Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2014 [Japan GAAP]

November 13, 2013

Company name	: **Otsuka Holdings Company Limited**
Stock exchange listing	: Tokyo Stock Exchange
Code number	: 4578
URL	: http://www.otsuka.com/en/
Representative	: Tatsuo Higuchi President and Representative Director, CEO
Contact	: Takuma Kimura Director, Investor Relations Department Telephone: +81-3-6361-7411
Scheduled date of quarterly securities report submission	: November 14, 2013
Scheduled date of dividend payment commencement	: December 2, 2013
Supplementary materials for quarterly financial results	: Yes
Earnings announcement for quarterly 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 Second Quarter of FY2013 (April 1, 2013 to September 30, 2013)

(1) Consolidated Operating Results (cumulative)

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

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2013	699,411	16.8	111,720	19.6	121.987	27.7	87.016	38.9
FY2012	599,007	1.5	93,435	8.2	95.498	11.7	62.653	9.5

(Note) Comprehensive income: FY2013 ¥118,398 million (90.1%)
FY2012 ¥62,281 million (4.4%)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2013	159.92	159.45
FY2012	113.26	112.95

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Book value per share
	Million yen	Million yen	%	Yen
As of September 30, 2013	1,864,470	1,411,931	74.4	2561.68
As of March 31, 2013	1,779,207	1,325,071	73.7	2381.64

(Reference) Shareholders' equity: As of September 30, 2013 ¥1,387,184 million
As of March 31, 2013 ¥1,310,497 million

2. Dividends

	Annual dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2012	—	28.00	—	30.00	58.00
FY2013	—	30.00			
FY2013 (forecast)			—	35.00	65.00

(Note) Revisions to dividends forecast most recently announced: No

3. Consolidated Operating Results Forecast for FY 2013 (April 1, 2013 to March 31, 2014)

(% change from 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
Full Year	1,435,000	17.8	215,000	26.7	225,000	22.0	155,000	26.6	285.54

(Note) Revisions to financial forecast most recently announced: Yes

For further details, please see "Qualitative Information on Consolidated Operating Results Forecast" on page 11.

4. Others

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

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: No

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction

1) Changes in accounting policies due to revisions of accounting standards: No
2) Changes in accounting policies due to other reasons: No
3) Changes in accounting estimates: No
4) Restatements of prior period financial statements due to error correction: No

(4) 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):

September 30, 2013	557,835,617 shares
March 31, 2013	557,835,617 shares

2) Number of shares of treasury stock as of the end of the reporting period:

September 30, 2013	16,323,351 shares
March 31, 2013	7,593,160 shares

3) Average number of shares outstanding during the reporting period:

Six months ended September 30, 2013	544,126,028 shares
Six months ended September 30, 2012	553,171,391 shares

*** Information Regarding the Quarterly Review Procedures**

This quarterly financial report is exempt from quarterly review procedures as stipulated under the Financial Instruments and Exchange Act of Japan. At the time of disclosure of this quarterly financial report, the quarterly financial statement review procedures have been completed as stipulated under the Financial Instruments and Exchange Act of Japan and the quarterly review report has been received on November 8, 2013.

*** Disclaimer Regarding Forward-Looking Statements and Other Items of Note**

Forecasts and other forward-looking statements included in this report are not guarantees of future achievements because they 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 "Qualitative Information on Consolidated Operating Results Forecast" on page 11 for information regarding the consolidated operating results forecast.

The company is planning to hold a meeting for institutional investors, analysts and the press on November 13, 2013. Presentation materials and video of the meeting will be available on the Company's website promptly after the meeting.

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(1) Qualitative Information on Consolidated Operating Results

<Summary of Operating Results for the Six Months Ended September 30, 2013>

For the first six months of fiscal 2013 (from April 1 to September 30, 2013), the Otsuka Group recorded consolidated net sales of ¥699,411 million (up 16.8% year on year), with operating income of ¥111,720 million (up 19.6%), ordinary income of ¥121,987 million (up 27.7%) and net income of ¥87,016 million (up 38.9%).

Results by business segment are as follows:

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	477,132	155,837	24,040	66,052	(23,651)	699,411
Operating income (loss)	113,249	17,765	(958)	4,143	(22,479)	111,720

1) Pharmaceuticals

In the area of the central nervous system, sales of antipsychotic agent *ABILIFY*, which is sold in 60 markets worldwide and is ranked seventh in global drug sales*[1], continued to expand on a global basis. Sales rose more than 25% year on year, partly helped by a positive impact from depreciation of the yen. In the U.S., sales of *ABILIFY* grew by more than 30% year on year. This growth mainly reflected price increases and a rise in prescriptions for adjunctive therapy in major depressive disorder and for bipolar disorder. *ABILIFY* also remained the leader*[2] in U.S. drug sales between April and June 2013. In Europe, Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical"), a wholly owned subsidiary of the Company, and H. Lundbeck A/S ("Lundbeck") began to collaborate on sales of *ABILIFY* in April 2013. Amid a slump in the market for atypical antipsychotics, sales of *ABILIFY* grew mainly on the back of an increase in prescriptions for the treatment of manic episodes of bipolar disorder. In Asia, sales of *ABILIFY* continued to expand, supported by an increase in prescriptions for adjunctive therapy in major depressive disorder and for pediatric indications, such as for Tourette disorder, in South Korea. In June 2013, *ABILIFY* became the first atypical antipsychotics approved in Japan for major depressive disorder. This additional approval and a rise in prescriptions for orally disintegrating tablets were the main factors behind steady growth in sales.

Under the alliance with Lundbeck, Otsuka Pharmaceutical and Lundbeck began co-promotion of *Abilify Maintena*, aripiprazole intramuscular depot formulation (once-monthly injection), in the U.S. in March 2013. Prescriptions have been growing steadily in line with recognition of the drug's high profile of safety and tolerability. In Europe, Otsuka Pharmaceutical received a positive opinion in September 2013 from the European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) recommending marketing authorization for *Abilify Maintena* for the maintenance treatment of schizophrenia.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, was approved for the treatment of children aged four years and older (additional pediatric indication and dosage) in May 2013, supporting an increase in prescriptions. Also, *E Keppra Dry Syrup 50%*, a new *E Keppra* formulation, was launched in August 2013. These factors led to strong growth in domestic sales compared with the same period of the previous fiscal year. *Neupro Patch*, the world's first transdermal dopamine agonist, which was launched in February 2013, registered steady growth in the number of hospitals prescribing the drug for the treatment of Parkinson's disease and restless legs syndrome.

In the area of the cardiovascular system, global sales of *SAMSCA*, a first-in-class drug vasopressin V_2-receptor antagonist sold in 14 markets worldwide, rose more than 80% year on year. This increase was supported by the drug's growing acceptance among medical specialists due to the new value it brings and its method of use as an oral aquaretic agent. In Japan, *Samsca 7.5mg tablets* were launched in June 2013 and the drug was granted an additional indication for the treatment of fluid retention in patients with hepatic cirrhosis in September 2013. The Group is working to grow the value of *SAMSCA* in line with considerations of the drug's safety, including providing current information on its proper usage.

Sales of antiplatelet agent *Pletaal/Pletal* have been affected by generics in Japan. However, sales fell only slightly, as domestic medical practitioners view the drug as a convenient orally disintegrating tablet for patients who have had onset cerebral infarction. Global sales of *Pletaal/Pletal* increased slightly year on year, supported mainly by sales growth in South Korea.

In the area of anti-cancer and cancer-supportive care, *TS-1 Combination OD Tablets T20, T25* were launched as an additional formulation of anti-cancer agent *TS-1* in Japan in June 2013. Also, the use of evidence-based medicine (EBM) approaches helped raise awareness of the drug as a treatment for colorectal cancer and head and neck cancers, supporting steady sales. Overseas, *TS-1* is gradually being rolled out in European markets and is currently sold in 23 markets worldwide, as of September 30, 2013. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined year on year as a result of competition. Sales of *Aloxi*, a 5-HT_3 receptor antagonist antiemetic agent, increased on the back of steady growth in prescriptions, while sales of anti-cancer agent *Abraxane* significantly grew at a triple-digit pace compared with the same period of the previous fiscal year, mainly supported by its approval for the additional indications of gastric cancer and non-small-cell lung cancer in February 2013. Anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with BMS*[3], registered a large rise in distributions compared with the same period of the previous fiscal year. This reflected the drug's solid growth as a first-line treatment for chronic myeloid leukemia in markets worldwide and a substantial increase from January 2013 in the ratio used to calculate distributions received by the Group based on sales. *Busulfex*, which is the only allogeneic hematopoietic stem cell pre-transplanting regimen approved by the U.S. Food and Drug Administration (FDA), is now sold by the Group and its partners in more than 50 countries. *Busulfex* has become established as the standard drug for use as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation. Otsuka Pharmaceutical took over sole responsibility for the *Busulfex* business in Japan and Asia from April 1, 2013, in addition to the exclusive marketing rights the Group already owns for *Busulfex* in the U.S. and Canada.

In other areas, sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* declined year on year due to the impact of generics, but steps were taken to strengthen the *Mucosta* brand, including the launch of tablets with the brand name printed on both the front and back. In the area of ophthalmology, prescriptions for dry eye treatment *Mucosta ophthalmic suspension UD 2%* grew steadily, supporting a large increase in sales compared with the same period of the previous fiscal year.

In the area of clinical nutrition, sales of the high-calorie TPN solution *ELNEOPA* increased year on year, as a result of an increase in the number of hospitals adopting *ELNEOPA* and growth in prescriptions. These developments partly reflected greater awareness of the solution among acute care hospitals as a TPN kit product containing trace elements recommended in the 2013 guidelines of the Japanese Society for Parenteral and Enteral Nutrition (JSPEN). They were also the result of its popularity among extended care hospitals for its benefits, such as the reduced risk of infection and shortened labor time at the point when the TPN is mixed and prepared.

With respect to the global development of the Group's pharmaceutical operations, the European pharmaceutical business of Otsuka Pharmaceutical has seen its sales more than double over the last five years. In order to drive the further development of this business, Otsuka Europe Development and Commercialisation Ltd. ("OEDC") was established in London, U.K. in July 2013 as a new center for the clinical development of pharmaceuticals. Also, Otsuka Pharmaceutical announced on September 5, 2013 that it intended to acquire U.S. company Astex Pharmaceuticals, Inc. ("Astex"). The acquisition was completed on October 11, 2013. Astex's anti-cancer drugs in the clinical development stage and its fragment-based drug discovery technology will strengthen not only Otsuka Pharmaceutical's oncology portfolio but also its drug discovery research in the cancer and central nervous system fields. In addition, in July 2013 Otsuka Pharmaceutical Factory, Inc. acquired a stake in Claris Otsuka Limited, which is based in Ahmedabad, India.

As a result, net sales in the pharmaceutical segment for the six months ended September 30, 2013 totaled ¥477,132 million (up 19.9% year on year), with operating income of ¥113,249million (up 16.9%).

*[1]: © 2013 IMS Health. All rights reserved. Estimated based on "World Review Preview 2013 (Year 2012 Sales Data)." Reprinted with permission.

*[2]: © 2013 IMS Health. All rights reserved. Estimated based on "MIDAS Quantum 2Q/2013 Sales data." Reprinted with permission.

*[3]: Bristol-Myers Squibb Company

2) Nutraceuticals

In *Pocari Sweat* electrolyte supplement drink brand, the Group launched a new version called *Pocari Sweat Ion Water* in Japan in April 2013 and focused on running sales promotions, which included taste testing. Despite a challenging market environment characterized by the launch of rival beverages aimed at alleviating heat stroke, this new product helped consumers reconnect with the *Pocari Sweat* brand and gave them a wider choice of beverages for different uses and tastes. This supported a double-digit increase in sales volume compared with the same period of the previous fiscal year. Overseas, where *Pocari Sweat* is sold in 17 markets, consumption increased in line with an increase in middle-income earners in Indonesia, while the creation of a more efficient marketing system in China led to an increase in new customers. As a result, sales volume continued to expand in both countries.

The Otsuka Group is developing its soy-related business, based on the concept of "Soylution," which aims to make full use of the nutrition in soy as a solution to various health and environmental issues faced by people today. In *SoyCarat*, a healthy soy snack, two new flavors – *Nori & Natto* and *Olive Oil & Garlic* – were added to the range as part of efforts to strengthen the brand. Soy bar *SOYJOY*, which is sold in 11 markets worldwide, registered a strong increase in domestic sales volume compared with the same period of the previous fiscal year. This reflected growth in market share and new customers, supported by the launch of new flavor *SOYJOY Peanuts* in April 2013, which helped attract more users, mainly men, to the *SOYJOY* brand. The Group is also working on dietary education initiatives to encourage wider understanding among consumers of the nutritional benefits of soy through *SoyCarat*, *SOYJOY* and the other product in the soy products range, soy soda beverage *SOYSH*, which is mainly sold online.

Amid weak growth in the wider market for nutritional and functional beverages, the Group implemented sales promotions for carbonated nutritional drink *Oronamin C* using TV commercials and other approaches. The promotions focused on clearly communicating the product's features in order to boost *Oronamin C*'s value as a functional and trusted brand. These efforts raised awareness among female consumers, supporting an increase in sales volume compared with the same period of the previous fiscal year.

Sales volume for the balanced nutrition food *Calorie Mate* declined slightly from the same period of the previous fiscal year, despite sales promotions using face-to-face marketing aimed at specific consumer groups.

Subsidiary Pharmavite LLC ("Pharmavite") of the U.S. supplies *Nature Made* supplements, which have been selected as the leading pharmacist-recommended brand in eight categories*[4] in the U.S. and have been the number one retail national vitamin and supplement brand in the U.S. for six consecutive years, from 2007 through 2013*[5]. The Group reinforced its manufacturing framework for *Nature Made* supplements with the completion of a new plant in the eastern U.S. state of Alabama in June 2013.

At Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, sugar-free and gluten-free food products under the *Gerble* nutrition and health food brand continued to drive growth, while sales of organic food products and soy products also remained strong. In Japan, the number of stores that sell both *Gerble* and *Gerlinea*, the leading*[6] calorie control brand in France's diet food market, continued to increase steadily.

In the cosmedics area, where the focus is on the concept of "healthy skin," two of the Group's brands expanded steadily. In the *UL•OS* men's skincare brand, which is marking its fifth anniversary, *Skin Lotion* and *Skin Milk* now offer the added efficacy of minimizing fine lines and wrinkles caused by dryness. Product tester kits also went on sale at convenience stores nationwide as part of efforts to expand the customer base. This supported a double-digit increase in sales compared with the same period of the previous fiscal year. In South Korea, where *UL•OS* was launched in March 2012, the brand continued to gain ground. This was illustrated by its selection as the top male cosmetics brand for quality in the country's 2013 consumer choice awards, the second year in a row that the brand has won the award. In the *InnerSignal* brand aimed at women who seek healthy, beautiful skin, the Group continued to make steady progress in building a loyal base of customers by using the mail-order sales channel to acquire new customers and boost repeat business.

Sales volume for nutrient tonic *Tiovita* declined year on year, mainly reflecting the impact of the shrinking market for nutrient tonics and inventory adjustments at retailers.

As a result, net sales in the nutraceutical segment for the six months ended September 30, 2013 totaled ¥155,837 million (up 11.9% year on year), with operating income of ¥17,765 million (up 17.1%).

*[4]: Pharmacy Times, 2012-2013 Edition

*[5]: Pharmavite calculation based in part on data reported by Nielsen through its Scantrack ® service for the Dietary Supplements category in dollar and unit sales, for the 52-week period ending 12/29/2007 and 12/28/2008 in US Food Drug Mass channels; and for the 52-week period ending 12/26/2009, 12/25/2010, 12/24/2011 and 12/22/2012 in US xAOC channels. c2013 The Nielsen Company

*[6]: IRI Value Share of market–Total 2012

3) Consumer Products

Sales volume for mineral water products, centered on *Crystal Geyser*, saw a slight increase year on year, reflecting stepped up marketing activities and efforts to boost brand value. To mark the 45th anniversary of *Bon Curry Gold*, a range of instant curry dishes, the Group upgraded its products so they can be heated in a microwave oven without removing the curry pouch from the box while also strengthening its marketing strategy and sales promotion activities to boost brand value. On the other hand, sales volume for *Match*, a carbonated electrolyte drink containing vitamins, declined year on year as a result of competition and other factors, despite the ongoing implementation of an aggressive marketing strategy and sales promotion activities mainly targeting the high school student market.

In the consumer products segment, the Group steps up marketing initiatives and continues to implement a range of initiatives aimed at improving profitability.

As a result, net sales in the consumer products segment for the six months ended September 30, 2013 totaled ¥24,040 million (down 10.4% year on year), with an operating loss of ¥958 million (compared with an operating loss of ¥633 million in the same period of the previous fiscal year).

4) Others

In the specialty chemical business, sales of friction materials *TISMO* and *Terracess* increased year on year, supported by firm demand in Japan and an upturn in North America in the automotive field. Continued firm demand in Japan for foaming agents used in building materials and other chemicals also contributed to sales growth. Sales of tire raw materials were also solid. As a result, sales in the specialty chemical business rose strongly compared with the same period of the previous fiscal year. In the fine chemical business, sales declined year on year due to a drop in sales volume for pharmaceutical intermediate *DACTA*.

In the transportation and warehousing business, sales rose year on year owing to increases in handling volumes for pharmaceuticals, beverages and other products. Sales in the direct sales support business saw double-digit growth due to an increase in the number of orders.

As a result, net sales in the other businesses for the six months ended September 30, 2013 totaled ¥66,052 million (up 14.0% year on year), with operating income of ¥4,143 million (up 58.2%).

< Research and Development Activities>

Research and development expenses for the six months ended September 30, 2013 totaled ¥105,286 million.

The primary areas of research and development by business segment 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 the central nervous system and anti-cancer and cancer-supportive care. The Group also conducts research and development in fields such as cardiovascular disease and ophthalmology.

Category	*Brand Name,* (Generic Name), Development Code	Status
Central nervous system	*ABILIFY* *Abilify Maintena* (aripiprazole)	<Japan> Phase III trials of *Abilify Maintena* for the treatment of bipolar disorder were initiated in May 2013. *ABILIFY* was approved in June 2013 for the additional indication of major depressive disorder. <Europe> *Abilify Maintena* received a positive opinion in September 2013 from the CHMP recommending marketing authorization for the maintenance treatment of schizophrenia.
	E Keppra (levetiracetam)	<Japan> *E Keppra* was approved in May 2013 for the treatment of children aged four years and older (additional pediatric indication and dosage). *E Keppra Dry Syrup 50%* obtained manufacturing and marketing approval in June 2013 and was launched in August 2013. A new drug application was filed in June 2013 for *Levetiracetam Injection* for the treatment of epileptic partial seizures.
	(brexpiprazole) OPC-34712	<Japan> The drug was given the generic name brexpiprazole in August 2013. <U.S. and Europe> Phase III trials for the treatment of agitation associated with Alzheimer's disease were initiated in August 2013.
	Lu AE58054	At the Alzheimer's Association International Conference (AAIC) in July 2013, Lundbeck announced Phase II clinical data on efficacy for Lu AE58054 as an add-on to donepezil for the treatment of Alzheimer's disease.
Anti-cancer and cancer-supportive care	*TS-1*	<Japan> *TS-1 Combination OD Tablets T20, T25* were launched in June 2013.
	E-fen Buccal Tablets (fentanyl citrate) OVF	<Japan> The drug was approved in June 2013 as an analgesic for the treatment of acute pain in cancer patients receiving regular doses of powerful opioid analgesics. *E-fen Buccal Tablets 50μg, 100μg, 200μg, 400μg, 600μg, 800μg* were launched in September 2013.

Category	*Brand Name*, (Generic Name), Development Code	Status
Anti-cancer and cancer-supportive care	TAS-102	<Japan and Europe> Phase II trials for the treatment of small cell lung cancer were initiated in July 2013.
	TAS-118	<Japan and Asia> Phase III trials for the treatment of pancreatic cancer were initiated in July 2013.
	OPB-111077	<Asia> Phase I trials for the treatment of solid cancer were initiated in June 2013.
Cardiovascular system	*SAMSCA* (tolvaptan)	<U.S.> The U.S. FDA accepted an application for the additional indication of autosomal dominant polycystic kidney disease (ADPKD) in April 2013. However, Otsuka Pharmaceutical received a complete response letter from the FDA in August 2013 stating that the application could not be approved based on the data in the initial application. <Japan> An application was filed in May 2013 for the additional indication of ADPKD. *Samsca 7.5mg tablets*, a low-dosage version of *Samsca 15mg tablets*, were launched in June 2013. *Samsca 7.5mg tablets* received approval in September 2013 for the additional indication of the treatment of fluid retention in patients with hepatic cirrhosis. Phase II trials for the treatment of fluid retention associated with hemodialysis were initiated in July 2013. Phase II trials for the treatment of fluid retention associated with peritoneal dialysis were initiated in September 2013.
Other categories (Ophthalmology and others)	*Mucosta ophthalmic suspension UD 2%* OPC-12759E	<U.S.> The decision was taken in September 2013 to terminate the development of the drug in the U.S., as primary outcome measure was not attained in Phase III trials for the treatment of dry eyes.
	(delamanid) OPC-67683	<Europe> In July 2013, Otsuka Pharmaceutical received a negative opinion from the CHMP for the treatment of multidrug-resistant tuberculosis. Phase II trials for the treatment of multidrug-resistant tuberculosis in children were initiated in August 2013.
	TAC-202	<Japan> Phase II trials for the treatment of allergic rhinitis were initiated in September 2013.

2) Diagnostic

ODK-0902 (H. influenzae ELISA kit *Otsuka*) was launched in April 2013. ODK-1003 (WT1 mRNA assay kit II *Otsuka*) obtained manufacturing and marketing approval in May 2013 and was launched in September 2013. The *Fingraph* fingertip blood sampler, which measures sodium and potassium electrolytes, was launched in August 2013. A Phase II trial was initiated in July 2013 to evaluate the performance of in vivo diagnostic agent C13-URA (13C-uracil breath test kit) in patients with dyspepsia.

Research and development expenses for the pharmaceutical business for the six months ended September 30, 2013 were ¥101,324 million.

(Nutraceuticals**)**

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

In functional beverages, the Group has developed a new product called *Pocari Sweat Ion Water*, a low-calorie beverage with subtle sweetness that retains all the functionality of original *Pocari Sweat*. This product was launched in April 2013. Also, in September 2013, Otsuka Pharmaceutical launched *Omugi Seikatsu*, a product with a high content of barley β-glucans, a type of soluble dietary fiber found in barley. Cooked rice with β-glucan enriched barley has been proven to control postprandial glucose response and achieve a second-meal effect*[1].

The Group's Research Institute of New Functional Products Development in Tokushima continues to focus on the research and development of products that promote the nutrition in soy to consumers around the world in a familiar form. During the period under review, two new flavors were added to the *SoyCarat* range of healthy soy snacks.

Research and development expenses for the nutraceutical business for the six months ended September 30, 2013 were ¥2,087 million.

*[1]: "Effect of Cooked Rice with β-glucan Enriched Barley on Postprandial Glucose Response and Its Second Meal Effect," Fukuhara et al., published in Japanese Pharmacology and Therapeutics, August 20, 2013.

(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 six months ended September 30, 2013 were ¥281 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 six months ended September 30, 2013 were ¥1,593 million.

(2) Qualitative Information on Consolidated Financial Position

(Analysis of Financial Position)

1) Assets

Total assets as of September 30, 2013 were ¥1,864,470 million, an increase of ¥85,262 million compared to ¥1,779,207 million at the end of the previous fiscal year. The increase was due mainly to a ¥49,899 million increase in current assets, a ¥35,356 million increase in fixed assets and a ¥6 million increase in deferred assets.

(Current Assets)

Total current assets as of September 30, 2013 were ¥1,130,542 million, an increase of ¥49,899 million compared to ¥1,080,642 million at the end of the previous fiscal year. The increase was due mainly to a ¥80,781 million increase in cash and deposits and a ¥10,313 million increase in inventories, which outweighed a ¥22,862 million decrease in notes and accounts receivable-trade and a ¥25,461 million decrease in marketable securities.

(Fixed Assets)

Total fixed assets as of September 30, 2013 were ¥733,854 million, an increase of ¥35,356 million compared to ¥698,498 million at the end of the previous fiscal year. The increase was due mainly to a ¥31,894 million increase in tangible fixed assets and a ¥12,387 million increase in intangible fixed assets, which outweighed a ¥8,213 million decrease in investment securities in investments and other assets. Main factor of the increase in tangible fixed assets was the initial investment in manufacturing facility at the Kitajima Factory of Taiho Pharmaceutical Co., Ltd., and manufacturing facility at the Alabama Factory of Pharmavite, LLC. and the addition of manufacturing facility at Claris Otsuka which was newly included in scope of consolidation. The increase in intangible fixed assets was mainly caused by Claris Otsuka which was newly included in scope of consolidation.

2) Liabilities

(Current Liabilities)

Total current liabilities as of September 30, 2013 were ¥355,424 million, an increase of ¥8,952 million compared to ¥346,472 million at the end of the previous fiscal year. The increase was due mainly to a ¥16,622 million increase in notes and accounts payable-trade, which outweighed a ¥2,998 million decrease in short-term borrowings as a result of repayment, a ¥1,309 million decrease in income taxes payable, a ¥2,223 million decrease in provisions and a ¥1,476 million decrease in other current liabilities.

(Long-term Liabilities)

Total fixed liabilities as of September 30, 2013 were ¥97,114 million, a decrease of ¥10,550 million compared to ¥107,664 million at the end of the previous fiscal year. The decrease was due mainly to a ¥5,876 million decrease in liability for employees' retirement benefits and a ¥5,274 million decrease in other fixed liabilities.

3) Net Assets

Total net assets as of September 30, 2013 were ¥1,411,931 million, an increase of ¥86,860 million compared to ¥1,325,071 million at the end of the previous fiscal year. The increase was due mainly to a ¥48,274 million increase in shareholders' equity as a result of the positive net income amounting to ¥87,016 million, which outweighed a ¥30,000 million purchases of treasury stock and ¥16,507 million dividend payments. Additionally, a ¥28,412 million increase in accumulated other comprehensive income due to foreign currency fluctuations and a ¥10,713 million increase in minority interests are the factor of the increase in total net assets.

(Analysis of Cash Flows)

Cash and cash equivalents increased by ¥83,114 million during the six months ended September 30, 2013 to ¥430,685 million. Net cash provided by operating activities was ¥128,414 million, while net cash used in investing activities and financing activities were ¥2,285 million and ¥56,962 million, respectively.

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥128,414 million in the six months ended September 30, 2013, an increase of ¥58,607 million, compared to ¥69,807 million in the same period of the previous fiscal year. This increase is due to a combination of plus and minus factor. The plus one is ¥122,830 million in income before income taxes and minority interests (¥94,255 million in the same period of the previous fiscal year), decrease of ¥37,030 million (increase of ¥19,914 million in the same period of previous fiscal year) in trade receivables, and payment of ¥37,850 million (¥39,794 million in the same period of previous fiscal year) in income taxes. The minus one is increase of ¥7,820 million (¥19,305 million in the same period of previous fiscal year) in trade payables.

(Cash Flows from Investing Activities)

Net cash used in investing activities was ¥2,285 million in the six months ended September 30, 2013, a decrease of ¥49,633 million compared to ¥51,919 million in the same period of the previous fiscal year. Investing activities during the six months included ¥22,529 million in purchases of property, plant and equipment, ¥12,792 million in purchase of investments in subsidiaries resulting in change in scope of consolidation, ¥23,639 million in decrease in time deposits-net, and ¥11,082 million in decrease in marketable securities. Purchases of property, plant and equipment included acquisition of initial manufacturing facility at the Kitajima Factory of Taiho Pharmaceutical Co., Ltd. and updates of existing other facilities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥56,962 million in the six months ended September 30, 2013, an increase of ¥1,794 million compared to ¥55,167 million in the same period of the previous fiscal year. Financing activities during the six months included ¥30,000 million in purchases of treasury stock, ¥8,043 million in decrease of short-term borrowings and ¥16,507 million in payment of dividends.

(3) Qualitative Information on Consolidated Operating Results Forecast

The outlook for the consolidated results for the fiscal year ending March 31, 2014 has been revised from the previous forecast announced on May 14, 2013 as follows, taking into consideration the current half year results and the anticipated foreign exchange rates and R&D activities in the second half of the year.

Amendments to the consolidated operating results forecast for FY2013 (April 1, 2013 to March 31, 2014)

	Net sales	Operating income	Ordinary income	Net income	Basic earnings per share
	Million yen	Million yen	Million yen	Million yen	Yen
Previous forecast (A)	1,370,000	205,000	210,000	138,000	254.22
Revised forecast (B)	1,435,000	215,000	225,000	155,000	285.54
Amount changed (B-A)	65,000	10,000	15,000	17,000	—
Change (%)	4.7%	4.9%	7.1%	12.3%	—
(Reference) FY2012 consolidated results	1,218,055	169,660	184,462	122,429	221.90

(Note) The assumed exchange rates for translating revenue and expense accounts of foreign subsidiaries are as follows:

	USD	Euro
	Yen	Yen
Previous forecast	90.00	120.00
Revised forecast	97.00	128.00
FY2013 Q2 actual	95.72	125.62

2. Other Information

(1) Changes in significant subsidiaries during the period

No

(2) Adoption of accounting methods specific to quarterly consolidated financial statements

No

(3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction

No

3. Quarterly Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2013	As of September 30, 2013
ASSETS		
Current assets		
Cash and deposits	414,380	495,162
Notes and accounts receivable-trade	318,087	295,225
Marketable securities	137,768	112,307
Finished products and merchandise	71,243	75,740
Work-in process	25,842	31,487
Raw materials and supplies	35,266	35,437
Other current assets	78,597	85,865
Allowance for doubtful receivables	(543)	(683)
Total current assets	1,080,642	1,130,542
Fixed assets		
Tangible fixed assets	275,967	307,861
Intangible fixed assets		
Goodwill	37,787	40,490
Other intangible fixed assets	36,062	45,747
Total intangible fixed assets	73,850	86,237
Investments and other assets		
Investment securities	276,296	268,032
Investments in capital	31,574	33,749
Other assets	43,164	39,693
Allowance for investment loss	(1,569)	(1,021)
Allowance for doubtful receivables	(785)	(748)
Total investments and other assets	348,680	339,755
Total fixed assets	698,498	733,854
Deferred assets	66	72
Total assets	1,779,207	1,864,470
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	97,523	114,145
Short-term borrowings	51,789	48,790
Income taxes payable	33,514	32,205
Reserve for bonuses	15,928	16,265
Provisions	2,399	175
Other current liabilities	145,317	143,841
Total current liabilities	346,472	355,424
Long-term liabilities		
Long-term debt	6,251	8,648
Liability for employees' retirement benefits	40,570	34,694
Other allowances	3,107	2,544
Negative goodwill	24,005	22,771
Other long-term liabilities	33,729	28,455
Total long-term liabilities	107,664	97,114
Total liabilities	454,136	452,538

	As of March 31, 2013	As of September 30, 2013
NET ASSETS		
Shareholders' equity		
Common stock	81,690	81,690
Capital surplus	510,423	512,992
Retained earnings	768,314	843,887
Treasury stock	(18,392)	(48,259)
Total shareholders' equity	1,342,036	1,390,311
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	8,284	10,941
Deferred loss on derivatives under hedge accounting	—	(597)
Foreign currency translation adjustments	(39,823)	(13,470)
Total accumulated other comprehensive income	(31,539)	(3,126)
Stock acquisition rights	104	104
Minority interests	14,468	24,642
Total net assets	1,325,071	1,411,931
Total liabilities and net assets	1,779,207	1,864,470

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

Consolidated Statements of Income (cumulative)

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Net sales	599,007	699,411
Cost of sales	196,769	215,327
Gross profit	402,238	484,083
Selling, general and administrative expenses		
Promotion expenses	84,959	86,222
Salaries and bonuses	37,769	48,171
Reserve for bonuses	8,771	9,948
Retirement benefit expenses	3,831	2,331
Amortization of goodwill	2,440	1,741
Research and development expenses	74,279	105,286
Other	96,751	118,661
Total selling, general and administrative expenses	308,803	372,363
Operating income	93,435	111,720
Non-operating income		
Interest income	723	571
Dividend income	843	534
Amortization of negative goodwill	1,232	1,415
Equity in earnings of unconsolidated subsidiaries and affiliated companies	2,576	2,911
Foreign exchange gain, net	—	5,340
Other	1,288	770
Total non-operating income	6,663	11,544
Non-operating expenses		
Interest expenses	778	664
Foreign exchange loss, net	3,575	—
Other	246	613
Total non-operating expenses	4,600	1,277
Ordinary income	95,498	121,987
Extraordinary income		
Gain on sales of fixed assets	110	353
Gain on sales of subsidiaries' stocks	—	257
Subsidy income	7	634
Other	30	25
Total extraordinary income	148	1,270
Extraordinary loss		
Loss on retirement of fixed assets	205	261
Impairment loss	982	85
Other	202	80
Total extraordinary loss	1,390	428
Income before income taxes and minority interests	94,255	122,830
Income taxes		
Current	31,164	34,049
Deferred	(15)	779
Total income taxes	31,149	34,828
Income before minority interests	63,106	88,001
Minority interests in net income	453	984
Net income	62,653	87,016

Consolidated Statements of Comprehensive Income (cumulative)

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Income before minority interests	63,106	88,001
Other comprehensive income		
Unrealized (loss) gain on available-for-sale securities	(1,858)	2,604
Deferred loss on derivatives under hedge accounting	(10)	(597)
Foreign currency translation adjustments	732	17,911
Share of other comprehensive income of equity method affiliates	309	10,478
Total other comprehensive income	(825)	30,397
Total comprehensive income	62,281	118,398
Total comprehensive income attributable to:		
Owners of the parent	61,797	116,519
Minority interests	483	1,879

(3) Consolidated Statements of Cash Flows

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Operating activities:		
Income before income taxes and minority interests	94,255	122,830
Depreciation and amortization	19,746	21,330
Impairment loss	982	85
Amortization of goodwill	1,208	325
Decrease in liability for employees’ retirement benefits	(1,639)	(6,518)
Decrease in allowance for doubtful receivables	(30)	(1)
Interest and dividend income	(1,567)	(1,106)
Interest expense	778	664
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(2,576)	(2,911)
Gain on sales of subsidiaries’ stocks	—	(257)
(Increase) decrease in trade receivables	(19,914)	37,030
(Increase) decrease in inventories	(9,507)	1,705
Increase in trade payables	19,305	7,820
Increase (decrease) in long-term unearned revenues	4,525	(6,389)
Other, net	206	(12,629)
Subtotal	105,774	161,978
Interest and dividends received	4,604	4,938
Interest paid	(776)	(651)
Income taxes paid	(39,794)	(37,850)
Net cash provided by operating activities	69,807	128,414
Investing activities:		
(Increase) decrease in short-term investment securities	(10,551)	11,082
Purchases of property, plant and equipment	(23,122)	(22,529)
Proceeds from sales of property, plant and equipment	160	935
Purchases of investment securities	(11,104)	(4,237)
Proceeds from sales and redemptions of investment securities	9,064	7,003
Payments for investments in capital	(2,145)	(1,068)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(12,792)
Payments of loans receivables	(203)	(1,129)
Proceeds from collection of loans receivables	1,272	415
(Increase) decrease in time deposits-net	(12,827)	23,639
Other, net	(2,462)	(3,603)
Net cash used in investing activities	(51,919)	(2,285)

(Millions of yen)

	For the six months ended September 30, 2012	For the six months ended September 30, 2013
Financing activities:		
Increase (decrease) in short-term debt-net	17	(8,043)
Proceeds from long-term debt	2,400	922
Repayments of long-term debt	(14,448)	(1,533)
Proceeds from disposal of treasury stock	—	115
Purchases of treasury stock	(20,001)	(30,000)
Dividends paid	(13,945)	(16,507)
Dividends paid to minority interests in consolidated subsidiaries	(205)	(379)
Other, net	(8,983)	(1,536)
Net cash used in financing activities	(55,167)	(56,962)
Foreign currency translation adjustments on cash and cash equivalents	(79)	4,713
Net (decrease) increase in cash and cash equivalents	(37,358)	73,880
Cash and cash equivalents, beginning of period	384,194	347,571
Increase in cash and cash equivalents from change of scope of consolidation	931	9,233
Cash and cash equivalents, end of period	347,767	430,685

(4) Notes regarding Quarterly Consolidated Financial Statements

(Note regarding Assumption of Going Concern)

Not applicable

(Note regarding Significant Changes in the Amount of Shareholders' Equity)

For the six months of fiscal 2013 (April 1, 2013 to September 30, 2013)

The Company repurchased 8,784,800 shares of common stock at a cost of ¥29,999 million in accordance with the resolution of board of directors held on May 14, 2013.

As a result, the Company holds 16,323,351 treasury stocks at a cost of ¥48,259 million as of September 30, 2013.

(Segment Information)

For the six months of fiscal 2012 (April 1, 2012 to September 30, 2012)

1) Net sales and segment income by reporting segment

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	398,057	136,957	26,028	37,964	599,007	—	599,007
Intersegment sales	—	2,286	793	19,980	23,060	(23,060)	—
Total	398,057	139,243	26,821	57,945	622,068	(23,060)	599,007
Segment income (loss)	96,904	15,173	(633)	2,618	114,062	(20,627)	93,435

Notes:

1) Adjustments to segment income (loss) of ¥(20,627) million include intersegment eliminations of ¥296 million and unallocated corporate expenses of ¥(20,924) million. Corporate expenses include costs associated with headquarter functions.
2) Segment income (loss) is adjusted to the operating income in the quarterly consolidated statement of income.

For the six months of fiscal 2013 (April 1, 2013 to September 30, 2013)

1) Net sales and segment income by reporting segment

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	477,132	152,888	23,966	45,423	699,411	—	699,411
Intersegment sales	—	2,949	73	20,628	23,651	(23,651)	—
Total	477,132	155,837	24,040	66,052	723,062	(23,651)	699,411
Segment income (loss)	113,249	17,765	(958)	4,143	134,199	(22,479)	111,720

Notes:

1) Adjustments to segment income (loss) of ¥(22,479) million include intersegment eliminations of ¥349 million and unallocated corporate expenses of ¥(22,828) million. Corporate expenses include costs associated with headquarter functions.
2) Segment income (loss) is adjusted to the operating income in the quarterly consolidated statement of income.

2) Impairment losses and goodwill by reporting segment

(Significant changes in goodwill amounts)

In the Pharmaceuticals segment, Claris Otsuka Limited was newly included in the scope of consolidation at the end of second quarter of fiscal 2013 as a result of acquisition of its shares. The increase in goodwill that occurred in the period was ¥3,381 million.

(Subsequent Events)

Acquisition of Astex Pharmaceuticals, Inc.

On September 5, 2013, Otsuka Pharmaceutical, a consolidated subsidiary, entered into an agreement with Astex Pharmaceuticals, Inc. ("Astex"), U.S. bio-venture company, that Otsuka Pharmaceutical would acquire Astex via an all-cash tender offer (the "Tender Offer") to be followed by a second-step merger (the "Merger") through Autumn Acquisition Corporation, a wholly-owned subsidiary of Otsuka America, Inc.

In accordance with the agreement, on October 11, 2013, New York time, Autumn Acquisition Corporation completed the Tender Offer and the Merger with and into Astex with Astex continuing as the surviving corporation. Finally, Astex became a consolidated subsidiary.

(1) Outline of the Transaction

1) Name and Business of Acquired Company
Astex Pharmaceuticals, Inc.
R&D and sale of pharmaceutical compounds in the cancer and central nervous system fields

2) Outline and Purpose of the Transaction
Astex is a bio-venture company, with a fragment-based drug discovery research center in Cambridge, England and a clinical research and development function in California, US. The Otsuka Group hopes to be able to provide innovative therapeutics with new working mechanisms going forward by combining Astex's fragment-based drug discovery technology with its strength in R&D in the central nervous system area that produced *ABILIFY*.
On the clinical R&D front, through this acquisition of Astex, which excels at clinical R&D as well, The Otsuka Group will strengthen its anti-cancer drug R&D position and expand our portfolio in the cancer area.

3) Effective Date of Business Combination
October 11, 2013, New York time

4) Legal Form of Business Combination
Acquisition of shares in Astex by cash

5) Name of the Company after Business Combination
Astex Pharmaceuticals, Inc.

6) Share of Voting Rights Acquired
100.00%

7) Main Reason of the Determination of Acquiring
All the shares were acquired in cash by Autumn Acquisition Corporation, a subsidiary established solely for this acquisition.

(2) Acquisition Cost of Acquired Company and its Breakdown
The acquisition cost of acquired company: Cash US$ 809 million
The expense directly related to the acquisition: Not determined yet

(3) Goodwill, Reason for Recognizing Goodwill, Amortization Method and Amortization Term

1) Amount of Goodwill and Reason for Recognizing Goodwill
Not determined yet because the purchase price allocation is not completed

2) Method and Term to Amortize Goodwill
Not determined yet