Consolidated Financial Results for the Fiscal Year Ended March 31, 2012 [Japan GAAP]

May 11, 2012

Company name	: **Otsuka Holdings Company Limited**
Stock exchange listing	: Tokyo Stock Exchange
Code number	: 4578
URL	: http://www.otsuka.com/en/
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Scheduled date of annual general meeting of shareholders	: June 28, 2012
Scheduled date of dividend payment commencement	: June 29, 2012
Scheduled date of securities report submission	: June 29, 2012
Supplementary materials for financial results	: Yes
Earnings announcement for financial results	: Yes (for institutional investors, analysts and the press)

(Figures are rounded down to the nearest million yen unless otherwise stated)

1. Consolidated Financial Results for the FY2011 (April 1, 2011 to March 31, 2012)

(1) Consolidated Operating Results

(% change from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2011	1,154,573	2.4	148,661	17.7	152,119	18.5	92,174	11.9
FY2010	1,127,589	4.0	126,292	28.2	128,400	17.7	82,369	22.1

(Note) Comprehensive income: FY2011 ¥85,213 million (42.2%)
FY2010 ¥59,936 million (-24.0%)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income as a percentage of total assets	Operating margin
	Yen	Yen	%	%	%
FY2011	165.20	164.73	7.8	9.3	12.9
FY2010	164.51	164.40	7.9	8.4	11.2

(Reference) Equity in earnings of affiliates: FY2011 ¥1,216million
FY2010 ¥3,711million

(Note) From the first quarter of FY2011, the Company changed its method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies and its method of presentation for upfront licensing payments received. The FY2010 figures have been adjusted retrospectively to apply the changes in accounting policy and method of presentation described above. The % change from the previous year for FY2010 is based on the FY2010 figures retrospectively adjusted and the FY2009 figures not retrospectively adjusted for the changes.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Book value per share
	Million yen	Million yen	%	Yen
As of March 31, 2012	1,666,767	1,222,764	72.5	2,166.55
As of March 31, 2011	1,589,717	1,163,325	72.4	2,061.88

(Reference) Shareholders' equity: As of March 31, 2012 ¥1,208,588 million
As of March 31, 2011 ¥1,150,201million

(Note) From the first quarter of FY2011, the Company changed its method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies. The figures as of March 31, 2011 have been adjusted retrospectively to apply the changes in accounting policy.

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2011	147,618	(107,629)	(41,065)	384,194
FY2010	87,746	(131,509)	113,566	387,325

(Note) From the first quarter of FY2011, the Company changed its method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies. FY2010 figures have been adjusted retrospectively to apply the changes in accounting policy.

2. Dividends

	Annual dividend per share					Total dividends	Dividend pay-out ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2010	-	-	-	28.00	28.00	15,619	17.3	1.4
FY2011	-	20.00	-	25.00	45.00	25,102	27.2	2.1
FY2012	-	28.00	-	30.00	58.00		30.0	

3. Projected Consolidated Financial Results for FY 2012 (April 1, 2012 through March 31, 2013)

(% change from the same period of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Q2 (YTD)	618,000	4.7	95,000	10.0	99,000	15.8	65,000	13.6	116.52
FY2012	1,200,000	3.9	165,000	11.0	170,000	11.8	108,000	17.2	193.60

4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): No

(2) Changes in accounting principles and procedures, and methods of presentation
1) Changes due to revisions of accounting standards: Yes
2) Changes due to other reasons: Yes
3) Changes in accounting estimates: No
4) Restatements of prior period financial statements due to error correction: No

(Note) From the first quarter of FY2011, the Company changed its method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies and the method of presentation for upfront licensing payments received. Please see “Changes in Accounting Policies” on page 28 and “Changes in Method of Presentation” on page 32 for further details.

(3) Number of shares issued and outstanding (common stock)
1) Number of shares issued and outstanding as of the end of the reporting period (including treasury stock):
March 31, 2012 557,835,617 shares
March 31, 2011 557,835,617 shares
2) Number of shares of treasury stock as of the end of the reporting period:
March 31, 2012 3,978 shares
March 31, 2011 2,044 shares
3) Average number of shares outstanding during the reporting period:
March 31, 2012 557,832,368 shares
March 31, 2011 500,599,047 shares

*** Information Regarding Audit Procedures**

At the time of disclosure of this financial report, the consolidated financial statements audit procedure as stipulated under the Financial Instruments and Exchange Act of Japan is still in process.

*** Disclaimer Regarding Forward-Looking Statements**

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that the Company deems reasonable. Actual performance and other results may differ significantly due to various factors. Please see “Analysis of Operating Results” for details on the assumptions used and other related matters concerning the forecast of consolidated financial results (page 7).

The company is planning to hold a meeting for institutional investors and analysts and the press on May 11, 2012. Presentation materials and video of the meeting will be available on the Company’s website promptly after the meeting.

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1. Results of Operations

(1) Analysis of Operating Results

In the fiscal year under review, the Japanese economy started to recover more strongly from the Great East Japan Earthquake and the operating environment for companies gradually improved. Overseas, the economic outlook remained uncertain amid the sovereign debt crisis in Europe and high crude oil prices.

Against this backdrop, the Otsuka Group reported consolidated net sales of ¥1,154,573 million (up 2.4% year on year) for the fiscal year ended March 31, 2012, with operating income of ¥148,661 million (up 17.7%), ordinary income of ¥152,119 million (up 18.5%) and net income of ¥92,174 million (up 11.9%).

From the fiscal year under review, the Company changed its method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies and its method of presentation for upfront licensing payments received. For comparative purposes, the figures for the previous fiscal year have been adjusted retrospectively.

Results by business segment are as follows:

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	782,248	254,825	49,206	108,602	(40,309)	1,154,573
Segment income (loss)	168,480	22,143	(2,309)	1,943	(41,597)	148,661

1) Pharmaceuticals

In the area of the central nervous system, sales of antipsychotic agent *ABILIFY*, which is sold in 65 markets worldwide, continued to expand on a global basis, helping it to become one of the top ten drugs worldwide based on sales[*1]. In the U.S., *ABILIFY* was increasingly prescribed for adjunctive therapy in major depressive disorder, supporting sales growth of 12.7% year on year on a U.S. dollar basis. In Europe, healthcare spending was cut back across the region due to fiscal austerity policies, leading to a slump in the market for atypical antipsychotic agents. However, sales in Europe grew at a double-digit pace on the back of growth in prescriptions for the treatment of manic symptoms of bipolar disorder. Sales increased in Asia as a result of growth in prescriptions in China due to *ABILIFY*'s inclusion in the country's national medical insurance system, and growth in prescriptions for the treatment of major depressive disorder in South Korea, Indonesia and Taiwan. In Japan, growth in sales accompanied continued strengthening of information provision regarding the treatment of schizophrenia and additional indications for the treatment of manic symptoms of bipolar disorder.

Antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, has now been in the market for one year. Sales grew sharply following its approval for long-term prescriptions from October 2011.

As part of efforts to accelerate growth in the central nervous system area, Otsuka Pharmaceutical signed an alliance agreement in November 2011 with H. Lundbeck A/S ("Lundbeck") of Denmark, a global leader in this field, for co-development and co-commercialization of aripiprazole[*2] intramuscular depot formulation (once-monthly injection) and OPC-34712. This alliance is aimed at maximizing the medical and commercial value of both companies in the area of the central nervous system. The alliance has also made it possible for Otsuka Pharmaceutical to expand beyond Japan, Asia and the U.S., into Lundbeck's existing marketing channels in Europe and emerging countries. Under the terms of the agreement, the Company has received an upfront payment of USD 200 million, with part of this payment booked under sales in the fiscal year under review.

In the area of anti-cancer and cancer-supportive care, sales in Japan of anti-cancer agent *TS-1* were affected by a decline in the number of gastric cancer patients. However, there was growth in new prescriptions for conditions such as lung cancer and colorectal cancer driven by evidence-based medicine (EBM) approaches. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined as a result of competition. On the other hand, sales of *Aloxi*, a 5-HT3 receptor antagonist antiemetic agent, and anti-cancer agent *Abraxane* grew steadily. Overseas, sales of *TS-1* / *Teysuno* started in Europe through an alliance with the Nordic Group BV. Anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with BMS[*3], registered solid sales growth on progress in securing approval as a first-line treatment for chronic myeloid leukemia in markets worldwide. However, the distributions received by the Company in line with sales declined slightly due to appreciation of the yen. *BUSULFEX*, which is the only allogeneic hematopoietic stem cell pre-transplanting regimen approved by the U.S. Food and Drug Administration (FDA), is currently sold in over 50 countries, and has now become established as the standard drug as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation.

In the area of the cardiovascular system, awareness grew gradually among medical specialists of first-in-class drug *SAMSCA*, because of the new value it brings and its method of use as a diuretic that results in the excretion of water only. In the U.S., sales of *SAMSCA* were double the level in the previous fiscal year. In Japan, one year has passed since its launch and awareness of *SAMSCA* is growing as an important treatment option for edema in heart failure. Sales of antiplatelet agent *Pletaal/Pletal* have been impacted by generics, but sales were stronger than the Company's estimate due to an increase in prescriptions for patients with cerebral infarction sequelae following the switch to orally disintegrating tablets, which are easier to take as they can be administered without water. In other areas, steps were taken to use the brand power of anti-gastritis and anti-gastric ulcer agent *Mucosta*, which is the third most prescribed drug in Japan, in an effort to counter the impact of generics. In the area of ophthalmology, *Mucosta ophthalmic suspension UD 2%*, in which *Mucosta* is applied as a treatment for dry eyes, was launched in January 2012. This treatment, which has a mechanism that stabilizes tear film, is the first dry eye treatment in Japan that has been recognized as improving the uncomfortable symptoms of dry eyes. In the U.S., the Company is working with Acucela Inc. under a three compound alliance partnership covering the co-development of OPA-6566, a new mechanism compound which is currently under development for the treatment of glaucoma, as well as rebamipide ophthalmic suspension and ACU-4429, currently under development for the treatment of Dry AMD (Age-related Macular Degeneration). Steps will be taken to strengthen new businesses in the ophthalmology field overseas.

In the area of clinical nutrition, the high-calorie TPN solution *ELNEOPA* registered solid sales in Japan, mainly because of wider adoption by hospitals and an increase in prescriptions in response to promotion of the benefits of trace elements in the product.

In the fiscal year under review, research and development expenses in the segment declined due to the benefits of the strong yen, the alliance agreement with Lundbeck, and a review of priorities in development projects.

As a result, net sales in the pharmaceutical segment for the fiscal year ended March 31, 2012 totaled ¥782,248 million (up 4.1% year on year), with operating income of ¥168,480 million (up 18.0%).

*[1]: Estimate based on "IMS World Review Preview (Dec 2011 MAT)," reprinted with permission of 2012 IMS Health©, all rights reserved.
*[2]: Aripiprazole is the generic name of an active ingredient of *ABILIFY*.
*[3]: Bristol-Myers Squibb Company

2) Nutraceuticals

Pocari Sweat, an electrolyte supplement drink, is sold in 16 markets, mainly in Asia. In markets outside Japan, sales volume grew by more than 20% year on year, as consumers responded to ongoing promotion activities emphasizing product value. Sales of *Pocari Sweat* were particularly strong in Indonesia, where they reached a new record high. In the Japanese market, promotion efforts in the lead up to summer focused on the prevention of heat stroke, using the phrase "Every 100ml contains 49mg of sodium," while marketing from the autumn emphasized the importance of replacing fluids as part of a daily routine. There was an increase in sales of the 900ml bottle, which was launched to meet more diverse consumer needs. Although sales volume in Japan was lower than the level in the previous fiscal year, when the severe summer heat had a favorable impact on sales, sales volume was generally in line with targets.

The Otsuka Group is pushing forward with the development of products that make full use of the nutrition in soy as a solution to various health and environmental issues faced by people today under the concept of "Soylution." The Group focused on promoting the value of the fruit soy bar *SOYJOY*, which is sold in 11 markets around the world and packed with the wholesome nutrition of soy. For the soy soda beverage *SOYSH*, the Group worked on attracting customers by implementing a consumer awareness campaign about the health benefits of soy targeting a total of roughly five million people throughout the country. In March 2012, the Group announced the launch of *SoyCarat*, a nutritional soy snack that rattles when shaken, as the third Soylution product.

Nature Made, which is supplied by subsidiary Pharmavite LLC of the U.S., is now stocked by all Wal-Mart stores in the U.S. and registered strong exports to the Middle East, driving healthy sales. In Japan, steps were taken to attract customers by using high credibility as a brand, emphasizing the status of *Nature Made* as the No. 1[*4] pharmacist recommended supplement in the U.S. for five consecutive years, and promoting *Super Multi Vitamins & Minerals* and *Super Fish Oil*, "one tablet a day" supplements launched in June 2011.

Sales at Nutrition & Santé SAS of France, which is a subsidiary that operates in more than 40 countries, mainly in Europe, were driven by organic food products and diet food products. In Japan, nationwide sales of the nutrition and health food brand *Gerble* began in October 2011. A decision was also taken to start nationwide sales of *Gerlinea*, the leading[*5] calorie control brand in the French diet food market. The addition of new items is set to strengthen the product lineup, contributing to the penetration of the brand.

Sales of the carbonated nutritional drink *Oronamin C* grew as its customer base expanded, particularly among young consumers. This was the result of the partnership with Ito En Limited regarding the vending machine business which started in April 2011, in addition to continued efforts to acquire customers. In May 2011, *Oronamin C*'s presence in the market was further enhanced when it became the first small volume vitamin drink to register cumulative sales of over 30 billion units in Japan.

Sales of the balanced nutrition food *Calorie Mate* were below the level in the previous fiscal year, but it remains a leading brand in the nutritional food category as a readily available source of five main nutrients.

In the cosmedics area, where the Company holds a concept of "healthy skin," *UL·OS Scalp Shampoo* (medicated) was launched in September 2011 in the *UL·OS* men's skincare brand. The *UL·OS* range now contains a comprehensive lineup of products for all areas of men's skincare. The brand was also launched in South Korea in March 2012, marking the first move overseas by the cosmedics business.

Nutrient tonic *Tiovita* registered steady growth in sales volume owing to an aggressive marketing strategy.

The nutraceutical segment focused on implementing promotional activities emphasizing the core concept of the products. It also took steps to boost profitability, including an ongoing review of the cost structure.

As a result, net sales in the nutraceutical segment for the fiscal year ended March 31, 2012 totaled ¥254,825 million (down 1.5% year on year), with operating income of ¥22,143 million (up 20.2%).

*[4]: Pharmacy Times, 2011
*[5]: IRI, July 2009 (PDM volume CC á P7 source IRI)

3) Consumer Products

Sales of *Crystal Geyser* and other mineral waters was solid as a result of aggressive sales promotion and marketing strategies, including the addition of new bottle size and changes to pricing. Sales volume for *Nescafe* decreased, despite efforts to strengthen sales such as new product launches. Sales volume grew steadily for *Match*, a carbonated electrolyte drink containing vitamins, due to aggressive marketing and sales promotion activities that led to the acquisition of new customers and expansion in the consumer base. Also, sales of *Java Tea* and other tea beverages grew due to the partnership with Ito En Limited in the vending machine business. *Sinvino Java Tea Straight White* was launched in 500ml PET bottles in March 2012.

In the consumer products segment, the Company continues to implement a range of initiatives aimed at improving profitability, in addition to stepping up marketing initiatives.

As a result, net sales in the consumer products segment for the fiscal year ended March 31, 2012 totaled ¥49,206 million (up 2.7% year on year), with operating loss of ¥2,309 million.

4) Others

In the specialty chemical business, despite the tough operating environment caused by the Great East Japan Earthquake, the flooding in Thailand and the sovereign debt crisis in Europe, sales of friction materials *TISMO* and *Terracess* recovered and grew from the second half of the fiscal year, supported by a recovery in the automotive field in the U.S. and solid market growth in China. Sales in the fine chemical business declined due to factors such as the impact from generics overseas on the antibiotic ingredient *YTR* and the impact of falling prices for pharmaceutical intermediate *GCLE*.

The transportation and warehousing business recorded solid sales growth owing to an increase in the volume of beverages handled and the acquisition of new customers.

As a result, net sales in the other businesses for the fiscal year ended March 31, 2012 totaled ¥108,602 million (up 1.6% year on year), with operating income of ¥1,943 million (down 55.6%).

(Projected Consolidated Financial Results for FY2012)

(Millions of yen)

	FY2011 (Actual)	FY2012	Change	% Change
Net sales	1,154,573	1,200,000	45,426	3.9%
Operating Income	148,661	165,000	16,338	11.0%
Ordinary Income	152,119	170,000	17,880	11.8%
Net Income	92,174	108,000	15,825	17.2%

R&D Expense	159,229	170,000	10,770	6.8

(Note) FY2012 exchange rate: 75 yen/USD 102 yen/EUR

In pharmaceutical business, despite the effects of the NHI price revision, sales of atypical antipsychotic agent *ABILIFY* is expected to remain strong. Additionally, the upfront licensing payment received from Lundbeck and sales increase of *SAMSCA*, *E Keppra*, *Aloxi* and *Abraxane* are expected to contribute to sales growth. In nutraceutical business, sales are expected to increase by overseas expansion of core brand products and promotion of new products.

Operating income is expected to increase despite the increase in R&D expenses related to the development of central nervous system and anti-cancer category, as the fees payable of the U.S *ABILIFY* sales to Bristol-Myers Squibb Company will be reduced from 53.5% to 51.5%. In the nutraceutical segment, the Group will spend on customer and new product development and accelerate overseas expansion as well as focus on higher operating income than that of current year.

The Group is continuing its review of cost structure to improve profitability in each business segment.

As a result, operating income is projected to increase by 11.0% to ¥165,000 million and ordinary income is projected to increase by 11.8% to ¥170,000 million and net income is expected to increase by 17.2% to ¥108,000 million.

(2) Research and Development Activities

Research and development expenses for the fiscal year ended March 31, 2012 totaled ¥159,229 million.
The primary areas of research and development were as follows:

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

Research and development activities carried out during the fiscal year ended March 31, 2012 in the area of therapeutic drugs are summarized below.

Category	Brand Name / Generic Name / Development Code	Status
Central nervous system	*ABILIFY*	<Global> • A global alliance agreement was concluded with Lundbeck in November 2011 for the co-development of aripiprazole intramuscular depot formulation worldwide. <U.S.> • A new once-weekly oral formulation for the treatment of Tourette syndrome advanced to Phase III trials. • A new drug application for the aripiprazole intramuscular depot formulation for the treatment of schizophrenia was accepted for review by the U.S. Food and Drug Administration. <Asia> • An oral formulation was approved in South Korea for chronic tic disorder and Tourette syndrome. <Japan> • In January 2012, approvals were received for the additional indication of improvement of manic symptoms associated with bipolar disorder, and for the new formulation *ABILIFY OD Tablets*.
	OPC-34712	<Global> • A global alliance agreement was concluded with Lundbeck for the co-development of OPC-34712 worldwide. • OPC-34712 advanced to Phase III trials in the U.S. for major depressive disorder. It also advanced to Phase III trials in the U.S. and Europe as a treatment for schizophrenia. • Phase II trial results for the treatment of schizophrenia were presented at the 24th U.S. Psychiatric and Mental Health Congress (USPMHC) in November 2011. <Japan> • OPC-34712 advanced to Phase III trials as a treatment for schizophrenia.
	rotigotine patch	<Japan> • Rotigotine patch, which has been developed as a dopamine agonist transdermal patch preparation, was simultaneously filed in December 2011 for the treatment of two disorders: Parkinson’s disease and restless legs syndrome.
	E Keppra	<Japan> • Phase III trials have been initiated for the monotherapy for epileptic partial seizures.

Category	Brand Name / Generic Name / Development Code	Status
Anti-cancer and cancer-supportive care	*TS-1 / Teysuno*	<Japan> • The results of clinical trials for anti-cancer agent *TS-1* for the treatment of unresectable colorectal cancer (clinical trial name: FIRIS) and for the treatment of advanced pancreatic cancer (clinical trial name: GEST) were presented at the 47th Annual Meeting of the American Society of Clinical Oncology (ASCO) in June 2011. <Europe> • A co-development and co-commercialization agreement in Europe was concluded with the Nordic Group BV of the Netherlands in July 2011. • Sales began in four Scandinavian countries (Sweden, Denmark, Norway and Finland) in March 2012. <Asia> • Marketing approval was received in Thailand in March 2012.
	SPRYCEL	<U.S. and Europe> • The drug advanced to Phase II trials in the U.S. and Europe as a treatment of pancreatic cancer. <Japan> • *SPRYCEL* is an anti-cancer agent discovered by Bristol-Myers Squibb Company and is being co-developed and co-promoted globally with the Company. An additional indication for *SPRYCEL* as a first-line treatment for chronic myeloid leukemia (CML) in adults was approved in Japan in June 2011.
	TAS-102	<U.S.> • Phase I trials have been initiated for the treatment of colorectal cancer. <Japan> • Phase II trials have confirmed the efficacy of TAS-102 for extending the survival period of patients with recurrent colorectal cancer that does not respond to standard treatments. The results of these trials were presented at the 9th Annual Meeting of the Japanese Society of Medical Oncology (Yokohama) in July 2011 and the European Multidisciplinary Cancer Congress (EMCC in Stockholm) in September 2011.
	TAS-115	<Japan> • Phase I trials have been initiated for the treatment of solid cancer.
	Abraxane	<Japan> • Applications for approval were filed in February 2012 for the additional indications for gastric cancer and non-small-cell lung cancer.
	OCV-105	<Japan> • OCV-105 is a cancer vaccine being developed in collaboration with OncoTherapy Science, Inc. Phase I trials for the treatment of pancreatic cancer have been initiated.
	OCV-501	<Japan> • OCV-501 is a WT1-targeted cancer vaccine being developed in collaboration with International Institute of Cancer Immunology, Inc. Phase I trials for the treatment of acute myeloid leukemia (AML) in elderly patients have been initiated.
	SATIVEX	<U.S.> • *SATIVEX* advanced to Phase III trials for the treatment of cancer pain.

Category	Brand Name / Generic Name / Development Code	Status
Cardiovascular system	*SAMSCA*	<Global> • *SAMSCA*, regarded as a first-in-class drug in new diuretics capable of selectively excreting only excess water, went on sale in Canada, China and Taiwan and was approved in Hong Kong, South Korea and Indonesia as a treatment for hyponatremia.
	OPC-108459	<Global> • Phase I trials have been initiated in Japan and the U.S. for the treatment of paroxysmal and persistent atrial fibrillation.
Other categories (Ophthalmology and others)	*Mucosta ophthalmic suspension UD 2%*	<Japan> • Sales of the drug as a treatment for dry eyes began in January 2012.
	OPC-67683 delamanid	<Global> • OPC-67683 advanced to Phase III trials in Japan, the U.S. and Europe. • In December 2011, a new drug application was filed in Europe for the treatment of multidrug-resistant tuberculosis.
	YP-18 (*Zosyn*)	<Japan> • Phase III trials have been initiated for the treatment of febrile neutropenia.
	OPC-262 saxagliptin	<Japan> • (Additional information) In April 2012, an application was filed for the treatment for Type 2 diabetes mellitus.

2) Clinical nutrition

In the clinical nutrition area, the electrolyte correction solution *Sodium Phosphate Correction Solution 0.5 mmol/mL* was launched in Japan in April 2011.

3) Diagnostic

In the diagnostics area, WT1 mRNA assay kit *Otsuka*, which is already included in NHI coverage and widely used as a monitoring marker for minimal residual disease (MRD) in acute myeloid leukemia (AML), was additionally approved for NHI coverage in August 2011 for myelodysplastic syndrome (MDS).

RAPIRUN S. pneumoniae HS (otitis media, sinusitis), which is a diagnostic kit for *streptococcus pneumoniae,* was launched in December 2011. This product has higher sensitivity and thus can more easily detect the pneumococcal antigen than conventional products. *H. influenzae* ELISA kit *Otsuka* was also approved as a diagnostic aid for *H. influenzae* infection.

Research and development expenses for the pharmaceutical business for the fiscal year ended March 31, 2012 were ¥149,320 million.

(Nutraceuticals)

In the nutraceutical business, the Otsuka Group draws on its knowledge in the pharmaceutical business to conduct research and development into functional food and beverages that support the maintenance and improvement of day-to-day well-being.

The Otsuka Group’s Research Institute of New Functional Products Development in Tokushima specializes in soy. It is working on the development of global soy products that make it easier to enjoy soy’s significant health benefits, particularly in markets such as the U.S. and Europe where soy is not part of the traditional diet.

Research and development expenses for the nutraceutical business for the fiscal year ended March 31, 2012 were ¥4,368 million.

(Consumer products)

In the consumer products business, the Otsuka Group is engaged in the research and development of original and unique products in the food and beverage field.

Research and development expenses for the consumer products business for the fiscal year ended March 31, 2012 were ¥514 million.

(Others)

In the other businesses, the Otsuka Group is primarily engaged in the research and development of specialty chemical products and fine chemicals.

Research and development expenses for other businesses for the fiscal year ended March 31, 2012 were ¥5,026 million.

(3) Analysis of Financial Position

1) Assets

Total assets as of March 31, 2012 were ¥1,666,767 million, an increase of ¥77,050 million compared to ¥1,589,717 million at the end of the previous fiscal year. The increase was due to the ¥91,068 million increase in current assets, ¥14,011 million decrease in fixed assets and ¥6 million decrease in deferred assets.

(Current Assets)

Total current assets as of March 31, 2012 were ¥1,012,299 million, an increase of ¥91,068 million compared to ¥921,230 million at the end of the previous fiscal year. The increase was due mainly to the result of the solid twelve-month performance and the ¥24,063 million increase in cash and deposits, ¥23,808 million increase in notes and accounts receivable-trade, and ¥29,242 million increase in marketable securities as a portion form the receipt of USD 200 million upfront licensing payment from Lundbeck under the global alliance agreement to focus on central nervous system.

(Fixed Assets)

Total fixed assets as of March 31, 2012 were ¥654,404 million, a decrease of ¥14,011 million compared to ¥668,416 million at the end of the previous fiscal year. The decrease was due mainly to the ¥9,966 decrease in intangible fixed assets as a result of amortization of goodwill, patents, and trademarks, and the ¥6,897 million decrease in deferred tax assets as a result of change in effective statutory tax rate beginning from next fiscal year due to the release of a new tax reform act for income taxation and the Act on Special Measures for Fukushima Reconstruction and Rehabilitation.

2) Liabilities

(Current Liabilities)

Total current liabilities as of March 31, 2012 were ¥311,359 million, an increase of ¥35,800 million compared to ¥275,559 million at the end of the previous fiscal year. The increase was due mainly to the ¥20,521 increase in corporate taxes payable as a result of additional corporate tax created from the solid twelve-month performance and the receipt of USD 200 million upfront licensing payment from Lundbeck under the global alliance agreement to focus on central nervous system and ¥20,013 increase in other current liabilities as a result of an accounting treatment classifying a portion of the upfront licensing payment as a current liability.

(Long-term Liabilities)

Total long-term liabilities as of March 31, 2012 were ¥132,642 million, a decrease of ¥18,189 million compared to ¥150,832 million at the end of the previous fiscal year. The decrease was due mainly to the ¥2,815 million decrease in long-term debt as a result of repayment and reclassification to short-term borrowings and ¥2,464 million decrease in negative goodwill as a result of amortization and ¥8,870 million decrease in other long-term liabilities. The decrease of other long-term liabilities was due mainly to reclassification of the current portion of unearned revenues (revenues to be recognized within a year), from long-term liabilities to current liabilities. The unearned revenues totals to an amount of USD 400 million received from Bristol-Meyers Squibb in April 2009,

3) Net Assets

Total net assets as of March 31, 2012 was ¥1,222,764 million, an increase of ¥59,439 million compared to ¥1,163,325 million at the end of the previous fiscal year. The increase was due mainly to the ¥65,443 million increase in retained earnings as a result of the positive net income although there was a ¥7,458 million decrease in currency translation adjustments as a result of the appreciation of the yen.

(4) Analysis of Cash Flows

Cash and cash equivalents decreased by ¥3,131 million during the fiscal year ended March 31, 2012 to ¥384,194 million. Net cash provided by operating activities was ¥147,618 million, while net cash used in investing activities and financing activities were ¥107,629 million and ¥41,065 million, respectively.

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥147,618 million in the fiscal year ended March 31, 2012, an increase of ¥59,872 million, compared to ¥87,746 million in the previous fiscal year. In addition to ¥142,405 million in income before income taxes and minority interest from the solid twelve-month performance (an increase of ¥19,374 million compared to ¥123,030 million at the end of the previous fiscal year), increase in unearned revenue due to receipt of USD 200 million upfront licensing payment from Lundbeck under the global alliance agreement to focus on central nervous system, increase of ¥8,472 million (¥2,095 million for previous fiscal year) in notes and account payables, and payment of ¥34,422 million (¥59,941 million for previous fiscal year) in income taxes are factors of this increase.

(Cash Flows from Investing Activities)

Net cash used in investing activities was ¥107,629 million in the fiscal year ended March 31, 2012, an increase of ¥23,879 million compared to the previous fiscal year. Investing activities during the fiscal year ended March 31, 2012 included ¥36,033 million in purchases of property, plant and equipment, ¥31,400 million in purchases of investment securities, ¥17,434 million in proceeds from sales and redemption of investment securities, and ¥47,503 million in payments into time deposits. Purchases of property, plant and equipment included acquisition of tangible fixed assets for pharmaceutical production facilities at Tokushima Wajiki Factory and *Pocari Sweat* production facilities at Saga Factory and updates of existing other facilities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥41,065 million in the fiscal year ended March 31, 2012 (Net cash provided by financing activities for the previous fiscal year was ¥113,566 million). Financing activities during the fiscal year ended March 31, 2012 included ¥23,833 million in repayments of long-term debt and ¥26,775 million in payment of dividends.

(Cash Flow Indicator Ratios)

	FY2008	FY2009	FY2010	FY2011
Equity ratio	62.3	64.2	72.4	72.5
Market capitalization to total assets ratio	-	-	72.1	82.0
Cash flow to debt ratio	66.0	62.5	69.2	40.1
Interest coverage ratio	75.0	63.5	81.2	90.8

Equity ratio: total shareholders' equity/total assets
Market capitalization to total assets ratio: total market capitalization/total assets
Cash flow to debt ratio: interest-bearing debt/cash flow
Interest coverage ratio: cash flow/interest paid
(Notes)

1. All indicator ratios are calculated on a consolidated basis
2. Total market capitalization is calculated based on the outstanding shares (excluding treasury shares) and the closing market price at fiscal year-end
3. Cash flow equals net cash provided by operating activities, less interest expense and income taxes paid.
4. Interest-bearing debt includes all liabilities reported on the consolidated balance sheet which is subject to interest payments. Interest paid represents the amount of interest payment as reported on the consolidated statement of cash flow.
5. Market capitalization to total assets ratio is not available for FY2008 and FY2009 as the Company was not publicly listed and the share price information was undeterminable.
6. Amounts for FY 2010 are adjusted retrospectively based on a new currency translation method applied in FY 2011. Amounts for FY 2008 and FY 2009 are prior to adjustments.

(5) Basic Policy for Profit Distribution and Dividends for FY2011 and FY2012

The Company views the distribution of profits to shareholders as one of the key management issues. Our basic policy regarding profit distribution is to provide a stable profit distribution in line with the profit level while securing an appropriate amount of internal reserve necessary for future growth and to react to changes in the business environment.

Based on this policy the Company plans to pay a year-end dividend of ¥25 per share and an interim dividend of ¥20 per share, a sum of ¥45 per share for the fiscal year ended March 31, 2012. As a result, the planned consolidated payout ratio for the fiscal year ended March 31, 2012 is 27.2%.

For FY2012, the Company plans to pay an annual dividend of ¥58 per share (of which ¥28 is planned as interim dividend and ¥30 as year-end dividend.)

2. Group Overview

The Otsuka Group consists of Otsuka Holdings Co., Ltd., its 122 subsidiaries and 33 affiliates. Otsuka is a globally operating diversified healthcare group engaged in pharmaceuticals, nutraceuticals, consumer products and other, which includes logistical services, optical inspection and measurement equipments and chemicals.

As the Group's holding company, Otsuka Holdings directs the group's strategic planning, monitors group operations and provides various services to its group companies.

The group companies in their respective business segments are as follows:

(Pharmaceutical Segment)

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc. and Taiho Pharmaceutical Co., Ltd. are mainly responsible for the sales of pharmaceutical products in Japan while Otsuka America Pharmaceutical, Inc. and Otsuka Pharmaceutical Europe Ltd. are mainly responsible for the sales of pharmaceutical products outside Japan.

In the therapeutic area, Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. are responsible for the manufacture and sales in Japan. Otsuka Pharmaceutical Co., Ltd. also exports pharmaceutical products to Otsuka America Pharmaceutical, Inc., Otsuka Pharmaceutical Europe Ltd. and other group companies. In the clinical nutrition area, manufacturing and sales are conducted locally. Otsuka Pharmaceutical Factory, Inc. and EN Otsuka Pharmaceutical Co., Ltd. are mainly responsible for the manufacture and sales in Japan. Other territories include China, Indonesia and Egypt. Research and development activities are conducted mainly in Japan and the US. Otsuka Pharmaceutical Co., Ltd. outsources part of its development activities to its US subsidiaries, Otsuka Pharmaceutical Development & Commercialization, Inc. and Otsuka Maryland Medicinal Laboratories, Inc. and other group companies.

(Nutraceutical Segment)

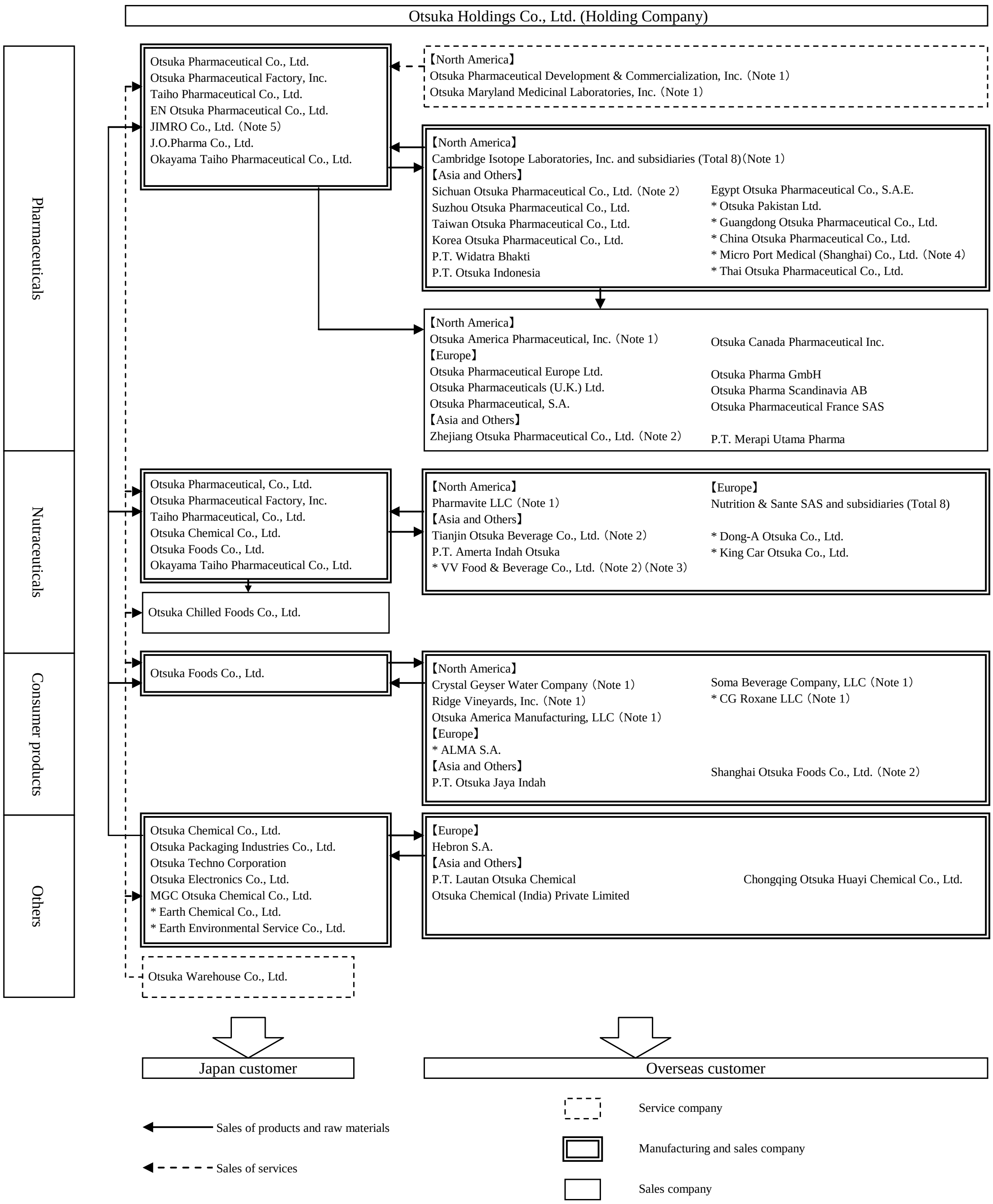
Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. are mainly responsible for the manufacture and sales of nutraceutical products in Japan while Pharmavite LLC, P.T. Amerta Indah Otsuka, Nutrition & Santé SAS, VV Food & Beverage Co., Ltd. are mainly responsible for the manufacture and sale of nutraceutical products outside Japan. Otsuka Pharmaceutical Co., Ltd. purchases part of its products from other consolidated subsidiaries, including Otsuka Pharmaceutical Factory, Inc., Otsuka Chemical Co., Ltd., Otsuka Foods Co., Ltd. and Pharmavite LLC.

(Consumer Product Segment)

Otsuka Foods Co., Ltd. is responsible for the manufacture and sales of consumer products in Japan while CG Roxane LLC and ALMA S.A. are mainly responsible for the manufacture and sale of mineral water outside Japan.

(Other Segment)

Otsuka Chemical Co., Ltd. is responsible for the manufacture and sales of chemical products and Otsuka Electronics Co., Ltd. is responsible for the manufacture, sale and import of optical inspection and measurement devices. Otsuka Packaging Industries Co., Ltd. conducts printing and packaging and Otsuka Techno Corporation manufactures plastic containers for intravenous solutions and other pharmaceutical products on behalf of the domestic group companies. Otsuka Warehouse Co., Ltd. provides logistical services to Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd. and other domestic group companies.



Not marked　Consolidated subsidiaries

*　equity method affiliated companies

Note
1. Shares held by the holding company, Otsuka America, Inc.
2. Shares held by the holding company, Otsuka (China) Investment Co., Ltd.
3. Shares held by the holding company, Giant Harvest Limited
4. Shares held by the holding company, Microport Scientific Corporation (Note 5)
5. Shares held by the holding company, Otsuka Medical Devices Co., Ltd.

3. Management Policy

(1) Basic Management Policy

Based on our corporate philosophy “Otsuka-people creating new products for better health worldwide”, we strive to develop innovative, original products that enable people around the world to lead healthier lives.

To accomplish this, we are focused on our two main businesses: Pharmaceuticals, where we meet the entire range of medical needs from diagnosis to treatment of medical disorders; and Nutraceuticals, where we help people to maintain and improve their daily health and well-being. As a corporate group in the comprehensive healthcare business, our mission is to discover and develop original technologies and solutions and deliver the resulting products and services to the people who need them.

(2) Target Management Indicators

To sustain the Group’s growth, management recognizes the importance of efficiency in its invested capital. The Group thus considers ROE as an important management indicator in addition to operating margin and net income.

(3) First Medium-Term Management Plan for FY2011 to FY2013

There are no material changes from the disclosure in May 16, 2011. Documents from this disclosure can be searched at the following URL.

(Otsuka Holdings Co., Ltd. website (News Releases))
http://www.otsuka.com/en/hd_release/release/
(Tokyo Stock Exchange website (Listed Company Information)
http://www.tse.or.jp/tseHpFront/HPLCDS0101E.do?method=init&callJorEFlg=1

(4) Key Issues to be Addressed

The Otsuka Group is implementing concrete initiatives under its First Medium-Term Management Plan ending in FY2013, in order to realize its corporate philosophy, “Otsuka-people creating new products for better health worldwide.”

The key initiatives during the period of the Medium-Term Management Plan are as follows:

A. Delivering value and maximizing earnings in the pharmaceutical business

- In the area of the central nervous system, the Otsuka Group will work with global alliance partner Lundbeck to create a long-term collaborative global framework centered on aripiprazole intramuscular depot formulation (once-monthly injection) and OPC-34712, both drugs that were created by the Company, in order to more rapidly maximize the medical and commercial value of both companies in this field.
- In the *ABILIFY* business, product value will be maximized through continuous research and development in the U.S. including the development of the once-weekly tablet and other formulations. Earnings will also be maximized through a change in profit sharing based on the amended contract with alliance partner Bristol-Myers Squibb Company.
- In the field of anti-cancer and cancer-supportive care, the product lineup will be enhanced in the areas of metabolic antagonists, molecular-targeted agents, new mechanism cancer vaccines, and supportive care in an effort to expand business in a way that covers the entire spectrum of cancer treatment.
- The Otsuka Group will pursue further growth through the cultivation of new products *SAMSCA*, *E Keppra*, *Aloxi*, *Abraxane*, and *Mucosta ophthalmic suspension*.

B. Expansion and profit growth in the nutraceutical business

- Based on the idea of soy, a familiar and highly nutritious food, as a solution to various health and environmental issues faced by people today (“Soylution”), the Otsuka Group will push ahead with the development and global expansion of tasty products that make full use of the nutrition in soy. Going forward, the Group will channel its management resources into Soylution products on a global basis. In addition, the Group will accelerate overseas development by expanding the *Pocari Sweat* business in the growing markets of Asia, the *Nature Made* business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
- The Otsuka Group will also develop the cosmedics business with a view to global expansion, underpinned by the *UL･OS* and *InnerSignal* brands.
- Improvement in profitability will be pursued through a focus on implementing promotional activities emphasizing the core concept of the products as well as an ongoing review of the cost structure.

C. Strategic initiatives for future growth

- The medical device business will be built into one of the Otsuka Group's core businesses, led by Otsuka Medical Devices Co., Ltd. In November 2011, the Group acquired KiSCO Co., Ltd., a medical devices company with a specialty in the orthopedic surgery field. In December 2011, it acquired a stake in Era Endoscopy S.r.l. of Italy, an innovator in self-propelled robotic colonoscopy. Going forward, the Group plans to develop its medical device business in Japan and overseas, mainly in Asia.
- In April 2012, the Otsuka Group launched soy snack *SoyCarat*, its third Soylution product after fruit soy bar *SOYJOY* and soy soda beverage *SOYSH*. All these Soylution products keep well and are tasty even for people in countries where soy is not part of the traditional diet. Going forward, the Group plans to accelerate the development of its soy business to build it into one of the Group's core businesses.
- The Otsuka Group will pursue continuous growth by (1) reforming its business model, (2) developing personnel, and (3) making indirect expenses more efficient to create a system that drivers reform within the Group.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2011	As of March 31, 2012
ASSETS		
Current assets		
Cash and deposits	387,520	411,584
Notes and accounts receivable-trade	239,648	263,457
Marketable securities	122,535	151,777
Finished products and merchandise	62,335	60,778
Work-in process	23,613	26,931
Raw materials and supplies	28,948	31,656
Deferred tax assets	24,579	34,341
Other current assets	32,397	32,161
Allowance for doubtful receivables	(350)	(389)
Total current assets	921,230	1,012,299
Fixed assets		
Tangible fixed assets		
Buildings and structures	280,699	284,168
Accumulated depreciation	(179,682)	(185,828)
Buildings and structures, net	101,017	98,340
Machinery and equipment	276,332	283,582
Accumulated depreciation	(222,831)	(232,156)
Machinery and equipment, net	53,501	51,425
Furniture and fixtures	69,017	72,269
Accumulated depreciation	(58,236)	(61,550)
Furniture and fixtures, net	10,781	10,719
Land	74,925	74,926
Lease assets	18,251	17,609
Accumulated depreciation	(7,966)	(8,895)
Lease assets, net	10,285	8,714
Construction in progress	6,321	11,388
Total tangible fixed assets	256,832	255,515
Intangible fixed assets		
Goodwill	41,444	36,825
Other intangible fixed assets	35,643	30,296
Total intangible fixed assets	77,088	67,121
Investments and other assets		
Investment securities	261,203	267,011
Investments in capital	22,009	23,332
Long-term loans receivable	600	1,303
Deferred tax assets	32,245	25,347
Other assets	21,347	16,275
Allowance for investment loss	(2,818)	(1,010)
Allowance for doubtful receivables	(92)	(491)
Total investments and other assets	334,495	331,767
Total fixed assets	668,416	654,404
Deferred assets	69	63
Total assets	1,589,717	1,666,767

	As of March 31, 2011	As of March 31, 2012
		(Millions of yen)
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	88,113	94,796
Short-term borrowings	53,205	39,692
Lease obligations	3,370	2,974
Income taxes payable	13,301	33,822
Reserve for bonuses	15,878	16,141
Provision for directors' bonuses	312	366
Provision for sales returns	143	131
Provision for loss on business liquidation	-	2,185
Other current liabilities	101,233	121,247
Total current liabilities	275,559	311,359
Long-term liabilities		
Long-term debt	28,763	25,947
Lease obligations	7,062	5,786
Deferred tax liabilities	10,796	7,982
Liability for employees' retirement benefits	44,333	44,708
Retirement benefits for directors and corporate auditors	3,416	3,091
Negative goodwill	28,933	26,469
Other long-term liabilities	27,526	18,655
Total long-term liabilities	150,832	132,642
Total liabilities	426,392	444,002
NET ASSETS		
Shareholders' equity		
Common stock	81,690	81,690
Capital surplus	510,639	510,639
Retained earnings	609,967	675,410
Treasury stock	(4)	(8)
Total shareholders' equity	1,202,293	1,267,732
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	358	750
Deferred loss on derivatives under hedge accounting	(3)	10
Foreign currency translation adjustments	(52,446)	(59,904)
Total accumulated other comprehensive income	(52,091)	(59,144)
Stock acquisition rights	464	1,134
Minority interests	12,658	13,041
Total net assets	1,163,325	1,222,764
Total liabilities and net assets	1,589,717	1,666,767

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated Statements of Income)

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Net sales	1,127,589	1,154,573
Cost of sales	379,025	389,262
Gross profit	748,564	765,311
Selling, general and administrative expenses		
Promotion expenses	179,554	174,379
Salaries and bonuses	80,317	81,277
Reserve for bonuses	9,568	9,823
Retirement benefit expenses	7,069	7,674
Provision for directors’ and corporate auditors’ retirement benefits	601	699
Provision for directors’ bonuses	312	366
Depreciation	14,062	14,707
Amortization of goodwill	4,614	4,667
Research and development expenses	164,671	159,229
Other	161,498	163,822
Total selling, general and administrative expenses	622,272	616,649
Operating income	126,292	148,661
Non-operating income		
Interest income	1,293	1,551
Dividend income	1,247	1,251
Amortization of negative goodwill	2,495	2,464
Equity in earnings of unconsolidated subsidiaries and affiliates	3,711	1,216
Other	2,008	2,130
Total non-operating income	10,756	8,615
Non-operating expenses		
Interest expenses	1,541	1,702
Foreign exchange loss, net	5,741	2,712
IPO expenses	777	—
Other	587	742
Total non-operating expenses	8,647	5,157
Ordinary income	128,400	152,119
Extraordinary income		
Gain on sales of fixed assets	232	200
Gain on change in equity interest	5,571	322
Reversal of loss on disaster	—	580
Other	113	68
Total extraordinary income	5,917	1,171

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Extraordinary loss		
Loss on retirement of fixed assets	881	644
Impairment loss	2,758	2,684
Loss on valuation of investment securities	1,901	3,665
Provision of allowance for investment loss	632	—
Effect of adoption of accounting standard for asset retirement obligations	426	—
Loss on transfer of business	1,900	684
Disaster related loss	1,840	267
Provision for loss on business liquidation	—	2,185
Other	945	754
Total extraordinary loss	11,287	10,886
Income before income taxes and minority interests	123,030	142,405
Income taxes		
Current	33,598	54,988
Deferred	5,438	(5,396)
Total income taxes	39,036	49,591
Income before minority interests	83,993	92,813
Minority interests in net income	1,623	639
Net income	82,369	92,174

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Income before minority interests	83,993	92,813
Other comprehensive income		
Unrealized loss on available-for-sale securities	(3,851)	300
Deferred gain on derivatives under hedge accounting	11	14
Foreign currency translation adjustments	(10,363)	(4,890)
Share of other comprehensive income of equity method affiliates	(9,852)	(3,024)
Total other comprehensive income	(24,057)	(7,600)
Total comprehensive income	59,936	85,213
Total comprehensive income attributable to owners of the parent	58,980	85,141
Total comprehensive income attributable to minority interests	956	71

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Shareholders' Equity		
Common stock		
Beginning balance	42,946	81,690
Changes during the period		
Issuance of new shares	38,744	—
Total changes during the period	38,744	—
Ending balance	81,690	81,690
Capital surplus		
Beginning balance	432,482	510,639
Changes during the period		
Issuance of new shares	38,744	—
Disposal of treasury stock	39,412	—
Total changes during the period	78,157	—
Ending balance	510,639	510,639
Retained earnings		
Beginning balance	532,032	609,967
Cumulative effect of changes in accounting policies	2,716	—
Retained earnings as restated	534,748	609,967
Changes during the period		
Change in scope of consolidation	(1,193)	45
Dividends from surplus	(5,956)	(26,775)
Net income	82,369	92,174
Total changes during the period	75,219	65,443
Ending balance	609,967	675,410
Treasury stock		
Beginning balance	(45,354)	(4)
Changes during the period		
Disposal of treasury stock	45,354	—
Purchase of treasury stock	(4)	(4)
Total changes during the period	45,350	(4)
Ending balance	(4)	(8)
Total shareholders' equity		
Beginning balance	962,105	1,202,293
Cumulative effect of changes in accounting policies	2,716	—
Retained earnings as restated	964,822	1,202,293
Changes during the period		
Change in scope of consolidation	(1,193)	45
Dividends from surplus	(5,956)	(26,775)
Issuance of new shares	77,489	—
Disposal of treasury stock	84,766	—
Purchase of treasury stock	(4)	(4)
Net income	82,369	92,174
Total changes during the period	237,470	65,439
Ending balance	1,202,293	1,267,732
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities		
Beginning balance	4,258	358
Changes during the period		
Net changes in items other than shareholders' equity	(3,900)	391
Total changes during the period	(3,900)	391
Ending balance	358	750

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Deferred loss on derivatives under hedge accounting		
Beginning balance	(14)	(3)
Changes during the period		
Net changes in items other than shareholders' equity	11	14
Total changes during the period	11	14
Ending balance	(3)	10
Foreign currency translation adjustments		
Beginning balance	(30,059)	(52,446)
Cumulative effect of changes in accounting policies	(2,716)	—
Retained earnings as restated	(32,775)	(52,446)
Changes during the period		
Net changes in items other than shareholders' equity	(19,670)	(7,458)
Total changes during the period	(19,670)	(7,458)
Ending balance	(52,446)	(59,904)
Total accumulated other comprehensive income		
Beginning balance	(25,816)	(52,091)
Cumulative effect of changes in accounting policies	(2,716)	—
Retained earnings as restated	(28,532)	(52,091)
Changes during the period		
Net changes in items other than shareholders' equity	(23,559)	(7,052)
Total changes during the period	(23,559)	(7,052)
Ending balance	(52,091)	(59,144)
Stock acquisition rights		
Beginning balance	—	464
Changes during the period		
Net changes in items other than shareholders' equity	464	669
Total changes during the period	464	669
Ending balance	464	1,134
Minority interests		
Beginning balance	12,166	12,658
Changes during the period		
Net changes in items other than shareholders' equity	491	383
Total changes during the period	491	383
Ending balance	12,658	13,041
Total Net Assets		
Beginning balance	948,456	1,163,325
Cumulative effect of changes in accounting policies	—	—
Retained earnings as restated	948,456	1,163,325
Changes during the period		
Change in scope of consolidation	(1,193)	45
Dividends from surplus	(5,956)	(26,775)
Issuance of new shares	77,489	—
Disposal of treasury stock	84,766	—
Purchase of treasury stock	(4)	(4)
Net income	82,369	92,174
Net changes in items other than shareholders' equity	(22,602)	(5,999)
Total changes during the period	214,868	59,439
Ending balance	1,163,325	1,222,764

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Operating activities:		
Income before income taxes and minority interests	123,030	142,405
Depreciation and amortization	43,482	43,394
Impairment loss	2,758	2,684
Amortization of goodwill	2,118	2,202
Increase in liability for employees’ retirement benefits	322	504
(Decrease) increase in allowance for doubtful receivables	(141)	408
Interest and dividend income	(2,540)	(2,803)
Interest expense	1,541	1,702
Equity in earnings of unconsolidated subsidiaries and affiliates	(3,711)	(1,216)
Gain on change in equity interest	(5,565)	(322)
Loss on transfer of business	1,900	684
Increase in provision for loss on business liquidation	—	2,185
Increase in account receivables-trade	(17,004)	(25,657)
Increase in inventories	(7,376)	(7,412)
Increase in account payables-trade	2,095	8,472
Decrease in long-term unearned revenues	(7,321)	(7,321)
Other, net	8,082	17,294
Subtotal	141,669	177,205
Interest and dividends received	7,859	6,861
Interest paid	(1,841)	(2,026)
Income taxes paid	(59,941)	(34,422)
Net cash provided by operating activities	87,746	147,618
Investing activities:		
Increase in short-term investment securities, net	—	(6,954)
Purchases of property, plant and equipment	(35,409)	(36,033)
Proceeds from sales of property, plant and equipment	507	680
Purchases of investment securities	(33,225)	(31,400)
Proceeds from sales and redemptions of investment securities	27,732	17,434
Payments for investments in capital	(1,794)	(323)
Proceeds from transfer of business	2,099	1,381
Payments for transfer of business	—	(1,278)
Payments of loans receivables	(253)	(2,348)
Proceeds from collection of loans receivables	415	574
Increase in time deposits, net	(85,757)	(47,503)
Other, net	(5,824)	(1,858)
Net cash used in investing activities	(131,509)	(107,629)
Financing activities:		
(Decrease) increase in short-term debt, net	(6,708)	3,194
Proceeds from long-term debt	2,567	2,294
Repayments of long-term debt	(33,774)	(23,833)
Proceeds from issuance of common stock	77,489	—
Proceeds from disposal of treasury stock	85,246	—
Dividends paid	(5,957)	(26,775)
Dividends paid to minority interest in consolidated subsidiaries	(359)	(404)
Other, net	(4,936)	4,459
Net cash provided by (used in) financing activities	113,566	(41,065)
Foreign currency translation adjustments on cash and cash equivalents	(5,323)	(1,361)
Net increase (decrease) in cash and cash equivalents	64,481	(2,436)
Cash and cash equivalents, beginning of period	321,306	387,325
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	1,538	(694)
Cash and cash equivalents, end of period	387,325	384,194

(5) Basis of Presentation and Summary of Significant Accounting Policies for the Preparation of Consolidated Financial Statements

1. Scope of Consolidation

(1) Consolidated subsidiaries: 67

Significant 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	Nutrition & Santé SAS

Chongqing Otsuka Huayi Chemical Co., Ltd. was newly included in the scope of consolidation from the fiscal year ended March 31, 2012 due to the increase in materiality.

Céréalpes SAS and M-fold Biotech, GmbH, which had been in the scope of consolidation, were absorbed by Nutrition & Nature SAS and Cambridge Isotope laboratories (Europe), GmbH, respectively.

Guangdong Otsuka Pharmaceutical Co., Ltd., which had been in the scope of consolidation became the affiliated company accounted for by the equity method from the fiscal year ended March 31, 2012 because the ownership share of the Group decreased due to the transfer of its equity shares.

(2) Non-consolidated subsidiaries

Significant non-consolidated subsidiaries:

Otsuka Pakistan Ltd.	Otsuka Pharmaceutical (H.K.) Ltd.	Interpharma Praha, a.s.

Non-consolidated subsidiaries are small in size and the aggregate total assets, sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage) and other indicators do not have a material effect on the consolidated financial statements and have therefore been excluded from the scope of consolidation.

2. Application of the Equity Method

(1) Non-consolidated subsidiary accounted for by the equity method

Otsuka Pakistan Ltd.

(2) Affiliated companies accounted for by the equity method: 12

Significant companies:

Earth Chemical Co., Ltd.	ALMA S.A.	CG Roxane LLC
VV Food & Beverage Co., Ltd.	China Otsuka Pharmaceutical Co., Ltd.	

Guangdong Otsuka Pharmaceutical Co., Ltd., which had been in the scope of consolidation became the affiliated company accounted for by the equity method from the fiscal year ended March 31, 2012 because the ownership share of the Group decreased due to the transfer of its equity shares.

(3) Non-consolidated subsidiaries and affiliated companies not accounted for by the equity method

Significant companies:

Otsuka Pharmaceutical (H.K.) Ltd.	Interpharma Praha, a.s.

Based on the Company's ownership share of net income and retained earnings, and other factors, non-consolidated subsidiaries and affiliated companies that have not been accounted for by the equity method do not have a material effect on the consolidated financial statements.

(4) The fiscal year end date of certain companies accounted for by the equity method are different from the consolidated fiscal year end date. In preparing the consolidated financial statements, the Company uses the financial statements of these companies as of their fiscal year end date.

The fiscal year of Otsuka Pakistan Ltd. ends on June 30. The tentative financial statements as of December 31 are used for the preparation of the consolidated financial statements.

3. Fiscal Year End Date of Consolidated Subsidiaries

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd. and eleven other subsidiaries have a fiscal year ending March 31. Other than Giant Harvest Limited which has a fiscal year ending July 31, 51 other consolidated subsidiaries have a fiscal year ending December 31.

In preparing the consolidated financial statements, other than Giant Harvest Limited, the Company uses the financial statements as of the subsidiary's respective fiscal year end date. The Company uses the tentative financial statements as of January 31 for Giant Harvest Limited.

For major transactions which occurred between the fiscal year end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements.

4. Accounting Standards

(1) Valuation of major assets

a. Inventories

-Finished products, work-in-process and raw materials are valued at the lower of cost or net selling value, determined mainly by the gross average method.

-Merchandise and supplies are valued at the lower of cost or net selling value, determined mainly by the first-in, first-out method.

b. Securities

-Held-to-maturity securities are valued at amortized cost (straight-line method.)

-Marketable securities classified as available-for-sale are valued at fair value with unrealized gain or losses, net of applicable taxes, stated in a separate component of equity and cost of security sold is primarily calculated using the moving average method.

-Non-marketable securities classified as available-for-sale are valued at cost, determined mainly by the moving average method.

c. Derivatives

-Derivatives are valued at fair value.

(2) Method of Depreciation for Major Fixed Assets

a. Tangible fixed assets (excluding lease assets)

-The Company and its domestic subsidiaries primarily use the declining-balance method. However, for buildings (excluding attached facilities) acquired on or after April, 1998, the straight-line method is employed. Foreign consolidated subsidiaries outside Japan primarily use the straight-line method.

-Estimated useful lives for the major fixed assets are as follows:

Buildings and structures: 3-65 years

Machinery and equipment: 2-25 years

b. Intangible fixed assets (excluding lease assets)

-The Company mainly uses the straight-line method over their estimated useful lives. Software for internal use are depreciated by the straight-line method based on internal guidelines (3 to 5 years.)

c. Lease assets

- The Company uses the straight-line method over the terms of their respective leases with a zero residual value.

(3) Major reserves

a. Allowance for doubtful receivables

-To protect against potential losses from uncollectable notes and accounts receivables, a provision is made on general receivables based on historical rates and specific cases are evaluated individually.

b. Reserve for employees' bonuses

-To appropriate funds for the payment of bonuses to employees, the Company and its domestic subsidiaries set up a reserve in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

c. Provision for directors' bonuses

- To appropriate funds for the payment of bonuses to directors, the Company and its certain domestic subsidiaries set up a provision in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

d. Provision for sales returns

-To protect against potential losses from sales returns, certain domestic subsidiaries set up a provision based on historical return rates and profit margins.

e. Provision for loss on business liquidation

-To reserve for loss on business liquidation, provisions have been made based on the estimated amount of possible loss.

f. Liability for employees' retirement benefits

- To prepare for payments of retirement benefits to employees, provisions have been made based on an estimate of the projected retirement benefit obligation and the fair value of the pension fund assets.
- Transitional provisions are recognized as an expense on a straight-line basis over 5 to 15 years.
- Prior service cost is amortized by the straight-line method over a fixed number of years (5 to 23 years) which is within the average remaining service period at the time of occurrence.
- Unrecognized net actuarial gains and losses are amortized starting in the period following the period of occurrence, by the straight-line method over a fixed number of years (5 to 15 years) which is within the average remaining service period at the time of occurrence.

g. Retirement benefits for directors and corporate auditors

-Retirement benefits for directors and corporate auditors of certain consolidated subsidiaries are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

h. Allowance for investment loss

-To protect against potential future losses on non-marketable securities, the Company recognizes a reserve as deemed necessary.

(4) Translation of major assets and liabilities denominated in foreign currencies

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

(5) Principal Methods of Hedge Accounting

a. Methods of Hedge Accounting

-Hedging activities are principally accounted for under the deferral hedge accounting.

-Designation is applied to forward exchange contracts and other foreign exchange contracts, and designated exceptional accounting to interest-rate swaps that meet their respective requirements.

b. Hedging instruments, hedged items and hedging policies

-Certain consolidated subsidiaries use foreign currency forward contracts, foreign currency option contracts, interest rate swaps to reduce foreign currency exchange risk and interest rate risks.

c. Evaluation of effectiveness of hedges

-Evaluation of the effectiveness of hedges are omitted as hedging instruments and hedged items are the same currencies or are under the same conditions and changes in the cash flow are expected to completely offset.

(6) Amortization of goodwill

Goodwill and negative goodwill are amortized on a straight-line basis over a period of 5 or 20 years.

(7) Scope of cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposit and short-term investments, which mature within three months of the date of acquisition, that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

(8) Other

Consumption taxes are excluded from revenues and expenses.

(6) Changes in Accounting Policies

1. Change in the method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies

Previously, revenue and expense accounts of consolidated foreign subsidiaries and affiliated companies were translated into Japanese yen at the spot rate prevailing as of the reporting date. From the first quarter of FY2011, the Company has changed to a translation method using the average exchange rate. The Company changed its method of translation to more accurately reflect the performances of foreign subsidiaries and affiliated companies in the consolidated financial statements by eliminating the effects of temporary fluctuations in exchange rates, taking into consideration the recent fluctuations in exchange rates.

The prior year financial statements for the full year have been adjusted retrospectively to apply the change in accounting policy.

The major effects of the changes in accounting policies (mentioned above) and method of presentation (mentioned in “(7) Changes in Method of Presentation” on page 32) on the prior period financial statements were as follows. The cumulative effect on prior year’s beginning net assets balance increased retained earnings by ¥2,716 million and decreased foreign currency translation adjustments by the same amount.

The effects of the change in translation method on Per Share Information are presented in “Per Share Information” on page 39.

1) Consolidated Balance Sheet
As of March 31, 2011

(Millions of yen)

	Before retrospective adjustment	After retrospective adjustment	Diff	Effect of change in translation method
ASSETS				
Current assets				
Notes and accounts receivable-trade	239,554	239,648	94	94
Finished products and merchandise	62,300	62,335	35	35
Other current assets	57,029	56,976	(52)	(52)
Total current assets	921,153	921,230	77	77
Total assets	1,589,639	1,589,717	77	77
NET ASSETS				
Shareholders’ equity				
Retained earnings	605,882	609,967	4,084	4,084
Total shareholders’ equity	1,198,208	1,202,293	4,084	4,084
Accumulated other comprehensive income				
Foreign currency translation adjustments	(48,438)	(52,446)	(4,007)	(4,007)
Total accumulated other comprehensive income	(48,084)	(52,091)	(4,007)	(4,007)
Total net assets	1,163,247	1,163,325	77	77
Total liabilities and net assets	1,589,639	1,589,717	77	77

2) Consolidated Statement of Income
From April 1, 2010 to March 31, 2011

(Millions of yen)

	Before retrospective adjustment and reclassification	After retrospective adjustment and reclassification	Diff	Effect of change in translation method	Effect of change in presentation method
Net sales	1,090,212	1,127,589	37,376	30,053	7,323
Cost of sales	367,092	379,025	11,933	11,933	—
Gross profit	723,120	748,564	25,443	18,119	7,323
Selling, general and administrative expenses	605,617	622,272	16,654	16,654	—
Operating income	117,502	126,292	8,789	1,465	7,323
Non-operating income	17,583	10,756	(6,826)	496	(7,323)
Non-operating expenses	8,567	8,647	79	79	—
Ordinary income	126,518	128,400	1,882	1,882	—
Extraordinary income	5,909	5,917	7	7	—
Extraordinary loss	11,153	11,287	134	134	—
Income before income taxes and minority interests	121,274	123,030	1,755	1,755	—
Income taxes					
Current	33,197	33,598	401	401	—
Deferred	5,511	5,438	(73)	(73)	—
Total income taxes	38,708	39,036	328	328	—
Income before minority interests	82,565	83,993	1,427	1,427	—
Minority interests in net income	1,564	1,623	59	59	—
Net income	81,001	82,369	1,368	1,368	—

3) Consolidated Statement of Changes in Net Assets
From April 1, 2010 to March 31, 2011

(Millions of yen)

	Before retrospective adjustment and reclassification	After retrospective adjustment and reclassification	Diff	Effect of change in translation method
Shareholders' Equity				
Retained earnings				
Beginning balance	532,032	532,032	—	—
Cumulative effect of changes in accounting policies	—	2,716	2,716	2,716
Retained earnings as restated	532,032	534,748	2,716	2,716
Changes during the period				
Net income	81,001	82,369	1,368	1,368
Total changes during the period	73,850	75,219	1,368	1,368
Ending balance	605,882	609,967	4,084	4,084
Total shareholders' equity				
Beginning balance	962,105	962,105	—	—
Cumulative effect of changes in accounting policies	—	2,716	2,716	2,716
Retained earnings as restated	962,105	964,822	2,716	2,716
Changes during the period				
Net income	81,001	82,369	1,368	1,368
Total changes during the period	236,102	237,470	1,368	1,368
Ending balance	1,198,208	1,202,293	4,084	4,084
Accumulated other comprehensive income				
Foreign currency translation adjustments				
Beginning balance	(30,059)	(30,059)	—	—
Cumulative effect of changes in accounting policies	—	(2,716)	(2,716)	(2,716)
Retained earnings as restated	(30,059)	(32,775)	(2,716)	(2,716)
Changes during the period				
Net changes in items other than shareholders' equity	(18,379)	(19,670)	(1,290)	(1,290)
Total changes during the period	(18,379)	(19,670)	(1,290)	(1,290)
Ending balance	(48,438)	(52,446)	(4,007)	(4,007)
Total accumulated other comprehensive income				
Beginning balance	(25,816)	(25,816)	—	—
Cumulative effect of changes in accounting policies	—	(2,716)	(2,716)	(2,716)
Retained earnings as restated	(25,816)	(28,532)	(2,716)	(2,716)
Changes during the period				
Net changes in items other than shareholders' equity	(22,268)	(23,559)	(1,290)	(1,290)
Total changes during the period	(22,268)	(23,559)	(1,290)	(1,290)
Ending balance	(48,084)	(52,091)	(4,007)	(4,007)
Total Net Assets				
Beginning balance	948,456	948,456	—	—
Cumulative effect of changes in accounting policies	—	—	—	—
Retained earnings as restated	948,456	948,456	—	—
Changes during the period				
Net income	81,001	82,369	1,368	1,368
Net changes in items other than shareholders' equity	(21,311)	(22,602)	(1,290)	(1,290)
Total changes during the period	214,791	214,868	77	77
Ending balance	1,163,247	1,163,325	77	77

4) Consolidated Statement of Cash Flows
From April 1, 2010 to March 31, 2011

(Millions of yen)

	Before retrospective adjustment and reclassification	After retrospective adjustment and reclassification	Diff	Effect of change in translation method
Net cash provided by operating activities	86,393	87,746	1,353	1,353
Net cash used in investing activities	(130,878)	(131,509)	(630)	(630)
Net cash provided by financing activities	113,655	113,566	(88)	(88)
Foreign currency translation adjustments on cash and cash equivalents	(4,689)	(5,323)	(634)	(634)
Net increase in cash and cash equivalents	64,481	64,481	―	―
Cash and cash equivalents, beginning of period	321,306	321,306	―	―
Increase in cash and cash equivalents resulting from change in scope of consolidation	1,538	1,538	―	―
Cash and cash equivalents, end of period	387,325	387,325	―	―

2. Application of accounting standards relating to Earnings Per Share

From the first quarter of FY2011, the Company adopted revised accounting standards “Accounting Standard for Earnings Per Share” (ASBJ Statement No.2 issued June 30, 2010), “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No.4 issued June 30, 2010), and “Practical Solution on Accounting for Earnings Per Share” (ASBJ PITF No.9 issued June 30, 2010).

The method of computing diluted net income per share has been changed concerning the treatment of stock options that become exercisable after a certain period of service. Specifically, of such stock options’ fair value, the portion attributable to service yet to be provided to the company is now included in the amount to be paid upon exercise of the stock options.

The effects of the change in translation method on Per Share Information are presented in “Per Share Information” on page 39.

(7) Changes in Method of Presentation

1. Change in the method of presentation for upfront licensing payments received

Previously, upfront payments received as part of licensing transactions have been recorded as "revenues related to extension of co-promotion agreement" and "other" under non-operating income. However, as such income is directly attributable to the core business activities in the pharmaceutical business and as such transactions are likely to grow in importance, the Company has changed its method of presentation to include such income as net sales from the first quarter of FY2011.

The prior year financial statements have been reclassified to reflect the change in the method of presentation. The major effects of the changes in method of presentation on the prior period financial statements are presented in "(6) Changes in Accounting Policies" on page 28.

(8) Additional Information

1. Application of the "Accounting Standard for Accounting Changes and Error Corrections" and others

For the accounting changes and error corrections made in after the beginning of the year ended March 31, 2012, we have applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 of December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 of December 4, 2009).

2. Accounting for Employee Shareholding Incentive Plan

The Company adopted a "Trust-type Employee Shareholding Incentive Plan (E-Ship)" (the "Plan") in order to provide an enhanced benefits package and an incentive to increase the long-term enterprise value for its Group's employees.

Under the Plan, the "Employee Stock Holding Trust" (the "Trust") acquired the number of Company shares which were expected to be purchased by the "Otsuka Group Employee Stock Holding Plan" in the five year period from July 2008 through a third-party allocation of new shares by the Company. Until termination, the Trust is responsible for transferring shares to the Employee Stock Holding Plan and receiving dividends from the Company. If any money remains within the Trust, such money will be distributed as residual assets to those employees that fulfill the requirements for eligible beneficiaries.

The Company guaranteed the Trust's borrowings from financial institutions for the acquisition of Company shares but the Trust has repaid all of the borrowings as of March 31, 2011.

The Company does not recognize the Company shares owned by the Trust on its balance sheet and increased its common stock and capital surplus at the time of the third-party allocation of new shares. As of March 31, 2012, the Trust sold all its acquired shares to the Employee Stock Holding Plan and already identified all the beneficiaries who were eligible to receive residual assets from the Trust.

In addition, as of March 31, 2012, the Company had a temporary custody of the residual assets (¥7,389 million) to be distributed to the beneficiaries, which was included in the Company's other current liabilities.

(9) Notes to Consolidated Financials Statements
(Segment Information)
a. Reporting Segments

1. Overview

The Group's reporting segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors, in order to make decisions on allocation of business resources and to evaluate the business performances of the respective segments.

The Group's core business is in healthcare and the Group categories the "Pharmaceuticals", "Nutraceuticals", "Consumer products" and "Other" businesses as the four reporting segments.

The Group defines the reporting segments as follows:

- Pharmaceuticals, which is comprised of research and development, production and sales of prescription drugs and clinical nutrition.
- Nutraceuticals, which is comprised of production and sales of functional foods, over-the-counter drugs and supplements.
- Consumer products, which is comprised of mineral water, beverages and food products.
- Other, which encompasses other operations, comprised of logistics, warehousing, chemical products and electronics.

2. Calculation methods for sales, income (or loss), assets, and other items

(Note regarding changes to reporting segment)

In conjunction with the changes, as noted in "(6) Changes in Accounting Policies" on page 28 and "(7) Changes in Method of Presentation" on page 32, the Company has changed the calculation method of net sales and segment income (or loss), assets, and other items by reporting segment.

(Change in the method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies)

Previously, revenue and expense accounts of consolidated foreign subsidiaries and affiliated companies were translated into Japanese yen at the spot rate prevailing as of the reporting date. From the first quarter of FY2011, the Company has changed to a translation method using the average exchange rate. The Company changed its method of translation to more accurately reflect the performances of foreign subsidiaries and affiliated companies in the consolidated financial statements by eliminating the effects of temporary fluctuations in exchange rates, taking into consideration the recent fluctuations in exchange rates.

The change in accounting policy has been retrospectively applied in calculating the segment income (loss) and "Net sales and segment income (or loss), assets, and other items by reporting segment" for the year ended March 31, 2011 reflects the change in the translation method.

(Change in the method of presentation for upfront licensing payments received)

Previously, upfront payments received as part of licensing transactions have been recorded as "revenues related to extension of co-promotion agreement" and "other" under non-operating income. However, as such income is directly attributable to the core business activities in the pharmaceutical business and as such transactions are likely to grow in importance, the Company has changed its method of presentation to include such income as net sales from the first quarter of FY2011.

"Net sales and segment income (or loss), assets, and other items by reporting segment" for the year ended March 31, 2011 have been reclassified to reflect the change in the method of presentation.

"Net sales and segment income (or loss), assets, and other items by segment" for the year ended March 31, 2011 before retrospective adjustment of the above two changes was presented in "4. Prior year information before retrospective adjustment of the changes in accounting policies and method of presentation" on page 35.

3. Sales, income (or loss), assets, and other items by segment

(For the fiscal year ended March 31, 2011)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	751,086	256,435	47,135	72,931	1,127,589	—	1,127,589
Intersegment sales	—	2,277	778	33,941	36,996	(36,996)	—
Total	751,086	258,713	47,913	106,873	1,164,586	(36,996)	1,127,589
Segment income (loss)	142,782	18,420	(2,176)	4,372	163,399	(37,107)	126,292
Segment asset	459,308	189,007	134,958	119,068	902,343	687,373	1,589,717
Other items							
Depreciation	19,452	13,100	806	4,979	38,339	5,143	43,482
Goodwill amortization	2,628	1,702	131	150	4,614	—	4,614
Investment in equity method companies	14,346	8,961	108,334	10,335	141,977	—	141,977
Increase in tangible and intangible fixed assets	24,484	11,884	827	2,904	40,100	4,692	44,793

(For the fiscal year ended March 31, 2012)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	782,248	251,281	47,990	73,054	1,154,573	—	1,154,573
Intersegment sales	—	3,543	1,216	35,548	40,309	△40,309	—
Total	782,248	254,825	49,206	108,602	1,194,883	△40,309	1,154,573
Segment income (loss)	168,480	22,143	△2,309	1,943	190,258	△41,597	148,661
Segment asset	501,029	184,461	130,707	121,391	937,590	729,176	1,666,767
Other items							
Depreciation	19,939	11,276	1,953	4,945	38,115	5,279	43,394
Goodwill amortization	2,748	1,702	74	141	4,667	—	4,667
Investment in equity method companies	17,543	8,637	102,761	10,715	139,657	—	139,657
Increase in tangible and intangible fixed assets	20,810	11,501	1,970	4,556	38,839	4,462	43,302

(Notes)

1. Adjustments to segment income (loss) and asset are as follows;

(Millions of yen)

Segment income (loss)	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Intersegment eliminations	1,736	594
Unallocated expenses	(38,843)	(42,191)
Total	(37,107)	(41,597)

Unallocated expenses are primarily costs associated with headquarter of the Company and certain consolidated subsidiaries.

(Millions of yen)

Segment asset	FY2010 (From April 1, 2010 to March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Intersegment eliminations	(6,717)	(6,303)
Corporate assets	694,091	735,480
Total	687,373	729,176

Corporate assets are primarily assets associated with headquarter and basic research functions of the Company and certain consolidated subsidiaries.

Other item

Depreciation;

Adjustments to depreciation include depreciation and amortization of tangible and intangible fixed assets and long-term prepaid expenses as assets associated with headquarter of the Company and certain consolidated subsidiaries.

Increase in tangible and intangible fixed assets;

Adjustments to increase in tangible and intangible fixed assets include assets associated with headquarter and basic research functions of the Company and certain consolidated subsidiaries.

2. Segment income (loss) is adjusted to the operating income in the consolidated statements of income.

4. Prior year information before retrospective adjustment of the changes in accounting policies and method of presentation

“Sales, income (or loss), assets, and other items by segment” for the year ended March 31, 2011 before retrospective adjustment of the changes presented in “2. Calculation methods for sales, income (or loss), assets, and other items” on page 33 are as follows:

(For the fiscal year ended March 31, 2011)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	721,402	249,489	46,751	72,569	1,090,212	—	1,090,212
Intersegment sales	—	2,267	692	33,941	36,901	△36,901	—
Total	721,402	251,757	47,443	106,510	1,127,113	△36,901	1,090,212
Segment income (loss)	134,432	17,860	△2,081	4,350	154,562	△37,059	117,502
Segment asset	459,230	189,007	134,958	119,068	902,266	687,373	1,589,639
Other items							
Depreciation	17,817	14,241	777	4,948	37,785	5,182	42,968
Goodwill amortization	2,628	1,702	131	150	4,614	—	4,614
Investment in equity method companies	14,346	8,961	108,334	10,335	141,977	—	141,977
Increase in tangible and intangible fixed assets	24,262	11,513	804	2,889	39,470	4,691	44,161

(Notes)

1. Adjustments to segment income (loss) and asset are as follows;

(Millions of yen)

Segment income (loss)	FY2010 (From April 1, 2010 to March 31, 2011)
Intersegment eliminations	1,736
Unallocated expenses	(38,796)
Total	(37,059)

Unallocated expenses are primarily costs associated with headquarter of the Company and certain consolidated subsidiaries.

(Millions of yen)

Segment asset	FY2010 (From April 1, 2010 to March 31, 2011)
Intersegment eliminations	(6,717)
Corporate assets	694,091
Total	687,373

Corporate assets are primarily assets associated with headquarter and basic research functions of the Company and certain consolidated subsidiaries.

Other item

Depreciation;

Adjustments to depreciation include depreciation and amortization of tangible and intangible fixed assets and long-term prepaid expenses as assets associated with headquarter of the Company and certain consolidated subsidiaries.

Increase in tangible and intangible fixed assets;

Adjustments to increase in tangible and intangible fixed assets include assets associated with headquarter and basic research functions of the Company and certain consolidated subsidiaries.

2. Segment income (loss) is adjusted to the operating income in the consolidated statements of income.

b. Other information

(For the fiscal year ended March 31, 2011)

1. Net sales by product

(Millions of yen)

	ABILIFY	Others	Total
Sales to customers	392,590	734,998	1,127,589

2. Territory information

(1) Net Sales

(Millions of yen)

Japan	North America	Others	Total
575,053	402,726	149,809	1,127,589

(Note) Net sales are based on the location of the customers and are classified by their country or region.

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
210,150	46,682	256,832

3. Major customers

(Millions of yen)

Customer	Net sales	Segment
Cardinal Health Inc	115,801	Pharmaceuticals
Mckesson Corporation	111,706	Pharmaceuticals

(For the fiscal year ended March 31, 2012)

1. Net sales by product

(Millions of yen)

	ABILIFY	Others	Total
Sales to customers	411,565	743,008	1,154,573

2. Territory information

(1) Net Sales

(Millions of yen)

Japan	North America	Others	Total
574,869	413,508	166,195	1,154,573

(Note) Net sales are based on the location of the customers and are classified by their country or region.

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
206,442	49,072	255,515

3. Major customers

(Millions of yen)

Customer	Net sales	Segment
Cardinal Health Inc	122,488	Pharmaceuticals
Mckesson Corporation	117,590	Pharmaceuticals

c. Impairment loss

(For the fiscal year ended March 31, 2011)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Impairment loss	—	2,364	137	13	243	2,758

(For the fiscal year ended March 31, 2012)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Impairment loss	650	946	—	796	291	2,684

d. Goodwill

(For the fiscal year ended March 31, 2011)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,628	1,702	131	150	—	4,614
Unamortized balance	7,915	30,571	641	2,316	—	41,444

The amortization amount and unamortized balance of the negative goodwill acquired before April 1, 2010 are as follow:

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,207	—	—	287	—	2,495
Unamortized balance	26,079	—	—	2,854	—	28,933

(For the fiscal year ended March 31, 2012)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,748	1,702	74	141	—	4,667
Unamortized balance	5,166	28,868	600	2,189	—	36,825

The amortization amount and unamortized balance of the negative goodwill acquired before April 1, 2010 are as follow:

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,207	—	—	257	—	2,464
Unamortized balance	23,871	—	—	2,597	—	26,469

(Per Share Information)

	FY2010 (From April 1, 2010 To March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Net assets per share	¥2,061.88	¥2,166.55
Net income per share (basic)	¥164.51	¥165.20
Net income per share (diluted)	¥164.40	¥164.73

Basis for the calculation of basic net income per share and diluted net income per share

(Millions of yen)

	FY2010 (From April 1, 2010 To March 31, 2011)	FY2011 (From April 1, 2011 to March 31, 2012)
Basic net income per share		
Net income	82,369	92,174
Net income attributable to common stock	82,356	92,156
Amounts not attributable to common stock	12	17
Average number of common stock outstanding during the year	500,599,047 shares	557,832,368 shares
Diluted net income per share		
Adjustments to net income	(22)	(173)
(including minority interest)	(22)	(173)
Increase in number of common stocks	206,865 shares	551,871 shares
(including stock acquisition rights)	(206,865 shares)	(551,871shares)
Residual securities that were not used in calculating diluted net income per share due to the lack of dilutive effects	Stock option No.2 (32,000 shares) Stock option No.4 (620,000 shares)	—

(Change in the method of translating revenue and expense accounts of foreign subsidiaries and affiliated companies)

Previously, revenue and expense accounts of consolidated foreign subsidiaries and affiliated companies were translated into Japanese yen at the spot rate prevailing as of the reporting date. From the first quarter of FY2011, the Company has changed to a translation method using the average exchange rate. The Company changed its method of translation to more accurately reflect the performances of foreign subsidiaries and affiliated companies in the consolidated financial statements by eliminating the effects of temporary fluctuations in exchange rates, taking into consideration the recent fluctuations in exchange rates.

The prior year earnings per shares for the full year have been adjusted retrospectively to apply the change in accounting policy.

The effects of the change in translation method were to increase the prior year's basic and diluted earnings per share by ¥2.73 and ¥2.67, respectively.

(Application of accounting standards relating to Earnings Per Share)

From the first quarter of FY2011, the Company adopted revised accounting standards "Accounting Standard for Earnings Per Share" (ASBJ Statement No.2 issued June 30, 2010), "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4 issued June 30, 2010), and "Practical Solution on Accounting for Earnings Per Share" (ASBJ PITF No.9 issued June 30, 2010).

The method of computing diluted net income per share has been changed concerning the treatment of stock options that become exercisable after a certain period of service. Specifically, of such stock options' fair value, the portion attributable to service yet to be provided to the company is now included in the amount to be paid upon exercise of the stock options.

As a result, the effect of the change was to increase the prior year's diluted earnings per share by ¥0.14.

(Subsequent events)

For the fiscal year ended March 31, 2012
There was no significant subsequent event.

5. Other

(1) Changes in Officers (as of June 28, 2012)

1. Director Scheduled to Resign
   Noriko Tojo (currently Managing Director, Corporate Planning)
   Sadanobu Tobe (currently Director)