(Translation)

> Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.
> The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

March 7, 2018
Tatsuo Higuchi
President and Representative Director
Otsuka Holdings Co., Ltd.
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

Notice for the Calling of the 10th Annual Shareholders Meeting (for FY2017)

Dear Shareholders,

You are cordially invited to attend the 10th 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 Wednesday, March 28, 2018 (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 (https://evote.tr.mufg.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.

(Translation)

Details

1. Date and Time:
Thursday, March 29, 2018, at 10:00 a.m.

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 10th Fiscal Year (from January 1, 2017 to December 31, 2017)
b. Financial Statements for the 10th Fiscal Year (from January 1, 2017 to December 31, 2017)

Matters to be resolved:
Proposal 1: Election of Eleven (11) Directors
Proposal 2: Election of Four (4) Audit & Supervisory Board Members

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 **https://www.otsuka.com/**

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–16).
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 10th 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 Wednesday, March 28, 2018 (JST) will be valid.

3. Internet
Please access the Website for Exercising Voting Rights designated by the Company (https://evote.tr.mufg.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 Wednesday, March 28, 2018 (JST).
Please refer to the following page for details.

(Translation)

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 (https://evote.tr.mufg.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 (https://evote.tr.mufg.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 proposal.
- 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))

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.

(Translation)

Reference Documents for Shareholders Meeting

Proposal 1: Election of Eleven (11) Directors

The terms of office of all nine (9) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect eleven (11) Directors.
The candidates for Directors are as follows:

Candidate No.		Name	Term of office as Director*	Current position and areas of responsibility in the Company	Attendance rate at meetings of the Board of Directors
1	Reappointment	Ichiro Otsuka	9 years and 8 months	Chairman and Representative Director	100%
2	Reappointment	Tatsuo Higuchi	9 years and 8 months	President and Representative Director	100%
3	Reappointment	Yoshiro Matsuo	9 years and 8 months	Senior Managing Director, Corporate Administration	100%
4	New appointment	Yuko Makino	–	Operating Officer, Director of the Tax Department	–
5	Reappointment	Sadanobu Tobe	7 years and 8 months	Executive Director	100%
6	Reappointment	Atsumasa Makise	9 years and 8 months	Senior Managing Director, Corporate Finance	100%
7	Reappointment	Masayuki Kobayashi	1 year	Executive Director	100%
8	New appointment	Noriko Tojo	3 years and 10 months	–	–
9	Reappointment Outside Independent	Tadaaki Konose	3 years and 9 months	Outside Director	100%
10	Reappointment Outside Independent	Yukio Matsutani	2 years	Outside Director	100%
11	New appointment Outside Independent	Ko Sekiguchi	–	–	–

* The term of office as director represents the total period including their past term of office.

(Translation)

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">1</td><td>Reappointment

Ichiro Otsuka
(February 15, 1965)

Position and areas of responsibility in the Company:
Chairman and Representative Director

Term of office as Director:
9 years and 8 months</td><td>April 1987 Joined Otsuka Pharmaceutical Factory, Inc.
June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.
June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.
December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.
May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.
December 2003 Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.
July 2008 Executive Director, Otsuka Holdings Co., Ltd.
June 2010 Vice President and Executive Director, Otsuka Holdings Co., Ltd.
June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.
June 2014 Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.
March 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)
March 2015 Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)
March 2015 Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Chairman, Otsuka Pharmaceutical Factory, Inc.
Executive Director, Otsuka Pharmaceutical Co., Ltd.
President and Representative Director, Otsuka Estate Co., Ltd.
President and Representative Director, Otsuka Asset Co., Ltd.</td><td rowspan="2">7,018,704</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Ichiro Otsuka has extensive knowledge in all areas of wide-ranged operations of the Otsuka group of companies (hereinafter the “Group”) as well as a proven track record of helping the development of businesses through the promotion of cooperation among the Group and its businesses and areas. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
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<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">2</td><td>Reappointment

Tatsuo Higuchi
(June 14, 1950)

Position and areas of responsibility in the Company:
President and Representative Director

Term of office as Director:
9 years and 8 months</td><td>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.
June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)
November 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.
June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.
June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.
July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)
December 2011 Executive Director, Otsuka Chemical Co., Ltd.
February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</td><td rowspan="2">90,000</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Tatsuo Higuchi has taken management leadership of the overall Group, and through his outstanding leadership has helped expand the global presence of each of the Group’s businesses, promoted business expansion, created and implemented a strategy for future growth, and has a track record of producing considerable results. In addition, he has also steadily advanced managerial reform including enhancement of corporate governance. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
<tr><td rowspan="2">3</td><td>Reappointment

Yoshiro Matsuo
(November 3, 1960)

Position and areas of responsibility in the Company:
Senior Managing Director,
Corporate Administration

Term of office as Director:
9 years and 8 months</td><td>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.
January 2003 Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
June 2006 Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
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.
July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)
January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Executive Director, Otsuka Medical Devices Co., Ltd.</td><td rowspan="2">30,760</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Yoshiro Matsuo has abundant operational experience in all of the back-office departments, primarily in general affairs departments and human resources departments, as well as in-depth knowledge in group operations and corporate governance. The Company deems that it can expect him to, by making use of his expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
</table>

<table>
<tr><th>Candidate No.</th><th>Name (Date of birth)</th><th>Career summary and significant concurrent positions outside the Company</th><th>Number of the Company’s shares owned</th></tr>
<tr><td rowspan="2">4</td><td>New appointment

Yuko Makino
(October 23, 1961)

Position and areas of responsibility in the Company:
Operating Officer, General Manager of the Tax Department

Term of office as Director:
–</td><td>April 1982 Joined Otsuka Pharmaceutical Co., Ltd.
April 1996 Joined Baxter Limited
April 2000 Joined Otsuka Pharmaceutical Co., Ltd.
March 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
September 2016 Operating Officer, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
Operating Officer, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.
April 2017 Operating Officer, Director of the Tax Department, Otsuka Holdings Co., Ltd. (Current Position) (scheduled to retire in March 2018)
Operating Officer, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd. (Current Position) (scheduled to retire in March 2018)
[Significant concurrent positions outside the Company]
–</td><td rowspan="2">2,400</td></tr>
<tr><td colspan="2">[Reasons for nominating her as a candidate for Director]
Ms. Yuko Makino has extensive broad operational experience and high level of expertise in the finance departments. Taking into considerations her proven track record in the finance departments, the Company deems that it can expect her to, by making use of her broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</td></tr>
<tr><td rowspan="2">5</td><td>Reappointment

Sadanobu Tobe
(April 18, 1941)

Position and areas of responsibility in the Company:
Executive Director

Term of office as Director:
7 years and 8 months</td><td>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)
July 1993 Vice President and Representative Director, Otsuka Foods Co., Ltd.
November 2004 Vice President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)
May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.
July 2008 Executive Director, Otsuka Holdings Co., Ltd.
June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.
June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.
June 2012 Vice Chairman, Otsuka Foods Co., Ltd.
June 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.
November 2013 President and Representative Director, Otsuka Foods Co., Ltd.
June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)
March 2018 Chairman, Otsuka Foods Co., Ltd. (scheduled to assume the position)
[Significant concurrent positions outside the Company]
Chairman, Otsuka Foods Co., Ltd. (scheduled to assume the position)</td><td rowspan="2">1,191,126</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Sadanobu Tobe has broad experience and a track record in corporate management, as well as extensive knowledge of research and development, manufacturing, and marketing centered on consumer products. The Company deems that it can expect him to, by making use of his broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	Reappointment Atsumasa Makise (June 17, 1958) Position and areas of responsibility in the Company: Senior Managing Director, Corporate Finance Term of office as Director: 9 years and 8 months	December 1987 Joined Otsuka Pharmaceutical Co., Ltd. June 2002 Operating Officer, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd. June 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd. June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd. July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position) May 2009 Chairman and CEO, Otsuka America Inc. April 2010 Chairman, Otsuka America Inc. March 2017 Executive Director, Otsuka Foods Co., Ltd. (Current Position) March 2018 President and Representative Director, Otsuka Foods Co., Ltd. (scheduled to assume the position) [Significant concurrent positions outside the Company] President and Representative Director, Otsuka Foods Co., Ltd. (scheduled to assume the position)	50,000
	[Reasons for nominating him as a candidate for Director] Mr. Atsumasa Makise has broad experience in group operations as Director of the Company, expertise in finance, and experience in the management of a subsidiary in the U.S. The Company deems that it can expect him to, by making use of his expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		
7	Reappointment Masayuki Kobayashi (July 10, 1966) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 1 year	October 1993 Joined Taiho Pharmaceutical Co., Ltd. August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.) September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd. April 2010 President and CEO, Otsuka America, Inc. April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position) April 2012 Executive Director, Taiho Pharma USA, Inc. April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position) March 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.	40,000
	[Reasons for nominating him as a candidate for Director] Mr. Masayuki Kobayashi has broad experience and track record in corporate management as well as extensive knowledge in the pharmaceutical business. In Taiho Pharmaceutical Co., Ltd., he has promoted business reform resulted in expanding the global presence of the company. The Company deems that it can expect him to, by utilizing his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">8</td><td>New appointment

Noriko Tojo
(February 28, 1964)

Position and areas of responsibility in the Company:
–

Term of office as Director:
3 years and 10 months</td><td>April 1987 Joined Goldman Sachs (Japan) Corporation
August 1991 Joined Shearson Lehman Brothers Holdings Inc.
July 2002 Engagement Manager, McKinsey & Company, Japan Office
June 2006 Director, Intel Capital Japan, Intel Corporation
August 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.
February 2011 Executive Director, Otsuka Medical Devices Co., Ltd.
April 2012 President and CEO, Otsuka America, Inc.
August 2015 Executive Director and CEO, Pharmavite LLC
January 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position)
May 2017 Executive Director, Otsuka America, Inc. (Current Position)
August 2017 Chairman, Pharmavite LLC (Current Position)
[Significant concurrent positions outside the Company]
President and Representative Director, Otsuka Medical Devices Co., Ltd.
Executive Director, Otsuka America, Inc.
Chairman, Pharmavite LLC</td><td rowspan="2">40,000</td></tr>
<tr><td colspan="2">[Reasons for nominating her as a candidate for Director]
Ms. Noriko Tojo has promoted business reform as President of Otsuka Medical Devices Co., Ltd. after experience in the corporate development department at the Company and the management of a subsidiary in the U.S. The Company deems that it can expect her to, by making use of her broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</td></tr>
<tr><td rowspan="2">9</td><td>Reappointment
Candidate for Outside Director
Candidate for Independent Officer

Tadaaki Konose
(July 26, 1946)

Position and areas of responsibility in the Company:
Outside Director

Term of office as Director:
3 years and 9 months</td><td>April 1970 Joined Snow Brand Milk Products Co., Ltd. (present day MEGMILK SNOW BRAND Co., Ltd.)
June 2002 President and Representative Director, Snow Brand Milk Products Co., Ltd.
October 2009 President and Representative Director, MEGMILK SNOW BRAND Co., Ltd.
April 2011 Director and Advisor, MEGMILK SNOW BRAND Co., Ltd.
June 2011 Special Advisor, MEGMILK SNOW BRAND Co., Ltd.
September 2011 Administrative Council member, University of Miyazaki, a National University Corporation (Current Position)
June 2014 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Administrative Council member, University of Miyazaki, a National University Corporation</td><td rowspan="2">0</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Outside Director]
Mr. Tadaaki Konose has appropriately provided valuable statements to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience and extensive knowledge as a corporate manager and high level of expertise in the food industry. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.</td></tr>
</table>

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">10</td><td>Reappointment
Candidate for Outside Director
Candidate for Independent Officer

Yukio Matsutani
(October 20, 1949)

Position and areas of responsibility in the Company:
Outside Director

Term of office as Director:
2 years</td><td>April 1975 Intern, Pediatric Department, St. Luke's International Hospital
October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)
August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare
August 2007 Director, National Sanatorium Tama Zenshoen
April 2012 President, National Institute of Public Health
December 2015 Vice President, International University of Health and Welfare (Current Position)
March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Vice President, International University of Health and Welfare</td><td rowspan="2">0</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Outside Director]
Mr. Yukio Matsutani has appropriately provided valuable statements to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience and extensive knowledge in the healthcare and welfare field and high level of expertise in overall health care. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.</td></tr>
<tr><td rowspan="2">11</td><td>New appointment
Candidate for Outside Director
Candidate for Independent Officer

Ko Sekiguchi
(May 4, 1948)

Position and areas of responsibility in the Company:
–

Term of office as Director:
–</td><td>April 1973 Joined Mitsubishi Corporation
May 1990 Joined The Boston Consulting Group
January 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company)
November 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K.K.)
July 2009 Chairman and Director, Janssen Kyowa Co., Ltd.
October 2009 Supreme Advisor, Janssen Kyowa Co., Ltd.
January 2011 Representative Director, DIA Japan (present day SH DIA Japan) (Current Position)
April 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation) (Current Position)
March 2014 Outside Director, Kenedix, Inc. (Current Position)
[Significant concurrent positions outside the Company]
Representative Director, SH DIA Japan
Outside Director, Solasto Corporation
Outside Director, Kenedix, Inc.</td><td rowspan="2">0</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Outside Director]
Mr. Ko Sekiguchi is expected to provide valuable statements to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience and extensive knowledge as a corporate manager and high level of expertise in pharmaceutical business. Therefore, the Company nominated him as a candidate for Outside Director.</td></tr>
</table>

Notes:

1. The candidates have no special interests in the Company.
2. 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.
3. Tadaaki Konose, Yukio Matsutani and Ko Sekiguchi are candidates for Outside Directors.
   Tadaaki Konose was President and Representative Director of MEGMILK SNOW BRAND Co., Ltd. until April 2011, and Special Advisor of the same company until June 2016, but he had retired from that role at the time he was appointed Outside Director of the Company. MEGMILK SNOW BRAND Co., Ltd. and the Company have a business relationship through their respective subsidiaries, but the value of business is minimal, equating to less than 2% of consolidated net sales at both companies.
   The three conform with the following Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines, and the Company has registered Tadaaki Konose and Yukio Matsutani as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc. If the appointment of Ko Sekiguchi is approved, the Company plans to register him as an Independent Officer with the Exchange.

4. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Tadaaki Konose and Yukio Matsutani which limit their liabilities for damages under Article 423, Paragraph 1 of the same Act. If their reappointments are approved, the Company plans to continue these agreements. If the appointment of Ko Sekiguchi is approved, the Company will enter into the same agreement with him. The maximum amount of liabilities under the said agreement shall be the minimum amounts set forth in 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.

<Independence Criteria for Outside Directors>

The Company deems that an Outside Director has independence when not falling under any of the items below.

(1) The Outside Director in question has any close relative within the second degree of kinship who is currently or has in the past three years served as an executive director, executive officer (*shikkoyaku*), corporate officer (*shikkoyakuin*), or important employee (collectively, hereinafter “Executive”) of the Company or one of the Company’s subsidiaries.

(2) The company at which the Outside Director in question currently serves as an Executive has transactions with Group companies, and the amount of those transactions between the company and any of the Group companies in the past three fiscal years is more than 2% of the consolidated net sales of any of the respective companies.

(3) The Outside Director in question, in any one fiscal year in the past three fiscal years, has received compensation in excess of ¥5 million as an expert or consultant in law, accounting, or tax, directly from Group companies (excluding the compensation as Director of the Company).

(4) Contributions to a non-profit organization at which the Outside Director in question serves as an Executive total more than ¥10 million in the past three fiscal years, and, exceed 2% of the gross income of the organization in question.

(Translation)

Proposal 2: Election of Four (4) Audit & Supervisory Board Members

The terms of office of all four (4) Audit & Supervisory Board Members will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect four (4) Audit & Supervisory Board Members.
The Audit & Supervisory Board has consented to this proposal.
The candidates for Audit & Supervisory Board Members are as follows:

Candidate No.		Name	Term of office as Audit & Supervisory Board Member	Current position in the Company	Attendance rate at meetings of the Board of Directors	Attendance rate at meetings of the Audit & Supervisory Board Members
1	New appointment	Yozo Toba	–	Executive Vice President	–	–
2	Reappointment Outside Independent	Hiroshi Sugawara	7 years and 9 months	Outside Audit & Supervisory Board Member	100%	100%
3	Reappointment Outside Independent	Yoko Wachi	2 years	Outside Audit & Supervisory Board Member	100%	100%
4	New appointment Outside Independent	Kazuo Takahashi	–	–	–	–

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">1</td><td>New appointment

Yozo Toba
(March 16, 1957)

Position in the Company:
Executive Vice President

Term of office as Audit & Supervisory Board Member:
–</td><td>April 1979 Joined Otsuka Chemical Co., Ltd.
January 1995 Director, Information Center, Otsuka Chemical Co., Ltd.
January 2006 CFO, Trocellen GmbH
May 2009 Operating Officer, Information System Department, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)
June 2009 Corporate Officer, Director of IT, Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
December 2011 Executive Director, Corporate Administration, Accounting and IT, Otsuka Chemical Co., Ltd.
March 2015 Executive Vice President, Corporate Finance & Accounting & Corporate Service Department, Otsuka Holdings Co., Ltd. (Current Position) (scheduled to resign in March 2018)
[Significant concurrent positions outside the Company]
–</td><td rowspan="2">6,300</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Audit & Supervisory Board Member]
Mr. Yozo Toba held important posts in the accounting and finance departments and IT departments for many years, and has extensive knowledge of finance and accounting as well as abundant experience in group operations. The Company deems that his experience and expertise can be utilized for audits of the Company and nominated him as a candidate for Outside Audit & Supervisory Board Member.</td></tr>
<tr><td rowspan="2">2</td><td>Reappointment
Candidate for Outside Audit & Supervisory Board Member
Candidate for Independent Officer

Hiroshi Sugawara
(March 13, 1970)

Position in the Company:
Outside Audit & Supervisory Board Member

Term of office as Audit & Supervisory Board Member:
7 years and 9 months</td><td>October 1997 Joined Chuo Audit Corporation
October 2000 Joined Deloitte Touche Tohmatsu (present day Deloitte Touche Tohmatsu LLC)
February 2006 Vice President, Will Capital Management Co., Ltd. (Current Position)
June 2010 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)
June 2012 Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
October 2013 Outside Director, NIPPON PARKING DEVELOPMENT Co., Ltd.
March 2016 Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
Vice President, Will Capital Management Co., Ltd.</td><td rowspan="2">8,000</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Outside Audit & Supervisory Board Member]
Mr. Hiroshi Sugawara has expertise as a certified public accountant in addition to considerable operational experiences. The Company deems that his experience and expertise can be utilized for audits of the Company and nominated him as a candidate to continue serving as Outside Audit & Supervisory Board Member.</td></tr>
</table>

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">3</td><td>Reappointment
Candidate for Outside Audit & Supervisory Board Member
Candidate for Independent Officer

Yoko Wachi
(April 29, 1960)

Position in the Company:
Outside Audit & Supervisory Board Member

Term of office as Audit & Supervisory Board Member:
2 years</td><td>April 1989 Registered as an attorney at law
(Dai-ichi Tokyo Bar Association)
Joined KAJITANI LAW OFFICES (Current Position)
June 2015 Corporate Auditor, NICHIAS Corporation (Current Position)
March 2016 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Attorney at law, KAJITANI LAW OFFICES
Corporate Auditor, NICHIAS Corporation</td><td rowspan="2">0</td></tr>
<tr><td colspan="2">[Reasons for nominating her as a candidate for Outside Audit & Supervisory Board Member]
Ms. Yoko Wachi has extensive knowledge in corporate legal affairs as an attorney at law. The Company deems that her experience and expertise can be utilized for audits of the Company and nominated her as a candidate to continue serving as Outside Audit & Supervisory Board Member.</td></tr>
<tr><td rowspan="2">4</td><td>New appointment
Candidate for Outside Audit & Supervisory Board Member
Candidate for Independent Officer

Kazuo Takahashi
(December 3, 1951)

Position in the Company:
–

Term of office as Audit & Supervisory Board Member:
–</td><td>April 1975 Joined EBARA-UDYLITE CO., LTD (present day JCU CORPORATION)
March 1986 Executive Director, Strategic Planning, RA Institute Co., Ltd.
November 1992 Executive Director, General Manager of the System Division, Sunkus & Associates, Inc.
October 2004 Executive Director, Head of the Information System Division, Circle K Sunkus Co., Ltd.
May 2006 Executive Director, Chief of the Management Strategy Office, the Customer & Franchisee Relations Office, and the Internal Control & Environmental Management Office, Circle K Sunkus Co., Ltd.
May 2008 Executive Director, Head of Area Franchise, Circle K Sunkus Co., Ltd.
May 2010 Executive Director, Head of Information Systems Division, Circle K Sunkus Co., Ltd.
[Significant concurrent positions outside the Company]
–</td><td rowspan="2">0</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Outside Audit & Supervisory Board Member]
Mr. Kazuo Takahashi held important posts in IT and internal control departments for many years, and has abundant experience in corporate management. The Company deems that his experience and expertise can be utilized for audits of the Company and nominated him as a candidate for Outside Audit & Supervisory Board Member.</td></tr>
</table>

Notes:

1. The Candidates for Audit & Supervisory Board Members have no special interests in the Company.
2. Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi are candidates for Outside Audit & Supervisory Board Member.
   Hiroshi Sugawara previously belonged to Deloitte Touche Tohmatsu LLC, which is the accounting auditor of the Company and Group companies, but during his tenure at the firm he was not responsible for auditing the accounts of the Company or Group companies and he left Deloitte Touche Tohmatsu LLC in February 2006. At least four years had passed from his retirement from the firm and his appointment as Outside Audit & Supervisory Board Member of the Company. In addition, as the accounting auditor conducts audits from a standpoint that is independent from the Company, the Company has no concerns about his independence.

As the three candidates conform with the Independence Criteria for Outside Directors of the Company and fulfill the requirements for independence, the Company has registered Hiroshi Sugawara and Yoko Wachi as Independent Officers with the Tokyo Stock Exchange, Inc. as provided for under the rules of the Exchange. If the appointment of Kazuo Takahashi is approved, the Company plans to register him as an Independent Officer with the Exchange.

3. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Hiroshi Sugawara and Yoko Wachi which limit their liabilities for damages under Article 423, Paragraph 1 of the same Act. If their reappointments are approved, the Company plans to continue these agreements. If the appointments of Yozo Toba and Kazuo Takahashi are approved, the Company will enter into the same agreements with them. The maximum amount of liabilities under the said agreement shall be the minimum amounts set forth in laws and regulations. The limitation of liability specified in these agreements shall be limited to times when the Outside Audit & Supervisory Board Members are without knowledge and not grossly negligent in performing the duties as Outside Audit & Supervisory Board Member that cause liability.

(Translation)

Attached documents

Business Report

(For the fiscal year from January 1, 2017 to December 31, 2017)

1. Business Progress and Achievement of the Group

(1) Overview of Business during the Current Fiscal Year

i) Business activity and results

The current fiscal year, amid ongoing global monetary easing, turned out to be a year of significant increases in stock prices due to large amounts of capital flowing into the stock market following an economic shift toward a trend of recovery led by the U.S.

Global expectations are focused on new business models that primarily make use of the internet and corporations engaged in developing and implementing new technologies such as artificial intelligence. These innovations are gradually changing our lifestyles.

In the healthcare business, effort is being put into new technology and the Group succeeded in commercializing the world's first digital medicine, *ABILIFY MYCITE*.

During the fiscal year ended December 31, 2017, the Group recorded consolidated net sales of ¥1,239,952 million (up 3.7% from the previous fiscal year), with operating profit of ¥104,181 million (up 3.0%), and profit attributable to owners of the Company of ¥112,492 million (up 21.5%).

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

	Pharmaceuticals	Nutraceuticals*	Consumer products	Others	Adjustments	Consolidated
Net sales	774,762	326,221	35,595	151,133	(47,759)	1,239,952
Operating profit	82,694	39,169	11,115	9,743	(38,541)	104,181

*nutraceuticals = nutrition + pharmaceuticals

ii) Major business activities (as of December 31, 2017)

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, etc., functional beverages, etc., quasi-pharmaceuticals, nutritional supplements, and others
Consumer products	Manufacture, purchase, and sale of consumer products
Others	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

Under the Second Medium-Term Management Plan, which runs until the end of FY 2018, the Group is targeting sustainable growth over the medium and long term by positioning the antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*, and the vasopressin V_2 receptor antagonist *Samsca/JINARC* as its three global products and positioning the anti-cancer agent *LONSURF* as one of the next-generation products.

Japan

In the area of the central nervous system and neurology, sales of antipsychotic agent *ABILIFY* declined compared with the previous fiscal year due to repricing measures for market expansion based on the April 2016 NHI price revisions and due to the impact of a launch of generics after

June 2017. Sales of intramuscular depot formulation *ABILIFY prolonged release aqueous suspension for intramuscular injection* (once-monthly injection) increased significantly, supported by growth in prescriptions. Antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions, reflecting strong support from medical specialists due to the drug's efficacy, safety and usability. *Neupro Patch*, a treatment for Parkinson's disease and restless legs syndrome, also registered growth in sales, after the launch of an 18mg patch in June 2016 contributed to a growth in prescriptions.

In the area of oncology, sales of anti-cancer agent *Abraxane* increased compared with the previous fiscal year due to growth in dosage and administration for the treatment of gastric cancer. Sales of anti-cancer agent *LONSURF* increased compared with the previous fiscal year as it has come to hold a position as one of the standard therapies for unresectable advanced or recurrent colorectal cancer. Sales of antiemetic agent *Aloxi* increased compared with the previous fiscal year.

In the area of the cardiovascular and renal system, sales of *Samsca* increased significantly compared with the previous fiscal year due to promotional activities targeting medical specialists to highlight its value as an oral aquaretic agent. As the only drug for autosomal dominant polycystic kidney disease ("ADPKD"), *Samsca* is also contributing to the treatment of intractable kidney disease through increasing numbers of patient users and high continuity rates.

In the area of the digestive system, prescriptions increased significantly for *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited.

In the area of ophthalmology, efforts to promote the product concept of dry eye treatment *Mucosta ophthalmic suspension UD 2%* led to growth in sales. Also, *Mikeluna combination ophthalmic solution*, a treatment for glaucoma and ocular hypertension was launched in January 2017, and the prescription has increased.

In the area of diagnostics, sales of diagnostics declined overall, mainly due to a drop in sales of influenza diagnostic agents and Helicobacter pylori-related products. However, sales volumes have been increasing with the launch of the *Quick Navi™–Mycoplasma* in July 2017 and *Quick Navi™–Flu2* in September of the same year.

In the area of clinical nutrition, sales of clinical nutrition products increased overall, supported mainly by growth in sales volume for high-calorie total parenteral nutrition ("TPN") solution *ELNEOPA-NF Injection*, a new prescription launched in January 2017.

North America

Sales of *ABILIFY MAINTENA* (once-monthly injection) increased compared with the previous fiscal year, spurred by growing awareness of the drug's ease of use and by its approval for the additional indication of bipolar disorder in July 2017. Sales of *REXULTI* have grown significantly since the drug was launched in the U.S. in 2015, supported by growth in prescriptions for schizophrenia and as an adjunctive therapy in major depressive disorder. The drug was also launched in Canada in April 2017, and the prescription has increased. Sales of *NUEDEXTA* increased. *NUEDEXTA* was developed by U.S. company Avanir Pharmaceuticals, Inc., which has strengths in drug development in the area of neurological disorders. Sales growth was supported by the drug's growing status as the world's first and only treatment for the neurologic disease pseudobulbar affect ("PBA"). Sales of *LONSURF* declined compared with the previous fiscal year. Sales of *Samsca*, which is sold as an oral aquaretic agent, increased due to stepped up efforts to promote the product's benefits. Prescriptions of *JINARC*, the same compound as *Samsca* but sold under a different brand name as a treatment for ADPKD, have grown steadily since its launch in Canada in 2015.

Others

Prescriptions for *ABILIFY MAINTENA* increased in Europe, driving a large increase in sales compared with the previous fiscal year. Under a license agreement with Servier in France, *LONSURF* has been launched in a growing number of countries since manufacturing and marketing approval was granted in April 2016. *Samsca* is gaining ground in the market as an oral aquaretic agent and has also been granted approval in more countries as a treatment for ADPKD, under the brand name *JINARC*. *Samsca/JINARC* is now sold in 26 markets worldwide, including Japan and North America.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2017 totaled ¥774,762 million (up 2.9% from the previous fiscal year), with operating profit of ¥82,694 million (down 10.1%).

Nutraceuticals

In the nutraceutical segment, the Group operates a global business focused on functional beverages and foods that support the maintenance and improvement of day-to-day well-being.

Japan

Sales volume for the *POCARI SWEAT* electrolyte supplement drink declined amid a weak market[*1] associated with seasonal factors, however, the product's market share is growing[*2] on the back of efforts to communicate with customers, focusing on promoting the drink as a source of hydration during dry weather and its ability to prevent heat stroke. Despite a weak market for non-medicinal nutritional drinks[*3], sales volume for carbonated nutritional drink *ORONAMIN C* was steady compared with the previous fiscal year due to continued active efforts to communicate with customers. Sales volume for the *Calorie Mate* range declined sharply in April compared with the previous fiscal year, mainly due to the drop following the previous year's temporary increase in demand that occurred after the 2016 Kumamoto Earthquake. However, full-year sales volume increased year on year, and the brand retained the leading share in the nutritionally balanced foods market[*4]. Sales in the *Calorie Mate Jelly* range, which was expanded in May 2016, are growing steadily due to growing awareness of the product's value as a new type of balanced nutritional food. Sales volume for the *SOYJOY* range of baked soy bars declined compared with the previous fiscal year due to the drop following the launching of three products of *SOYJOY Crispy* in April 2016. However, *SOYJOY Crispy White Macadamia*, which was launched in February 2017, is gradually gaining ground in the market.

North America

Nature Made, supplied by subsidiary Pharmavite LLC of the U.S., is the number one retail vitamin and supplement brand in the U.S.[*5] Sales increased compared with the previous fiscal year, partly due to growth in the U.S. market for supplements[*6]. Sales of *EQUELLE*, a food product containing equol started in October 2017 through sales channel targeting medical personnel and healthcare professionals of FoodState Inc. of the U.S. In July 2017, Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") acquired Daiya Foods Inc., which develops, manufactures and sells plant-based foods in North America.

Others

At Nutrition & Santé SAS, one of the Group's subsidiaries that operates in more than 40 countries, mainly in Europe, sales growth continues to be driven by gluten-free nutrition and health food products including those sold under the *Gerblé* brand, France's leading health food brand[*7], meat-free products, and sugar-free products. In December 2017, the Group moved to strengthen this field by acquiring the French organic food product manufacturer BC BIO SAS. *POCARI SWEAT*, which is sold in 19 markets worldwide, mainly in Asia, registered an increase in sales volume in China on the back of growth in distribution channels and greater product recognition. However, total overseas sales volume declined compared with the previous fiscal year, reflecting unfavorable weather and a weaker economy in Indonesia, among other factors.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2017 totaled ¥ 326,221 million (up 4.7% from the previous fiscal year), with operating profit of ¥39,169 million (up 20.5%).

*1: INTAGE SRI (01/2017 to 12/2017 -10.3%). All rights reserved, no reproduction without permission.
*2: INTAGE SRI (01/2017 to 12/2017 38.4%). All rights reserved, no reproduction without permission.
*3: INTAGE SRI (01/2017 to 12/2017 -6.8%). All rights reserved, no reproduction without permission.
*4: INTAGE SRI revenues, nutritionally balanced foods market (categories: cookies and biscuits, cereal, cakes) 01/2017 to 12/2017, 31.8%. All rights reserved, no reproduction without permission.

*5: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 52-weeks ending 12/30/17. All rights reserved, no reproduction without permission.
*6: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 52-weeks ending 12/30/17, the Total Vitamin Category grew 2.7%. All rights reserved, no reproduction without permission.
*7: 2017 Value Share of Market, Information Resources Inc. All rights reserved, no reproduction without permission.

Consumer Products

Sales volume for *MATCH*, a carbonated electrolyte drink containing vitamins, was steady compared with the previous fiscal year, supported by an aggressive marketing strategy, sales promotion activities and other initiatives to reenergize the brand. Sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the previous fiscal year, mainly due to weaker sales in the direct sales channel, despite active marketing efforts to attract new customers.

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2017 totaled ¥35,595 million (up 0.4% from the previous fiscal year), with operating profit of ¥11,115 million (up 103.9%). In the consumer products segment, although operating margin is as high as 31.2% due to the recognition under International Financial Reporting Standards (hereinafter referred to as “IFRS”) of the share of profit of overseas business, the Group is continuing its efforts in existing businesses to improve efficiency and push ahead with reorganization.

Others

In the specialty chemical business, sales increased compared with the previous fiscal year, supported by growth in sales volume for hydrazine hydrate, foaming agents and other products. In the fine chemical business, sales increased compared with the previous fiscal year, mainly due to growth in sales volume of active pharmaceutical ingredients and intermediates.

In the warehousing and transport business, sales rose compared with the previous fiscal year, supported by a steady level of handling volume. Sales in the direct sales support business and the insurance business increased compared with the previous fiscal year, largely due to growth in the volume of orders handled and an increase in the number of contracts.

As a result, net sales in the others segment for the fiscal year ended December 31, 2017 totaled ¥151,133 million (up 7.0% from the previous fiscal year), with operating profit of ¥9,743 million (up 25.2%).

iii) Research and development activities

Research and development expenses for the current fiscal year totaled ¥175,558 million.

Research and development expenses for the pharmaceutical business amounted to ¥165,457 million, those for the nutraceutical business amounted to ¥5,486 million, those for the consumer products business amounted to ¥593 million and those for the other businesses amounted to ¥4,021 million.

Pipeline information

Compounds in Phase III or later stage of development as of December 31, 2017

Category	Development 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 and neurology	ASC-01 (aripiprazole, sertraline)	Major depressive disorder / Oral		●				
	OPC-34712 *REXULTI* (brexpiprazole)	Major depressive disorder / Oral					●	
		Schizophrenia / Oral						●
		Agitation associated with Alzheimer-type dementia / Oral			●		●	
		Bipolar I disorder / Oral			●		●	
	Lu AA36143 (nalmefene)	Alcohol dependence / Oral		●				
	AVP-786 (deuterium-modified dextromethorphan, quinidine)	Agitation associated with Alzheimer-type dementia / Oral			●		●	
	TEV-48125 (fremanezumab)	Migraine / Injection	●*					
Oncology	TAS-102 *LONSURF* (trifluridine, tipiracil)	Gastric cancer / Oral	●		●		●	
	TAS-118 (tegafur, gimeracil, oteracil, folinate)	Gastric cancer / Oral	●					
	SGI-110 (guadecitabine)	Acute myeloid leukemia / Injection	●		●		●	
		Myelodysplastic syndrome / Injection	●		●		●	
Cardiovascular and renal system	OPC-41061 *Samsca/JINARC* (tolvaptan)	Autosomal dominant polycystic kidney disease / Oral				●		
		Syndrome of inappropriate antidiuretic hormone secretion / Oral	●					
	AKB-6548 (vadadustat)	Anemia associated with chronic kidney disease / Oral			●		●	

Category	Development Code *Brand name* (Generic name)	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Other categories	OPC-12759E *Mucosta ophthalmic suspension* (rebamipide)	Dry eyes / Eye drops (Multi Dose)	●					
	OPC-67683 *Deltyba* (delamanid)	Multidrug-resistant tuberculosis / Oral			●			
	OPF-105 (glucose, electrolyte, amino acid, fat and vitamin)	Peripheral parenteral nutrition solution / Injection	●					
	ODK-1403 *Live Cell TASb ‘Otsuka’*	Grave’s disease / In-vitro diagnostic agent		●				

*Phase II/ III

The 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 focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, ophthalmology, etc.

Research and development activities

Phase II or later stage of development

Brand Name, (Generic Name), Development Code	Status
Central nervous system and neurology	
REXULTI (brexpiprazole) OPC-34712	<Japan> ・An application for the indication of schizophrenia was filed in January 2017. <Europe> ・An application for the indication of schizophrenia was filed in March 2017. <U.S. and Europe> ・Plans for a Phase III trial for the treatment of post-traumatic stress syndrome were reviewed and restarted as a Phase II trial. ・Phase III trial for the treatment of bipolar disorder was initiated in October 2017.
ABILIFY (aripiprazole) OPC-14597	<Japan> ・Development for the treatment of agitation associated with Alzheimer-type dementia was halted in line with development strategy.
ABILIFY MAINTENA (aripiprazole)	<Japan and Europe> ・Development for the treatment of bipolar disorder was halted in line with development strategy. <U.S.> ・Approval was granted in July 2017 for the additional indication of bipolar disorder.
(aripiprazole, sertraline) ASC-01	<Japan> ・An application for the indication of major depressive disorder was filed in July 2017.
(idalopirdine) Lu AE58054	<U.S. and Europe> ・Development for the treatment of Alzheimer-type dementia was halted based on a comprehensive review of the results of the Phase III trials.
(centanafadine) EB-1020	<U.S.> ・Phase II trial for attention deficit hyperactivity disorder (ADHD) is currently underway. * Drug under development that was acquired through the acquisition of Neurovance, Inc. in March 2017.
(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> ・Phase II trial for the treatment of traumatic brain injury was initiated in November 2017.
(fremanezumab) TEV-48125	<Japan> ・Phase II/ III trial for the treatment of migraine was initiated in December 2017.
OPC-64005	<U.S.> ・Phase II trial for the treatment of attention deficit hyperactivity disorder (ADHD) was initiated in November 2017.
(nalmefene) Lu AA36143	<Japan> ・An application for the indication of alcohol dependence was filed in October 2017.

Brand Name, (Generic Name), Development Code	Status
Oncology	
(guadecitabine) SGI-110	<Japan, U.S., Europe and Asia> ・Phase III trial for the treatment of myelodysplastic syndrome was initiated in February 2017. <U.S. and Europe> ・Development for the treatment of hepatocellular carcinoma was halted based on a comprehensive review of the results of the Phase II trial.
LONSURF (trifluridine, tipiracil) TAS-102	<Asia> ・An application for the indication of colorectal cancer was filed in May 2017.
(tegafur, gimeracil, oteracil, folinate) TAS-118	<Japan and Asia> ・Development for the treatment of pancreatic cancer was halted based on a comprehensive review of the results of the Phase III trial.
TAS-115	<Japan> ・Phase II trial for the treatment of prostate cancer was initiated in January 2017.
SATIVEX (nabiximols)	<U.S.> ・Development for the treatment of cancer pain was halted based on a comprehensive review of the results of the Phase III trial.
(onalespib) AT13387	<U.S. and Europe> ・Development for the treatment of non-small cell lung cancer was halted based on a comprehensive review of the results of Phase II trial.
AT7519	<U.S.> ・Development for the treatment of multiple myeloma was halted based on a comprehensive review of the results of Phase II trial.
ASTX660	<U.S.> ・Phase II trial for the treatment of solid tumors and lymphomas was initiated in September 2017.
HF10	<Japan> ・Phase II trial for the treatment of melanoma was initiated in May 2017.
(rebamipide) OPC-12759	<Japan> ・Development for the treatment of oral mucositis associated with chemoradiation therapy for cancer was halted based on a comprehensive review of the results of Phase II trial.

Brand Name, (Generic Name), Development Code	Status
Cardiovascular and renal system	
Samsca (tolvaptan) OPC-41061	<U.S.> ・An application for the indication of autosomal dominant polycystic kidney disease (ADPKD) was filed in November 2017. <Japan> ・Phase III trial for the treatment of syndrome of inappropriate antidiuretic hormone secretion (SIADH) was initiated in June 2017. ・Development for the treatment of carcinomatous edema, volume overload in hemodialysis and volume overload in peritoneal dialysis was halted in line with drug development strategy. <Asia> ・Approval was granted in China in September 2017 for the additional indication of cardiac edema.
OPC-61815	<Japan> ・Phase II trial for the treatment of cardiac edema was initiated in November 2017.
Other categories	
ZOSYN (tazobactam, piperacillin) YP-18	<Japan> ・Approval was granted in May 2017 for the additional indication of complicated skin and soft tissue infections.
TAC-302	<Japan> ・Phase II trial for the treatment of detrusor underactivity with overactive bladder was initiated in September 2017.
WT1 mRNA Assay Kit II 'Otsuka' ODK-1003	<Japan> ・Approval was granted in April 2017 for the additional indication of in-vitro diagnostic agent for acute lymphoblastic leukemia.
Live Cell TASb 'Otsuka' ODK-1403	<Japan> ・An application was filed as an in-vitro diagnostic agent for Grave's disease in December 2017.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during the current fiscal year amounted to ¥152,257 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥82,371 million. That amount includes goodwill and intangible assets totaling ¥28,599 million related to Neurovance, Inc., which was acquired on March 17, 2017.

Capital investments in the nutraceutical business totaled ¥53,322 million. That amount includes goodwill and intangible assets totaling ¥36,505 million related to Daiya Foods Inc., which was acquired on August 31, 2017. Capital investments in the consumer business totaled ¥1,186 million, while those in other businesses totaled ¥12,494 million, and corporate investments (common) totaled ¥2,882 million.

(2) Key Issues to be Addressed

The Group is implementing specific initiatives under its Second Medium-Term Management Plan covering the period up to FY 2018, with the aim of realizing its corporate philosophy "Otsuka-people creating new products for better health worldwide."

<Positioning of Second Medium-Term Management Plan and Main Initiatives>

Under the Second Medium-Term Management Plan, the Group will establish a diversified business portfolio and promote sustainable growth through continued investment and corporate structural reform. The Group, to implement total healthcare provision that is centered on our corporate philosophy, aims to become an indispensable contributor to people's health worldwide by working to expand business opportunities using its people, technologies and products, guided by the concept of total healthcare provision, which is aimed at delivering organic growth.

i) Strengthen core therapeutic areas

In the pharmaceutical business, the Group will focus on strengthening the core therapeutic areas of central nervous system ("CNS") disorders and oncology. In doing so, the Group will seek out unmet medical needs of patients, and aim to create a wide range of new values to satisfy those needs.

- In the area of CNS disorders, the Group will step up efforts to maximize the medical and commercial value of *ABILIFY MAINTENA* and *REXULTI*. In addition to expanding its business base in the psychiatric area, where the Group has been active for a long time, the Group combined said business base with its business base in the neurologic area, which has been strengthened with the acquisition of Avanir Pharmaceuticals, Inc. In doing so, the Group will progress with its strategy for the entire area of CNS disorders aiming to make comprehensive contributions to solutions for issues such as unmet medical treatment needs and medication adherence.
- In the area of oncology, where the Group is developing its business in a wide range of fields, including hematological cancer, solid cancer and cancer-supportive care, the Group is working to develop innovative new drugs and to maximize the medical value of its products by expanding its global business base that encompasses everything from drug development to sales. These efforts include the promotion of global research and development of methyltransferase inhibitors and new molecular-targeted therapies, the establishment of an in-house sales platform for *LONSURF* in the U.S., and an alliance with Servier regarding sales mainly in Europe.
- The Group will promote the global development of the vasopressin V_2-receptor antagonist *Samsca/JINARC*, not only through growth in its conventional application as an aquaretic agent, but also as the only drug for the treatment for autosomal dominant polycystic kidney disease (ADPKD).
- In Japan, the Group will focus on quickly nurturing new products that were launched during the period of the Second Medium-Term Management Plan in addition to promoting the continued growth of new products launched during the period of the First Medium-Term Management Plan.
- In the clinical nutrition business, the Group will pursue overseas development, mostly in Asia, and in the medical devices business, the Group will focus efforts on diversifying treatment solutions.

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

- The Group will cultivate new products by accelerating research and development with the theme of "healthy life expectancy" and focusing on sales promotion that emphasizes benefits of product value.
- Targeting growth in overseas sales, 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 in products and overseas sales channels, and actively promote proprietary brands overseas.

- In order to accelerate product development and overseas business expansion, the Group will review business assets that support the value chain and work toward implementing structural reforms.

Progress with the plan's main initiatives is as follows:

- Global sales of *ABILIFY MAINTENA* rose strongly, supported by sales in Japan, the U.S. and Europe. In the U.S., the Group received approval for the additional indication of bipolar disorder in July 2017 and make efforts to further maximize product value.
- Sales of *REXULTI* are growing strongly, supported by sales in the U.S. for the indications of schizophrenia and adjunctive therapy in major depressive disorder. The Group will continue to work toward approval for additional indications and proactively make efforts to increase product value.
- *Samsca/JINARC*'s value increased among medical specialists as an oral aquaretic agent, and it is helping patients in Japan and Europe as the world's first drug for the autosomal dominant polycystic kidney disease. Also, in November 2017, an application was filed for the same indication in the U.S. as part of efforts to make an even greater contribution to the treatment of intractable kidney disease.
- Sales of *LONSURF* are growing steadily in Japan, the U.S. and Europe, where it is sold as a treatment for colorectal cancer. In order to increase product value, the Group has conducted global clinical trials for the treatment of gastric cancer with the aim of securing additional indications.
- In the nutraceutical business, the Group has developed new product categories and actively invested in growth fields, supporting solid sales growth in overseas operations. In order to accelerate product development and overseas business expansion, the Group will continue to review business assets that support the value chain and work toward reform aimed at establishing a stable business portfolio.

(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 7th fiscal year (Ended December 31, 2014)	The 8th fiscal year (Ended December 31, 2015)		The 9th fiscal year (Ended December 31, 2016)	The 10th fiscal year (Ended December 31, 2017)
	Japan GAAP	Japan GAAP	IFRS	IFRS	IFRS
Net sales (Millions of yen)	1,224,298	1,445,227	1,427,375	1,195,547	1,239,952
Operating income or operating profit (Millions of yen)	196,528	151,837	148,886	101,145	104,181
Net income or profit attributable to owners of the Company (Millions of yen)	143,143	84,086	101,957	92,563	112,492
Net income per share or basic earnings per share (Yen)	264.20	155.12	188.16	170.82	207.60
Total assets (Millions of yen)	2,178,184	2,528,510	2,575,280	2,478,290	2,480,256
Total net assets or total equity (Millions of yen)	1,658,600	1,683,436	1,727,370	1,738,441	1,821,950
Net assets per share or equity attributable to owners of the Company per share (Yen)	3,004.38	3,053.82	3,134.56	3,156.83	3,309.55

Notes:
1. 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.
2. From the 9th fiscal year, consolidated financial statements have been prepared in accordance with (IFRS). For reference purposes, IFRS figures have also been provided for the 8th fiscal year.

(4) **Significant Subsidiaries** (as of December 31, 2017)

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 pharmaceutical products, clinical inspections and medical devices, food and beverages, 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	65,145 thousand euro	*100.00%	Manufacture and sale of food products

Notes:
1. The asterisk (*) in Percentage of voting rights held by the Company includes the percentage of voting rights held indirectly.
2. Specified wholly owned subsidiaries as of the current fiscal year-end are as follows:

Name of specified wholly owned subsidiary	Address of specified wholly owned subsidiary	Book value of specified wholly owned subsidiary at current fiscal year-end
Taiho Pharmaceutical Co., Ltd.	1-27 Kanda Nishikicho, Chiyoda-ku, Tokyo	275,447 million yen
Otsuka Pharmaceutical Co., Ltd.	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo	206,093 million yen

Note: The Company's total assets amounted to ¥966,883 million at the current fiscal year-end.

(5) **Major Offices and Factories** (as of December 31, 2017)

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	Occitanie, French Republic

(6) Employees (as of December 31, 2017)

i) Employees of the Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	19,168	(1,636)	up 521	(down 88)
Nutraceuticals	7,873	(1,488)	up 380	(down 234)
Consumer products	526	(83)	down 15	(down 4)
Others	3,596	(817)	up 139	(up 45)
Corporate (Common)	1,654	(343)	up 5	(down 5)
Total	32,817	(4,367)	up 1,030	(down 286)

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
86 (121)	down 1 (up 4)	44.3	3.5

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, 2017)

Creditor	Balance of borrowings
The Bank of Tokyo-Mitsubishi UFJ, Ltd	63,276 million yen
Mizuho Bank, Ltd.	61,596 million yen
Resona Bank, Limited	34,024 million yen
Sumitomo Mitsui Banking Corporation	30,677 million yen
The Awa Bank, Ltd.	14,328 million yen

2. Current Status of the Company

(1) Shares (as of December 31, 2017)

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: 59,367
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	61,955	11.43
The Master Trust Bank of Japan, Ltd. (trust account)	36,257	6.69
Japan Trustee Services Bank, Ltd. (trust account)	26,954	4.97
Otsuka Estate Co., Ltd.	23,296	4.29
Otsuka Group Employee Shareholding Fund	13,661	2.52
The Awa Bank, Ltd	10,970	2.02
STATE STREET BANK WEST CLIENT - TREATY 505234	7,993	1.47
Japan Trustee Services Bank, Ltd. (trust account 5)	7,925	1.46
Otsuka Asset Co., Ltd.	7,380	1.36
Japan Trustee Services Bank, Ltd. (trust account 9)	6,931	1.27

Notes:
1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,986,878 of its own shares, treasury shares are excluded from the above list.
3. Shareholding ratio is calculated after treasury shares are deducted.

(2) Status of Share Acquisition Rights

i) Status of share acquisition rights held by Directors and Audit & Supervisory Board Members of the Company granted as compensation for their execution of duties at current fiscal year-end

(as of December 31, 2017)

	No. 5 share acquisition rights
Date of resolution on issuance	May 13, 2016
Number of share acquisition rights	5,676
Class and number of shares underlying share acquisition rights	Ordinary shares: 567,600 shares (100 shares per share acquisition right)
Amount to be paid in for share acquisition rights for subscription	¥417,300 per share acquisition right (¥4,173 per share)
Value of property to be contributed when such share acquisition rights are exercised	¥100 per share acquisition right (¥1 per share)
Period during which share acquisition rights may be exercised	From March 1, 2019 to February 28, 2021
Conditions for exercise of share acquisition rights	(See Note)
Number of holders	Directors of the Company: 6 (excluding Outside Directors)

Note: In order to make a greater contribution to the continued improvement of the Group's medium- to long-term business performance and corporate value, remuneration-type stock options (share acquisition rights), along with business performance achievement conditions, are issued to the Company's Directors (excluding Outside Directors) and Directors of the Company's subsidiaries (hereinafter "Beneficiaries") as a medium-term incentive plan (hereinafter "the Medium-term Incentive Plan").

Of the share acquisition rights, the number of share acquisition rights that can finally be exercised is determined based on the level of achievement, etc. of the medium-term management plan for which 2018 is designated as the final year (hereinafter "the Medium-term Management Plan").

The share acquisition rights shall be granted only once until December 31, 2018, during which time the Medium-term Management Plan will be in progress, and it is not scheduled to additionally issue any similar share acquisition rights while the Medium-term Management Plan is in progress.

Under the Medium-term Incentive Plan, the base number for calculating the share acquisition rights that can be exercised in accordance with the title of each Beneficiary is determined, and 40% shall be designated as a fixed portion, which can be exercised in a lump sum by the elapse of the final year of the subject period, and 60% (i.e., the remainder thereof) shall be designated as a "business performance-linked portion," which is a system where the number of share acquisition rights that can be exercised will be finalized based on the level of achievement of the consolidated sales objective amount and the consolidated operating profit objective amount in the fiscal year ending December 31, 2018 (200% in the case where the level of achievement of the objective amount is 200% or more, and 0% in the case where the level of achievement of the objective amount is 80% or less).

Each of the number of share acquisition rights to be allotted to the Beneficiaries is designated as the same number of share acquisition rights (the theoretical maximum number) that can be exercised by a person who has the highest title in the case where the greatest possible business performance is achieved, regardless of their actual title as of the allotment to each Beneficiary, in preparation for a situation where there is a change in the level of achievement of the consolidated sales objective amount and the consolidated operating profit objective amount etc., in the fiscal year ending December 31, 2018, established at the time of introducing the Medium-term Incentive Plan and/or each Beneficiary's title during the subject period.

In addition, a cap is set as a whole for the total number of share acquisition rights that can be finally exercised by Directors of the Company. Specifically, in principle, in the case where the business operation system as of the allotment date (the titles and the number of persons who assume such titles as of the same day) is maintained and the greatest possible business performance is achieved, the total number of share acquisition rights that can be exercised by the Beneficiaries who assume each title is set as a cap, which is 2,386 share acquisition rights. The condition where no exercise of the excess amount is allowed if such cap is exceeded has been set forth in a share acquisition rights agreement executed between the Company and the Beneficiaries in accordance with a resolution of the Company's Board of Directors.

Other matters such as the conditions for the exercise of share acquisition rights are set forth in the share acquisition rights agreement executed between the Company and the Beneficiaries.

ii) Status of share acquisition rights granted to employees, etc. as compensation for their execution of duties during the current fiscal year

No items to report.

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

i) Directors and Audit & Supervisory Board Members (as of December 31, 2017)

Position in the Company	Name	Areas of responsibility and significant concurrent positions outside the Company
Chairman and Representative Director	Ichiro Otsuka	Chairman, Otsuka Pharmaceutical Factory, Inc. Executive Director, Otsuka Pharmaceutical Co., Ltd. President and Representative Director, Otsuka Estate Co., Ltd. President and Representative Director, Otsuka Asset Co., Ltd.
President and Representative Director	Tatsuo Higuchi	President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Senior Managing Director	Atsumasa Makise	In charge of Corporate Finance Executive Director, Otsuka Foods Co., Ltd.
Senior Managing Director	Yoshiro Matsuo	In charge of Corporate Administration Executive Director, Otsuka Medical Devices Co., Ltd.
Executive Director	Sadanobu Tobe	President and Representative Director, Otsuka Foods Co., Ltd.
Executive Director	Masayuki Kobayashi	President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.
Executive Director	Yasuyuki Hirotomi	Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD. Outside Director, ICHINEN HOLDINGS CO., LTD.
Executive Director	Tadaaki Konose	Administrative Council member, University of Miyazaki, a National University Corporation
Executive Director	Yukio Matsutani	Vice President, International University of Health and Welfare
Standing Audit & Supervisory Board Member	Takaharu Imai	Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd
Audit & Supervisory Board Member	Norikazu Yahagi	
Audit & Supervisory Board Member	Hiroshi Sugawara	Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. Vice President, Will Capital Management Co., Ltd.
Audit & Supervisory Board Member	Yoko Wachi	Attorney at law, KAJITANI LAW OFFICES Corporate Auditor, NICHIAS Corporation

Notes:

1. Executive Directors, Yasuyuki Hirotomi, Tadaaki Konose and Yukio Matsutani are Outside Directors.
2. Audit & Supervisory Board Members, Norikazu Yahagi, Hiroshi Sugawara and Yoko Wachi 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 Yasuyuki Hirotomi, Tadaaki Konose and Yukio Matsutani as well as Audit & Supervisory Board Members Norikazu Yahagi, Hiroshi Sugawara and Yoko Wachi as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc. and have registered them with the Exchange.
5. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with each of Outside Directors and each of Audit & Supervisory Board Members which limit their liabilities for damages under Article 423, Paragraph 1 of the same Act. The maximum amount of liabilities under the said agreements shall be the minimum amounts set forth in laws and regulations.
6. Changes in Directors during the current fiscal year are as follows:

   [Assumption of Office]
   Executive Director, Masayuki Kobayashi (assumed his office as of March 30, 2017)

   [Retirement]
   Executive Director, Tatsuro Watanabe (retired from office due to expiration of his term of office as of March 30, 2017)

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

Classification	Number of persons paid	Amount of compensations paid
Directors (of which Outside Directors)	10 (3)	602 million yen (21 million yen)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	4 (3)	62 million yen (32 million yen)
Total (of which Outside Directors and Audit & Supervisory Board Members)	14 (6)	664 million yen (54 million yen)

Notes:
1. There are no Directors of the Company who concurrently serve as employees.
2. 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. Issuance of share acquisition rights of up to 810,000 shares annually of ordinary shares of the Company as stock options was resolved separately at the 8th Annual Shareholders Meeting on March 30, 2016. For details, please refer to the section of 2. Current Status of the Company (2) Status of Share Acquisition Rights i) Status of share acquisition rights held by Directors and Audit & Supervisory Board Members of the Company granted as compensation for their execution of duties at current fiscal year-end.
3. 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.
4. The above amounts of compensation include ¥123 million in bonuses for five Directors and ¥197 million in compensation as stock options for seven Directors.
5. During the current fiscal year, Outside Directors and Audit & Supervisory Board Members received total compensation of ¥4 million from the Company's subsidiaries.

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

(i) Significant concurrent positions at other companies and relationships between the Company and such other companies

Executive Director, Yasuyuki Hirotomi, serves as Board Director and Senior Vice President of KYOEI STEEL LTD. as well as Outside Director of ELECOM CO., LTD. and ICHINEN HOLDINGS CO., LTD. The Group has no transactions with each of 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 organization.

Executive Director, Yukio Matsutani, serves as Vice President of International University of Health and Welfare. The Group has no transactions with the said organization.

Audit & Supervisory Board Member, Hiroshi Sugawara, serves as 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.

Audit & Supervisory Board Member, Yoko Wachi, serves as an attorney at law of KAJITANI LAW OFFICES as well as Corporate Auditor of NICHIAS Corporation. The Group has no transactions with the said firms.

(ii) Major activities during the current fiscal year

Executive Director, Yasuyuki Hirotomi attended all fourteen (14) 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, Tadaaki Konose attended all fourteen (14) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his extensive knowledge and experience gained through many years in corporate management.

Executive Director, Yukio Matsutani attended all fourteen (14) 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 gained in the healthcare and welfare field.

Audit & Supervisory Board Member, Norikazu Yahagi attended all fourteen (14) meetings of the Board of Directors and thirteen (13) of the fourteen (14) 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 fourteen (14) meetings of the Board of Directors and all fourteen (14) 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.

Audit & Supervisory Board Member, Yoko Wachi attended all fourteen (14) meetings of the Board of Directors and all fourteen (14) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on her broad experience cultivated as an attorney at law and high level of overall legal knowledge.

(4) Accounting Auditor

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

ii) Amount of compensations

	Payment
Total compensations for the current fiscal year	113 million yen
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	396 million yen

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. The Audit & Supervisory Board gave its consent for the amount of compensation for the accounting auditor after the verification necessary to determine whether the following matters were appropriate; the content of the accounting auditor’s audit plans, the status of execution of duties by the accounting auditor, and the basis for calculating the estimate of compensation.
3. 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)).
4. 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 Audit & Supervisory Board will submit a resolution related to the dismissal or non-reappointment of the accounting auditor. Based on that submission, the Board of Directors will call a shareholders meeting to discuss the resolution.

The Audit & Supervisory Board shall, if finding that the accounting auditor falls under any of the items in Article 340, Paragraph 1 of the Companies Act, and judging that there is no prospect of improvement, 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

At a meeting on April 13, 2015, the Board of Directors approved a resolution to partially revise its basic policies on internal control to ensure the appropriateness of operations (internal control system) in light of revisions to the Companies Act and the Ordinance for Enforcement of the Companies Act that came into effect on May 1, 2015. The revised basic polices are 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 further strengthen corporate governance by separating the Group’s management supervisory function from the business execution function.

The Company formulates the Otsuka Group Global Code of Business Ethics 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 Company establishes the Otsuka Holdings Compliance Program as the specific guidelines of the Otsuka Group Global Code of Business Ethics, and leads efforts to promote establishment, maintenance, and improvement of the compliance system thorough education for employees under the Risk Management Committee.

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 defines the roles of Corporate Officers executing business operations based on resolutions passed by 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. The Company will maintain a reporting system comprising subsidiary Directors, Corporate Officers, employees responsible for executing operations, and individuals responsible for conducting duties defined in Article 598, Paragraph 1 of the Companies Act, or individuals with authority over those employees (hereinafter “Directors, etc.”) and ensure that the Directors, etc. of subsidiaries always conduct their duties efficiently and appropriately.

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 oversee or conduct audits of subsidiaries and affiliates and promote the development of risk management and compliance systems across the Group in accordance with the Internal Audit Regulations to ensure appropriate operations integrally.

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 referred to in the previous item from Directors and ensuring the effectiveness of instructions issued to them by Audit & Supervisory Board Members

Employees referred to in the previous item will be assigned exclusively to the Audit & Supervisory Board Member’s Office, follow the instructions of the Audit & Supervisory Board Members and carry out assigned duties. 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, employees, and executives or employees of subsidiaries (including Directors, etc., Audit & Supervisory Board Members and individuals involved in accounting), and other systems for reporting to Audit & Supervisory Board Members

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

(i) Any incident that has caused or may cause material damage to the Company
(ii) Any violation of laws and regulations, or the Articles of Incorporation and any other important compliance matter
(iii) Progress of business execution by the Company and each of the Group companies
(iv) Implementation status of internal audits
(v) Matters to be resolved at important meetings

The Company shall establish a system that allows executives or employees of any company in the Otsuka Group, or individuals who have received reports from those executives or employees, to report matters related to (i) through (v) above to the Company’s Audit & Supervisory Board Members.

The system shall also ensure that individuals who have submitted reports shall not be treated unfavorably for their actions.

ix) Policy for treating expenses incurred by Audit & Supervisory Board Members in the course of executing their duties

The Company shall establish a system to ensure advance payments or reimbursement procedures for expenses incurred by Audit & Supervisory Board Members in the course of their duties, or the payment and reimbursement of expenses incurred by other duties, are conducted smoothly upon request from the Audit & Supervisory Board Members.

x) 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) Overview of Current Status of System to Ensure the Appropriateness of Operations

The Company, in accordance with its basic policies on system to ensure the appropriateness of operations, works to improve the system and ensure it functions appropriately.

Below is an overview of the status of the system in the current fiscal year, based on the Corporate Governance Guidelines established by the Company.

i) Overview of internal control system

In accordance with regulations to ensure the appropriateness of operations in the Otsuka Group, the Company's Board of Directors, Audit & Supervisory Board and relevant departments receive reports, depending on the level of importance, from the Directors and Audit & Supervisory Board Members of the Company and affiliates with respect to operations, earnings, risk and the status of legal compliance, supporting the operation of the internal control system. The Company also regularly holds Group Internal Control Meetings. The Internal Audit Department, which is under the direct reporting line to the President, conducts internal audits of the internal control system structure and status of operation, including at affiliates, in accordance with audit plans approved by the President.

Internal control systems related to financial reporting at the Company and each of the Group companies were also evaluated at the account settlement period of each fiscal year to strengthen systems to ensure the preparation of appropriate financial documents.

ii) Compliance efforts

(i) The Otsuka Group Global Code of Business Ethics and the Otsuka Group Global Anti-Corruption Policy

Under its corporate philosophy, "Otsuka-people creating new products for better health worldwide," the Otsuka Group has formulated the Otsuka Group Global Code of Business Ethics to realize promotion of compliance in the Group. Tatsuo Higuchi, the President and Representative Director of the Company, widely communicates the Group's stance for the Code of Business Ethics as the President's message, and the Company's Directors, the internal audit department and Audit & Supervisory Board Members confirm that the Group's stance is being implemented.

The Company and each of the Group companies have also formulated ethics regulations to make the Code of Business Ethics more tangible. At subsidiaries in regions including Asia, the Company and each of the Group companies are implementing a project to support the promotion of compliance, and all Group companies are working to ensure adherence to compliance rules through their Compliance Officers.

(ii) Compliance training

In accordance with the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy and the ethics regulations of each Group company, the Company conducts training programs for executives and employees to educate them and ensure awareness about compliance. Compliance forums are also held as part of training for directors and employees at Group companies.

iii) Reinforcing risk management system

(i) Risk management system

Meetings of the Risk Management Committee are held and risk management training is conducted to discuss and raise awareness of business continuity plans and measures to mitigate different types of risk in the Company's and the Group's business environment, including product quality risk, environmental risk and pharmacovigilance (PV) risk.

In risk management training, drills based on the themes of effective business management during crisis situations and product quality management were conducted for the senior management of the Company and key Group companies.

The committee has also developed an Emergency Response Manual to ensure rapid responses to situations at overseas affiliates and conducts training based on various scenarios.

(ii) Information security

The Company and each Group company conduct security checks and are upgrading their ability to respond to risk.

The Company and Group companies also participate in regular Group information security meetings, which involve information sharing about the latest technologies and other training.

The Company is also developing measures to address information security regulations in each country, such as the General Data Protection Regulation in the EU and Japan's Act on the Protection of Personal Information.

iv) Management of affiliates

In accordance with the Affiliate Management Regulations, the Company's Board of Directors or principle departments received reports about decision-making at affiliates and approved decisions, issued instructions or took other steps.

v) Execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting was held each month. At the meetings, the Board of Directors made decisions on important matters stipulated by laws and regulations or in the Articles of Incorporation and conducted oversight of Directors using reports about the execution of their duties. The Board of Directors makes important decisions for the Company and each of the Group companies with respect to business trends, investment projects and other areas, and fulfills its business oversight functions through sufficient discussion of reported matters by using business analysis reports, documents on specialist fields and other materials.

vi) Execution of duties by Audit & Supervisory Board Members

In accordance with the Regulations of the Audit & Supervisory Board and the Audit Standards of the Audit & Supervisory Board, the Audit & Supervisory Board Members conducted the following audits.

Through attendance at meetings of the Board of Directors and other important meetings, the Audit & Supervisory Board Members gave their opinion as needed, inspected documents, such as circulars for managerial approval, requested explanations from Directors, etc., and provided guidance as necessary.

The Audit & Supervisory Board Members also receive information, including regular reports, and secure opportunities to view documents. Meetings of the Audit & Supervisory Board were held monthly and at other times when needed to work to improve the effectiveness and efficiency of audits through reporting the audit activities of individual Audit & Supervisory Board Members, and exchanging opinions and information.

The Audit & Supervisory Board Members received reports required by laws and regulations from Representative Directors, Directors and other individuals of the Company and each of the Group companies, received information about earnings, business operations, the status and operation of the internal control system and implementation status of internal audits on a regular basis and at other times when necessary, and provided guidance as necessary.

Audit & Supervisory Board Members regularly hold a meeting of the Group's Audit & Supervisory Board as well as regularly receive reports from, exchange opinions with, and share information with the accounting auditor. In addition, Audit & Supervisory Board Members visited and inspected the Group companies and received reports from Representative Directors and other individuals at those companies to gain understandings of business issues, risk and other matters, and provided guidance as necessary.

(7) Policy on Decisions on Dividends

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, in accordance with a resolution of the Board of Directors meeting held on February 14, 2018, the Company has resolved to pay a year-end dividend of ¥50 per share for the current fiscal year. Combined with the interim dividend of ¥50 per share that was paid on September 4, 2017, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 30, 2018.

(Translation)

Consolidated Statement of Financial Position

(As of December 31, 2017)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets		**Current liabilities**	
Cash and cash equivalents	336,613	Trade and other payables	159,898
		Bonds and borrowings	64,472
Trade and other receivables	363,920	Other financial liabilities	2,325
		Income taxes payable	8,036
Inventories	144,538	Other current liabilities	151,718
Income taxes receivable	11,453	Subtotal	386,450
Other financial assets	116,383	Liabilities directly associated with assets held for sale	15
Other current assets	37,542	**Total current liabilities**	**386,465**
		Non-current liabilities	
Subtotal	1,010,451	Bonds and borrowings	176,961
Assets held for sale	490	Other financial liabilities	18,981
		Net defined benefit liabilities	14,678
Total current assets	**1,010,942**	Provisions	3,749
		Deferred tax liabilities	44,685
Non-current assets		Other non-current liabilities	12,784
Property, plant and equipment	382,462	**Total non-current liabilities**	**271,840**
		Total Liabilities	**658,306**
Goodwill	249,463	**Equity**	
Intangible assets	455,862	**Equity attributable to owners of the Company**	
Investments in associates	188,234	Share capital	81,690
Other financial assets	176,104	Capital surplus	505,620
		Treasury shares	(47,267)
Deferred tax assets	6,980	Retained earnings	1,266,399
Other non-current assets	10,206	Other components of equity	(13,165)
Total non-current assets	**1,469,313**	**Total equity attributable to owners of the Company**	**1,793,278**
		Non-controlling interests	**28,671**
		Total Equity	**1,821,950**
Total Assets	**2,480,256**	**Total Liabilities and Equity**	**2,480,256**

Consolidated Statement of Income
(From January 1, 2017 to December 31, 2017)

(Millions of yen)

Item	Amount
Net sales	1,239,952
Cost of sales	(422,473)
Gross profit	**817,478**
Selling, general and administrative expenses	(558,677)
Research and development expenses	(175,558)
Share of profit of associates	19,307
Other income	6,063
Other expenses	(4,432)
Operating profit	**104,181**
Finance income	4,268
Finance costs	(5,068)
Other non-operating income	331
Profit before taxes	**103,712**
Income tax expenses	10,674
Profit for the year	**114,387**
Attributable to:	
Owners of the Company	112,492
Non-controlling interests	1,895
Total	114,387

(Translation)

Consolidated Statement of Changes in Equity

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Equity attributable to owners of the Company					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasure-ments of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2017	**81,690**	**503,979**	**(47,264)**	**1,209,139**	**–**	**22,358**
Profit for the year	–	–	–	112,492	–	–
Other comprehensive income	–	–	–	–	2,121	17,389
Comprehensive income	**–**	**–**	**–**	**112,492**	**2,121**	**17,389**
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	235	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	1,405	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	(1,046)	(2,121)	3,167
Total transactions with owners, etc.	**–**	**1,641**	**(2)**	**(55,231)**	**(2,121)**	**3,167**
Balance as of December 31, 2017	**81,690**	**505,620**	**(47,267)**	**1,266,399**	**–**	**42,915**

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Other components of equity			Total		
	Foreign currency translation reserve	Cash flow hedges	Total			
Balance as of January 1, 2017	**(59,377)**	**6**	**(37,012)**	**1,710,531**	**27,910**	**1,738,441**
Profit for the year	–	–	–	112,492	1,895	114,387
Other comprehensive income	3,283	(14)	22,780	22,780	668	23,448
Comprehensive income	**3,283**	**(14)**	**22,780**	**135,272**	**2,563**	**137,835**
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	–	(54,184)	(645)	(54,830)
Share-based payment transactions	–	–	–	235	–	235
Changes in ownership interests in subsidiaries that do not result in loss of control	21	–	21	1,426	(1,156)	270
Transfer from other components of equity to retained earnings	–	–	1,046	–	–	–
Total transactions with owners, etc.	**21**	**–**	**1,067**	**(52,524)**	**(1,802)**	**(54,327)**
Balance as of December 31, 2017	**(56,072)**	**(8)**	**(13,165)**	**1,793,278**	**28,671**	**1,821,950**

(Translation)

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Accounting Principles for Preparing Consolidated Financial Statements

The consolidated financial statements of the Company, its subsidiaries and interests in its associates (hereinafter collectively referred to as the “Group”), are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. Pursuant to the provisions of the second sentence of the same paragraph, some disclosure items required under IFRS are omitted.

(2) Scope of Consolidation

i) Number of consolidated subsidiaries: 152

ii) 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

(3) Application of the Equity Method

i) Number of associates accounted for by the equity method: 30

ii) Names of principal companies accounted for by the equity method:

Earth Chemical Co., Ltd., ALMA S.A., CG Roxane LLC, China Otsuka Pharmaceutical Co., Ltd. and Nichiban Co., Ltd.

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

Neurovance, Inc., Daiya Foods Inc. and three other companies were newly included in the scope of consolidation from the current fiscal year as a result of acquisition of their shares. In addition, Neurovance, Inc. was absorbed by Otsuka America Pharmaceutical, Inc., a consolidated subsidiary of the Company.

PT Otsuka Distribution Indonesia and seven other companies were newly included in the scope of consolidation from the current fiscal year, due to being newly established.

Otsuka Pharmaceutical Vietnam Joint Stock Company was changed from the scope of equity-method application to the scope of consolidation from the current fiscal year as it has become a subsidiary.

Giant Harvest, Ltd. and five other companies, which had been the Company’s consolidated subsidiaries, were excluded from the scope of consolidation upon liquidation.

Otsuka (Shanghai) Foods Safety Research & Development Co., Ltd., which had been the Company’s consolidated subsidiary, was absorbed by Shanghai Otsuka Foods Co., Ltd., a consolidated subsidiary of the Company.

Laboratoires Dietetique et Santé SAS, which had been the Company’s consolidated subsidiary, was excluded from the scope of consolidation as a result of sale of its shares.

Earth Biochemical Co., Ltd., which had been the Company’s associate accounted for by the equity method, was excluded from the scope of equity-method application as a result of sale of its shares.

(5) Fiscal Year End of Consolidated Subsidiaries, Etc.

For consolidated subsidiaries and associates accounted for by the equity method whose fiscal year end differs from the consolidated fiscal year end, financial statements based on the provisional settlement of accounts as of December 31 have been used for the purpose of consolidation.

(6) Accounting Policies

i) Valuation of major assets

A. Financial assets

(i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At the initial recognition, all financial assets, except for those measured at fair value through profit or loss, are measured at fair value plus transaction costs that are directly attributable to the financial asset. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

At the initial recognition, financial assets are classified as (a) Financial assets measured at amortized cost, (b) Debt instruments measured at fair value through other comprehensive income, (c) Equity instruments measured at fair value through other comprehensive income or (d) Financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

For investments in some equity instruments, the Group has chosen an irrevocable option to present subsequent changes in the fair value of investments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combinations applies in other comprehensive income, and classifies such investments as equity instruments measured at fair value through other comprehensive income.

(d) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and equity instruments measured at fair value through other comprehensive income stated above, are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement

After the initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Equity instruments measured at fair value through other comprehensive income

Equity instruments measured at fair value through other comprehensive income are measured at fair value. Any changes in fair value are recognized in other comprehensive income. When such financial assets are derecognized, the accumulated other comprehensive income is transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Impairment

With respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition.

If credit risk on a financial instrument has not increased significantly since the initial recognition, the allowance for such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since the initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in credit risk when payments have not been made and more than 30 days have passed since the contractual due date. The assessment of whether or not credit risk has increased significantly takes into account information that is reasonably available to the Group and supportable as well as past due information.

When the credit risk on a financial asset is considered low at the end of fiscal year, the Group determines that the credit risk on the financial asset has not increased significantly since initial recognition.

However, with regards to trade receivables, etc., that do not contain a significant financing component, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition.

Expected credit losses of a financial instrument are measured in a way that reflects the following items:

- Unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- Time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amounts of these measurements are recognized in profit or loss. The amount of expected credit losses (or reversal) required to adjust the loss allowance at the end of fiscal year to the amount that is required to be recognized is recognized in profit or loss, as impairment gains or impairment losses.

(iv) Derecognition

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers financial assets and substantially all the risks and rewards of ownership of the financial assets.

B. Financial liabilities

(i) Initial recognition and measurement

Bonds and borrowings are initially recognized on the date when they are issued or incurred. All other financial liabilities are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At the initial recognition, financial liabilities are classified as (a) financial liabilities measured at amortized cost and (b) financial liabilities measured at fair value through profit or loss.

At the initial recognition, financial liabilities measured at amortized cost are measured at fair value net of transaction costs that are directly attributable to the financial liability.

Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes the financial liability when a financial liability is extinguished, that is, the obligations specified in a contract are discharged, cancelled or expired.

C. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

D. Derivatives and hedge accounting

Derivatives are initially recognized at fair value. After the initial recognition, derivatives are measured at fair value.

The Group utilizes forward foreign exchange contracts, currency swap agreements, currency option transactions, interest rate swap agreements and other derivatives to hedge foreign currency risk and interest rate risk.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. In addition, the Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at the inception and on an ongoing basis. Ongoing assessments are performed at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

The Group applies hedge accounting to cash flow hedges which meet the criteria for hedge accounting and such hedges are accounted for as follows:

The portions of the gain or loss on the hedging instrument that are determined to be effective hedges are recognized in other comprehensive income, while the remaining ineffective portions are recognized in profit or loss. The amounts associated with the hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the hedged transactions affect profit or loss. However, in cases where the hedged forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging relationship ceases to meet the qualifying criteria, or the hedging instrument expires or is sold, terminated or exercised, the application of hedge accounting is discontinued prospectively. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognized in equity through other comprehensive income are reclassified to profit or loss.

The Group does not undertake any fair value hedges and any hedges of net investment in foreign operations.

E. Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined mainly by using the weighted-average cost formula. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

ii) Depreciation or amortization methods of property, plant and equipment, intangible assets and leased assets

A. Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes cost directly incidental to the acquisition of assets, and the initial estimated costs of dismantling and removing the assets and restoration costs.

Depreciation expense for assets except for land and construction in progress is recognized mainly by the straight-line method over the respective estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 65 years
- Machinery and vehicles: 2 to 58 years
- Tools, furniture and fixtures: 2 to 30 years

The estimated useful lives, residual values and depreciation methods of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

B. Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Separately acquired intangible assets are measured at cost at the time of the initial recognition.

Intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Internally generated intangible assets, other than development expenses that meet the requirements for capitalization, are recognized as an expense when incurred.

Amortization expense on each intangible asset with a finite useful life is recognized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible assets are as follows:

- Patents: 5 to 10 years
- Trademarks, distribution rights and others: 3 to 16 years
- Software: 2 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

Intangible assets with indefinite useful lives consist mainly of brands and trademarks acquired separately or in business combinations, and are included in intangible assets as trademarks, distribution rights and others. Intangible assets with indefinite useful lives are reviewed at the end of each fiscal year to determine whether the indefinite useful life assessment remains appropriate. If it is no longer appropriate, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

In-process research and development acquired separately or in business combinations are included in intangible assets as in-process research and development. Because these assets are intangible assets that are not yet available for use, they are not amortized and are tested for impairment. An asset in “in-process research and development” is transferred to trademarks, distribution rights and others when the asset becomes available for use by obtaining permits and approvals from regulatory authorities in a subsequent period, and begins to be amortized by the straight-line method over the estimated useful life from that time.

C. Leased assets

Lease transactions in which substantially all the risks and rewards incidental to ownership are transferred to the Group are classified as finance leases. All other lease transactions are classified as operating leases.

With regards to finance leases, the Group initially recognizes lease assets and liabilities at the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms, whichever is shorter. Lease payments are apportioned between the finance costs and the repayments of the lease obligations. Finance costs are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments under operating leases are recognized as expenses using the straight-line method over the lease term.

D. Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any indication of impairment at the end of each fiscal year for property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amounts are estimated at the end of each fiscal year, regardless of whether there is any indication of impairment.

The recoverable amount of an individual asset or a cash-generating unit is measured at the higher of its fair value less cost of disposal or its value in use. The value in use is calculated by discounting the estimated future cash flows to the present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

The corporate assets do not independently generate cash inflows. When there is an indication of impairment of the corporate assets, the recoverable amount of the cash-generating unit to which the corporate assets belong is calculated.

Impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

For an impairment loss recognized in prior periods, the Group assesses whether there is any indication of a decrease or disappearance of the impairment loss at the end of each fiscal year. If there is any indication of reversal of impairment loss, the recoverable amounts of assets or cash-generating units are estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount or the carrying amount less any depreciation and amortization costs that would have been determined had no impairment loss been recognized.

iii) Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred in business combination, the amount of non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In case the identifiable net asset exceeds the aggregate of the consideration and others, such excess is immediately recognized in profit or loss.

The consideration transferred is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The consideration transferred includes any assets or liabilities resulting from a contingent consideration arrangement. The amount of non-controlling interests in the acquiree is measured for each business combination either at fair value or as the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. After the initial recognition, the amount is recorded at its cost less any accumulated impairment losses.

Goodwill is allocated to each of the cash-generating units or groups of cash-generating units (hereinafter referred to as the "Cash-Generating Units") that is expected to benefit from the synergies of the business combination. Cash-Generating Units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of Cash-Generating Units is less than their carrying amounts, an impairment loss is recognized in profit or loss. With regard to allocation of impairment losses recognized in association with Cash-Generating Units, first the carrying amount of goodwill that has been allocated to the unit is reduced, and then the remaining amount of impairment loss is allocated to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. For impairment losses recognized on goodwill, no reversal is made in subsequent periods.

iv) Provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

The amount recognized as provisions is the best estimate taking into account the risks and uncertainties of the expenditure required to settle the present obligations on the reporting date. When the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

v) Post-employment benefits

The Group's post-employment benefit plans for its employees include defined benefit plans and defined contribution plans.

The Group uses the projected unit credit method to determine the present value of the defined benefit obligations, the related current service cost and the past service cost.

The discount rate is determined based on the market yield on high quality corporate bonds at the end of fiscal year that are consistent with the discount period, which is set for the projected period until the expected date of benefit payment in each fiscal year.

Net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. If the defined benefit plan has surplus, the defined benefit asset is limited to the asset ceiling that is the present value of any future economic benefits available in the form of reductions in the future contributions to the plan or cash refunds.

Service costs and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss.

The remeasured amount of a defined benefit plan is recognized at once in other comprehensive income when it occurs, and immediately transferred to retained earnings. Contributions to the defined contribution retirement benefits are recognized as expenses when employees have rendered service.

vi) Foreign currency translation

A. Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the group companies at exchange rates on the transaction dates or exchange rates which are close to the actual rate on the transaction dates. Foreign currency monetary assets and liabilities are translated to the functional currency at the closing rate. Foreign currency monetary assets and liabilities that are measured at fair value are translated into the functional currency using the exchange rate at the date of measurement.

Translation differences arising from translations or settlements are recognized as profit or loss; provided, however, that translation differences arising from financial assets measured through other comprehensive income as well as from cash flow hedges are recognized as other comprehensive income.

B. Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen at the closing rate. The revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate for the reporting period. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. Foreign currency translation reserve are recognized as profit or loss for the period in which the foreign operations concerned are disposed.

The Group has adopted the exemption of IFRS 1 and accordingly the cumulative amount of foreign currency translation reserve at the IFRS transition date (January 1, 2015) is deemed to be zero and the entire amount has been reclassified to retained earnings.

vii) Other

A. Accounting method for consumption taxes

Consumption taxes are excluded from revenues and expenses.

B. Adoption of the consolidated taxation system

The Company and certain domestic subsidiaries have adopted the consolidated taxation system from the current fiscal year.

2. Notes to Changes in Accounting Policies

(1) Changes in Accounting Policies Required by IFRS

The Group has adopted the following standard from the current fiscal year.

IFRS		Description of new standards, interpretations and amendments
IAS 12	Income taxes	Amendment concerning recognition of deferred tax assets for unrealized losses

The effect of adopting the above standard on the consolidated financial statements is immaterial.

3. Notes to Consolidated Statement of Financial Position

(1) Allowance for Credit Losses Directly Deducted from Assets

		(Millions of yen)
Trade and other receivables	¥	1,859
Other financial assets (non-current assets)		84

(2) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Trade and other receivables	¥	262
Inventories		372
Property, plant and equipment		
Buildings and structures		790
Machinery and vehicles		1,650
Tools, furniture and fixtures		4
Land		928
Other		175
Total	¥	4,183

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥2,029 million and bonds and borrowings (non-current liabilities) of ¥1,529 million.

(3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses) ¥658,916 million

(4) Contingent Liabilities
Outstanding guarantees given to financial institutions and others of associates and others:
¥130 million

4. Notes to Consolidated Statement of Income

(1) Other non-operating income consists of gain on sales of shares of a subsidiary.

(2) Components of income tax expenses are as follows:

		(Millions of yen)
Current tax expenses	¥	(32,441)
Deferred tax expenses		43,115
Total	¥	10,674

Deferred tax expenses include ¥29,657 million (income) as the effect of the tax reforms, mainly in the U.S., which results in the decrease of income tax expense.

5. Notes to Consolidated Statement of Changes in Equity

(1) Total Number of Issued Shares

Class of shares	Number of shares as of January 1, 2017	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, 2017
Ordinary shares	557,835 thousand shares	–	–	557,835 thousand shares

(2) Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2017	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, 2017
Ordinary shares	15,986 thousand shares	0 thousand shares	–	15,986 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares is due to the purchase of shares less than one share unit.

(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 February 14, 2017	Ordinary shares	¥27,092 million	¥50	December 31, 2016	March 31, 2017
Meeting of the Board of Directors held on August 8, 2017	Ordinary shares	¥27,092 million	¥50	June 30, 2017	September 4, 2017

ii) Dividends whose record date is in the current fiscal year but whose 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 14, 2018	Ordinary shares	Retained earnings	¥27,092 million	¥50	December 31, 2017	March 30, 2018

6. Notes to Financial Instruments

(1) Matters Concerning Conditions of Financial Instruments

i) Financial risk management

The Group is exposed to financial risks (market risk, credit risk and liquidity risk) in the course of operating activities and conducts risk management in accordance with certain policy to mitigate these financial risks. The Group uses derivative transactions to avoid foreign currency risks or interest rate risks and, in accordance with its policy, does not carry out any speculative transactions.

ii) Market risk management

The Group's activities are mainly exposed to risks of changes in economic circumstances and financial market circumstances. Specifically, the risks of changes in financial market circumstances include A. Foreign currency risks, B. Interest rate risks, and C. Risk of fluctuations in equity instrument prices.

A. Foreign currency risks

- Foreign currency risk management

  The Group engages in business globally, and fluctuations in exchange rates of the US dollar and Euro principally affect its operating results.

  With regard to settlement of receivables and payables arising from ongoing operating activities, the Group's policy is to balance foreign exchange receipts and payments as much as possible with three major currencies, namely the US dollar, Euro and Yen. More specifically, operating subsidiaries that continuously engage in export and import transactions reduce the frequency of exchanging foreign currencies by holding foreign currencies received as export proceeds without exchanging them for the local currency, and using them directly in payment for imports, in order to mitigate foreign currency risks.
- Forward exchange contracts and others

  With regard to management of derivative transactions including forward exchange contracts, the Group has established management rules for derivative transactions and limits derivative transactions to those made for the purpose of hedging risks.

  The Group may enter into forward exchange contracts and other agreements to fix future cash flows related to lending and borrowing of funds within the Group in association with receivables and payables denominated in foreign currencies or to determine the amount of dividends within the Group. In this case, the Group also manages these contracts appropriately in accordance with the internal rules.

B. Interest rate risk management

The Group is exposed to various interest rate risks in its business activities, and especially subject to fluctuations in interest rates associated with borrowings. However, the effect of interest rate fluctuations on borrowing costs is offset by income arising from assets that are affected by the interest rate fluctuations.

The Group monitors fluctuations in interest rates arising from these assets and liabilities, and manages interest rate risks through refinancing and other means when interest rates drastically fluctuate.

C. Management of risk of fluctuations in equity instrument prices

The Group is exposed to risk of fluctuations in share prices arising from equity instruments (shares). The Group has no equity instruments held for short-term trading and owns equity instruments to smoothly execute business strategies. The Group does not sell these investments actively. With regard to equity instruments, the Group regularly assesses fair value and financial conditions of issuers.

iii) Credit risk management

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. The Group has the sales department and the accounting and finance department monitor the status of business partners in terms of trade receivables, etc., regularly and manage due dates and balances for each business partner while working to early identify and mitigate any concerns about collections due to deterioration in each business partner’s financial position and other factors. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be a default.

With regard to shares in securities and investment securities, financial conditions of issuers are assessed regularly in accordance with management rules of each Group company. With regard to public and corporate bonds, credit risks are insignificant because the Group invests only in highly rated bonds.

The Group recognizes that there is little credit risk in the use of derivatives since it only deals with financial institutions with high credit ratings to mitigate credit risk.

The Group does not have any credit risk overly concentrated in a specific counterparty or a group to which the counterparty belongs.

The carrying amounts after impairment presented in the consolidated statement of financial position represent the Group’s maximum exposure to credit risk of financial assets.

iv) Liquidity risk management

The Group manages liquidity risk by having the accounting and finance department prepare and update a cash flow management plan, maintaining a constant level of liquidity at hand, and other means. A temporary shortage of funds due to payment of dividends, bonuses and others is covered with loans from banks and other financial institutions.

(2) Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments at the end of the fiscal year are as follows:

(Millions of yen)

	Carrying amount	Fair value
<Financial assets>		
Financial assets measured at amortized cost		
Other financial assets (bonds)	5,844	5,848
Total financial assets	5,844	5,848
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Bonds and borrowings	241,433	240,899
Other financial liabilities (lease obligations)	8,311	8,930
Total financial liabilities	249,745	249,829

Note: Information on financial instruments measured at fair value is omitted, since the carrying amount is equal to the fair value. Information is also omitted on financial instruments measured at amortized cost of which the carrying amount approximates the fair value.

Other financial assets (bonds)

The fair value of bonds is determined based on the quoted price at the stock exchange.

Bonds and borrowings

The fair value of bonds and borrowings with floating interest rates reflects market interest rates within a short period of time, and the carrying amount reasonably approximates the fair value. The fair value of those with fixed interest rates is determined by the method in which future cash flows are discounted using the interest rate for the case where funds are borrowed under the same terms and conditions with the same remaining period.

Other financial liabilities (lease obligations)

The fair value of lease obligations is determined by the method in which future cash flows are discounted using the interest rate for the case where leases are entered into under the same terms and conditions with the same remaining period.

7. Notes to per Share Information

(1) Equity Attributable to Owners of the Company per Share ¥3,309.55

(2) Basic Earnings per Share ¥207.60

8. Notes to Significant Subsequent Events

Not applicable.

9. Other Notes

(Business Combinations)

(Acquisition of Neurovance, Inc.)

Otsuka Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, agreed with Neurovance, Inc., which is engaged in the research and development of pharmaceutical products in the U.S., on March 2, 2017 (US Eastern Time) to make Neurovance, Inc. a wholly-owned subsidiary by acquiring shares of this company in exchange for the payment of cash and future milestones and conducting a subsequent merger through an acquisition company established by Otsuka America Inc. (hereinafter referred to as the “Acquisition”). The Acquisition was executed on March 17. In addition, Neurovance, Inc. was absorbed by Otsuka America Pharmaceutical, Inc., a consolidated subsidiary of the Company, on November 30, 2017.

(1) Overview of Business Combination

i) Name of company acquired and nature of business

Name of company acquired: Neurovance, Inc.

Nature of business: Research and development of pharmaceutical products

ii) Primary reasons for business combination

Neurovance, Inc. was established as a spin-off from Euthymics Bioscience, Inc. (head office: Cambridge, Massachusetts, U.S.) in 2011 and possesses centanafadine (development code EB-1020) which is being developed for the treatment of attention-deficit hyperactivity disorder (ADHD) in adult and pediatric patients. Centanafadine is a non-stimulant, triple reuptake inhibitor that modulates norepinephrine, dopamine and serotonin reuptake with the intent of improving focus, attention, and specific higher level cognitive skills in patients with ADHD. Two phase II clinical trials in adults, including a phase IIb trial, have been completed for centanafadine, setting the stage for the start of phase III trials in ADHD. ADHD is a developmental disorder characterized by carelessness (distractibility, memory loss) and hyperactivity/impulsivity (jitter, restlessness). While psychostimulant substances are mainly prescribed in the U.S. at present, central excitatory actions as well as psychic dependence and drug resistance pose challenges in such substances, and sometimes the overuse and others are considered problematic. A medicine with comparable efficacy to stimulant drugs and comparable tolerability to non-stimulant drugs and with a potentially lower risk of abuse is required, and expectations have been placed on the launch of centanafadine, which has the unique mechanism of action that is the triple reuptake inhibitor, on the market.

The purpose of the Acquisition is to gain a new portfolio of the central nervous system area from Neurovance, Inc. to further enhance this area. The Company will continue the research and development of therapeutic medicines with the highest priority given to central nervous system, oncology, cardiovascular and renal therapeutic areas to address medical needs to be served.

iii) Acquisition date

March 17, 2017

iv) Acquisition method and percentage of voting equity interests acquired

The Company’s acquisition company acquired 100% of shares with voting rights of Neurovance, Inc. in exchange for the payment of cash and future milestones.

(2) Fair Values of Consideration Transferred Assets Acquired and Liabilities Assumed as of the Acquisition Date

(Millions of yen)

	Amount
Fair value of consideration transferred	23,127
Cash	11,516
Contingent considerations	11,611
Fair value of assets acquired and liabilities assumed	
Current assets	463
Non-current assets	19,296
Current liabilities	(229)
Non-current liabilities	(5,721)
Fair value of assets acquired and liabilities assumed	13,808
Goodwill	9,319

Notes:
- Acquisition-related costs are ¥349 million and included in “selling, general and administrative expenses” in the consolidated statement of income.
- There are neither trade and other receivables acquired nor contractual cash flows acquired not expected to be collected.
- Major components of goodwill are synergies with existing businesses expected to be generated from the acquisition and excess earnings power. With regard to goodwill, there is no amount expected to be deductible for tax purposes.
- Of non-current assets, a major component allocated to intangible assets is in-process research and development of ¥19,279 million.
- Of non-current liabilities, deferred tax liabilities recognized in the business combination is ¥5,721 million.

(3) Contingent Considerations

Contingent considerations consist of the milestones to be paid based on the progress of the development of centanafadine (development code: EB-1020), a compound under development by Neurovance, Inc. for the treatment of ADHD, and the ones to be paid based on sales after the launch, the maximum potential amounts of which are USD 150 million and USD 750 million respectively.

Fair value of contingent considerations is estimated based on the probability-weighted present value of the potential amount to be paid to the counterparty.

The level of contingent considerations in the fair value hierarchy is classified as level 3.

Levels in the fair value hierarchy are classified as follows:

Level 1: Fair value measured based on quoted prices in active markets

Level 2: Fair value calculated directly or indirectly using observable price, other than Level 1 prices

Level 3: Fair value calculated using valuation techniques including unobservable inputs

Changes in fair value of contingent considerations for the current fiscal year is as follows:

(Millions of yen)

	Amount
Balance as of January 1, 2017	–
Business combination	11,611
Settlement	–
Changes in fair value	(1,186)
Foreign currency translation adjustment	83
Balance as of December 31, 2017	10,509

(4) Effect on Operating Results of the Group
The amounts of net sales and profit or loss of Neurovance, Inc. since the acquisition date that are included in the Group's consolidated statement of income are insignificant. In addition, disclosure of net sales and profit or loss for the year on the assumption that the acquisition date had been January 1, 2017 (so-called "pro-forma" information) is not presented due to insignificance of the effect.

(Acquisition of Daiya Foods Inc.)
Otsuka Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, entered into an agreement to acquire all shares of Daiya Foods Inc., which is engaged in the development, manufacture and sale of plant-based foods in North America, through an acquisition company established by Otsuka Pharmaceutical Co., Ltd. in Canada, as of July 26, 2017 (local time). This acquisition was completed on August 31, 2017.

(1) Overview of Business Combination
i) Name of company acquired and nature of business
Name of company acquired: Daiya Foods Inc.
Nature of business: Research and development, manufacture and sale of plant-based (plant-derived) foods and dairy-free (dairy alternative) foods
ii) Primary reasons for business combination
Daiya Foods Inc. was founded in Vancouver, Canada in 2008, with the purpose of developing, manufacturing and selling plant-based foods. Since then, Daiya Foods Inc. has been expanding its revenue in the large U.S. market, while continuing to grow its Canadian business. Daiya Foods Inc. offers a growing portfolio of delicious, plant based-foods, including cheese alternative products, yogurt alternatives, dressings and desserts. Its products attract a wide-range of consumers, appealing to those with high health consciousness, as well as vegans, vegetarians and consumers with food allergies and intolerances. Daiya Foods Inc. tripled its sales from 2013 to 2016 and generated net sales of approximately CAD 90 million over the last twelve months, rapidly growing in the North American market.
Under the corporate philosophy of "Otsuka-people creating new products for better health worldwide.", which means to create innovative products in order to contribute to the health of people all over the world, the Group operates the pharmaceutical business and nutraceutical business closely together, aiming to care for people's overall health not only by treating illness, but also by sustaining and improving day-to-day well-being. This acquisition enables the Group to widen its nutraceutical product portfolio by entering a new category of plant-based products, and to expand its nutraceutical business in North America. Furthermore, Otsuka Pharmaceutical Co., Ltd. and Daiya Foods Inc. will share their expertise in research and development and manufacturing to accelerate mutual growth. In addition, Daiya Foods Inc. will expand its business to Europe and Asia, and Otsuka Pharmaceutical Co., Ltd. together with Daiya Foods Inc., will continue to promote its global nutraceutical business with innovative products to contribute to the health of people all over the world.
iii) Acquisition date
August 31, 2017
iv) Acquisition method and percentage of voting equity interests acquired
Through an acquisition company established by Otsuka Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, in Canada, 100% of shares with voting rights of Daiya Foods Inc. were acquired in exchange for cash.

(2) Fair Values of Consideration Transferred Assets Acquired and Liabilities Assumed as of the Acquisition Date

(Millions of yen)

	Amount
Fair value of consideration transferred	35,209
Cash	35,209
Fair value of assets acquired and liabilities assumed	
Current assets	2,983
Non-current assets	26,089
Current liabilities	(1,582)
Non-current liabilities	(4,262)
Fair value of assets acquired and liabilities assumed	23,227
Goodwill	11,981

Notes:
- Acquisition-related costs are ¥527 million and included in “selling, general and administrative expenses” in the consolidated statement of income.
- There are neither trade and other receivables acquired nor contractual cash flows acquired not expected to be collected.
- Major components of goodwill are synergies with existing businesses expected to be generated from the acquisition and excess earnings power. With regard to goodwill, there is no amount expected to be deducted for tax purposes.
- Of non-current assets, major components allocated to intangible assets are trademarks, distribution rights and others of ¥6,626 million and other intangible assets of ¥17,896 million.
- Of non-current liabilities, deferred tax liabilities recognized in the business combination is ¥4,037 million.
- Assets acquired, liabilities assumed and goodwill were calculated provisionally based on currently available information, since the purchase price allocation was not completed as of the end of the current fiscal year.

(3) Effect on Operating Results of the Group

The amounts of net sales and profit or loss of Daiya Foods Inc. since the acquisition date that are included in the Group’s consolidated statement of income are insignificant. In addition, disclosure of net sales and profit or loss of Daiya Foods Inc. for the year on the assumption that the acquisition date had been January 1, 2017 (so-called “pro-forma” information) is not presented due to insignificance of the effect.

(Translation)

Balance Sheet

(As of December 31, 2017)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets	**219,911**	**Current liabilities**	**19,303**
Cash and bank deposits	50,021	Lease obligations	42
Marketable securities	20,000	Accounts payable-other	2,404
Supplies	53	Accrued expenses	724
Prepaid expenses	510	Income taxes payable	282
Accounts receivable-other	10,772	Deposits received from subsidiaries and affiliates	15,761
Short-term loans receivable from subsidiaries and affiliates	124,959	Provision for bonuses	25
		Provision for directors' bonuses	41
Income taxes receivable	10,030	Other current liabilities	20
Deferred tax assets	99	**Long-term liabilities**	**1,266**
Other current assets	3,465	Lease obligations	66
Non-current assets	**746,971**	Deferred tax liabilities	1,199
Property, plant and equipment	**360**	**Total Liabilities**	**20,569**
Buildings	46	**Net Assets**	
Structures	45	**Shareholders' equity**	**942,483**
Furniture and fixtures	156	**Share capital**	**81,690**
Leased assets	111	**Capital surplus**	**810,216**
Construction in progress	1	Additional paid-in capital	731,816
Intangible assets	**1,707**	Other capital surplus	78,400
Software	1,680	**Retained earnings**	**97,843**
Trademark rights	26	Other retained earnings	97,843
Investments and other assets	**744,903**	Retained earnings brought forward	97,843
Investment securities	17,336	**Treasury shares**	**(47,267)**
Shares of subsidiaries and affiliates	724,956	**Valuation and translation adjustments**	**3,447**
Long-term loans receivable from subsidiaries and affiliates	2,486	Unrealized gain on available-for-sale securities	3,447
		Share acquisition rights	**382**
Other assets	123	**Total Net Assets**	**946,314**
Total Assets	**966,883**	**Total Liabilities and Net Assets**	**966,883**

Statement of Income

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

Item	Amount	
Operating revenues		**43,701**
Operating expenses		**8,638**
Operating income		**35,062**
Non-operating income		
Interest and dividend income	752	
Business consignment fees	1,041	
Other	81	**1,874**
Non-operating expenses		
Interest expenses	0	
Commission fees	12	
Other	2	**15**
Ordinary income		**36,921**
Extraordinary loss		
Loss on retirement of non-current assets	9	**9**
Income before income taxes		**36,911**
Income taxes-current		**(5,471)**
Income taxes-deferred		**4,600**
Net income		**37,782**

(Translation)

Statement of Changes in Net Assets

(From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
	Share capital	Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings: Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
Beginning balance as of January 1, 2017	**81,690**	**731,816**	**78,400**	**810,216**	**114,245**	**114,245**	**(47,264)**	**958,888**
Changes in the year								
Dividends					(54,184)	(54,184)		(54,184)
Purchase of treasury shares							(2)	(2)
Net income					37,782	37,782		37,782
Net changes other than shareholders' equity								
Total changes in the year	**–**	**–**	**–**	**–**	**(16,402)**	**(16,402)**	**(2)**	**(16,404)**
Ending balance as of December 31, 2017	**81,690**	**731,816**	**78,400**	**810,216**	**97,843**	**97,843**	**(47,267)**	**942,483**

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments		
Beginning balance as of January 1, 2017	**2,685**	**2,685**	**147**	**961,721**
Changes in the year				
Dividends				(54,184)
Purchase of treasury shares				(2)
Net income				37,782
Net changes other than shareholders' equity	761	761	235	997
Total changes in the year	**761**	**761**	**235**	**(15,407)**
Ending balance as of December 31, 2017	**3,447**	**3,447**	**382**	**946,314**

Notes to Financial Statements

1. Summary of Significant Accounting Policies

(1) Valuation of Major Assets

i) Shares 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 Non-current 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 its 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

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

ii) Adoption of the consolidated taxation system
The Company has adopted the consolidated taxation system in the current fiscal year.

2. Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)
Effective from the current fiscal year, the Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016).

3. Notes to Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment ¥419 million

(2) Monetary Assets from and Liabilities to Subsidiaries and Affiliates (Excluding Those Classified Separately in the Balance Sheet)

i) Short-term monetary assets ¥11,015 million

ii) Short-term monetary liabilities ¥1,422 million

4. Notes to Statement of Income

Transactions with Subsidiaries and Affiliates

i) Operating revenues	¥43,701 million
ii) Operating expenses	¥2,772 million
iii) Non-operating transactions	¥1,232 million

5. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2017	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, 2017
Ordinary shares	15,986 thousand shares	0 thousand shares	–	15,986 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares is due to the purchase of shares less than one share unit.

6. Notes to 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		25
Accrued enterprise tax		83
Accrued business office taxes		2
Share-based compensation expenses		117
Depreciation of an upfront payment under the agreement		280
Accounts payable - other		23
Loss on valuation of shares of subsidiaries and affiliates		121
Loss on extinguishment of tie-in shares		176
Adjustment of tax-basis book value of shares of subsidiaries and affiliates		110
Subtotal		949
Valuation allowance		(528)
Total of deferred tax assets	¥	420

Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(1,520)
Total of deferred tax liabilities		(1,520)
Net deferred tax liabilities	¥	(1,099)

7. Notes to 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 Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	3	Investment in stock	Salaries of seconded employees (Note 1)	1,199	Accounts payable-other	280
					Borrowing and lending of funds (Note 2)	45,997	Accrued expenses	31
					Lending of funds	35,000	Short-term loans receivable from subsidiaries and affiliates (Note 3)	124,895
					Payment of interest (Note 3)	0		
					Receipt of interest (Note 3)	163	Other current assets (Accrued interest)	1
					Business consignment fees (Note 4)	466	Other current assets (Accounts receivable-other)	74
Subsidiary	Taiho Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	1	Investment in stock	Borrowing of funds (Note 2)	18,035	Deposits received from subsidiaries and affiliates	9,699
					Payment of interest (Note 3)	0		

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 ¥65,000 million paid.
3. The 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 and conditions of the transactions are mutually agreed upon based on actual service costs incurred.

(2) Officers, 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	Yujiro Otsuka	(Held by the close family member of Director) 0.0% direct	Close family member of Director of the Company	Payment of consulting fee (Note)	24	–	–

Terms and conditions of transactions and policy on determination thereof

Note: Payment of consulting fee is decided by agreement between the two parties based on the details of the consulting agreement.

8. Notes to per Share Information

(1) Net Assets per Share ¥1,746.45

(2) Earnings per Share ¥69.72

(Translation)

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 9, 2018

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:
Tsutomu Hirose [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 statement of financial position as of December 31, 2017 of Otsuka Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries, and the consolidated statements of income and changes in equity for the fiscal year from January 1, 2017 to December 31, 2017, 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 pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under Designated International Financial Reporting Standards, 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.

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, prepared with the omission of a part of the disclosures required under Designated International Financial Reporting Standards pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of December 31, 2017, and the results of their operations for the year then ended.

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

February 9, 2018

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:
Tsutomu Hirose [Seal]

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

Pursuant to the first item, the second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2017 of Otsuka Holdings Co., Ltd. (the "Company") and the related statements of income and changes in net assets for the tenth fiscal year from January 1, 2017 to December 31, 2017, and the related notes and the accompanying supplemental schedules.

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 and the accompanying supplemental schedules 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.

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 Otsuka Holdings Co., Ltd. as of December 31, 2017, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

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 and “the accompanying supplemental schedules” referred to in this report are not included in the attached financial documents.

(TRANSLATION)

Audit Report of the Audit & Supervisory Board

AUDIT REPORT

Regarding the performance of duties by the Directors for the 10th Fiscal Year from January 1, 2017 to December 31, 2017, 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

(1) 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.

(2) 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 audits were implemented as follows:

i) Each Audit & Supervisory Board Member attended the meeting of the Board of Directors and other important meetings to receive reports regarding performance of duties from Directors and other employees, 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. 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.

ii) 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 business group comprising its subsidiaries, 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.

iii) Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and 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 Business Report and the accompanying supplementary schedules, the financial statements (Balance Sheet, Statement of Income, Statement of Changes in Net Assets, and Notes to Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Changes in Equity and Notes to 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 13, 2018

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

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