
Otsuka Holdings Co., Ltd.
Financial Results Presentation
Q3 FY2010
(Fiscal Year Ending March 31, 2011)

Q&A

February 15, 2011
Tokyo, Japan

- Q1: Regarding reform of the cost structure for nutraceutical business:
- 1) Why did cost reductions stop in the nutraceutical business in the third quarter, while progress had been made in the first and second quarters?
 - 2) Can you continue to cut nutraceutical costs?
 - 3) I would like to see figures analyzing the cost structure for each quarter. Also, what is your forecast for the fourth quarter?

- A1:
- 1) Despite sales of *Pocari Sweat* and other beverages being down following the end of hot summer, nutraceutical expenses, excluding nutraceutical R&D expenses, were still cut by about 1.3 billion yen compared to the third quarter last year.
 - 2) We will continue to reduce costs.
 - 3) Expense reductions by quarter (excluding nutraceutical R&D expenses):
First quarter expenses: About 2.9 billion yen
Second quarter expenses: About 1.9 billion yen
Third quarter expenses: About 1.3 billion yen
In the fourth quarter, we hope to see the same level of reductions as in the third quarter.

- Q2: At the time of the IPO, you were aiming for double digits in the operating profit margin for nutraceutical business, but you cannot make it at the current level, can you?

- A2: By double digits, we mean in the medium-term.
Regarding revenue growth, we are improving existing products and releasing new products.
Regarding manufacturing costs, we are reviewing raw materials and positioning personnel efficiently.
We are taking steps to ensure that we can efficiently reform advertising expenses, promotion expenses, and other expenses while considering how to use money.

- Q3: About how long of a period do you mean when you say double digits in the medium-term?

- A3: We are thinking about 2-3 years.

Q4: The way I understand it, the timing of US NDA for aripiprazole intramuscular depot is the end of this year and the phase III trials for OPC-34712 will begin within 2011. No changes in the situation?

A4: The situation has not changed.

Q5: I would like to know the specific contents, size, and time-line for your medical devices business.

A5: I see the medical devices business as a growth opportunity, since it provides faster market growth, shorter R&D periods, and relatively low barriers to entry compared with therapeutic drugs. For the time being, business development will focus on Japan and other Asian countries, but we have our sights set on expansion to Western countries in the future. I think that alliances and M&As are also options for growth. Our targets are fields such as the cardiovascular and gastrointestinal systems, not the areas of large medical devices or hospital supplies. We will gradually disclose specifics as we formulate in the future.

Q6: Is your idea of wanting to maintain a mid single-digit growth rate for the anti-psychotic agent *ABILIFY* sales in the US still possible under the present situation? Please give us the strategy that makes it possible.

A6: Looking only at the third quarter from July to September, growth was flat on a US-dollar basis and negative in terms of yen (third quarter total: 6.1% growth on a US-dollar basis and 1.8% decrease in terms of yen). In the disclosed fourth quarter results from October to December, 959 million US dollars were recorded, an increase by 6.9% , and I feel we are getting a positive response in terms of the local currency. In October 2010, we initiated full-scale implementation of a co-pay assistance program(program to reduce individual payments) in response to effects from the expanded discount rate due to healthcare reform and patients' reluctance to buy drugs because of economic depression. The fact that fourth quarter results were up in the US is proof that this program is running smoothly, and this trend is continuing steadily in 2011. We will keep the program going and expect high single-digit growth.

Q7: Will the negative effects of the US healthcare reform in fiscal 2011 expand further?

A7: I think that the effect of Medicare for this year will be smaller than that of Medicaid for 2010 because of the small percentage of prescriptions of ABILIFY under Medicare.

Q8: How about shareholder return and dividends?

A8: Further globalization of our business is urgently needed from here on. We have to think of various measures to aggressively expand internationally, including internal growth. I want to respond flexibly to the balance between investment and dividends.

Q9: Are you aware that a dividend level of 28 yen is low in the pharmaceutical industry?

A9: We are aware of it

Q10: When will you announce a medium-term management plan?

A10: We are planning on around May 2011.

Q11: I would like to know about the Japanese sales of SAMSCA. Also, you sent out a “request for proper use” to avoid the side effect of hypernatremia. Have there been any reports of side effects since then?

A11: Sales from the launch date (December 14) through the end of December were 38 million yen. Our MRs have been working to swiftly distribute information about the proper use since February 8. At present, we have received no further reports of side effects.

Q12: Can you comment on your earnings forecast? Won't your targets be difficult to achieve?

A12: In the third quarter, sales were affected by the impact of currency exchange rate and the accumulation of distribution inventory of *Pocari Sweat* due to slow sales after the end of the hot summer. In the fourth quarter, sales of *ABILIFY* in the US increased 6.9%, and *Pocari Sweat* also showed steady growth.

In terms of cost, R&D expenses for the fourth quarter of fiscal 2009 increased with progress in clinical trials for aripiprazole intramuscular depot and OPC-34712. We anticipate that R&D expenses for the fourth quarter of fiscal 2010 will not be as high as in fiscal 2009.

Also, another big factor in the fourth quarter of fiscal 2009 was a special loss resulting from the merger of Otsuka Foods Co., Ltd., and Otsuka Beverage Co., Ltd.

Fiscal 2009 had many such extraordinary factors, but I think we can hold to our full-year outlook for the current fiscal year.

Q13: Won't the curtailment of nutraceutical advertising and promotion expenses cause sales to slide? Won't you face a turning point when you have to aim for sales growth rather than expense control?

A13: Growing product sales and maximizing profit takes more than simply reducing expenses; balance between those measures is important. Business development outside Japan is also going to be a key. We keep these points fully in mind as we manage the company.

Q14: What is the upcoming schedule for your anti-tuberculosis agent? Is the target market developed nations or emerging markets?

A14: Target population is multi-drug-resistant tuberculosis (MDR-TB) patients, whose medical needs are high. Since review criteria varies from country to country, it is difficult to give a clear filing schedule.

Q15: Are there any indications for which *ABILIFY* prescriptions are growing?

A15: As before, prescriptions are still growing for bipolar disorder and depression.

Q16: Regarding currency exchange rate, will you not use the average rate for the year?

A16: Thus far we have applied the year-end rate. The ratio of sales outside Japan has grown and fluctuations in the exchange rate have started to impact results. For this reason, we will close the books using the average rate for the year, starting from next year.

Q17: What are your exchange rate exposures?

A17: (In the case of appreciation of ¥1) Sales: US\$ 4 billion, Operating income: US\$ 1 billion
Sales: 500 million Euro, Operating income: 100 million Euro.

Q18: Since last year we have restructured your research organization. What is the aim?
I suspect there was a review of drug discovery...

A18: How to maintain creativity is a proposition faced by research institutes. Otsuka's research institutes are formed around projects in order to give a sense of speed. Innovative research get created when many projects are moving with a sense of speed. We think that if one research division or field becomes strong, small yet creative research will end up being ignored.
I think that the basis of research activities is the process of changing discoveries into inventions. It is important not to quash discoveries and to figure out how to reliably transform discoveries all the way into inventions.
At first we created small satellite research institutes, and many discoveries came out of research that stressed flexibility and allowed researchers a lot of freedom.
As globalization moved forward, discoveries have begun to no longer lead to inventions. Communication is essential. Communication gives people self confidence in their own judgments and research work, and allows people to notice the changes that are occurring around them. We built the 10th Research Institute , which was completed last year, based on the idea of increasing the probability of successful discoveries leading to inventions by enabling pharmacologist and chemists—who used to be in completely different locations—to be in constant communication with each other. I invite you to keep a close eye on what comes out of this.