

ix) Other systems to ensure effective audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members may attend meetings of the Board of Directors and other important meetings to understand the process whereby important decisions are made and the status of Directors' and employees' performance of duties, question Directors and employees on the status of their performance of duties, and access important records relating to the business operations such as circulars for managerial approval.

Directors and employees, if so requested by Audit & Supervisory Board Members, shall promptly report matters relating to business executions.

Internal Audit Department, Administration Department, Corporate Finance & Accounting Department, Internal Control Department and any other relevant department shall provide Audit & Supervisory Board Members with information as necessary and cooperate in ensuring and improving the effectiveness of audits performed by Audit & Supervisory Board Members.

(6) Policy on decisions on dividends from surplus

The Company recognizes returning profits to shareholders to be one of the key management measures. The Company adopts a basic policy of continuously distributing profits to shareholders in line with the growth of profits while securing adequate internal reserves necessary to support future corporate growth and respond to changes in the business environment.

Based on this policy, the Company has resolved to pay a year-end dividend of ¥40 per share for the current fiscal year. Combined with the interim dividend of ¥35 per share that was paid on December 1, 2014, this amounts to annual dividends of ¥75 per share. The effective date of the year-end dividend for the current fiscal year is March 30, 2015.

Consolidated Balance Sheet

(As of December 31, 2014)

(Millions of yen)

Item	Amount	Item	Amount
Assets		Liabilities	
Current assets	1,245,602	Current liabilities	437,026
Cash and deposits	523,135	Notes and accounts payable-trade	130,784
Notes and accounts receivable-trade	406,431	Short-term borrowings	70,178
Marketable securities	48,535	Lease obligations	2,139
Merchandise and finished goods	80,011	Accounts payable-other	102,005
Work in process	31,783	Accrued expenses	67,127
Raw materials and supplies	41,915	Income taxes payable	14,498
Deferred tax assets	37,782	Provision for bonuses	8,563
Other current assets	76,547	Provision for directors' bonuses	600
Allowance for doubtful accounts	(541)	Other current liabilities	41,129
Noncurrent assets	932,522	Long-term liabilities	82,557
Property, plant and equipment	344,784	Long-term debt	22,251
Buildings and structures	131,020	Lease obligations	5,800
Machinery and equipment	89,948	Deferred tax liabilities	12,027
Furniture and fixtures	15,706	Liability for directors' retirement benefits	2,787
Land	82,784	Net defined benefit liability	10,921
Leased assets	7,434	Negative goodwill	19,691
Construction in progress	17,889	Other long-term liabilities	9,077
Intangible assets	221,173	Total Liabilities	519,584
Goodwill	93,162	Net Assets	
Software	19,232	Shareholders' equity	1,537,928
Other intangible assets	108,778	Common stock	81,690
Investments and other assets	366,565	Capital surplus	512,747
Investment securities	270,804	Retained earnings	990,906
Investments in capital	42,538	Treasury stock, at cost	(47,415)
Long-term loans receivable	5,636	Accumulated other comprehensive income	89,873
Deferred tax assets	15,476	Unrealized gain on available-for-sale securities	13,152
Net defined benefit asset	17,486	Deferred gain on derivatives under hedge accounting	392
Other assets	15,461	Foreign currency translation adjustments	57,161
Allowance for investment loss	(78)	Remeasurements of defined benefit plans	19,167
Allowance for doubtful accounts	(759)	Minority interests	30,798
Deferred assets	59	Total Net Assets	1,658,600
Total Assets	2,178,184	Total Liabilities and Net Assets	2,178,184

(Translation)

Consolidated Statement of Income

(From April 1, 2014 to December 31, 2014)

(Millions of yen)

Item	Amount	
Net sales		1,224,298
Cost of sales		346,300
Gross profit		877,997
Selling, general and administrative expenses		681,469
Operating income		196,528
Non-operating income		
Interest and dividend income	2,236	
Amortization of negative goodwill	1,848	
Equity in earnings of unconsolidated subsidiaries and affiliates	3,873	
Foreign exchange gain, net	12,871	
Other	2,260	23,091
Non-operating expenses		
Interest expense	1,657	
Other	752	2,410
Ordinary income		217,210
Extraordinary income		
Gain on sales of noncurrent assets	131	
Subsidy income	937	
Other	373	1,442
Extraordinary loss		
Loss on retirement of noncurrent assets	606	
Impairment loss	5,377	
Loss on valuation of investment securities	1,482	
Other	919	8,386
Income before income taxes and minority interests		210,265
Income taxes-current	46,219	
Income taxes-deferred	19,832	66,051
Income before minority interests		144,213
Minority interests in net income		1,070
Net income		143,143

(Translation)

Consolidated Statement of Changes in Net Assets

(From April 1, 2014 to December 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Beginning balance as of April 1, 2014	81,690	512,895	891,615	(47,928)	1,438,272
Cumulative effects of changes in accounting policies			(5,299)		(5,299)
Beginning balance as of April 1, 2014 (as restated)	81,690	512,895	886,315	(47,928)	1,432,973
Changes during the period					
Increase in retained earnings due to change of fiscal year end			177		177
Change in scope of consolidation			(815)		(815)
Dividends			(37,914)		(37,914)
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		(148)		514	365
Net income			143,143		143,143
Net changes other than shareholders' equity					
Total changes during the period	-	(148)	104,590	513	104,954
Ending balance as of December 31, 2014	81,690	512,747	990,906	(47,415)	1,537,928

(Translation)

	Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Beginning balance as of April 1, 2014	13,819	(7)	12,152	20,331	46,296	104	26,085	1,510,759
Cumulative effects of changes in accounting policies								(5,299)
Beginning balance as of April 1, 2014 (as restated)	13,819	(7)	12,152	20,331	46,296	104	26,085	1,505,460
Changes during the period								
Increase in retained earnings due to change of fiscal year end								177
Change in scope of consolidation								(815)
Dividends								(37,914)
Purchase of treasury stock								(1)
Disposal of treasury stock								365
Net income								143,143
Net changes other than shareholders' equity	(667)	399	45,008	(1,163)	43,576	(104)	4,713	48,184
Total changes during the period	(667)	399	45,008	(1,163)	43,576	(104)	4,713	153,139
Ending balance as of December 31, 2014	13,152	392	57,161	19,167	89,873	-	30,798	1,658,600

Notes regarding Consolidated Financial Statements

1. Notes regarding Basis of Presenting Consolidated Financial Statements

(1) Scope of Consolidation

i) Consolidated subsidiaries

- Number of consolidated subsidiaries: 102
- Names of principal consolidated subsidiaries:
Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd., Otsuka Electronics Co., Ltd., Otsuka Chemical Co., Ltd., Otsuka Foods Co., Ltd., Otsuka America, Inc., Otsuka America Pharmaceutical, Inc., Pharmavite LLC, P.T. Amerta Indah Otsuka, Otsuka Pharmaceutical Europe Ltd. and Nutrition & Santé SAS

ii) Unconsolidated subsidiaries

- Names of principal unconsolidated subsidiaries:
Otsuka Pakistan Ltd., Taiho Oncology, Inc. and Otsuka Chemical America, Inc.
- Reasons for excluding from the scope of consolidation
Unconsolidated subsidiaries are small in size and the aggregate total assets, sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage) and other indicators do not have a material effect on the consolidated financial statements and have therefore been excluded from the scope of consolidation.

(2) Application of the Equity Method

i) Unconsolidated subsidiaries and affiliates accounted for by the equity method

- Number of unconsolidated subsidiaries and affiliates accounted for by the equity method: 17
- Names of principal equity method companies:
Otsuka Pakistan Ltd., Earth Chemical Co., Ltd., ALMA S.A., CG Roxane LLC, VV Food & Beverage Co., Ltd., China Otsuka Pharmaceutical Co., Ltd. and Nichiban Co., Ltd.

ii) Unconsolidated subsidiaries and affiliates not accounted for by the equity method

- Names of principal companies:
Taiho Oncology, Inc. and Otsuka Chemical America, Inc.
- Reasons for excluding from the scope of the equity method
Based on the Company's ownership share of net income and retained earnings, and other factors, exclusion of certain unconsolidated subsidiaries and affiliates from being accounted for by the equity method does not have a material effect on the consolidated financial statements.

iii) Special note regarding the application of the equity method

With respect to companies accounted for by the equity method and whose fiscal year end differs from the consolidated fiscal year end, financial statements based on the provisional settlement of accounts as of December 31, 2014 have been used to facilitate the preparation of the consolidated financial statements.

(3) Changes in the Scope of Consolidation and the Scope of Equity-Method Application

Jasmine Comercio de Produtos Alimenticios LTDA, FoodState, Inc., Higashiyama Film Co., Ltd. and one other company have been newly included in the scope of consolidation from the current fiscal year as a result of acquisition of their shares.
Nardobel Participacoes Ltda. and Bigarade Corporation have been newly included in the scope of consolidation from the current fiscal year as they were newly established.
Otsuka Pharmaceutical Italy S.r.l. and Kisco International SAS have been newly included in the scope of consolidation from the current fiscal year due to their increase in materiality.
Soma Beverage Company, LLC, which had been in the scope of consolidation, was absorbed by Crystal Geysler Water Company, a consolidated subsidiary.

(4) Change in Consolidated Fiscal Year End

In order to make more timely and accurate disclosure of management information about global activities by its Group, whose overseas sales represent a large percentage of total sales, by standardizing its fiscal year with its overseas consolidated subsidiaries, the Company changed its fiscal year end for consolidated financial statements from March 31 to December 31, following resolution regarding the partial amendments to the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014. Consequently, the consolidated financial results in the transitional period for FY2014 represent nine months (April 1, 2014 to December 31, 2014).

For the period of January 1, 2014 to March 31, 2014, profits or losses of consolidated subsidiaries with a December 31 fiscal year end have been adjusted within retained earnings. Furthermore, 23 consolidated domestic subsidiaries changed their fiscal year end from March 31 to December 31.

(5) Fiscal Year End of Consolidated Subsidiaries

The fiscal year end of consolidated subsidiaries is the same as the consolidated fiscal year end.

(6) Accounting Policies

i) Valuation of Major Assets

a. Held-to-maturity securities:

Stated at amortized cost (straight-line method).

b. Shares and investments in capital of unconsolidated subsidiaries, affiliates and limited liability entities not accounted for by the equity method:

Stated at cost, determined by the moving-average method.

c. Other securities

• Marketable securities classified as available-for-sale:

Stated at fair value based on the quoted market price at the end of the fiscal year with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving-average method.

• Non-marketable securities classified as available-for-sale:

Stated at cost, determined primarily by the moving-average method.

d. Valuation of inventories

• Merchandise and supplies:

Merchandise and supplies of domestic consolidated subsidiaries are stated at the lower of cost or net selling value, determined primarily by the first-in, first-out method. Merchandise and supplies of foreign consolidated subsidiaries are stated at the lower of cost or market value, determined by the first-in, first-out method.

• Finished goods, work in process and raw materials:

Finished goods, work in process and raw materials of domestic consolidated subsidiaries are stated at the lower of cost or net selling value, determined primarily by the gross-average method. Finished goods, work in process and raw materials of foreign consolidated subsidiaries are stated at the lower of cost or market value, determined by the gross-average method.

e. Derivatives:

Stated at fair value.

ii) Depreciation and Amortization of Major Depreciable and Amortizable Assets

a. Property, plant and equipment (excluding leased assets):

The Group primarily uses the straight-line method.

b. Intangible assets (excluding leased assets):

The Group mainly uses the straight-line method.

c. Leased assets

The Group uses the straight-line method over the terms of their respective leases with a zero residual value for leased assets related to finance leases that do not transfer ownership.

- iii) Reserves
 - a. Allowance for doubtful accounts
In order to cover potential losses from uncollectable notes and accounts receivable, provisions are made on general receivables based on historical loss rates while specific cases are evaluated individually.
 - b. Provision for bonuses
In order to cover payment of bonuses to employees, the Company and its domestic consolidated subsidiaries set up reserves in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.
 - c. Provision for directors' bonuses
In order to cover payment of bonuses to directors, the Company and its certain domestic consolidated subsidiaries set up provisions in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.
 - d. Liability for directors' retirement benefits
In order to cover payment of retirement benefits to directors, audit & supervisory board members and corporate officers of some consolidated subsidiaries, the amount that would be required if all directors, audit & supervisory board members and corporate officers retired is recorded at the balance sheet date pursuant to the retirement benefit regulations for executive directors, retirement benefit regulations for audit & supervisory board members, and retirement benefit regulations for corporate officers (internal regulations).
 - e. Allowance for investment loss
In order to cover potential future losses on non-marketable securities, the Group recognizes reserves as deemed necessary.
- iv) Principal Methods of Hedge Accounting
 - a. Methods of hedge accounting
Hedging activities are principally accounted for under the deferral hedge accounting method. The allocation method is applied to forward exchange contracts and other foreign exchange contracts, and designated exceptional treatment to interest rate swaps that meet their respective requirements.
 - b. Hedging instruments and hedged items
Hedging instruments: Currency exchange forward contracts, interest rate swaps and foreign currency deposits
Hedged items: Assets and liabilities denominated in foreign currencies, forecasted foreign currency transactions and long-term debt
 - c. Hedging policies
Certain consolidated subsidiaries conduct currency exchange forward contracts based on the principle of actual demand in order to hedge currency exchange fluctuation risk associated with foreign currency transactions and conduct interest rate swaps in order to hedge interest rate fluctuation risk.
 - d. Evaluation of effectiveness of hedges
 - a. Currency exchange forward contracts and foreign currency deposits
Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are the same currencies, and changes in the cash flow caused by foreign exchange rate fluctuations are expected to be completely offset.
 - b. Interest rate swaps
Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are under the same terms and conditions, and changes in the cash flow are expected to be completely offset from the start of hedging activities onward.
- v) Amortization of goodwill and negative goodwill
Goodwill and negative goodwill are amortized by the straight-line method over a period of 5 to 20 years.

vi) Other

(i) Accounting method of retirement benefits

In order to cover payments of retirement benefits to employees, the net amount after deducting plan assets from retirement benefit obligations is recognized as net defined benefit liability (net defined benefit asset, in the event plan assets exceed retirement benefit obligations) based on the estimated amount as of the current fiscal year end.

a. Methods of attributing estimated retirement benefits to accounting periods

When calculating retirement benefit obligations, the benefit formula is used to attribute estimated benefits to the period through the end of the current fiscal year.

b. Recognition of actuarial gains and losses, prior service costs, and transitional obligations

Actuarial gains and losses are amortized in the succeeding years by the straight-line method over a certain number of years equal to or less than the average remaining service period of employees (5–20 years) at the time of occurrence.

Prior service costs are amortized by the straight-line method over a certain number of years equal to or less than the average remaining service period of employees (5–23 years) at the time of occurrence.

Transitional obligations are amortized over 5 to 15 years.

(ii) Accounting method for consumption taxes:

Consumption taxes are excluded from revenues and expenses.

2. Notes regarding Changes in Accounting Policies, etc.

(Adoption of Accounting Standard for Retirement Benefits)

The Group has applied “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012, hereinafter the “Standard”) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012) with regard to the main clauses of Article 35 of the Standard and the main clauses of Article 67 of the guidance since the current fiscal year. Accordingly, the methods for calculating retirement benefit obligations and service costs have been revised in the following respects: The method for attributing expected benefits to accounting periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate, previously derived from relevant bonds with a maturity close to the average remaining employment period, has been changed to a method whereby discount rates are used whose term matches with the respective projected timing of the retirement payments.

According to the transitional treatment provided in Article 37 of the Standard, the effect of changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the current fiscal year.

As a result, an ¥8,959 million decrease in net defined benefit asset, a ¥640 million increase in net defined benefit liability, and a ¥5,299 million decrease in retained earnings were recognized in the current fiscal year. The impact on operating income, ordinary income, and income before income taxes and minority interests for the current fiscal year is immaterial.

Net assets per share decreased by ¥9.81 for the current fiscal year, and the impact on net income per share is immaterial.

(Changes in accounting policies that are difficult to differentiate from changes in accounting estimates and changes in accounting estimates)

(Change in the depreciation method and the useful life of property, plant and equipment)

The Company and its consolidated domestic subsidiaries had previously adopted mainly the declining-balance method while its consolidated subsidiaries abroad adopted mainly the straight-line method for the depreciation of property, plant and equipment. From the beginning of the current fiscal year, the Company and its major consolidated domestic subsidiaries have changed the depreciation method from the declining-balance method to the straight-line method.

With the preparation of our “Second Medium-term Management Plan” starting from the current fiscal year, the Company seeks to achieve “creative and sustainable growth as a total healthcare company” in both the pharmaceutical and nutraceutical businesses by 2020, through accelerating the development of its businesses globally and by further solidifying its already stable domestic

income platform supported mainly by its core brands in Japan. To this end, the Company re-examined the respective method of depreciation for the Group's property, plant and equipment. Based on the frequency of maintenance and replacement and the general condition of the property, plant and equipment, the Company did not find any rapid technical or economic obsolescence, leading to the conclusion that those assets can be operated stably over the remainder of their useful lives. Therefore, the Company changed the respective depreciation method to the straight-line method with expenses allocated equally over useful lives. Given the increasing importance of its overseas operation with the global development of its businesses, the objective was also to increase the degree of unification of the Group's global accounting treatments.

Furthermore, as a result of examining the actual usage status of property, plant and equipment with the preparation of the "Second Medium-term Management Plan" and the change in depreciation method, the Company's major consolidated domestic subsidiaries changed the useful life of some property, plant and equipment starting from the beginning of the current fiscal year to better reflect their actual economic condition based on their estimated useful life.

In comparison with the former calculation method, these changes resulted in increases in the Company's operating income, ordinary income and income before income taxes and minority interests for the current fiscal year by ¥2,935 million for each.

3. Notes regarding Consolidated Balance Sheet

(1) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Cash and deposits	¥	1,283
Notes and accounts receivable-trade		1,148
Merchandise and finished goods		1,761
Work in process		1,048
Raw materials and supplies		1,246
Other current assets		52
Buildings and structures		3,441
Machinery and equipment		5,269
Furniture and fixtures		339
Land		1,379
Total	¥	16,971

The properties above are pledged as collateral for short-term borrowings of ¥530 million and long-term debt of ¥1,627 million.

(2) Accumulated Depreciation on Property, Plant and Equipment

¥586,212 million

(3) Contingent Liabilities

The Company guarantees the obligations of the below companies to financial and other institutions:

		(Millions of yen)
Nanjing Otsuka Techbond Techno Co., Ltd.	¥	729
Changzhou Otsuka Econ Techno Co., Ltd.		355
Otsuka OPV Co., Ltd.		314
Marukita Furniture Center		159
Other		56
Total	¥	1,614

(4) Trade Notes Discounted

¥329 million

Trade Notes Endorsed

¥468 million

4. Notes regarding Consolidated Statement of Income

Net sales include ¥20,368 million recognized as revenue from the up-front licensing payments received.

(Translation)

(Additional Information)

(Accounting treatment of Branded Prescription Drug Fee levied on sales)

In the U.S., the Group is subject to the Patient Protection and Affordable Care Act enacted in 2010 and as such obligated to pay a so-called Branded Prescription Drug Fee (“BPD Fee”), which is imposed on entities engaged in the business of manufacturing branded prescription drugs.

On July 28, 2014, the U.S. Internal Revenue Service issued final regulations for the BPD Fee which require a BPD Fee to be recognized for an expense at the time of sales, as opposed to the previous regulations, which required the BPD Fee recognized for an expense in the current fiscal year to be based on sales in the preceding year.

As a result, an additional expense of ¥8,761 million of a BPD Fee, which is based on the net sales in the current fiscal year, was recognized in selling, general and administrative expenses, and accordingly, the same amount has led to a reduction in operating income, ordinary income, and income before income taxes and minority interests.

5. Notes regarding Consolidated Statement of Changes in Net Assets

(1) Total Number of Issued Shares

Class of shares	Number of shares as of April 1, 2014	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2014
Common stock	557,835 thousand shares	-	-	557,835 thousand shares

(2) Number of Shares of Treasury Stock

Class of shares	Number of shares as of April 1, 2014	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2014
Common stock	16,211 thousand shares	0 thousand shares	173 thousand shares	16,037 thousand shares

Notes:

1. The 0-thousand-share increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.
2. The 173-thousand-share decrease in the number of shares of treasury stock is due to the exercise of stock options.

(3) Dividends

i) Payment of dividends

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on May 14, 2014	Common stock	¥18,956 million	¥35	March 31, 2014	June 30, 2014
Meeting of the Board of Directors held on November 13, 2014	Common stock	¥18,958 million	¥35	September 30, 2014	December 1, 2014

ii) Dividends whose record date is in the current fiscal year, while the effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 13, 2015	Common stock	Retained earnings	¥21,671 million	¥40	December 31, 2014	March 30, 2015

(Translation)

- (4) Class and Number of Shares Allocated for Stock Acquisition Rights at End of Current Fiscal Year (excluding all rights with exercise periods beginning after December 31, 2014)
Common stock 192,920 shares

6. Notes regarding Financial Instruments

(1) Matters Concerning Conditions of Financial Instruments

The Group limits its investments to low-risk financial assets and uses borrowings from financial institutions, mainly banks, for its financing needs. The Group manages its customer credit risk from receivables based on the credit management guidelines in an effort to reduce risk. Marketable and investment securities are primarily stocks and public and corporate bonds. Listed stocks are marked to market on a quarterly basis.

Borrowings are used for working capital (mainly short term) and for capital investments (long term).

The Group enters into foreign currency forward contracts and foreign currency option contracts to hedge foreign exchange fluctuation risk associated with foreign-currency-denominated transactions based on the principle of actual demand. The Group also enters into interest rate swap contracts to hedge interest rate fluctuation risk.

(2) Fair Value of Financial Instruments

Carrying amounts of financial instruments, fair values of financial instruments and their differences as of December 31, 2014 are as follows. Financial instruments whose fair value cannot be reliably determined are excluded (see Note 2 below).

(Millions of yen)

	Carrying amount	Fair value (Note 1)	Difference
i) Cash and deposits	523,135	523,135	-
ii) Notes and accounts receivable-trade Allowance for doubtful accounts (*1)	406,431 (498)		
	405,933	405,933	-
iii) Marketable and investment securities (Note 2)			
Investments in unconsolidated subsidiaries and affiliates	44,483	98,635	54,152
Held-to-maturity securities	79,070	79,287	216
Available-for-sale securities	66,340	66,340	-
Total Assets	1,118,962	1,173,331	54,369
i) Notes and accounts payable-trade	130,784	130,784	-
ii) Short-term borrowings (excluding current portion of long-term debt)	64,845	64,845	-
iii) Accounts payable-other	102,005	102,005	-
iv) Income taxes payable	14,498	14,498	-
v) Long-term debt (including current portion of long-term debt)	27,583	27,537	(46)
Total Liabilities	339,717	339,671	(46)
Derivative transactions (*2)	606	603	(3)

(*1) Excludes amount of allowance for doubtful accounts included in notes and accounts receivable-trade.

(*2) Assets and liabilities arising from derivative transactions are presented on a net basis. Net liability is indicated in parentheses.

Notes:

1. Methods of measuring fair value of financial instruments and other matters concerning securities and derivatives.

Assets

- i) Cash and deposits ii) Notes and accounts receivable-trade

The carrying values of cash and deposits and notes and accounts receivable-trade approximate fair value because of their short maturity.

(Translation)

iii) Marketable and investment securities

The fair value of bonds and equity securities is measured at the quoted market price of the exchange. The fair value of certificate of deposits is stated at carrying value as the carrying value approximates the fair value.

Liabilities

i) Notes and accounts payable-trade ii) Short-term borrowings iii) Accounts payable-other

iv) Income taxes payable

The carrying values of payables and short-term borrowings approximate fair value because of their short maturity.

v) Long-term debt (including current portion of long-term debt)

The fair value of long-term debt is determined by discounting the principal and interest payments at the refinancing rate.

Derivatives

The fair value of derivative transactions is measured at the quoted price obtained from financial and other institutions.

2. Financial instruments whose fair value cannot be reliably determined.

(Millions of yen)

	Carrying amount	
Marketable and investment securities		
Available-for-sale securities		15,971
Stocks of unconsolidated subsidiaries and affiliates		113,474
		129,446
Investments in capital		
Investments in capital of unconsolidated subsidiaries and affiliates	42,538	
Allowance for investment loss	(78)	42,459

The above items are excluded from marketable and investment securities and investments in capital, as they do not have a quoted market price in an active market and their fair value cannot be reliably determined.

7. Notes regarding Per Share Information

(1) Net assets per share	¥3,004.38
(2) Net income per share	¥264.20

8. Notes regarding Subsequent Events

Acquisition of Avanir Pharmaceuticals, Inc.

On December 2, 2014, a consolidated subsidiary of the Company, Otsuka Pharmaceutical Co., Ltd., agreed to make an all-cash tender offer (the “Tender Offer”) followed by a merger for cash (the “Merger”) with Avanir Pharmaceuticals, Inc. (“Avanir”), through Bigarade Corporation, a wholly-owned subsidiary of Otsuka America, Inc. Avanir is a company engaged in the research and development, as well as manufacturing and marketing, of pharmaceuticals.

In accordance with this agreement, the Tender Offer by Bigarade Corporation and the subsequent Merger, resulting in Avanir as the surviving company, were completed on January 13, 2015 (U.S. Eastern Standard Time), resulting in Avanir becoming a consolidated subsidiary of Otsuka Holdings.

(1) Overview of Business Combination

i) Name of company acquired and nature of business

Name of company acquired: Avanir Pharmaceuticals, Inc.

Nature of business: Research, development, manufacturing and marketing of pharmaceutical products

ii) Rationale for business combination

Avanir Pharmaceuticals, Inc. (“Avanir”) is a biopharmaceutical venture company specializing in the area of central nervous system (“CNS”) diseases. It was founded in 1988 in Southern California and now employs approximately 500 people. Avanir developed and launched NUEDEXTA® (dextromethorphan hydrobromide/quinidine sulfate) 20 mg/10 mg capsules in the U.S. in February 2011 as the world’s first and only approved treatment for the pseudobulbar affect (PBA: Pseudobulbar affect). Avanir markets NUEDEXTA in the U.S.

through its own sales organization of over 300 sales representatives, 150 of whom were medical representatives hired to accelerate the continued growth of NUEDEXTA for PBA. The company's pipeline includes programs in Alzheimer's disease, Parkinson's disease, migraine, and other CNS indications. The promising new chemical entity AVP-786, with a target indication for behavioral disorders (agitation) associated with Alzheimer's disease, is being prepared to enter Phase III clinical trials.

The acquisition of Avanir will bring Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") three distinct values: 1) NUEDEXTA, created to treat the under-recognized neurologic disease PBA; 2) the late-stage investigational compound AVP-786 in clinical development to treat agitation associated with Alzheimer's disease; and 3) Avanir's clinical development and commercial expertise in neurologic diseases, which complements Otsuka Pharmaceutical's capabilities in psychiatric diseases. These will accelerate Otsuka Pharmaceutical's existing expansion strategy in the neurologic area, widening the overall CNS portfolio, inclusive of the psychiatric and neurologic areas, supporting both short- and medium-term growth.

This acquisition is consistent with the Otsuka Group's investment philosophy: invest in companies and businesses with which we can share a common management philosophy, human resources, products and technology to enhance corporate value, and invest with long-term perspective. The acquisition is based on Otsuka's central concepts of creativity and proof through execution.

- iii) Date of business combination
January 13, 2015 (U.S. Eastern Standard Time)
 - iv) Legal type of business combination
All-cash tender offer
 - v) Name of resulting entity
Avanir Pharmaceuticals, Inc.
 - vi) Share of voting rights acquired
100%
 - vii) Main rationale for selecting the acquiring entity
The acquisition company (Bigarade Corporation), a subsidiary of the Company, has acquired all shares of Avanir Pharmaceuticals, Inc. for cash.
- (2) Total Acquisition Price and Breakdown
Acquisition price: US\$3,507 million in cash
Direct costs related to the acquisition: Acquisition costs are in the process of being confirmed.
- (3) Amount of and Reason for Recognition of Goodwill Arising from the Acquisition, Amortization Method and Period of Goodwill
- i) Amount of and reason for recognition of goodwill
Since the purchase price allocation of the acquisition costs has not been finalized, the amount of goodwill has not yet been determined.
 - ii) Amortization method and period of goodwill
Not yet determined.
- (4) Financial Arrangements
The Company has entered into a bridge loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Loan") in order to finance the acquisition.
Below is the summary of the Loan as of February 10, 2015.

(Translation)

Lender	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (bridge loan)
Amount of Loan initially provided	US\$3,540 million
Current Loan balance	US\$1,950 million
Interest rate	Benchmark interest rate + spread
Effective date of Loan	January 13, 2015
Maturity date	December 7, 2015

(Note) The Loan is not subject to any collateral, warranty, or covenants provided by the Group.

The Company plans to repay the Loan using its own funds as well as refinancing from The Bank of Tokyo-Mitsubishi UFJ, Ltd., Resona Bank, Limited, Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd. and The Awa Bank, Ltd. An amount of ¥35,000 million has been refinanced already on January 23, 2015.

(Translation)

Balance Sheet
(As of December 31, 2014)

(Millions of yen)

Item	Amount	Item	Amount
Assets		Liabilities	
Current assets	252,231	Current liabilities	19,280
Cash and deposits	175,994	Lease obligations	12
Supplies	48	Accounts payable-other	1,052
Prepaid expenses	280	Accrued expenses	47
Short-term loans receivable from subsidiaries and affiliates	58,729	Income tax payable	82
Income taxes receivable	16,689	Deposits received from subsidiaries and affiliates	16,277
Other current assets	488	Provision for bonuses	16
Noncurrent assets	739,013	Provision for directors' bonuses	50
Property, plant and equipment	215	Other current liabilities	1,740
Buildings	32	Long-term liabilities	964
Structures	48	Lease obligations	21
Furniture and fixtures	102	Deferred tax liabilities	943
Leased assets	32	Total Liabilities	20,245
Intangible assets	1,151	Net Assets	
Software	1,088	Shareholders' equity	969,292
Trademark rights	62	Common stock	81,690
Investments and other assets	737,647	Capital surplus	810,261
Investment securities	14,388	Additional paid-in capital	731,816
Stocks of subsidiaries and affiliates	723,225	Other capital surplus	78,445
Other assets	33	Retained earnings	124,755
		Other retained earnings	124,755
		Retained earnings brought forward	124,755
		Treasury stock, at cost	(47,415)
		Valuation and translation adjustments	1,706
		Unrealized gain on available-for-sale securities	1,706
		Total Net Assets	970,999
Total Assets	991,245	Total Liabilities and Net Assets	991,245

(Translation)

Statement of Income
(From April 1, 2014 to December 31, 2014)

(Millions of yen)

Item	Amount	
Operating revenues		84,158
Operating expenses		4,702
Operating income		79,456
Non-operating income		
Interest and dividend income	366	
Business consignment fees	615	
Other	123	
		1,105
Non-operating expenses		
Interest expense	3	
Commission fee	3	
Other	6	
		13
Ordinary income		80,548
Extraordinary income		
Gain on reversal of stock acquisition rights	104	104
Extraordinary loss		
Loss on retirement of noncurrent assets	1	1
Income before income taxes		80,651
Income taxes-current		6
Net income		80,645

(Translation)

Statement of Changes in Net Assets

(From April 1, 2014 to December 31, 2014)

(Millions of yen)

	Shareholders' equity							
	Common stock	Capital surplus			Retained earnings		Treasury stock, at cost	Total shareholders' equity
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
Beginning balance as of April 1, 2014	81,690	731,816	78,594	810,410	82,025	82,025	(47,928)	926,197
Changes during the period								
Dividends					(37,914)	(37,914)		(37,914)
Purchase of treasury stock							(1)	(1)
Disposal of treasury stock			(148)	(148)			514	365
Net income					80,645	80,645		80,645
Net changes other than shareholders' equity								
Total changes during the period	-	-	(148)	(148)	42,730	42,730	513	43,094
Ending balance as of December 31, 2014	81,690	731,816	78,445	810,261	124,755	124,755	(47,415)	969,292

	Valuation and translation adjustments		Stock acquisition rights	Total net assets
	Unrealized gain (loss) on available-for-sale securities	Total valuation and translation adjustments		
Beginning balance as of April 1, 2014	1,734	1,734	104	928,037
Changes during the period				
Dividends				(37,914)
Purchase of treasury stock				(1)
Disposal of treasury stock				365
Net income				80,645
Net changes other than shareholders' equity	(27)	(27)	(104)	(132)
Total changes during the period	(27)	(27)	(104)	42,962
Ending balance as of December 31, 2014	1,706	1,706	-	970,999

Notes regarding Financial Statements

1. Notes regarding Summary of Significant Accounting Policies

(1) Valuation of Major Assets

- i) Stocks of subsidiaries and affiliates:
Stated at cost, determined by the moving-average method.
- ii) Other securities
 - Marketable securities classified as available-for-sale:
Stated at fair value based on the quoted market price at the end of the fiscal year, with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving-average method.
 - Non-marketable securities classified as available-for-sale:
Stated at cost, determined by the moving-average method.
- iii) Valuation of inventories
 - Supplies:
Stated at the lower of cost or net selling value, determined by the first-in, first-out method.

(2) Depreciation and Amortization of Noncurrent Assets

- i) Property, plant and equipment (excluding leased assets):
The Company uses the straight-line method.
- ii) Intangible assets:
The Company uses the straight-line method over their estimated useful lives. Software for internal use is amortized by the straight-line method based on internal guidelines (5 years).
- iii) Leased assets:
The Company uses the straight-line method over the terms of their respective leases with zero residual value for leased assets related to finance leases that do not transfer ownership.

(3) Reserves

- i) Provision for bonuses:
In order to cover payment of bonuses to employees, the Company sets up a reserve in the amount of estimated bonuses, which is attributable to the corresponding fiscal year.
- ii) Provision for directors' bonuses:
In order to cover payment of bonuses to directors, the Company sets up a provision in the amount of estimated bonuses, which is attributable to the corresponding fiscal year.

(4) Other

- Accounting method for consumption taxes:
Consumption taxes are excluded from revenues and expenses.

(5) Change in Fiscal Year End

The Company changed its fiscal year end from March 31 to December 31, following resolution regarding the partial amendments to the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014. Consequently, the financial results in the transitional period for FY2014 represent nine months (April 1, 2014 to December 31, 2014).

2. Notes regarding Changes in Accounting Policies

(Changes in accounting policies that are difficult to differentiate from changes in accounting estimates)

(Change in the depreciation method)

The Company had previously adopted the declining-balance method for the depreciation of property, plant and equipment. From the current fiscal year, the Company has changed the depreciation method from the declining-balance method to the straight-line method.

With the preparation of our "Second Medium-term Management Plan" started from the current fiscal year, the Company seeks to achieve "creative and sustainable growth as a total healthcare

(Translation)

company” in both the pharmaceutical and nutraceutical businesses by 2020, through accelerating the development of its businesses globally and by further solidifying its already stable domestic income platform supported mainly by its core brands in Japan. To this end, the Company re-examined the respective method of depreciation for the Group’s property, plant and equipment. Based on the frequency of maintenance and replacement and the general condition of the property, plant and equipment, the Company did not find any rapid technical or economic obsolescence, leading to the conclusion that those assets can be operated stably over the remainder of their useful lives. Therefore, the Company changed the respective depreciation method to the straight-line method with expenses allocated equally over useful lives.

In comparison with the former calculation method, this change resulted in increases in the Company’s operating income, ordinary income and income before income taxes for the current fiscal year by ¥12 million for each.

3. Notes regarding Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment	¥205 million
(2) Monetary Assets from and Liabilities to Subsidiaries and Affiliates (Excluding Those Classified Separately in the Balance Sheet)	
i) Short-term monetary assets	¥421 million
ii) Short-term monetary liabilities	¥326 million
(3) Monetary Liabilities to Directors Short-term monetary liabilities	¥60 million

4. Notes regarding Statement of Income

Transactions with Subsidiaries and Affiliates	
i) Operating revenues	¥84,158 million
ii) Operating expenses	¥1,139 million
iii) Non-operating transactions	¥747 million

5. Notes regarding Statement of Changes in Net Assets

Number of Shares of Treasury Stock

Class of shares	Number of shares as of April 1, 2014	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2014
Common stock	16,211 thousand shares	0 thousand shares	173 thousand shares	16,037 thousand shares

Notes:

1. The 0-thousand-share increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.
2. The 173-thousand-share decrease in the number of shares of treasury stock is due to the exercise of stock options.

6. Notes regarding Income Taxes

Major components of deferred tax assets and liabilities are as follows:

Deferred tax assets		(Millions of yen)
Provision for bonuses	¥	8
Accrued directors' salaries		36
Accrued enterprise tax		28
Accrued business office taxes		1
Loss on valuation of stocks of subsidiaries and affiliates		140
Loss on extinguishment of tie-in shares		205
Adjustment of tax-basis book value of stocks of subsidiaries and affiliates		128
Tax loss carryforwards		5,930
Subtotal		6,478
Valuation allowance		(6,478)
Total of deferred tax assets	¥	-
Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(943)
Total of deferred tax liabilities		(943)
Net deferred tax liabilities	¥	(943)

7. Notes regarding Related Party Transactions**(1) Subsidiaries**

Type	Company name	Percentage owned	Relationship		Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
			Interlocking directors and audit & supervisory board members	Business relationship				
Subsidiary	Otsuka Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	3	Investment in stock	Salaries of seconded employees (Note 1)	719	Accounts payable-other	210
					Borrowing and lending of funds (Note 2)	3,681	Accrued expenses	39
					Receipt of interest (Note 3)	91	Short-term loans receivable from subsidiaries and affiliates (Note 2)	56,504
					Payment of interest (Note 3)	1	Other current assets (Accrued interest)	1
					Business consignment fees (Note 4)	341	Other current assets (Account receivable-other)	69
Subsidiary	Taiho Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	-	Investment in stock	Borrowing of funds (Note 2)	12,313	Deposits received from subsidiaries and affiliates	14,501
					Payment of interest (Note 3)	1		

(Translation)

Terms and conditions of transactions and policy on determination thereof

Notes:

1. The amount is mutually agreed upon based on salaries of seconded employees.
2. The Group utilizes an intercompany cash management process for efficient use of its funds. The transaction amount represents the average balance during the fiscal year. The balance of short-term loans receivable from subsidiaries and affiliates includes ¥30,000 million paid before the current fiscal year.
3. Interest rate is mutually agreed upon based on market rates.
4. The Company's business support center performs certain indirect services for the Group companies. Terms of the transactions are mutually agreed upon based on actual service costs incurred.

(2) Officers and Significant Individual Shareholders, etc.

Type	Company name or individual's name	Percentage owned	Relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Close family member of Director	Kyoichi Komatsu	(Held by the close family member of Officer) 0.0% direct	Chairman and Representative Director, Otsuka Pharmaceutical Factory, Inc.	Disposal of treasury stock in accordance with exercising stock option (Note 1)	14	-	-
Director	Ichiro Otsuka	(Held by the director) 0.2% direct 0.9% indirect (Note 2)	Vice Chairman, Representative Director, Otsuka Holdings Co., Ltd.	Payment of condolence money (Note 3)	60	Accounts payable-other	60

Terms and conditions of transactions and policy on determination thereof

Notes:

1. Presented here is the exercising of rights in the current fiscal year of stock options granted by resolution at the Annual Shareholders Meeting held on June 29, 2010. The transaction amount represents the carrying amount at the time of treasury stock disposal.
2. The calculation of "indirect" in the percentage owned column includes the number of owned shares in the Otsuka Founders Shareholding Fund Trust Account.
3. This refers to condolence money paid to the surviving family of Akihiko Otsuka, Chairman and Representative Director of the Company. The amount paid was calculated in accordance with the payment standard stipulated in the rules of the Company based on a resolution of the Board of Directors.

8. Notes regarding Per Share Information

- | | |
|--------------------------|-----------|
| (1) Net Assets per Share | ¥1,792.18 |
| (2) Net Income per Share | ¥148.88 |

9. Notes regarding Subsequent Events

Guarantee of obligation

The Company provided a guarantee of obligation, to a maximum amount of US\$3,540 million, for a bridge loan borrowed by Otsuka America, Inc., a consolidated subsidiary of the Company, from The Bank of Tokyo-Mitsubishi UFJ, Ltd., as funds for the acquisition of Avanir Pharmaceuticals, Inc. For details of the bridge loan, please refer to Notes regarding Subsequent Events in the consolidated financial statements.

Loan to subsidiary

On January 9, 2015, the Company concluded an agreement to provide a loan of ¥50,000 million to Otsuka Pharmaceutical Co., Ltd., a consolidated subsidiary, as funds for the acquisition of Avanir Pharmaceuticals, Inc., which was acquired by Otsuka Pharmaceutical Co., Ltd.

Independent Auditor's Report (Consolidated Financial Statements)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 10, 2015

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Mitsuru Hirano [Seal]

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi [Seal]

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Koichi Niki [Seal]

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of December 31, 2014 of Otsuka Holdings Co., Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2014 to December 31, 2014, and the related notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

(Translation)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of December 31, 2014, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As stated in Notes regarding Subsequent Events, on January 13, 2015 (U.S. Eastern Standard Time), the Company acquired the shares of Avanir Pharmaceuticals, Inc. by a tender offer and made that company its consolidated subsidiary. Furthermore, the Company has obtained the funds necessary to complete the transaction through a loan arrangement.

Our opinion is not qualified in respect to this matter.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

Independent Auditor's Report (Financial Statements)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 10, 2015

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Mitsuru Hirano [Seal]

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi [Seal]

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Koichi Niki [Seal]

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2014 of Otsuka Holdings Co., Ltd. (the "Company"), and the related statements of income and changes in net assets for the seventh fiscal year from April 1, 2014 to December 31, 2014, and the related notes and the accompanying supplemental schedules. The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and the accompanying supplemental schedules in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accompanying supplemental schedules are free from material misstatement.

(Translation)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2014, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As stated in Notes regarding Subsequent Events, the Company provided a guarantee of obligation for a loan borrowed by its consolidated subsidiary.

Our opinion is not qualified in respect to this matter.

Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 7th Fiscal Year (for FY2014) from April 1, 2014 to December 31, 2014, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

1. Auditing Methods and Content of Audits

The Audit & Supervisory Board established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding the status of his or her audit and the results thereof, as well as reports from the Directors and independent auditors regarding performance of their duties, and sought explanations as necessary.

In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Audit & Supervisory Board Member endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and attended the Board of Directors' meeting and other important meetings to receive reports regarding performance of duties from Directors, the Internal Audit Department, etc. and sought explanations as necessary. Each Audit & Supervisory Board Member also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices.

In addition, with respect to contents of resolutions of the Board of Directors regarding the development of the system to ensure that the performance of duties by the Directors conforms to the laws and regulations and the Articles of Incorporation and other systems that are stipulated in Article 100 (1) and (3) of the Ordinance for Enforcement of the Companies Act as being necessary to ensure appropriateness of operations of a joint stock company, and also the systems (internal control systems) developed based on such resolutions, which are described in the Business Report, we periodically received reports from the Directors and other relevant personnel, sought explanations as necessary and made opinions, on the establishment and management of such systems. With respect to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and supplementary schedules thereof related to the relevant fiscal year.

Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and we received reports from the independent auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the independent auditors that "the system for ensuring that duties are performed properly" (matters set forth in each Item of Article 131 of the Corporate Accounting Rules) is organized in accordance with the "product quality management standards regarding audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the financial statements (Balance Sheets, Statements of Income, Statements of Changes in Net Assets, and Notes regarding Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Balance Sheets, Consolidated Statement of Income, Consolidated Statement of Changes in Net Assets and Notes regarding Consolidated Financial Statements) related to the relevant fiscal year.

2. Results of Audit

- (1) Results of Audit of the Business Report, etc.
 - i) In our opinion, the business report and the accompanying supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.
 - ii) With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
 - iii) In our opinion, resolutions of the Board of Directors for internal control systems are fair and reasonable. And there is no problem with the contents of the Business Report and the performance of duties by the Directors with respect to internal control systems.
- (2) Results of Audit of Financial Statements and the Accompanying Supplementary Schedules
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.
- (3) Results of Audit of Consolidated Financial Statements
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 12, 2015

Audit & Supervisory Board, Otsuka Holdings Co., Ltd.

Standing Audit & Supervisory Board Member	Takaharu Imai	[Seal]
Audit & Supervisory Board Member	Akihito Nakai	[Seal]
Outside Audit & Supervisory Board Member	Norikazu Yahagi	[Seal]
Outside Audit & Supervisory Board Member	Hiroshi Sugawara	[Seal]