Consolidated Financial Results for the Fiscal Year Ended December 31, 2014 [Japan GAAP]

February 13, 2015

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 annual general meeting of shareholders:	March 27, 2015
Scheduled date of dividend payment commencement:	March 30, 2015
Scheduled date of securities report submission:	March 30, 2015
Supplementary materials for financial results:	Yes
Earnings announcement for financial results:	Yes (for institutional investors, analysts and the press)

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

1. Consolidated Financial Results for FY2014 (April 1, 2014 to December 31, 2014)

(1) Consolidated Operating Results

(% change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2014 ended December	1,224,298	-	196,528	-	217,210	-	143,143	-
FY2013 ended March	1,452,759	19.3	198,702	17.1	215,235	16.7	150,989	23.3

(Note) Comprehensive income: FY2014 ended December ¥197,603 million -%
FY2013 ended March ¥212,870 million 40.3%

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income as a percentage of total assets	Operating margin
	Yen	Yen	%	%	%
FY2014 ended December	264.20	264.12	9.2	10.3	16.1
FY2013 ended March	278.07	277.52	10.8	11.3	13.7

(Reference) Equity in earnings of affiliates: FY2014 ended December ¥3,873 million
FY2013 ended March ¥3,221 million

Following approval of the partial amendments of the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014, the Company changed its consolidated 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 results 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.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Book value per share
	Million yen	Million yen	%	Yen
As of December 31, 2014	2,178,184	1,658,600	74.7	3,004.38
As of March 31, 2014	2,028,399	1,510,759	73.2	2,740.89

(Reference) Shareholders' equity: As of December 31, 2014 ¥1,627,801 million
As of March 31, 2014 ¥1,484,569 million

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2014 ended December	88,535	(28,682)	(35,957)	456,540
FY2013 ended March	226,461	(108,514)	(66,695)	417,538

2. Dividends

	Annual dividend per share					Total dividends	Dividend pay-out ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2013 ended March	-	30.00	-	35.00	65.00	35,202	23.4	2.5
FY2014 ended December	-	35.00	-	40.00	75.00	40,629	28.4	2.6
FY2015 ending December (Forecast)	-	50.00	-	50.00	100.00		67.7	

3. Forecasts of Consolidated Financial Results for FY2015 (January 1, 2015 to December 31, 2015)

(% 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)	710,000	-	55,000	-	60,000	-	40,000	-	73.82
FY2015	1,370,000	-	110,000	-	120,000	-	80,000	-	147.65

The consolidated financial results for FY2014 represents nine months (April 1 to December 31 of 2014) due to the change of the fiscal year end and thus percentage changes compared to the previous fiscal year 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) 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 see "Notes to Consolidated Financial Statements (Changes in Accounting Policies)" on page 29 for further details.

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding as of the end of the reporting period (including treasury stock):
   December 31, 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:
   December 31, 2014 16,037,940 shares
   March 31, 2014 16,211,155 shares
3) Average number of shares outstanding during the reporting period:
   December 31, 2014 541,679,314 shares
   March 31, 2014 542,866,117 shares

*** Information Regarding Audit Procedures**

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

*** 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. Analysis of Operating Results and Financial Position (1) Analysis of Operating Results” on page 9 for information regarding the forecast of consolidated financial results.

The Company plans to hold a meeting for institutional investors, analysts and the press on February 13, 2015. Presentation materials and the webcast of the meeting will be available on the Company’s website promptly after the meeting.

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1. Analysis of Operating Results and Financial Position

(1) Analysis of 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 the fiscal year end for its consolidated accounts from March 31 to December 31, following approval of the partial amendments of the Articles of Incorporation at the 6th 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 profit and loss statements of all consolidated companies have been consolidated for the period from April 1, 2014 (or upon commencement of consolidation in case of companies that were newly consolidated during the term) to December 31, 2014. The consolidated profit and loss statements for the previous financial year were compiled for the period from April 1, 2013 to March 31, 2014 for companies with a March year end, and for the period from January 1, 2013 to December 31, 2013 for companies with a December year end.

To enable a comparison with results for the previous year, we have calculated results for the period from April 1 to December 31, 2013 for all consolidated companies, which are shown for reference purposes below.

<Summary of Operating Results for the FY2014 ended December 31, 2014>

During the fiscal year under review, the business environment in Japan underwent several changes including a significantly weaker yen in the second half of 2014 influenced by a record trade deficit in 2014 and expected continuation of the Bank of Japan's aggressive quantitative easing policy aimed at stimulating economic growth and household spending. While official inflation and GDP forecasts were lowered, a mild economic recovery is expected for 2015 partly aided by lower oil prices. In our overseas' markets, solid U.S. economic growth and fast growth across some of the major developing economies is expected to partly offset sluggish economic growth across Europe in the aftermath of the financial crisis.

For the nine months of fiscal 2014 (April 1 to December 31, 2014), the Otsuka Group recorded consolidated net sales of ¥1,224,298 million (up 7.9% from ¥1,134,204 million for the same period in the previous year), with operating income of ¥196,528 million (up 7.4% from ¥183,054 million for the same period in the previous year), ordinary income of ¥217,210 million (up 8.9% from ¥199,529 million for the same period in the previous year) and net income of ¥143,143 million (up 2.7% from ¥139,355 million for the same period in the previous year).

Results by business segment are as follows:

(Results for the Nine Months Ended December 31, 2014)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	883,519	238,156	34,529	102,246	(34,153)	1,224,298
Operating income (loss)	204,791	21,867	(1,404)	5,533	(34,259)	196,528

(Reference: Results for the Nine Months Ended December 31, 2013)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	801,136	233,821	34,760	98,417	(33,932)	1,134,204
Operating income (loss)	185,073	26,767	(1,750)	5,904	(32,941)	183,054

1) Pharmaceuticals

In the area of central nervous system ("CNS") disorders, antipsychotic agent *ABILIFY* continued to register strong sales worldwide, rising more than 10% compared with the same period in the previous fiscal year. In the U.S., sales of *ABILIFY* grew more than 10% compared with the same period in the previous fiscal year, supported by, among other things, price hikes in January 2014 and by increased prescriptions for adjunctive therapy in major depressive disorder and for bipolar disorder as a result of enhanced promotion via the independent sales network of Otsuka Pharmaceutical Co., Ltd. ("Otsuka Pharmaceutical"). In Europe, sales of *ABILIFY* continued to grow compared with the same period in the previous fiscal year mainly on the back of co-promotions with H. Lundbeck A/S ("Lundbeck"). In Asia, sales of *ABILIFY* continued to grow, 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 for orally disintegrating tablets increased for the three indications of schizophrenia, manic episodes of bipolar disorder and major depressive disorder. However, sales in Japan declined compared with the same period in the previous fiscal year, due to a pullback after the temporary sales expansion due to increased demand before the hike in consumption tax at the end of the previous fiscal year.

Aripiprazole intramuscular depot formulation *Abilify Maintena* (once-monthly injection), one of the drugs launched under the global alliance with Lundbeck to develop five compounds*[1], registered steady sales growth in the U.S., supported by ongoing efforts to promote the drug's efficacy for the treatment of schizophrenia. In addition, in September 2014, the U.S. Food and Drug Administration (FDA) approved a new injectable formulation of *Abilify Maintena* in a ready-to-use prefilled syringe, and in December 2014, the FDA approved a labeling update to include new clinical data for the treatment of acutely relapsed adults with schizophrenia. In Europe, *Abilify Maintena* had been launched in 14 countries, including the United Kingdom, as of December 31, 2014. *Abilify Maintena* was also launched in Canada in April 2014, adding to the growing number of markets where the drug is now available.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions due to the drug's recognized efficacy and approval granted for additional pediatric indication and dosage. As a result, *E Keppra* remained the top-selling brand*[2] in the domestic antiepileptic drug market in April–December 2014 and saw further growth in market share. *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 gaining recognition for its ability to improve wearing-off*[3] symptoms in Parkinson's disease, supporting strong growth in sales.

On January 13, 2015, Otsuka Pharmaceutical completed the acquisition of U.S. company Avanir Pharmaceuticals, Inc ("Avanir"). after concluding an agreement to acquire the company in December 2014. The acquisition is intended to give the Group full-scale entry to the neurological diseases area, extending the Group's presence in CNS by complementing its existing position in psychiatric diseases. Avanir has launched *NUEDEXTA*, the world's first and only treatment for the neurologic disease pseudobulbar affect (PBA), in the U.S., and is also developing other drugs in the CNS area such as treatments for Alzheimer-type dementia and Parkinson's disease. Going forward, the Company plans to expand its business into other areas of neurological disease where treatment satisfaction levels are low.

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 compared with the same period in the previous fiscal year due to large NHI price reductions and a decline in the number of patients with advanced gastric cancer for chemotherapy. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined due mainly 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 compared with the same period in the previous fiscal 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). Sales of the drug are growing steadily.

In the area of hematological cancer, 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. FDA, is now sold by the Group and its partners in more than 50 markets worldwide, and it 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. Growing recognition of the drug worldwide is driving strong sales growth. In March 2014, Otsuka Pharmaceutical acquired the rights to develop and commercialize DNA methylation inhibitor *Dacogen* worldwide, excluding Mexico. Transfer of the business has been completed and sales of the drug are now being booked.

In December 2014, Otsuka Pharmaceutical entered into an agreement with U.S. company ARIAD Pharmaceuticals, Inc. to develop and commercialize ARIAD's ponatinib, a refractory chronic myeloid leukemia treatment, in Japan and other Asian countries*[5], supplementing the Group's drug pipeline in the area of hematological cancer.

In the area of cardiovascular system, *Samsca*, a vasopressin V_2-receptor antagonist developed by Otsuka Pharmaceutical and sold in 14 markets worldwide, is gaining more acceptance among medical specialists due to the new value it brings and its method of use as an oral aquaretic agent. As a result, global sales of the drug have risen more than 30% compared with the same period in the previous year. In Japan, *Samsca* was approved as a treatment for autosomal dominant polycystic kidney disease (ADPKD), becoming the world's first drug therapy for this intractable kidney disease. A new formulation for the condition, *Samsca 30mg tablets*, was also launched in May 2014 and prescriptions are increasing steadily. Sales of antiplatelet agent *Pletaal/Pletal* declined due to the impact of promotion of generics in hospitals and NHI price revision in Japan.

In April 2014, new tuberculosis drug *Deltyba* was granted approval by the European Commission (EC) for the indications of multidrug-resistant tuberculosis after many years of development. *Deltyba* was launched in the United Kingdom in May 2014, and then in Germany after that. The drug was also launched in Japan in September 2014, making it the first novel scaffold-based tuberculosis drug to be sold in the domestic market for 40 years.

In other areas, prescriptions for dry eye treatment *Mucosta ophthalmic suspension UD 2%* expanded steadily and sales grew. Sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* dropped compared with the same period in the previous fiscal year due to the impact of promotion of generics in hospitals and NHI price revision in Japan.

In the area of clinical nutrition, sales were maintained compared with the same period in the previous fiscal year with prescriptions growing for the high-calorie TPN solution *ELNEOPA*, reflecting recognition 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), and evaluation of the solution's other benefits, such as lower 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 fiscal year ended December 31, 2014 totaled ¥883,519 million (up 10.3% from the same period in the previous year), with operating income of ¥204,791 million (up 10.7%).

*[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–December 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
*[5]: Japan, Indonesia, Malaysia, China (including Hong Kong), the Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam

2) Nutraceuticals

In the *Pocari Sweat* electrolyte supplement drink range, sales promotion efforts in Japan were focused on younger consumers through events such as the All Japan Inter High School Tournament (Inter High) and the All Japan Junior High School Sports Festival. However, amid a weak domestic market for sports drinks*[6], sales volume declined compared with the same period in the previous fiscal year due to the impact of unseasonal weather and rival products. *Pocari Sweat Ion Water* has been promoted by stepping up its appeal as a beverage for new drinking occasions. Overseas, where *Pocari Sweat* is sold in 16 markets worldwide, sales volume increased compared with the same period in the previous fiscal year, supported by ongoing efforts to cultivate consumers and promote the product's benefits.

In the balanced nutrition food *Calorie Mate*, a new item – *Calorie Mate Block Plain* – was added to the range in September 2014. Amid increasingly diverse mealtime styles and eating habits, this new simple flavor was launched to suit everyday lifestyles by providing a balanced source of the five major nutritional elements "any time, any place, for everyone." Increased exposure in retail stores and sales promotion activities using TV commercials and online advertising led to growth in the number of users of the new flavor. The *Calorie Mate* brand overall registered growth in sales volume compared with the same period in the previous fiscal year, exceeding the rate of market growth*[7]. This reflected the success of efforts to raise awareness of the product's concept as a balanced nutrition food.

Sales volume for carbonated nutritional drink *Oronamin C* declined compared with the same period in the previous fiscal year due to the impact of the hike in consumption tax, which led to a drop in the number of consumers buying 10-bottle packs. Intensifying competition due to the launch of new rival energy drinks also impacted sales volume.

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, a new flavor, *SOYJOY Almond & Chocolat*e, was added to the *SOYJOY* soy bar range in April 2014. Efforts to promote the product based on its strengths and low GI led to growth in the number of users, including an increase in desk workers. As a result, market share increased*[8] and sales volume expanded at a double-digit pace compared with the same period in the previous fiscal year. In *SoyCarat*, a healthy soy snack, *SoyCarat Chili Pepper* was added to the range in September 2014, which continued to enhance the product's value. In order to further develop the brands in the soy product range, the Group continued to work on building brand value through activities such as public seminars run by nutritionists and cultivation events including one that gives consumers hands-on experience in soy cultivation, and through seminars for occupational health nurses and other activities.

The Group launched women's health food product *EQUELLE* in April 2014 as a readily available daily source of equol. The Group is working to raise awareness of the product among consumers and sales of *EQUELLE* are growing steadily.

Subsidiary Pharmavite LLC of the U.S. supplies *Nature Made* supplements, which have been selected as the leading pharmacist-recommended brand in the U.S. and have been the number one retail national vitamin and supplement brand in the U.S. for eight consecutive years, from 2007 through 2014*[9]. Although the market was weak in the first half of 2014, sales at the moment are firm. Also, Pharmavite acquired U.S. natural food-based supplement pioneer FoodState Inc. in December 2014. This acquisition will give Pharmavite access to the natural food and specialty supplement store channel, the largest retail channel in the U.S. supplement market, helping to drive further growth in the Group's supplement business.

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 grew steadily. In addition, Nutrition & Santé SAS acquired Jasmine, Brazil's leading health and functional food company, in August 2014. In Japan, *Milical*, a diet food that has been sold in France for more than 50 years, was launched in April 2014.

In the cosmedics area, where the focus is on the concept of "healthy skin," sales remained firm for men's skincare brand *UL•OS* products due to the launch in August 2014 and successful promotional campaigns over summer of *UL•OS Skin Conditioner*, an easy-to-use product aimed at men. In South Korea, sales of *UL•OS* products increased compared with the same period in the previous fiscal year, supported by steady efforts to develop the brand and growth in the number of stores that stock the *UL•OS* range. Sales of the *InnerSignal* brand aimed at women who seek healthy and beautiful skin increased as a result of 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 compared with the same period in the previous fiscal 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 fiscal year ended December 31, 2014 totaled ¥238,156 million (up 1.9% from the same period in the previous year), with operating income of ¥21,867 million (down 18.3%).

*[6]: Inryo Soken data: Sales in January–December 2014 −10%
*[7]: INTAGE SRI (Cumulative revenues, nutritionally balanced foods market April – December 2014 +4.2%)
*[8]: INTAGE Beverage/Food SRI-M (04/01/2013 to 12/31/2013: SOYJOY share 12.1%, 04/01/2014 to 12/31/2014 SOYJOY share 13.6%)
*[9]: 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 periods ending 12/26/2009, 12/25/2010, 12/24/2011, 1/5/2013, 1/4/2014, and 1/3/2015 in US xAOC channels. ©2015 The Nielsen Company.

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 compared with the same period in the previous fiscal 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 compared with the same period in the previous fiscal 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 compared with the same period in the previous fiscal 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 products for limited period only.

In the consumer products segment, the Group is continuing its efforts 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 fiscal year ended December 31, 2014 totaled ¥34,529 million (down 0.7% from the same period in the previous year), with operating loss of ¥1,404 million (compared with an operating loss of ¥1,750 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* as well as capacitor electrolyte solution increased compared with the same period in the previous fiscal year amid strong demand from the automotive sector. Sales of flame retardants and potassium nitrate for glass strengthening, which are used in mobile terminals, were also strong. In the construction field, while sales of foaming agents used in building materials declined, mainly due to the impact of the hike in consumption tax, sales of aldehyde catcher agents and other products rose compared with the same period in the previous fiscal year. Sales overall in the specialty chemical business increased compared with the same period in the previous fiscal year.

In the fine chemical business, sales volume for pharmaceutical intermediate *YTR* increased due to the addition of new end product formulations. However, sales overall in the fine chemical business declined compared with the same period in the previous fiscal year due to the impact of increased competition from rival products on pharmaceutical intermediate *DACTA*.

Also, the Company moved into the functional film market through the acquisition of the Higashiyama Film Group in November 2014. The aim of the acquisition is to strengthen the Group's business base by utilizing the coating technologies of the Higashiyama Film Group and the materials technologies of the Otsuka Group to create high-quality, high value-added products.

In the transportation and warehousing business, the volume of products handled increased, driven by increase in external customers in line with the promotion of a common distribution platform (distribution of products to market for the Group as well as for other firms). However, sales overall were flat compared with the same period in the previous fiscal year, mainly due to weaker volumes of beverages caused by unseasonal weather. Sales in the direct sales support business increased due to growth in the volume of orders handled.

As a result, net sales in the other businesses for the fiscal year ended December 31, 2014 totaled ¥102,246 million (up 3.9% from the same period in the previous year), with operating income of ¥5,533 million (down 6.3%).

(Projected Consolidated Financial Results for FY2015)

(Millions of yen)

	FY December, 2014 (Actual)	FY December, 2015 (Forecast)	Change	% Change
Net sales	1,224,298	1,370,000	-	-
Operating Income	196,528	110,000	-	-
Ordinary Income	217,210	120,000	-	-
Net Income	143,143	80,000	-	-

R&D Expense	172,851	230,000	-	-

(Note) FY2015 exchange rate: 120 yen/USD 130 yen/EUR

Following approval of the partial amendments to the Articles of Incorporation at the Annual Shareholders Meeting held on June 27, 2014, the Company changed its consolidated fiscal year end from March 31 to December 31. The same change was applied to the Company's consolidated subsidiaries in Japan whose fiscal year end was not December 31. Consequently, the consolidated financial results for FY2014 represent nine months (April 1 to December 31 of 2014), and thus, total changes and percentage changes compared to the FY2015 representing twelve months (January 1 to December 31 of 2015) are not applicable.

To compare projections for next fiscal year with our financial results achieved during the fiscal year under review, we provide relevant differences to pro-forma consolidated and adjusted financial results for the period from January to December 2014 below (unaudited). These pro-forma results were calculated by adding the consolidated and adjusted financial results for the fiscal year under review to the financial result achieved in the period of January 1 to March 31 of 2014 (unaudited).

In our pharmaceutical business, we project a drop in sales and earnings due to the expiry of the U.S. patent for our atypical antipsychotic agent *ABILIFY* on April 20, 2015. At the same time, we project an increase in sales of other products including *Abilify Maintena*, *SAMSCA*, *E Keppra*, *Abraxane*, and *Lonsurf*. In our nutraceutical business, we expect higher revenues driven by global sales of *Pocari Sweat*, *Nature Made*, and *Nutrition & Santé*'s products.

While we continue to optimize the cost structure of our pharmaceutical business, sales and marketing expenses as well as general administrative expenses are projected to increase due to the promotion of new products and depreciation and other expenses relating to the acquisition of Avanir Pharmaceuticals, Inc in the United States. In our nutraceutical business we will continue to invest in developing new customer segments and new products while targeting an operating profit margin of 10%.

As a result, we project consolidated sales in FY2015 (January through December) of ¥1,370,000 million (a fall of 12.8% compared to the 12 months from January to December 2014), operating income of ¥110,000 million (decrease of 48.6%), ordinary income of ¥120,000 million (decrease of 49.1%) and net profits of ¥80,000 million (decrease of 48.4%).

(2) Research and Development Activities

Research and development expenses for the fiscal year ended December 31, 2014 totaled ¥172,851 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 fiscal year ended December 31, 2014 in the area of therapeutic drugs are summarized below.

Category	*Brand Name*, (Generic Name), Development Code	Status
Central nervous system	(brexpiprazole) OPC-34712	<U.S.> An application was accepted in September 2014 for the indications of schizophrenia and adjunctive therapy in major depressive disorder.
	ABILIFY (aripiprazole)	<U.S.> Approval was received in December 2014 for an additional indication of Tourette disorder (pediatric indication). <Japan> Phase III trials for the treatment of agitation associated with dementia of the Alzheimer’s type were initiated in June 2014.
	Abilify Maintena (aripiprazole)	<U.S.> Approval was granted in September 2014 for a pre-filled syringe. An application was accepted in December 2014 for using the deltoid muscle as a new administration route. Approval was granted in December 2014 for a labeling update to include new clinical data for the treatment of acutely relapsed adults with schizophrenia.
	E Keppra (levetiracetam)	<Japan> Approval was received in July 2014 for *E Keppra IV Drip Infusion* for an additional indication of epileptic partial-onset seizure. An application was filed in July 2014 for *E Keppra IV Drip Infusion* for an additional indication of monotherapy treatment of epileptic partial-onset seizure.
	TAS-205	<Japan> Phase I trial for the treatment of duchenne muscular dystrophy was initiated in October 2014.
	(dextromethorphan, quinidine) AVP-923	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug’s development status is as follows: <U.S.> Currently in Phase II trials for the treatment of agitation associated with Alzheimer’s disease. Currently in Phase II trials for the treatment of dyskinesia associated with Parkinson’s disease.

Category	*Brand Name*, (Generic Name), Development Code	Status
	(deuterium-modified dextromethorphan, quinidine) AVP-786	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug’s development status is as follows: <U.S.> Currently in Phase II trials for the treatment of major depressive disorder.
	(sumatriptan) AVP-825	(Additional information) A development drug secured through the acquisition of Avanir Pharmaceuticals, Inc. in January 2015. The drug’s development status is as follows: <U.S.> NDA filing for an indication of acute migraine currently being reviewed by the FDA.
Oncology	*Abraxane* ABI-007	<Japan> Approval was received in December 2014 for an additional indication of unresectable pancreatic cancer.
	TAS-116	<Japan> Phase I trial for the treatment of solid cancer was 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.
	ASTX727	<U.S.> Phase I trial for the treatment of myelodysplastic syndrome (MDS) was initiated in August 2014.
	TAS-119	<U.S. and Europe> Phase I trial for the treatment of solid cancer was initiated in September 2014.
	TAS-120	<Japan, U.S. and Europe> Phase I trial for the treatment of solid cancer was initiated in July 2014.
	TAS-121	<Japan> Phase I trial for the treatment of solid cancer was initiated in September 2014.
	Lonsurf TAS-102	<Japan> An application for an approval of partial change in accordance with the results from Phase III trials for the treatment of colorectal cancer was filed in September 2014. <U.S.> A rolling submission of new drug application based on the results from Phase III trials for the treatment of colorectal cancer was initiated in October 2014 after the FDA granted fast track designation. The submission of the application was completed in December 2014.

Category	*Brand Name*, (Generic Name), Development Code	Status
Cardiovascular system	*Samsca* (tolvaptan)	<U.S.> Phase III trial for the treatment of autosomal dominant polycystic kidney disease (ADPKD) was initiated in June 2014.
Other categories	*Deltyba* (delamanid)	<Europe> Approval was granted by the EC in April 2014 for an indication of multidrug-resistant tuberculosis. <Japan> Marketing approval was granted in July 2014 for an indication of multidrug-resistant tuberculosis and sales began in September 2014.
	OLANEDINE (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 an indication of antiseptic preparation for skin subjected to surgery.
	OPF-108	<Japan> Phase III trials for an indication of treatment of post-operative digestive organ patients receiving total parenteral nutrition were initiated in June 2014.
	(carteolol, latanoprost) OPC-1085EL	<Japan> Phase III trials for the treatment of glaucoma were initiated in April 2014.
	(bilastine) TAC-202	<Japan> Phase II and Phase III trials for the treatment of chronic urticaria and cutaneous pruritus were initiated in May 2014. Phase III trials for the treatment of allergic rhinitis were initiated in August 2014.
	OPA-15406	<U.S.> Phase II trials for the treatment of atopic dermatitis were initiated in June 2014.
	Zosyn (tazobactam, piperacillin)	<Japan> An application was filed for an additional indication of febrile neutropenia in July 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. *The Otsuka Major BCR-ABL mRNA Measurement Kit*, which is used as a marker to monitor treatment effectiveness for chronic myeloid leukemia, was launched in Japan after obtaining manufacturing and marketing approval in September 2014. Also, Phase II trials were initiated in Japan in August 2014 to evaluate the performance of in vivo diagnostic agent C13-CAC in patients with gastric disorders.

Research and development expenses for the pharmaceutical business for the fiscal year ended December 31, 2014 were ¥166,077 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. Also, a new *Calorie Mate* product – *Calorie Mate Block Plain* – was launched in September 2014.

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 as many familiar formats as possible. In September 2014, one new flavor – *SoyCarat Chili Pepper* – was added to the *SoyCarat* range of healthy soy snacks.

Research and development expenses for the nutraceutical business for the fiscal year ended December 31, 2014 were ¥3,833 million.

(Consumer products)

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

Research and development expenses for the consumer products business for the fiscal year ended December 31, 2014 were ¥337 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 fiscal year ended December 31, 2014 were ¥2,602 million.

(3) Analysis of Financial Position

1) Assets

Total assets as of December 31, 2014 were ¥2,178,184 million, an increase of ¥149,784 million compared to ¥2,028,399 million at the end of the previous fiscal year. This increase was due to a ¥76,761 million increase in current assets, a ¥73,023 million increase in fixed assets and a ¥1 million decrease in deferred assets.

(Current Assets)

Total current assets as of December 31, 2014 were ¥1,245,602 million, an increase of ¥76,761 million compared to ¥1,168,841 million at the end of the previous fiscal year. This increase was mainly due to increases in cash and deposits by ¥67,836 million, notes and accounts receivable-trade by ¥79,137 million, while there was a decrease in marketable securities by ¥69,439 million.

(Fixed Assets)

Total fixed assets as of December 31, 2014 were ¥932,522 million, an increase of ¥73,023 million compared to ¥859,498 million at the end of the previous fiscal year. This increase was mainly due to a ¥29,598 million increase in tangible fixed assets including improvements to Otsuka Pharmaceutical's manufacturing facilities for *Pocari Sweat*, and a ¥28,909 million increase in intangible fixed assets of newly consolidated companies, including Jasmine Comercio de Produtos Alimenticios LTDA, FoodState, Inc., Higashiyama Film Co., Ltd. and one other company.

2) Liabilities

(Current Liabilities)

Total current liabilities as of December 31, 2014 decreased by ¥393 million to ¥437,026 million from ¥437,420 million at the end of the previous fiscal year. This change was mainly due to an increase of ¥16,751 in short-term loans payable and of ¥31,769 million in other current liabilities, a decrease in the reserve for bonuses by ¥10,103 million, and a reduction of ¥36,566 million in income taxes payable reduced by tax payments.

(Fixed Liabilities)

Total fixed liabilities as of December 31, 2014 were ¥82,557 million, an increase of ¥2,337 million compared to ¥80,219 million at the end of the previous fiscal year. This increase mainly resulted from the combined effect of a ¥7,970 million increase in long-term payable and a ¥4,630 million decrease in deferred tax liabilities.

3) Net Assets

Total net assets as of December 31, 2014 were ¥1,658,600 million, an increase of ¥147,840 million compared to ¥1,510,759 million at the end of the previous fiscal year. This change was mainly due to ¥37,914 million in dividend payments, the attribution of ¥99,655 million to total shareholders' equity out of total net income of ¥143,143 million, a ¥43,576 million increase of accumulated other comprehensive income due to changes in foreign exchange rates, and a ¥4,713 million increase in minority interests.

(4) Analysis of Cash Flows

Cash and cash equivalents increased by ¥39,001 million during fiscal year ended December 31, 2014 to ¥456,540 million. Net cash provided by operating activities was ¥88,535 million, while net cash used in investing activities and financing activities was ¥28,682 million and ¥35,957 million, respectively.

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥88,535 million in the fiscal year ended December 31, 2014. Main components were ¥210,265 million from income before income taxes and minority interests, an increase of ¥61,285 million in notes and account receivables-trade (a cash decrease), and payment of income taxes for ¥88,481 million.

(Cash Flows from Investing Activities)

Net cash used in investing activities was ¥28,682 million in the fiscal year ended December 31, 2014. Main investing activities included ¥32,888 million in purchases of property, plant and equipment, ¥26,703 million in investments in subsidiaries resulting in a change in the scope of consolidation, ¥9,669 million in purchases of investment securities, a ¥19,593 million decrease in marketable securities, and a ¥28,500 million decrease in time deposits.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥35,957 million in the fiscal year ended December 31, 2014. Main financing activities included ¥37,914 million in dividend payments, a ¥4,201 million decrease in short-term loans payable, and cash flow of ¥9,392 million from new long-term loans payable.

(Cash Flow Indicator Ratios)

	FY2010 ended March	FY2011 ended March	FY2012 ended March	FY2013 ended March	FY2014 ended December
Equity ratio (%)	72.4	72.5	73.7	73.2	74.7
Market capitalization to total assets ratio (%)	72.1	82.0	102.1	82.4	90.0
Cash flow to debt ratio (%)	69.2	40.1	33.1	21.5	44.9
Interest coverage ratio (times)	81.2	90.8	157.7	243.4	106.2

Equity ratio: total shareholders' equity / total assets
Market capitalization to total assets ratio: Aggregate market value of shares / total assets
Cash flow to debt ratio: interest-bearing debt / cash flow
Interest coverage ratio: cash flow / interest paid

(Notes)

1. All indicator ratios are calculated on a consolidated basis.
2. Total market capitalization is calculated based on the outstanding shares (excluding treasury shares) and the closing market price at fiscal year-end.
3. Cash flow equals net cash provided by operating activities, less interest expense and income taxes paid.
4. Interest-bearing debt includes all liabilities reported on the consolidated balance sheet which is subject to interest payments. Interest paid represents the amount of interest payment as reported on the consolidated statement of cash flow.
5. Amounts for FY2010 are adjusted retrospectively based on a new currency translation method applied in FY2011.

(5) Basic Policy for Profit Distribution and Dividends for FY2014 and FY2015

The Company views profit distribution to shareholders as one of its key management priorities. Our basic policy is to distribute profits to shareholders in line with profit growth while securing an adequate amount of internal cash reserves for future growth and to retain flexibility to address changes in the business environment.

In accordance with this policy, the Company plans to pay a year-end dividend of ¥40 per share and an interim dividend of ¥35 per share, a total of ¥75 per share for the fiscal year ended December 31, 2014. The planned consolidated payout ratio for the fiscal year ended December 31, 2014 is 28.4%.

For FY2015, the Company plans to pay an annual dividend of ¥100 per share (¥50 as interim dividend and ¥50 as year-end dividend).

2. Group Overview

The Otsuka Group consists of Otsuka Holdings Co., Ltd., its 141 subsidiaries and 34 affiliates. Otsuka is a globally operating diversified healthcare group engaged in pharmaceuticals, nutraceuticals, consumer products and other, which includes logistical services, optical inspection and measurement equipments and chemicals.

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

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

(Pharmaceutical Segment)

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., and Taiho Pharmaceutical Co., Ltd. engage in sales of pharmaceutical products in Japan while Otsuka America Pharmaceutical, Inc. and Otsuka Pharmaceutical Europe Ltd. conduct sales of pharmaceutical products overseas.

In the area of therapeutic drugs, Otsuka Pharmaceutical Co., Ltd. and Taiho Pharmaceutical Co., Ltd. conduct manufacturing and sales in Japan, while Otsuka Pharmaceutical Co., Ltd. also exports pharmaceutical products to Otsuka America Pharmaceutical, Inc., Otsuka Pharmaceutical Europe Ltd., and other group companies. In the area of clinical nutrition, manufacturing and sales are conducted in Japan. Otsuka Pharmaceutical Factory, Inc. and EN Otsuka Pharmaceutical Co., Ltd. are active in the Japanese market, China, Indonesia and Egypt. Research and development activities are conducted mainly in Japan and in the United States. Otsuka Pharmaceutical Co., Ltd. outsources part of its development activities to its U.S. subsidiaries such as Otsuka Pharmaceutical Development & Commercialization, Inc. and Astex Pharmaceuticals, Inc.

(Nutraceutical Segment)

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

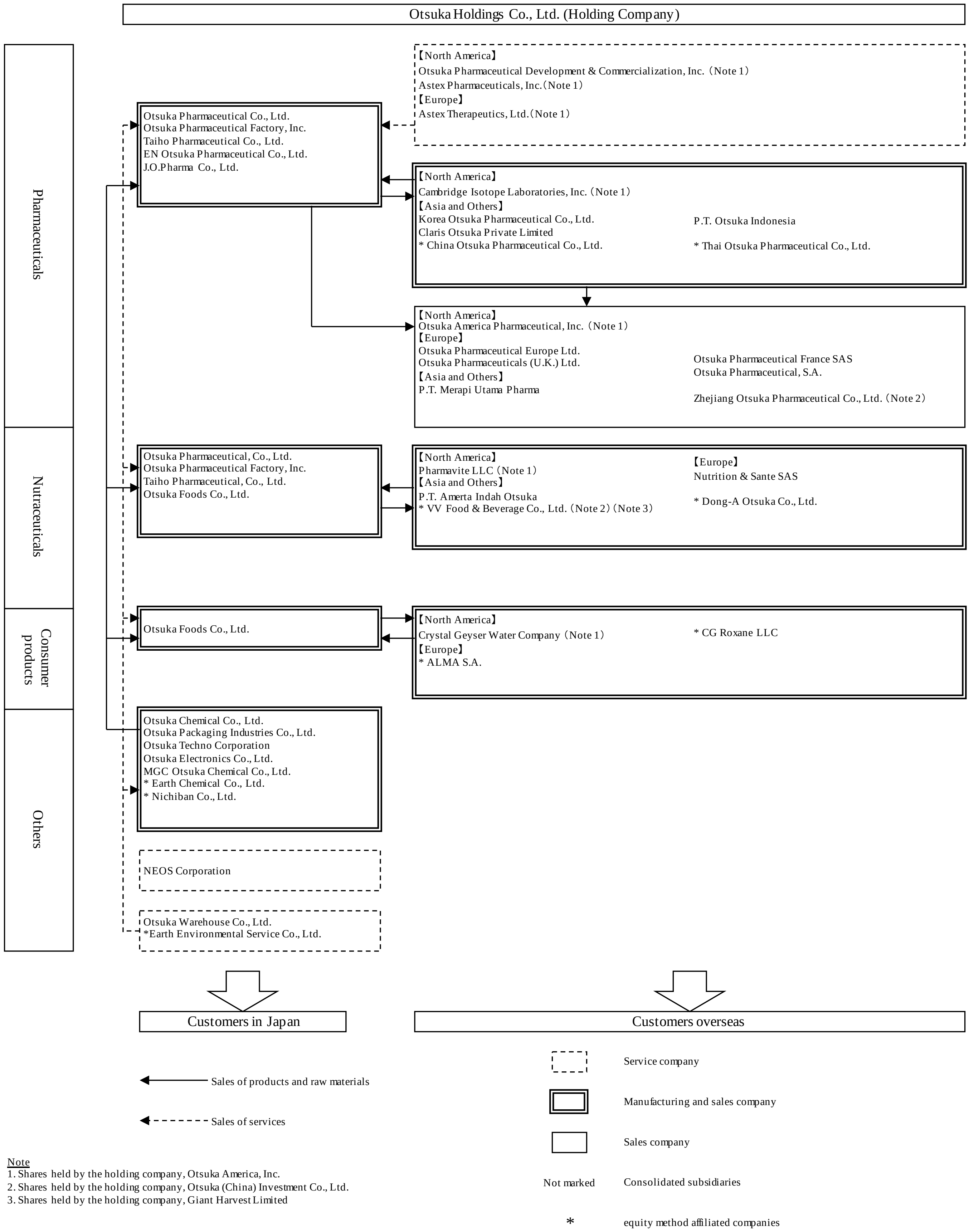
(Consumer Product Segment)

Otsuka Foods Co., Ltd. manufactures and markets consumer products in Japan. CG Roxane LLC and ALMA S.A. engage in the manufacturing and sales of mineral water overseas.

(Other Segment)

Otsuka Chemical Co., Ltd. conducts the manufacturing and sales of chemical products. Otsuka Electronics Co., Ltd. conducts the manufacturing, sales and import of optical inspection and measurement devices. Otsuka Packaging Industries Co., Ltd. conducts printing and packaging and Otsuka Techno Corporation manufactures plastic containers for intravenous solutions and other pharmaceutical products as supplier for other group companies in Japan. Otsuka Warehouse Co., Ltd. provides logistical services to Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd. and other group companies in Japan.

The chart below shows the Group's business segments as of December 31, 2014.



Note
1. Shares held by the holding company, Otsuka America, Inc.
2. Shares held by the holding company, Otsuka (China) Investment Co., Ltd.
3. Shares held by the holding company, Giant Harvest Limited

3. Management Policy

(1) Basic Management Policy

Based on the Otsuka Group’s corporate philosophy “Otsuka-people creating new products for better health worldwide,” the Group strives to develop innovative and original products that enable people around the world to lead healthier lives.

To accomplish this, the Group focuses on its two main businesses: Pharmaceuticals, where it meets a whole range of medical needs from diagnosis to treatment of medical disorders; and Nutraceuticals, where it supports people to maintain and improve their daily health and well-being. As a corporate group active in the comprehensive healthcare business, the Group’s mission is to discover and develop technologies and solutions that are unique to itself, and to deliver the fruits of these efforts to people all over the world in the form of products and services.

(2) Target Performance Indicators

To sustain the Group’s growth, management recognizes that when conducting business activities, it is important to efficiently invest the Group’s capital based on a medium to long-term perspective. The Group thus considers ROE as one of several important performance indicators along with operating margin and net income.

(3) Medium and Long Term Management Plan

The Group announced its Second Medium-Term Management Plan on August 26, 2014. Documents from this disclosure can be obtained at the following URL.

(The Company’s website (News Releases))
http://www.otsuka.com/en/hd_release/release/

(4) Key Issues to be Addressed

The Otsuka Group announced its Second Medium-Term Management Plan in August 2014, aimed at realizing its corporate philosophy, “Otsuka-people creating new products for better health worldwide.”

<Management policy and positioning of Second Medium-Term Management Plan>

The Otsuka Group is working to expand business opportunities using its people, technologies and products, guided by its corporate philosophy and the concept of total healthcare provision, which is aimed at delivering long-term organic growth. During the Second Medium-Term Management Plan, the Group aims to expand each of its core business areas in order to create a diversified earnings structure that supports sustained growth.

A. Strengthen core therapeutic areas

- In CNS, one of the core therapeutic areas, the Group will expand its reach into other areas where it can contribute to the treatment of CNS disorders, as well as provide new solutions that target unmet medical needs. This will include stepping up efforts to maximize the medical and commercial value of *Abilify Maintena* and brexpiprazole – both proprietary drugs.
- In the field of oncology, another core therapeutic area, the Group will develop its business in a wide range of areas, including hematological cancer, solid cancer and cancer-supportive care, and actively work to increase the medical value of its portfolio of oncology products. In particular, the Group will maximize the value of proprietary anti-cancer agent *Lonsurf* by accelerating the rollout of the drug worldwide.
- In Japan, the Group will further expand new products such as *E Keppra*, *Abraxane*, *Aloxi*, which were launched during the period of the First Medium-Term Management Plan, and focus on launching and developing new products during the period of the Second Medium-Term Management Plan.
- In the clinical nutrition business, the Group pursued overseas development, mostly in Asia, and in the medical devices business, the Group focused efforts on diversifying treatment solutions.
- The Group will tackle unmet medical needs of patients, aiming to create a wide range of new values including new drugs in order to satisfy those needs.

B. Structural reform, evolution and growth of the nutraceutical business

- The Group will accelerate research and development related to the theme of “healthy life expectancy,” carry out product value appealing sales promotion and cultivate new products.
- Targeting growth in overseas sales, the Group will expand the *Pocari Sweat* business in Asia, the *Nature Made* business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
- Aiming for sustainable growth over the long term, the Group will invest strategically in products and overseas sales channels, and actively promote proprietary brands overseas.
- In order to accelerate product development and overseas business expansion, the Group will review business assets that support the value chain and work toward implementing structural reforms.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2014	As of December 31, 2014
		(Millions of yen)
ASSETS		
Current assets		
Cash and deposits	455,298	523,135
Notes and accounts receivable-trade	327,294	406,431
Marketable securities	117,974	48,535
Finished products and merchandise	83,820	80,011
Work-in process	30,626	31,783
Raw materials and supplies	37,416	41,915
Deferred tax assets	54,549	37,782
Other current assets	62,463	76,547
Allowance for doubtful receivables	(602)	(541)
Total current assets	1,168,841	1,245,602
Fixed assets		
Tangible fixed assets		
Buildings and structures	333,291	352,971
Accumulated depreciation	(210,551)	(221,950)
Buildings and structures, net	122,739	131,020
Machinery and equipment	345,361	373,882
Accumulated depreciation	(270,437)	(283,934)
Machinery and equipment, net	74,923	89,948
Furniture and fixtures	83,729	88,869
Accumulated depreciation	(70,678)	(73,162)
Furniture and fixtures, net	13,051	15,706
Land	80,991	82,784
Lease assets	15,342	14,599
Accumulated depreciation	(7,743)	(7,164)
Lease assets, net	7,598	7,434
Construction in progress	15,880	17,889
Total tangible fixed assets	315,185	344,784
Intangible fixed assets		
Goodwill	70,595	93,162
Other intangible fixed assets	121,668	128,010
Total intangible fixed assets	192,263	221,173
Investments and other assets		
Investment securities	268,536	270,804
Investments in capital	35,994	42,538
Long-term loans receivable	5,260	5,636
Net defined benefit asset	11,113	17,486
Deferred tax assets	16,938	15,476
Other assets	14,960	15,461
Allowance for investment loss	(62)	(78)
Allowance for doubtful receivables	(692)	(759)
Total investments and other assets	352,049	366,565
Total fixed assets	859,498	932,522
Deferred assets	60	59
Total assets	2,028,399	2,178,184

Consolidated Balance Sheets—Continued

		(Millions of yen)
	As of March 31, 2014	As of December 31, 2014
LIABILITIES		
Current liabilities		
Notes and accounts payable-trade	132,900	130,784
Short-term borrowings	53,426	70,178
Lease obligations	2,237	2,139
Income taxes payable	51,064	14,498
Reserve for bonuses	18,667	8,563
Provision for directors' bonuses	584	600
Provision for sales returns	60	13
Other current liabilities	178,479	210,249
Total current liabilities	437,420	437,026
Long-term liabilities		
Long-term debt	14,281	22,251
Lease obligations	5,692	5,800
Deferred tax liabilities	16,658	12,027
Retirement benefits for directors and audit & supervisory board members	2,587	2,787
Net defined benefit liability	8,131	10,921
Negative goodwill	21,541	19,691
Other long-term liabilities	11,326	9,077
Total long-term liabilities	80,219	82,557
Total liabilities	517,640	519,584
NET ASSETS		
Shareholders' equity		
Common stock	81,690	81,690
Capital surplus	512,895	512,747
Retained earnings	891,615	990,906
Treasury stock	(47,928)	(47,415)
Total shareholders' equity	1,438,272	1,537,928
Accumulated other comprehensive income		
Unrealized gain on available-for-sale securities	13,819	13,152
Deferred gain (loss) on derivatives under hedge accounting	(7)	392
Foreign currency translation adjustments	12,152	57,161
Remeasurements of defined benefit plans	20,331	19,167
Total accumulated other comprehensive income	46,296	89,873
Stock acquisition rights	104	-
Minority interests	26,085	30,798
Total net assets	1,510,759	1,658,600
Total liabilities and net assets	2,028,399	2,178,184

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

(Millions of yen)

	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Net sales	1,452,759	1,224,298
Cost of sales	441,632	346,300
Gross profit	1,011,126	877,997
Selling, general and administrative expenses		
Promotion expenses	192,030	188,009
Salaries and bonuses	107,135	89,940
Reserve for bonuses	11,234	5,335
Retirement benefit expenses	4,609	1,665
Provision for directors' and audit & supervisory board members' retirement benefits	478	318
Provision for directors' bonuses	584	600
Depreciation	16,896	22,897
Amortization of goodwill	3,713	3,812
Research and development expenses	249,010	172,851
Other	226,730	196,038
Total selling, general and administrative expenses	812,424	681,469
Operating income	198,702	196,528
Non-operating income		
Interest income	1,251	1,269
Dividend income	1,254	967
Amortization of negative goodwill	2,647	1,848
Equity in earnings of unconsolidated subsidiaries and affiliates	3,221	3,873
Foreign exchange gain, net	7,923	12,871
Other	2,529	2,260
Total non-operating income	18,827	23,091
Non-operating expenses		
Interest expenses	1,237	1,657
Other	1,058	752
Total non-operating expenses	2,295	2,410
Ordinary income	215,235	217,210
Extraordinary income		
Gain on sales of fixed assets	538	131
Gain on sales of investment securities	302	0
Gain on sales of shares of subsidiaries	257	-
Subsidy income	875	937
Other	44	373
Total extraordinary income	2,018	1,442
Extraordinary loss		
Loss on retirement of fixed assets	897	606
Impairment loss	3,399	5,377
Loss on valuation of investment securities	211	1,482
Extra retirement payments	1,937	558
Other	583	361
Total extraordinary loss	7,028	8,386
Income before income taxes and minority interests	210,225	210,265
Income taxes		
Current	81,255	46,219
Deferred	(23,584)	19,832
Total income taxes	57,671	66,051
Income before minority interests	152,553	144,213
Minority interests in net income	1,564	1,070
Net income	150,989	143,143

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Income before minority interests	152,553	144,213
Other comprehensive income		
Unrealized gain (loss) on available-for-sale securities	5,468	(760)
Deferred gain (loss) on derivatives under hedge accounting	(7)	397
Foreign currency translation adjustments	35,697	42,401
Remeasurements of defined benefit plans	-	(976)
Share of other comprehensive income of equity method affiliates	19,158	12,327
Total other comprehensive income	60,316	53,389
Total comprehensive income	212,870	197,603
Total comprehensive income attributable to:		
Owners of the parent	209,448	194,329
Minority interests	3,421	3,273

(3) Consolidated Statements of Changes in Net Assets

FY2013 (From April 1, 2013 to March 31, 2014)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	81,690	510,423	768,314	(18,392)	1,342,036
Changes during the period					
Change in scope of consolidation		2,586	5,063		7,650
Dividends from surplus			(32,752)		(32,752)
Purchase of treasury stock				(30,002)	(30,002)
Disposal of treasury stock		(114)		465	351
Net income			150,989		150,989
Net changes in items other than shareholders' equity					
Total changes during the period	-	2,472	123,300	(29,536)	96,235
Ending balance	81,690	512,895	891,615	(47,928)	1,438,272

	Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total Net Assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income			
Beginning balance	8,284	-	(39,823)	-	(31,539)	104	14,468	1,325,071
Changes during the period								
Change in scope of consolidation								7,650
Dividends from surplus								(32,752)
Purchase of treasury stock								(30,002)
Disposal of treasury stock								351
Net income								150,989
Net changes in items other than shareholders' equity	5,535	(7)	51,976	20,331	77,836	-	11,616	89,452
Total changes during the period	5,535	(7)	51,976	20,331	77,836	-	11,616	185,688
Ending balance	13,819	(7)	12,152	20,331	46,296	104	26,085	1,510,759

FY2014 (From April 1, 2014 to December 31, 2014)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Beginning balance	81,690	512,895	891,615	(47,928)	1,438,272
Cumulative effects of changes in accounting policies			(5,299)		(5,299)
Related balance	81,690	512,895	886,315	(47,928)	1,432,973
Changes during the period					
Increase in retained earnings due to change of fiscal year end			177		177
Change in scope of consolidation			(815)		(815)
Dividends from surplus			(37,914)		(37,914)
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		(148)		514	365
Net income			143,143		143,143
Net changes in items other than shareholders' equity					
Total changes during the period	-	(148)	104,590	513	104,954
Ending balance	81,690	512,747	990,906	(47,415)	1,537,928

	Accumulated other comprehensive income					Stock acquisition rights	Minority interests	Total Net Assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income			
Beginning balance	13,819	(7)	12,152	20,331	46,296	104	26,085	1,510,759
Cumulative effects of changes in accounting policies								(5,299)
Related balance	13,819	(7)	12,152	20,331	46,296	104	26,085	1,505,460
Changes during the period								
Increase in retained earnings due to change of fiscal year end								177
Change in scope of consolidation								(815)
Dividends from surplus								(37,914)
Purchase of treasury stock								(1)
Disposal of treasury stock								365
Net income								143,143
Net changes in items other than shareholders' equity	(667)	399	45,008	(1,163)	43,576	(104)	4,713	48,184
Total changes during the period	(667)	399	45,008	(1,163)	43,576	(104)	4,713	153,139
Ending balance	13,152	392	57,161	19,167	89,873	-	30,798	1,658,600

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Operating activities:		
Income before income taxes and minority interests	210,225	210,265
Depreciation and amortization	46,032	41,725
Impairment loss	3,399	5,377
Amortization of goodwill	1,066	1,964
Increase (decrease) in allowance for doubtful receivables	(180)	(163)
Increase (decrease) in provision for loss on business liquidation	(1,928)	-
Decrease/increase in net defined benefit asset/liability	(13,808)	(9,583)
Interest and dividend income	(2,505)	(2,236)
Interest expense	1,237	1,657
Equity in earnings of unconsolidated subsidiaries and affiliated companies (gain)	(3,221)	(3,873)
Gain on sales of subsidiaries' stocks (gain)	(257)	-
(Increase) decrease in trade receivables	12,391	(61,285)
(Increase) decrease in inventories	(1,805)	17,700
Increase (decrease) in trade payables	19,551	(3,886)
Increase (decrease) in long-term unearned revenues	(7,714)	(5,567)
Other, net	23,291	(20,528)
Subtotal	285,774	171,566
Interest and dividends received	8,025	7,132
Interest paid	(1,206)	(1,682)
Income taxes paid	(66,130)	(88,481)
Net cash provided by operating activities	226,461	88,535
Investing activities:		
(Increase) decrease in short-term investment securities	12,694	19,593
Purchases of property, plant and equipment	(48,777)	(32,888)
Proceeds from sales of property, plant and equipment	1,188	498
Purchases of intangible assets	(21,166)	(7,071)
Purchases of investment securities	(5,304)	(9,669)
Proceeds from sales and redemptions of investment securities	12,351	1,346
Payments for investments in capital	(1,080)	(123)
Purchases of investments in subsidiaries resulting in change in scope of consolidation	(95,356)	(26,703)
Payments of loans receivables	(22,323)	(2,771)
Proceeds from collection of loans receivables	583	339
(Increase) decrease in time deposits-net	59,140	28,500
Other, net	(463)	266
Net cash used in investing activities	(108,514)	(28,682)

Consolidated Balance Sheets—Continued

		(Millions of yen)
	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Financing activities:		
Increase (decrease) in short-term debt-net	5,006	(4,201)
Proceeds from long-term debt	7,936	9,392
Repayments of long-term debt	(13,045)	(1,819)
Proceeds from disposal of treasury stock	351	365
Purchases of treasury stock	(30,002)	(1)
Dividends paid	(32,752)	(37,914)
Dividends paid to minority interests in consolidated subsidiaries	(394)	(362)
Proceeds from share issuance to minority shareholders	-	807
Other, net	(3,794)	(2,222)
Net cash used in financing activities	(66,695)	(35,957)
Foreign currency translation adjustments on cash and cash equivalents	9,480	14,283
Net increase (decrease) in cash and cash equivalents	60,733	38,179
Cash and cash equivalents, beginning of period	347,571	417,538
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	9,233	951
Decrease in cash and cash equivalents due to change of fiscal year end	-	(128)
Cash and cash equivalents, end of period	417,538	456,540

(5) Notes regarding Consolidated Financial Statements

(Note regarding Assumption of Going Concern)

Not applicable.

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Consolidated subsidiaries: 102

Major consolidated subsidiaries:

Otsuka Pharmaceutical Co., Ltd.	Otsuka Pharmaceutical Factory, Inc.	Taiho Pharmaceutical Co., Ltd.
Otsuka Warehouse Co., Ltd.	Otsuka Electronics Co., Ltd.	Otsuka Chemical Co., Ltd.
Otsuka Foods Co., Ltd.	Otsuka America, Inc.	Otsuka America Pharmaceutical, Inc.
Pharmavite LLC	P.T. Amerta Indah Otsuka	Otsuka Pharmaceutical Europe Ltd.
Nutrition & Santé SAS		

Jasmine Comercio de Produtos Alimenticios LTDA, FoodState, Inc., Higashiyama Film Co., Ltd. and one other company were newly included in the scope of consolidation from the fiscal year ended December 31, 2014 as a result of the acquisition of their shares.

Nardobel Paticipacoes Ltda. and Bigarade Corporation were newly included in the scope of consolidation from the fiscal year ended December 31, 2014 as they were newly established.

Otsuka Pharmaceutical Italy S.r.l. and one other company were newly included in the scope of consolidation from the fiscal year ended December 31, 2014 due to their increase in materiality.

Soma Beverage Company, LLC, a previously consolidated subsidiary, was absorbed by Crystal Geyser Water Company, a consolidated subsidiary of the Group.

(2) Non-consolidated subsidiaries

Major non-consolidated subsidiaries:

Otsuka Pakistan Ltd.	Taiho Oncology, Inc.	Otsuka Chemical America, Inc.

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

2. Application of the Equity Method

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

Otsuka Pakistan Ltd.

(2) Affiliated companies accounted for by the equity method: 16

Main companies:

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

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

Main companies:

Taiho Oncology, Inc.	Otsuka Chemical America, Inc.

Since net income and retained earnings (multiplied by the Company's ownership share) do not have a material effect on the consolidated financial statements of the Company, these companies have not been accounted for by the equity method.

(4) For companies accounted for using the equity method and whose fiscal year end differs from the consolidated fiscal year end, pro-forma financial accounts as of December 31 have been used for the purpose of consolidation.

3. Change in Consolidated Fiscal Year End

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 consolidated fiscal year end from March 31 to December 31, following approval of the partial amendments of the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014. Consequently, the consolidated financial results in the transitional period for FY2014 represent nine months (April 1 to December 31 of 2014).

For the period of January 1 to March 31 of 2014, profits or losses of companies with a December 31 fiscal year end have been adjusted within retained earnings. Furthermore, 23 consolidated domestic subsidiaries changed their fiscal year end from March 31 to December 31.

4. Fiscal Year End of Consolidated Subsidiaries

The fiscal year end of consolidated subsidiaries is the same as the consolidated fiscal year end.

5. Accounting Standards

(1) Valuation of major assets

a. Securities

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

-Marketable securities are valued using the market price as of the balance sheet date, with unrealized gains or losses (purchasing cost calculated using the moving average method) stated in a separate component of equity, net of applicable taxes.

-Non-marketable securities are valued at cost determined mainly by the moving average method.

b. Derivatives

-Derivatives are valued at fair value.

c. Inventories

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

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

(2) Method of depreciation used for major fixed assets

a. Tangible fixed assets (excluding lease assets)

-The Company and its subsidiaries mainly use the straight-line method.

-Estimated useful lives for major fixed assets:

Buildings and structures: 2-65 years

Machinery and equipment: 2-30 years

b. Intangible fixed assets (excluding lease assets)

-The Company and its domestic subsidiaries mainly use the straight-line method over the estimated useful lives. Software for internal use is depreciated by the straight-line method based on internal guidelines (3-5 years).

-Consolidated subsidiaries abroad mainly use the straight-line method.

c. Lease assets

- The Company and its subsidiaries use the straight-line method over the terms of their respective leases with zero residual value.

(3) Major reserves

a. Allowance for doubtful receivables

-To provide for potential losses from uncollectable notes and accounts receivable, a provision is made on general receivables based on historical rates. Specific cases are evaluated individually.

b. Reserve for employees' bonuses

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

c. Provision for directors' bonuses

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

d. Provision for sales returns

-To provide for potential losses from sales returns, some domestic subsidiaries make provisions based on historical return rates and profit margins.

e. Retirement benefits for directors, audit and supervisory board members, and corporate officers

- Based on internal accounting rules, some consolidated subsidiaries record a reserve for the payment of retirement benefits to directors, audit and supervisory board members, and corporate officers at the amount that would be required if all directors, audit and supervisory board members, and corporate officers retired at the balance sheet date.

f. Allowance for investment loss

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

(4) Methods of Retirement Benefit Accounting

To provide for payments of retirement benefits to employees, defined retirement benefit liabilities or assets for the fiscal year ended December 31, 2014 have been recognized based on the difference between the estimated retirement benefit obligations and plan assets.

1) Methods to determine the estimated retirement benefits to be attributed to the reporting period

The benefit formula is employed for the method of determining the estimated retirement obligation to be attributed to the reporting period.

2) Recognition of actuarial gains and losses, prior service costs, and transitional obligations

Actuarial gains and losses are amortized on a straight-line basis over a certain period (5-20 years, but within the average remaining service period per employee at the time the actuarial gains and losses have occurred), starting from the year following the fiscal year in which the differences in valuation of benefit obligations have been incurred due to the change in accounting standards.

Prior service costs are amortized starting in the fiscal year incurred using a straight-line method over a certain period (5-23 years), but within the average remaining service period of employees.

Transitional obligations are amortized over 5 to 15 years.

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

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income. The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate. Differences arising from such translation are stated as "Foreign currency translation adjustments" in a separate component of equity.

(6) Principal Methods of Hedge Accounting

a. Methods of Hedge Accounting

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

-Gains and losses of forward exchange contracts that meet the conditions for hedged items are not accounted for.

-Interest-rate swaps that meet the respective criteria are accounted for using special accounting for interest-rate swaps.

b. Hedging instruments and hedged items

i. Hedging instruments: foreign exchange forward contracts, foreign exchange deposits

Hedged items: foreign-currency denominated receivables and debt, planned transactions denominated in foreign currencies

ii. Hedging instruments: interest-rate swaps

Hedged items: long-term loans

c. Hedging policy

- Some consolidated subsidiaries use foreign currency forward contracts to hedge risk arising from foreign exchange rate fluctuations affecting transactions denominated in foreign currencies, but only to the extent required to hedge the relevant transaction amount. Furthermore, interest rate swaps are conducted to reduce interest rate risk.

d. Hedge effectiveness assessment

i. Foreign exchange forward contracts, foreign currency-denominated deposits

Effectiveness assessment is omitted, since hedging instruments and hedged items are denominated in the same currency, and therefore, cash-flow fluctuations are predicted to offset each other.

ii. Interest-rate swaps

Effectiveness assessment is omitted, since main terms are the same for both hedging instrument and hedged item and since cash-flow fluctuations are predicted to offset each other from the time the hedging contract has been entered into.

(7) Amortization of goodwill

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

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

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, demand deposit and highly liquid short-term investments with a remaining term to maturity of less than three months and low risk of value fluctuations, which can be easily converted into cash.

(9) Other

Consumption tax and provincial taxes are excluded from revenues and expenses.

(Changes in Accounting Policies)

(Adoption of Accounting Standard for Retirement Benefits)

The provisions of Article 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan [ASBJ]) Statement No. 26, May 17, 2012, hereinafter the "Accounting Standard") and Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012, hereinafter the "Guidance") have been adopted by the Company from this fiscal year. Accordingly, the methods for calculating retirement benefit obligations and service costs have been revised in the following respective 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 method for determining 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 fiscal 2014.

As a result, a ¥8,959 million decrease in net defined benefit asset, a ¥640 million decrease in net defined benefit liability, and a ¥5,299 million decrease in retained earnings were recognized in the fiscal year ended December 31, 2014. The impact on operating income, ordinary income, and income before income taxes and minority interests for the fiscal year ended December 31, 2014 is immaterial.

Net assets per share decreased by ¥9.81 for the fiscal year ended December 31, 2014, and the impact on net income and net income per share (diluted) 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 ¥2,935 million.

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

(Additional Information)

(Accounting treatment of Branded Prescription Drug Fee levied on sales)

In the U.S., the Group is subject to the Patient Protection and Affordable Care Act enacted in 2010 and as such obligated to pay a so-called Branded Prescription Drug Fee ("BPD Fee").

On July 28, 2014, the U.S. Internal Revenue Service issued final regulations for the BPD Fee which requires expense recognition at the time of sales, while previous regulation required expenses to be recognized based on sales in the preceding year.

As a result, an additional expense of ¥8,761 million was recognized in "Other" under selling, general and administrative expenses, and accordingly, the same amount has led to a reduction in operating income, ordinary income, and income before income taxes and minority interests.

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

(Segment Information)

a. Reporting Segments

1. Overview

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

While the Group's core business is healthcare, the Group categorizes four reporting segments: "Pharmaceuticals", "Nutraceuticals", "Consumer products" and "Other" businesses.

The Group defines the reporting segments as follows:

- Pharmaceuticals comprises the research and development, manufacturing and sales of prescription drugs as well as clinical nutrition, including intravenous solutions.
- Nutraceuticals comprises the manufacturing and sales of functional drinks and foods, over-the-counter drugs and supplements.
- Consumer products comprises mineral water, soft beverages and food products.
- Other operations encompass logistics, warehousing, chemical products, evaluation systems for LED displays and spectroanalysis devices.

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

Methods of accounting procedures for reported business segments are the same as those for statements in "Basis of Presenting Consolidated Financial Statements."

Income of reported segments is the figure based on operating income. Intersegment profits or transfers are based on market price.

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

As stated in "Changes in Accounting Policies," the Company and the 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.

Along with the above change in depreciation method, majority of consolidated domestic subsidiaries changed useful lives of some tangible fixed assets.

The effect of these changes in comparison with the former calculation method was as follows: "Pharmaceuticals" segment income increased by ¥2,789 million, "Nutraceuticals" segment income decreased by ¥263 million, "Consumer products" segment income decreased by ¥0 million, "Others" segment income increased by ¥155 million, and "Adjustments" increased by ¥254 million.

(Accounting treatment of Branded Prescription Drug Fee levied on sales)

As stated in "Additional Information," In the U.S., the Group is subject to the Patient Protection and Affordable Care Act enacted in 2010 and as such obligated to pay a so-called Branded Prescription Drug Fee ("BPD Fee").

On July 28, 2014, the U.S. Internal Revenue Service issued final regulations for the BPD Fee which requires expense recognition at the time of sales, while previous regulation required expenses to be recognized based on sales in the preceding year.

As a result, an additional expense of ¥8,761 million was recognized in "Other" under selling, general and administrative expenses, and accordingly, has led to a reduction of ¥8,761 million in "Pharmaceuticals" segment income.

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

(For the fiscal year ended March 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	1,035,080	281,146	43,770	92,762	1,452,759	-	1,452,759
Intersegment sales	-	5,986	155	37,577	43,719	(43,719)	-
Total	1,035,080	287,133	43,925	130,339	1,496,478	(43,719)	1,452,759
Segment income (loss)	212,755	25,362	(2,166)	7,235	243,186	(44,484)	198,702
Segment asset	802,803	216,807	141,716	147,439	1,308,766	719,633	2,028,399
Other items							
Depreciation	23,775	11,425	1,442	4,394	41,037	4,994	46,032
Goodwill amortization	1,707	1,759	117	129	3,713	-	3,713
Investment in equity method companies	28,610	11,986	115,333	17,455	173,385	-	173,385
Increase in tangible and intangible fixed assets	154,513	10,144	2,912	4,358	171,928	7,055	178,984

(For the fiscal year ended December 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	883,519	232,741	34,372	73,665	1,224,298	-	1,224,298
Intersegment sales	-	5,415	157	28,581	34,153	(34,153)	-
Total	883,519	238,156	34,529	102,246	1,258,452	(34,153)	1,224,298
Segment income (loss)	204,791	21,867	(1,404)	5,533	230,788	(34,259)	196,528
Segment asset	887,093	274,340	147,983	176,625	1,486,043	692,141	2,178,184
Other items							
Depreciation	25,691	8,111	998	3,508	38,310	3,415	41,725
Goodwill amortization	2,166	1,469	44	131	3,812	-	3,812
Investment in equity method companies	32,822	13,508	118,130	18,923	183,385	-	183,385
Increase in tangible and intangible fixed assets	31,658	31,873	2,868	18,607	85,007	3,218	88,226

(Notes)

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

(Millions of yen)

Segment income (loss)	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Intersegment eliminations	757	116
Unallocated expenses*	(45,241)	(34,375)
Total	(44,484)	(34,259)

*Unallocated expenses consist mainly of costs of the headquarter functions of the Company and certain consolidated subsidiaries.

(Millions of yen)

Segment asset	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Intersegment eliminations	(7,466)	(8,306)
Corporate assets*	727,099	700,448
Total	719,633	692,141

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

Other items

Depreciation:

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

Increase in tangible and intangible fixed assets:

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

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

b. Other information

(For the fiscal year ended March 31, 2014)

1. Net sales by product

(Millions of yen)

	ABILIFY	Others	Total
Sales to customers	575,731	877,027	1,452,759

2. Territory information

(1) Net Sales

(Millions of yen)

Japan	North America	Others	Total
628,318	599,558	224,882	1,452,759

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

(2) Tangible fixed assets

(Millions of yen)

Japan	North America	Others	Total
217,048	32,193	65,943	315,185

3. Major customers

(Millions of yen)

Customer	Net sales	Segment
McKesson Corporation	177,713	Pharmaceuticals
Cardinal Health Inc	161,699	Pharmaceuticals

(For the fiscal year ended December 31, 2014)

1. Net sales by product

(Millions of yen)

	ABILIFY	Others	Total
Sales to customers	507,393	716,904	1,224,298

2. Territory information

(1) Net Sales

(Millions of yen)

Japan	North America	Others	Total
467,327	545,328	211,641	1,224,298

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

(2) Tangible fixed assets

(Millions of yen)

Japan	North America	Others	Total
230,338	42,950	71,495	344,784

3. Major customers

(Millions of yen)

Customer	Net sales	Segment
McKesson Corporation	167,228	Pharmaceuticals
Cardinal Health Inc	126,234	Pharmaceuticals

c. Impairment loss

(For the fiscal year ended March 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Impairment loss	33	2,844	459	7	55	3,399

(For the fiscal year ended December 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Impairment loss	4,896	176	79	1	225	5,377

d. Goodwill

(For the fiscal year ended March 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	1,707	1,759	117	129	-	3,713
Unamortized balance	41,469	26,669	478	1,978	-	70,595

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

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,207	-	-	440	-	2,647
Unamortized balance	19,455	-	-	2,085	-	21,541

(For the fiscal year ended December 31, 2014)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	2,166	1,469	44	131	-	3,812
Unamortized balance	43,313	39,292	417	10,138	-	93,162

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

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Current year amortization	1,655	-	-	192	-	1,848
Unamortized balance	17,798	-	-	1,893	-	19,691

e. Negative Goodwill

Not applicable.

(Per Share Information)

	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Net assets per share	¥2,740.89	¥3,004.38
Net income per share (basic)	¥278.07	¥264.20
Net income per share (diluted)	¥277.52	¥264.12

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

(Millions of yen)

	FY2013 (From April 1, 2013 to March 31, 2014)	FY2014 (From April 1, 2014 to December 31, 2014)
Basic net income per share		
Net income	150,989	143,143
Net income attributable to common stock	150,955	143,112
Amounts not attributable to common stock		
Dividends from overseas consolidated subsidiaries other than common stock	33	31
Average number of common stock outstanding during the year	542,866,117 shares	541,679,314 shares
Diluted net income per share		
Adjustments to net income	(245)	-
(including minority interest)	(245)	-
Increase in number of common stocks	193,281 shares	159,760 shares
(including stock acquisition rights)	(193,281 shares)	(159,760 shares)
Residual securities that were not used in calculating diluted net income per share due to the lack of dilutive effects	-	-

(Subsequent Events)

Acquisition of Avanir Pharmaceuticals, Inc.

On December 2, 2014, our consolidated subsidiary, Otsuka Pharmaceutical Co., Ltd., agreed to make an all-cash tender offer (the “Tender Offer”) followed by a merger for cash (the “Merger”) with Avanir Pharmaceuticals, Inc. with Bigarade Corporation, a wholly-owned subsidiary of Otsuka America, Inc. Avanir Pharmaceuticals, Inc. is a company engaged in research and development, as well as manufacturing and marketing of pharmaceuticals.

In accordance with this agreement, the Tender Offer by and the subsequent Merger with Bigarade Corporation were completed on January 13, 2015 (EST), resulting in Avanir Pharmaceuticals, Inc. becoming a consolidated subsidiary of Otsuka Holdings.

(1) Overview of Business Combination

1) Name of company acquired and nature of business

Name of company acquired: Avanir Pharmaceuticals, Inc.

Nature of business: Research, development, manufacturing and marketing of pharmaceuticals

2) Rationale for business combination

Avanir Pharmaceuticals, Inc (hereinafter “Avanir”) is a biopharmaceutical company specializing in CNS diseases. It was founded in 1988 in Southern California and now employs approximately 500 people. Avanir developed and launched NUEDEXTA® (dextromethorphan hydrobromide/quinidine sulfate) 20 mg/10 mg capsules in the U.S. in February 2011 as the world’s first and only approved treatment for the neurologic disease pseudobulbar affect (PBA). Avanir markets NUEDEXTA in the U.S. through its own sales organization of over 300 sales representatives, 150 of whom were hired to accelerate the continued growth of NUEDEXTA for PBA. The company’s pipeline includes programs in Alzheimer’s disease, Parkinson’s disease, migraine, and other CNS indications. The promising new chemical entity AVP-786, with a target indication for behavioral disorders (agitation) associated with Alzheimer’s disease, is being prepared to enter Phase III clinical trials.

The acquisition of Avanir will bring Otsuka Pharmaceutical three distinct values: 1) NUEDEXTA, created to treat the under-recognized neurologic disease PBA; 2) the late-stage investigational compound AVP-786 in clinical development to treat agitation associated with Alzheimer’s disease and; 3) Avanir’s clinical development and commercial expertise in neurologic diseases, which complements Otsuka Pharmaceutical’s capabilities in psychiatric diseases. These will accelerate Otsuka Pharmaceutical’s existing expansion strategy in the neurologic area, widening the overall CNS portfolio, inclusive of the psychiatric and neurologic areas, supporting both short-and medium-term growth.

This acquisition is consistent with the Otsuka Group’s investment philosophy: invest in companies and businesses with which we can share a common management philosophy, human resources, products and technology to enhance corporate value; and invest with long-term perspective. The acquisition is based on Otsuka’s central concepts of creativity and proof through execution.

3) Date of Business Combination

January 13, 2015 (EST)

4) Legal Type of Business Combination

All-cash tender offer

5) Name of resulting entity

Avanir Pharmaceuticals, Inc.

6) Share of Voting Rights Acquired

100%

7) Main rationale for selecting the acquiring entity

The acquisition company (Bigarade Corporation), a subsidiary of the Company, has acquired all shares of Avanir Pharmaceuticals, Inc. for cash.

(2) Total Acquisition Price and Breakdown

Acquisition price: US$3,507 million in cash

Direct costs related to the acquisition: Acquisition costs are in the process of being confirmed.

(3) Amount of and Reason for Goodwill Arising from the Acquisition, Amortization Method and Period

1) Amount of and reason for goodwill

Since the distribution of acquisition costs has not been finalized, the amount of goodwill has not yet been determined.

2) Amortization method and period

Not yet determined.

(4) Financial Arrangements

The Company has entered into a bridge loan agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (the "Loan") in order to finance the acquisition.

Below is the summary of the bridge loan as of February 13, 2015.

Lender	The Bank of Tokyo-Mitsubishi UFJ, Ltd. (bridge loan)
Amount of Loan initially provided	US$3,540 million
Current Loan balance	US$1,950 million
Interest rate	Benchmark interest rate + spread
Effective date of Loan	January 13, 2015
Maturity date	December 7, 2015

(Note) The Loan is not subject to any collateral, warranty, or covenants provided by the Company.

The Company plans to repay the Loan using its own funds as well as long-term financing from The Bank of Tokyo-Mitsubishi UFJ, Ltd., Resona Bank, Limited., Sumitomo Mitsui Banking Corporation, Mizuho Bank, Ltd., and The Awa Bank, Ltd. An amount of ¥35,000 million have been refinanced already on January 23, 2015.

5. Other

(1) Changes in Officers (as of March 27, 2015)

1. Changes in Representatives
   Not applicable.

2. Changes in other officers
   ･Proposal for new Chairman
   Ichiro Otsuka (current Vice Chairman)

3. Scheduled Date of Assuming Office
   March 27, 2015