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

August 8, 2014

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
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Scheduled date of quarterly securities report submission	: August 11, 2014
Scheduled date of dividend payment commencement	: -
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 First Quarter of FY2014 (April 1, 2014 to June 30, 2014)

(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	%
FY2014	386,344	19.4	65,565	29.7	69,482	22.3	45,246	14.0
FY2013	323,526	12.3	50,544	3.4	56,821	16.6	39,703	24.4

(Note) Comprehensive income: FY2014 ¥37,799 million (33.7)%
FY2013 ¥57,049 million 37.9%

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2014	85.53	83.02
FY2013	72.61	72.31

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Book value per share
	Million yen	Million yen	%	Yen
As of June 30, 2014	1,996,252	1,516,934	74.6	2,750.39
As of March 31, 2014	2,028,399	1,510,759	73.2	2,740.89

(Reference) Shareholders' equity: As of June 30, 2014 ¥1,489,776 million
As of March 31, 2014 ¥1,484,569 million

2. Dividends

	Annual dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2013	-	30.00	-	35.00	65.00
FY2014	-				
FY2014 (forecast)		35.00	-	40.00	75.00

(Note) Revisions to dividends forecast most recently announced: None

3. Forecasts of Consolidated Financial Results for FY 2014 (April 1, 2014 to December 31, 2014)

(% 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)	795,000	13.7	120,000	7.4	125,000	2.5	83,000	(4.6)	153.24
FY2014	1,200,000	-	190,000	-	195,000	-	130,000	-	240.01

(Note) Revisions to financial forecast most recently announced: None

Following approval of the partial amendments of the Articles of Incorporation at the Annual Shareholders Meeting held on June 27, 2014, the Company changed its fiscal year end from March 31 to December 31. Furthermore, 23 consolidated domestic subsidiaries changed their fiscal year end from March 31 to December 31. Consequently, the consolidated financial projection in the transitional period for FY2014 represents nine months (April 1 to December 31 of 2014) and thus percentage changes compared to the previous fiscal year (twelve-month period) are not applicable.

4. Others

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): None

(2) Adoption of accounting methods specific to quarterly consolidated financial statements: None

(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: Yes
2) Changes in accounting policies due to other reasons: Yes
3) Changes in accounting estimates: Yes
4) Restatements of prior period financial statements due to error correction: None

(Note) Please refer to “2. Other Information (3) Changes in accounting policies, changes in accounting estimates and restatements of prior period financial statements due to error correction” on page 10 for further details.

(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):

June 30, 2014	557,835,617 shares
March 31, 2014	557,835,617 shares

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

June 30, 2014	16,176,894 shares
March 31, 2014	16,211,155 shares

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

Quarter ended June 30, 2014	541,643,292 shares
Quarter ended June 30, 2013	546,768,504 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 August 8, 2014.

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

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 refer to “1. Qualitative Information for the First Quarter of FY2014 (3) Qualitative Information on Consolidated Operating Results Forecast” on page 9 for information regarding the forecast of consolidated financial results.

The Company plans to hold an earnings release conference call for institutional investors, analysts and the press on August 8, 2014. Presentation materials and the audio of the conference call will be available on the Company’s website promptly after the conference call.

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1. Qualitative Information for the First Quarter of FY2014

(1) Qualitative Information on Consolidated Operating Results

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

As a result, the cumulated profit and loss statements of all consolidated companies are now consolidated based on the period from April 1, 2014 to June 30, 2014, while the cumulated profit and loss statements for the first quarter of the previous financial year were consolidated on the basis of financial results for the period from April 1, 2013 to June 30, 2013 for companies with a March year end, and for the period from January 1, 2013 to March 31, 2013 for companies with a December year end.

Therefore, to provide a comparison with last year's quarterly results, we have calculated results for the period from April 1 to June 30, 2013 for all consolidated companies, which are shown for reference purposes below.

<Summary of Operating Results for the Three Months Ended June 30, 2014>

For the first three months of fiscal 2014 (from April 1 to June 30, 2014), the Otsuka Group recorded consolidated net sales of ¥386,344 million (up 8.9% from ¥354,792 million for the same period in the previous year), with operating income of ¥65,565 million (up 19.9% from ¥54,698 million for the same period in the previous year), ordinary income of ¥69,482 million (up 10.6% from ¥62,811 million for the same period in the previous year) and net income of ¥45,246 million (up 6.3% from ¥42,581 million for the same period in the previous year).

Results by business segment are as follows:

(Results for the Three Months Ended June 30, 2014)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	275,403	77,056	11,884	33,959	(11,958)	386,344
Operating income	65,678	8,453	109	1,967	(10,643)	65,565

(Reference: Results for the Three Months Ended June 30, 2013)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	243,701	78,862	11,577	32,391	(11,740)	354,792
Operating income (loss)	54,372	10,698	(715)	2,077	(11,734)	54,698

1) Pharmaceuticals

In the area of central nervous system ("CNS") disorders, global sales of antipsychotic agent *ABILIFY*, which is sold in over 60 markets worldwide, continued to expand on a global basis, rising more than 10% year on year. In the U.S., sales of *ABILIFY* grew more than 10% year on year, supported mainly by an increase in prescriptions for adjunctive therapy in major depressive disorder and for bipolar disorder. In Europe, 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, mainly supported by an increase in prescriptions for adjunctive therapy in major depressive disorder and for pediatric indication with Tourette disorder, in South Korea. In Japan, *ABILIFY* prescriptions increased, reflecting additional indications for manic episodes of bipolar disorder and major depressive disorder, as well as the existing indication for schizophrenia. An increase in the number of medical institutions using the orally disintegrating tablets also supported growth in prescriptions. However, sales declined year on year, with demand falling back after a temporary spike in sales before the hike in consumption tax at the end of the previous fiscal year.

Abilify Maintena, an aripiprazole intramuscular depot formulation (once-monthly injection), is the first drug launched under our global alliance with H. Lundbeck A/S ("Lundbeck") to develop five compounds[*1]. In the U.S., prescriptions of the drug for the maintenance treatment of schizophrenia are growing steadily due to recognition of the drug's good safety and tolerability. Both companies are continuing to expand the co-promotion areas for *Abilify Maintena*. In Europe, *Abilify Maintena* is steadily being launched in local markets and was available in five countries as of June 30, 2014. The drug was also launched in Canada in April 2014.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions due to efforts to focus on sales of *E Keppra Dry Syrup 50%* after approval was granted for additional pediatric indication and dosage. *E Keppra* was also the top-selling brand[*2] in the domestic antiepileptic drug market in April–June 2014. *Neupro Patch*, the world's only transdermal dopamine agonist, was approved for long-term prescriptions for the treatment of Parkinson's disease and restless legs syndrome in March 2014. The drug has also been recognized for its ability to improve wearing-off symptoms[*3], supporting steady growth in prescriptions for Parkinson's disease.

In the area of oncology, we continued to provide information in Japan about anti-cancer agent *TS-1*, utilizing evidence-based medicine (EBM) approaches for colorectal cancer, head and neck cancer and pancreatic cancer. However, sales declined year on year due to large NHI price reductions and growth in generic products on the back of policies promoting generics. *TS-1* is gradually being rolled out overseas and is now available in 28 markets worldwide as of June 30, 2014. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined year on year due to the impact of rival products. Sales of *Aloxi*, a long-acting 5-HT_3 receptor antagonist antiemetic agent, were steady, while sales of anti-cancer agent *Abraxane* grew strongly year on year, supported by an increase in prescriptions due to its approval for the additional indications of gastric cancer and non-small-cell lung cancer in February 2013. *Lonsurf*, an anti-cancer agent with a new mechanism of action, was launched in May 2014 for the indications of unresectable advanced or recurrent colorectal cancer (limited to cases where standard treatments are not practical). Prescriptions of the drug are growing steadily.

Anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with BMS[*4], registered solid sales growth worldwide due to its position as a first-line treatment for chronic myeloid leukemia. *Busulfex*, which is the only allogeneic hematopoietic stem cell pre-transplanting regimen approved by the U.S. Food and Drug Administration (FDA), is now sold by the Group and its partners in more than 50 countries, and it has become established as standard drug for use as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation. These factors are supporting steady sales of *Busulfex*. In March 2014, Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical") acquired the rights to develop and sell DNA methylation inhibitor *Dacogen* worldwide, excluding Mexico. Transfer of the business is progressing steadily and the drug has started contributing to the Group's sales.

In the area of cardiovascular system global sales of *Samsca* (generic name: tolvaptan), a vasopressin V_2-receptor antagonist developed by Otsuka Pharmaceutical and sold in 14 markets worldwide, increased more than 30% year on year. This increase was supported by the drug's growing acceptance among medical specialists due to the new value it brings to clinical practice and because of its formulation as an oral aquaretic agent. In Japan, *Samsca* was approved in March 2014 for the additional indication of suppressing the progression of autosomal dominant polycystic kidney disease (ADPKD), becoming the world's first drug therapy for this disease. A new formulation, *Samsca 30mg tablets*, was launched in May 2014. Sales of antiplatelet agent *Pletaal/Pletal* declined year on year due to the impact of generics and NHI price revision in Japan.

In April 2014, new tuberculosis drug *Deltyba* was granted approval by the European Commission (EC) for the treatment of multidrug-resistant tuberculosis after many years of development in house. *Deltyba* went on sale in the U.K. in May 2014.

In other areas, sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* dropped sharply year on year due to the impact of generics and NHI price revision in Japan. Prescriptions for dry eye treatment *Mucosta ophthalmic suspension UD 2%* grew steadily.

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 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 the solution's other benefits, such as reduced risk of infection and a reduction in time and labor required for mixing and preparation.

As a result, net sales in the pharmaceutical segment for the three months ended June 30, 2014 totaled ¥275,403 million (up 13.0% for the same period in the previous year), with operating income of ¥65,678 million (up 20.8%).

*[1]: *Abilify Maintena*, brexpiprazole, Lu AE58054 and two new compounds currently being researched and developed by Lundbeck.

*[2]: © 2014 IMS Health. Estimated based on "Japan Pharmaceutical Market, April–June 2014." All rights reserved, no reproduction without permission.

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

*[4]: Bristol-Myers Squibb Company

2) Nutraceuticals

In the *Pocari Sweat* electrolyte supplement drink range, the Group ran sales promotions in Japan aimed at stepping up its appeal as a drink for the office, with a focus on *Pocari Sweat Ion Water*. However, domestic sales volume declined year on year. This mainly reflected sluggish conditions in the market from April, with sales falling back after a spike in demand ahead of the hike to consumption tax, and competition from rival products. Overseas, where *Pocari Sweat* is sold in 16 markets worldwide, sales volume expanded in Indonesia and China year on year, supported by ongoing efforts to cultivate consumers and promote the product's benefits.

The Otsuka Group operates its soy-related business in 11 markets worldwide, based on the concept of "Soylution," which sees soy as a solution to various health and environmental issues faced by consumers today. In Japan, soy bar *SOYJOY* registered growth in market share[*5], reflecting an increase in the number of new customers after the launch of new flavor *SOYJOY Almond & Chocolate* in April 2014. As a result, sales volume increased substantially year on year. In *SoyCarat*, a healthy soy snack, the addition of two new flavors to the range in the previous fiscal year led to increased product visibility and better understanding of the brand concept. In order to further develop the three brands in the soy product range – *SOYJOY*, *SoyCarat* and soy soda beverage *SOYSH* –, the Group continued to work on building brand value through activities aimed at cultivating customers, such as publicly open seminars run by nutritionists and events that give consumers hands-on experience in soy cultivation.

Focusing on the relationship between equol and the physical and emotional changes experienced by women during menopause, the Group launched equol-based food *EQUELLE* in April 2014, which gives women a readily available daily source of equol.

Sales volume for carbonated nutritional drink *Oronamin C* declined year on year due to the impact of the consumption tax increase and intensifying competition due to the launch of rival energy drinks.

Sales volume for the balanced nutrition food *Calorie Mate* was largely steady year on year, with sales promotions focused on the product's qualities as a balanced nutrition food helping to minimize the impact of the consumption tax hike.

Subsidiary Pharmavite LLC of the U.S. supplies *Nature Made* supplements, which have been selected as the leading pharmacist-recommended brand in eight categories[*6] in the U.S. and have been the number one retail national vitamin and supplement brand in the U.S. for seven consecutive years, from 2007 through 2013[*7]. However, sales of *Nature Made* supplements declined year on year due to sluggish market[*8].

At Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, sugar-free and gluten-free food products sold under the *Gerblé* nutrition and health food brand continued to drive growth, while sales of organic food products and soy products also remained strong. In addition, we launched *Milical*, France's leading diet food product, in Japan in April 2014. The rollout of the product in retail stores is progressing well, with the number of stores stocking the product exceeding our targets, especially in the drugstore sector.

In the cosmedics area, where the focus is on the concept of "healthy skin," sales in the *UL•OS* men's skincare brand rose steadily, supported by the May 2014 launch of *Sunscreen SPF25* with the added efficacy of minimizing fine lines and wrinkles caused by dryness. In South Korea, sales of *UL•OS* products increased year on year, supported by steady efforts to develop the brand and growth in the number of stores that stock the *UL•OS* range. In the *InnerSignal* brand aimed at women who seek healthy and 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. As a result, sales increased year on year.

Sales volume for nutrient tonic *Tiovita* declined year on year, mainly due to the shrinking market for nutrient tonics and competition from rival products.

As a result, net sales in the nutraceutical segment for the three months ended June 30, 2014 totaled ¥77,056 million (down 2.3% for the same period in the previous year), with operating income of ¥8,453 million (down 21.0%).

*[5]: INTAGE Beverage/Food SRI-W (04/07/2014 to 06/29/2014: *SOYJOY* share 15.2%, 04/08/2013 to 06/28/2013 *SOYJOY* share 12.8%)

*[6]: Based on 2013 US News & World Report - Pharmacy Times Survey, *Nature Made* is the #1 Pharmacist Recommended Brand in Eight Segments - Letter Vitamins, Omega-3/Fish Oil, Coenzyme Q10, Flax Seed Oil, Herbal supplements, Cholesterol Management-Natural, Garlic (tie) and Diabetic Multivitamins (tie).

*[7]: 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 04/12/2014 in US Food Drug Mass channels; and for the 52-week period ending 04/12/2014 in US xAOC channels. ©2014 The Nielsen Company

*[8]: Nielsen xAOC 12-week period ending 06/21/2014 −1.0% versus prior year

3) Consumer Products

Despite stepped up marketing activities and efforts to boost brand value, sales volume for mineral water products, centered on *Crystal Geyser*, declined year on year due to a pullback in demand after the hike to consumption tax and competition from rival products. Sales volume for *Match*, a carbonated electrolyte drink containing vitamins, expanded more than 20% year on year. This growth reflected the ongoing implementation of an aggressive marketing strategy and sales promotion activities mainly targeting the high school student market, and the launch of new product *Match Pink* in March 2014, which led to growth in new customers that reconnected the product with the market and reenergized the brand. Sales volume for *Bon Curry Gold*, a range of instant curry dishes, increased year on year due to various initiatives. Last year, products were upgraded so they can be heated in a microwave oven without removing the curry pouch from the box, and in the fiscal year under review, marketing strategy and sales promotion activities were reinforced to boost brand value, including adding new items to the range and launching special summer products.

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

Net sales in the consumer products segment for the three months ended June 30, 2014 totaled ¥11,884 million (up 2.6% for the same period in the previous year), with operating income of ¥109 million (compared with an operating loss of ¥715 million for the same period in the previous year).

4) Others

In the specialty chemical business, sales of tire additives and brake friction material modifiers *TISMO* and *Terracess* increased year on year, while capacitor electrolyte solution and other products were adopted by more clients amid strong demand from the automotive sector. In the construction field, sales of foaming agents used in building materials, hardeners used in coating materials, and other chemicals were firm. In April 2014, a new plant commenced operation and sales of *TERPLUS*, advanced polymer synthesized by living radical polymerization that is expected to expand in the future, grew steadily, contributing to higher sales of specialty chemicals compared with the same period in the previous year.

In the fine chemical business, sales declined slightly year on year, mainly due to a drop in overseas sales volume for pharmaceutical intermediate *YTR*.

In the transportation and warehousing business, sales rose year on year due to growth in the volume of products handled, which was driven by expansion in distribution areas for existing customers and success in securing new customers. Sales in the direct sales support business increased due to growth in the number of orders.

As a result, net sales in the other businesses for the three months ended June 30, 2014 totaled ¥33,959 million (up 4.8% for the same period in the previous year), with operating income of ¥1,967 million (down 5.3%).

<Research and Development Activities>

Research and development expenses for the three months ended June 30, 2014 totaled ¥50,149 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 oncology. The Group also conducts research and development in fields such as cardiovascular system and ophthalmology.

Research and development activities carried out during the three months ended June 30, 2014 in the area of therapeutic drugs are summarized below.

Category	*Brand Name*, (Generic Name), Development Code	Status
Central nervous system	(brexpiprazole) OPC-34712	(Additional information) <U.S.> An application was filed in July 2014 for the indications of schizophrenia and adjunctive therapy in major depressive disorder.
	ABILIFY (aripiprazole)	<Japan> Phase III trials for the treatment of agitation associated with dementia of the Alzheimer's type were initiated in June 2014.
Oncology	*Abraxane* ABI-007	<Japan> An application was filed in April 2014 for the indications of pancreatic cancer.
	TAS-116	<Japan> Phase I trials for the treatment of solid cancer were initiated in April 2014.
	(rebamipide) OPC-12759	<Japan> Phase II trials for the treatment of oral mucositis during chemoradiation therapy for cancer were initiated in April 2014.
Cardiovascular system	*Samsca* (tolvaptan)	<U.S.> Phase III trials for the treatment of autosomal dominant polycystic kidney disease (ADPKD) were initiated in June 2014.
Other categories	*Deltyba* (delamanid)	<Europe> Approval was granted by the EC in April 2014 for the indications of multidrug-resistant tuberculosis. (Additional information) <Japan> Marketing approval was granted in July 2014 for the indications of multidrug-resistant tuberculosis.
	(gluconate olanexidin) OPB-2045G	<Japan> An application was filed in May 2014 for *OLANEDINE* antiseptic solution 1.5%, applicator 10 ml for *OLANEDINE* antiseptic solution 1.5%, and applicator 25 ml for *OLANEDINE* antiseptic solution 1.5%, for the indications of antiseptic preparation for skin subjected to surgery.
	(Carteolol hydrochloride/ latanoprost) OPC-1085EL	<Japan> Phase III trials for the treatment of glaucoma were initiated in April 2014.

Category	*Brand Name*, (Generic Name), Development Code	Status
	(bilastine) TAC-202	<Japan> Phase II and Phase III trials for the treatment of chronic urticaria and cutaneous pruritus were initiated in May 2014.
	OPA-15406	<U.S.> Phase II trials for the treatment of atopic dermatitis were initiated in June 2014.

2) Diagnostic

Launched in Japan in April 2014, *QuickNavi Strep A* is a test kit for the detection of group A beta-hemolytic streptococcal antigen, and is the sixth product in the *QuickNavi* series of easy-to-use rapid testing kits.

Research and development expenses for the pharmaceutical business for the three months ended June 30, 2014 were ¥48,061 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 1996, the Saga Nutraceuticals Research Institute began researching the relationship between equol and the physical and emotional changes experienced by women during menopause. This research resulted in the launch of equol-based food *EQUELLE* in April 2014, which gives women a readily available daily source of equol.

The Group’s research institute of new functional products development continues to focus on the research and development of products that promote the nutrition in soy to consumers around the world in familiar formats.

Research and development expenses for the nutraceutical business for the three months ended June 30, 2014 were ¥1,145 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 three months ended June 30, 2014 were ¥98 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 the other businesses for the three months ended June 30, 2014 were ¥844 million.

(2) Qualitative Information on Consolidated Financial Position

1) Assets

Total assets as of June 30, 2014 were ¥1,996,252 million, a decrease of ¥32,147 million compared to ¥2,028,399 million at the end of the previous fiscal year. This decrease was due to the ¥8,713 million decrease in current assets, ¥23,428 million decrease in fixed assets and ¥4 million decrease in deferred assets.

(Current Assets)

Total current assets as of June 30, 2014 were ¥1,160,127 million, a decrease of ¥8,713 million compared to ¥1,168,841 million at the end of the previous fiscal year. This decrease was mainly due to decreases in cash and deposits by ¥40,606 million, notes and accounts receivable-trade by ¥20,644 million, while there were increases in marketable securities by ¥34,613 million, inventory by ¥5,306 million, and other current assets by ¥13,060 million.

(Fixed Assets)

Total fixed assets as of June 30, 2014 were ¥836,069 million, a decrease of ¥23,428 million compared to ¥859,498 million at the end of the previous fiscal year. This decrease was mainly due to a ¥11,038 million decrease in intangible fixed assets, a ¥4,380 million decrease in investment securities, and a ¥6,351 million decrease in net defined benefit asset.

2) Liabilities

(Current Liabilities)

Total current liabilities as of June 30, 2014 were ¥403,346 million, a decrease of ¥34,073 million compared to ¥437,420 million at the end of the previous fiscal year. This decrease was mainly due to a decrease in notes and accounts payable-trade by ¥17,483, a reduction of ¥44,908 million in income taxes payable reduced by tax payments, a decrease in the reserve for bonuses by ¥11,872, while there were increases in short-term loans payable by ¥17,734 and other current liabilities by ¥22,726 million.

(Fixed Liabilities)

Total fixed liabilities as of June 30, 2014 were ¥75,971 million, a decrease of ¥4,248 million compared to ¥80,219 million at the end of the previous fiscal year. This decrease mainly resulted from combined effect of a ¥5,156 million increase in long-term loans payable and a ¥7,952 million decrease in other long-term liabilities.

3) Net Assets

Total net assets as of June 30, 2014 were ¥1,516,934 million, an increase of ¥6,174 million compared to ¥1,510,759 million at the end of the previous fiscal year. This increase was mainly due to a ¥18,956 million payment of dividends, a ¥20,424 million increase in total shareholders' equity as a result of quarterly net income of ¥45,246 million, a ¥15,217 million decrease of accumulated other comprehensive income due to the change in fiscal year end and the corresponding impact of changes in foreign exchange rates from January to June for the companies with a December year end.

(3) Qualitative Information on Consolidated Operating Results Forecast

There are no changes to the Q2 cumulative and full year consolidated forecast released on May 14, 2014 with the FY2013 financial results.

2. Other Information

(1) Changes in significant subsidiaries during the period

None

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

None

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

(Adoption of Accounting Standard for Retirement Benefits)

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ([ASBJ]) Statement No. 26, May 17, 2012, hereinafter the "Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter the "Guidance") have been adopted from the first quarter of the fiscal year ending December 31, 2014, in accordance with the provisions stated in Paragraph 35 of the Standard and Paragraph 67 of the Guidance. As a result, the methods for calculating retirement benefit obligations and service costs have been revised in the following ways: The method for attributing projected benefits to accounting periods has been changed from the straight-line basis to the benefit formula basis, and the discount rate, previously derived from relevant interest-bearing securities with a maturity close to the average remaining employment time, has been changed to a method whereby discount rates are used whose term matches with the respective projected timing of the retirement payments.

According to the transitional treatment provided in Paragraph 37 of the Standard, the effect of changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the first quarter of the fiscal year ending December 31, 2014.

As a result, net defined benefit asset decreased by ¥8,959 million, net defined benefit liability decreased by ¥640 million, and retained earnings decreased by ¥5,299 million at the beginning of the first quarter of the fiscal year ending December 31, 2014. The effect of this change on consolidated cumulative operating income, ordinary income and income before income taxes and minority interests for the current first quarter is immaterial.

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

(Change in the depreciation method and the useful life of tangible fixed assets)

The Company and majority of its consolidated domestic subsidiaries had previously adopted the declining-balance method while consolidated subsidiaries abroad adopted the straight-line method for the depreciation of tangible fixed assets. From the beginning of this fiscal year, the Company and its major consolidated domestic subsidiaries have changed the depreciation method from the declining-balance method to the straight-line method.

With the preparation of our "Second Mid-term Management Plan" starting this fiscal year we seek to achieve "creative and sustainable growth as a total healthcare company" in both our pharmaceutical and nutraceutical businesses by 2020, through accelerating the development of our business globally and by solidifying our already stable income platform supported by our core brands in Japan. To this end, we re-examined the respective method of depreciation for the Group's tangible fixed assets.

Based on the frequency of maintenance and replacement and the general condition of our tangible fixed assets, we did not find any rapid technical or economic obsolescence, leading to the conclusion that those assets can be operated safely over the remainder of their useful lives. Therefore, we changed the respective depreciation method to the straight-line method with expenses allocated equally over useful lives. Given the increasing importance of our overseas operation with the global development of our business, our objective was also to increase the degree of unification of the Group's global accounting standards.

Furthermore, with the preparation of the "Second Mid-term Management Plan" and the change in depreciation method, the Company's major consolidated domestic subsidiaries changed the useful life of some tangible fixed assets starting from the beginning of this fiscal year to better reflect their actual economic condition based on their estimated useful life.

In comparison with the former calculation method, these changes resulted in an increase of the Company's operating income, ordinary income and income before income taxes and minority interests for the fiscal year under review by ¥447 million.

The respective effects on segment performance are stated in the relevant sections.

3. Quarterly Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2014	As of June 30, 2014
ASSETS		
Current assets		
Cash and deposits	455,298	414,692
Notes and accounts receivable-trade	327,294	306,650
Marketable securities	117,974	152,588
Finished products and merchandise	83,820	88,187
Work-in process	30,626	31,288
Raw materials and supplies	37,416	37,693
Other current assets	117,012	130,072
Allowance for doubtful receivables	(602)	(1,046)
Total current assets	1,168,841	1,160,127
Fixed assets		
Tangible fixed assets	315,185	314,164
Intangible fixed assets		
Goodwill	70,595	67,149
Other intangible fixed assets	121,668	114,075
Total intangible fixed assets	192,263	181,225
Investments and other assets		
Investment securities	268,536	264,155
Investments in capital	35,994	36,366
Net defined benefit asset	11,113	4,762
Other assets	37,159	36,175
Allowance for investment loss	(62)	(57)
Allowance for doubtful receivables	(692)	(723)
Total investments and other assets	352,049	340,679
Total fixed assets	859,498	836,069
Deferred assets	60	56
Total assets	2,028,399	1,996,252
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	132,900	115,417
Short-term loans payable	53,426	71,160
Income taxes payable	51,064	6,155
Reserve for bonuses	18,667	6,794
Provisions	644	374
Other current liabilities	180,717	203,444
Total current liabilities	437,420	403,346
Long-term liabilities		
Long-term loans payable	14,281	19,437
Other allowances	2,587	2,518
Net defined benefit liability	8,131	7,366
Negative goodwill	21,541	20,923
Other long-term liabilities	33,677	25,725
Total long-term liabilities	80,219	75,971
Total liabilities	517,640	479,318

Consolidated Balance Sheets—Continued

	As of March 31, 2014	As of June 30, 2014
	(Millions of yen)	
NET ASSETS		
Shareholders’ equity		
Common stock	81,690	81,690
Capital surplus	512,895	512,866
Retained earnings	891,615	911,967
Treasury stock	(47,928)	(47,826)
Total shareholders’ equity	1,438,272	1,458,697
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	13,819	13,545
Deferred gain (loss) on derivatives under hedge accounting	(7)	(3)
Foreign currency translation adjustments	12,152	(1,619)
Remeasurements of defined benefit plans	20,331	19,156
Total accumulated other comprehensive income	46,296	31,079
Stock acquisition rights	104	104
Minority interests	26,085	27,053
Total net assets	1,510,759	1,516,934
Total liabilities and net assets	2,028,399	1,996,252

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

Consolidated Statements of Income (cumulative)

(Millions of yen)

	FY2013 (From April 1, 2013 to June 30, 2013)	FY2014 (From April 1, 2014 to June 30, 2014)
Net sales	323,526	386,344
Cost of sales	98,451	113,064
Gross profit	225,075	273,279
Selling, general and administrative expenses		
Promotion expenses	35,072	56,482
Salaries and bonuses	25,390	26,905
Reserve for bonuses	3,353	4,737
Retirement benefit expenses	964	521
Amortization of goodwill	1,038	1,219
Research and development expenses	51,474	50,149
Other	57,237	67,698
Total selling, general and administrative expenses	174,530	207,714
Operating income	50,544	65,565
Non-operating income		
Interest income	277	318
Dividend income	508	525
Amortization of negative goodwill	616	616
Equity in earnings of unconsolidated subsidiaries and affiliated companies	577	3,898
Foreign exchange gain, net	4,637	—
Other	403	618
Total non-operating income	7,021	5,976
Non-operating expenses		
Interest expenses	388	457
Foreign exchange loss, net	—	1,354
Other	355	246
Total non-operating expenses	744	2,058
Ordinary income	56,821	69,482
Extraordinary income		
Gain on sales of fixed assets	178	22
Gain on sales of subsidiaries’ stock	257	—
Gain on change in equity	—	104
Other	21	—
Total extraordinary income	457	127
Extraordinary loss		
Loss on retirement of fixed assets	131	22
Impairment loss	92	8
Loss on valuation of investment securities	17	—
Other	7	5
Total extraordinary loss	248	37
Income before income taxes and minority interests	57,031	69,572
Income taxes		
Current	11,454	9,427
Deferred	5,555	14,604
Total income taxes	17,009	24,031
Income before minority interests	40,021	45,541
Minority interests in net income	317	294
Net income	39,703	45,246

Consolidated Statements of Comprehensive Income (cumulative)

(Millions of yen)

	FY2013 (From April 1, 2013 to June 30, 2013)	FY2014 (From April 1, 2014 to June 30, 2014)
Income before minority interests	40,021	45,541
Other comprehensive income		
Unrealized loss on available-for-sale securities	(34)	(291)
Deferred gain (loss) on derivatives under hedge accounting	8	1
Foreign currency translation adjustments	11,078	(4,635)
Remeasurements of defined benefit plans	—	(1,136)
Share of other comprehensive income of equity method affiliates	5,975	(1,680)
Total other comprehensive income	17,028	(7,741)
Total comprehensive income	57,049	37,799
Total comprehensive income attributable to:		
Owners of the parent	56,051	37,681
Minority interests	998	117

(3) 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 first three months of FY2013 (from April 1, 2013 to June 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.

Additionally, as a result of disposal of 54,770 treasury stocks at a cost of ¥132 million due to exercise of stock options, the Company holds 16,323,323 treasury stocks at a cost of ¥48,259 million as of June 30, 2013.

For the first three months of FY2014 (from April 1, 2014 to June 30, 2014)

Not applicable

(Segment Information)

For the first three months of FY2013 (from April 1, 2013 to June 30, 2013)

1) Net sales and segment income (loss) by reporting segment

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	224,113	66,885	11,055	21,472	323,526	—	323,526
Intersegment sales	—	1,455	32	10,203	11,691	(11,691)	—
Total	224,113	68,341	11,087	31,675	335,218	(11,691)	323,526
Segment income (loss)	55,948	5,135	(686)	1,885	62,282	(11,738)	50,544

Notes:

1) Adjustments to segment income (loss) of ¥(11,738) million include intersegment eliminations of ¥145 million and unallocated corporate expenses of ¥(11,884) million. Corporate expenses include headquarter costs and other indirect expenses.

2) Segment income (loss) is adjusted to operating income as stated in the quarterly consolidated statement of income.

For the first three months of FY2014 (from April 1, 2014 to June 30, 2014)

1) Net sales and segment income (loss) by reporting segment

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	275,403	75,267	11,847	23,826	386,344	—	386,344
Intersegment sales	—	1,789	36	10,133	11,958	(11,958)	—
Total	275,403	77,056	11,884	33,959	398,303	(11,958)	386,344
Segment income (loss)	65,678	8,453	109	1,967	76,208	(10,643)	65,565

Notes:

1) Adjustments to segment income (loss) of ¥(10,643) million include intersegment eliminations of ¥27 million and unallocated corporate expenses of ¥(10,670) million. Corporate expenses include headquarter costs and other indirect expenses.

2) Segment income (loss) is adjusted to operating income as stated in the quarterly consolidated statement of income.

2) Changes regarding reporting segments

(Changes in depreciation method and useful life of tangible fixed assets)

As noted in "Changes in accounting policies etc.," for the depreciation method of tangible fixed assets, the Company and the majority of its consolidated domestic subsidiaries had previously adopted the declining-balance method while consolidated subsidiaries abroad used the straight-line method. From the beginning of this fiscal year, the Company and its major consolidated domestic subsidiaries changed the depreciation method from the declining-balance method to the straight-line method.

Along with the change in the depreciation method, useful lives for some tangible fixed assets have also been changed.

The effect of these changes was as follows: "Pharmaceuticals" segment income increased by ¥792 million, "Nutraceuticals" segment income decreased by ¥303 million, "Consumer products" segment income decreased by ¥4 million, "Others" segment income decreased by ¥110 million, and "Adjustments" increased by ¥72 million.