Consolidated Financial Results for the Fiscal Year Ended December 31, 2015 [Japan GAAP]

February 12, 2016

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 30, 2016
Scheduled date of dividend payment commencement:	March 31, 2016
Scheduled date of securities report submission:	March 31, 2016
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 FY2015 (January 1, 2015 to December 31, 2015)

(1) Consolidated Operating Results

(% change from previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2015 ended December	1,445,227	-	151,837	-	159,899	-	84,086	-
FY2014 ended December	1,224,298	-	196,528	-	217,210	-	143,143	-

(Note) Comprehensive income: FY2015 ended December ¥72,319 million -%
FY2014 ended December ¥197,603 million -%

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income as a percentage of total assets	Operating margin
	Yen	Yen	%	%	%
FY2015 ended December	155.12	155.11	5.1	6.8	10.5
FY2014 ended December	264.20	264.12	9.2	10.3	16.1

(Reference) Equity in earnings of affiliates: FY2015 ended December ¥8,032 million
FY2014 ended December ¥3,873 million

The Company changed its consolidated fiscal year end from March 31 to December 31 in FY2014. Consequently, the consolidated financial results in the transitional period for FY2014 represent nine months (April 1 to December 31 of 2014) and, therefore, results for FY2015 (twelve-month period) are not directly comparable.

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Book value per share
	Million yen	Million yen	%	Yen
As of December 31, 2015	2,528,510	1,683,436	65.4	3,053.82
As of December 31, 2014	2,178,184	1,658,600	74.7	3,004.38

(Reference) Shareholders' equity: As of December 31, 2015 ¥1,654,746 million
As of December 31, 2014 ¥1,627,801 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
FY2015 ended December	253,873	(420,056)	176,505	460,609
FY2014 ended December	88,535	(28,682)	(35,957)	456,540

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	%	%
FY2014 ended December	-	35.00	-	40.00	75.00	40,629	28.4	2.6
FY2015 ended December	-	50.00	-	50.00	100.00	54,184	64.5	3.3
FY2016 ending December (Forecast)	-	50.00	-	50.00	100.00		108.4	

3. Forecasts of Consolidated Financial Results for FY2016 (January 1, 2016 to December 31, 2016)

(% 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)	608,000	(18.5)	25,000	(75.8)	30,000	(72.6)	20,000	(71.2)	36.91
FY2016	1,250,000	(13.5)	70,000	(53.9)	80,000	(50.0)	50,000	(40.5)	92.27

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

(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 shares):
   December 31, 2015 557,835,617 shares
   December 31, 2014 557,835,617 shares
2) Number of shares of treasury shares as of the end of the reporting period:
   December 31, 2015 15,985,891 shares
   December 31, 2014 16,037,940 shares
3) Average number of shares outstanding during the reporting period:
   December 31, 2015 541,838,851 shares
   December 31, 2014 541,679,314 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 8 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 12, 2016. 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

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.

As a result, the consolidated statements of income and consolidated statements of comprehensive income stated in "5. Consolidated Financial Statements (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income" are consolidated based on the period from April 1 to December 31 for FY2014 and from January 1 to December 31 for FY2015.

Therefore, to provide a comparison with last year's results, we have calculated pro-forma consolidated results for the period from January 1 to December 31, 2014 for all consolidated companies, which are shown for reference purposes below.

<Summary of Operating Results for the FY2015 ended December 31, 2015>

During the fiscal year under review, the global economy showed signs of a slow down with the noteworthy exception of the U.S. Major factors were lower growth rates across emerging markets, particularly China, and falling commodity prices.

While economic policy in Japan once again focused on reviving core economic growth, the rise in social insurance cost remains to be a central theme in Japan's fiscal restructuring. Consequently, policies aimed at curbing healthcare spending continued to put further pressure on pharmaceutical industry revenues. However, since Japan's "Healthy Life Expectancy" policy is fully aligned with our longstanding corporate philosophy to contribute to "people's health," we expect that new business opportunities that contribute to public health will ultimately result in strategic opportunities for the group.

During 2015, the Otsuka Group recorded consolidated net sales of ¥1,445,227 million (down 8.1% from ¥1,571,843 million for the same period in the previous year), with operating income of ¥151,837 million (down 29.0% from ¥213,831 million for the same period in the previous year), ordinary income of ¥159,899 million (down 32.2% from ¥235,688 million for the same period in the previous year) and net income of ¥84,086 million (down 45.8% from ¥155,128 million for the same period in the previous year).

Results by business segment are as follows:

(Results for the Twelve Months Ended December 31, 2015)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	971,842	330,203	43,200	145,193	(45,211)	1,445,227
Operating income (loss)	156,813	31,267	(3,314)	5,893	(38,822)	151,837

(Reference: Results for the Twelve Months Ended December 31, 2014)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	1,141,813	295,198	44,133	134,643	(43,945)	1,571,843
Operating income (loss)	234,388	20,641	(1,780)	6,801	(46,218)	213,831

1) Pharmaceuticals

In the area of central nervous system ("CNS") disorders, global sales of the antipsychotic agent *ABILIFY* fell more than 40% compared with the same period in the previous year due to the impact of the loss of exclusivity in the U.S. followed the loss in Europe. In the U.S., sales of *ABILIFY* declined approximately 60% year on year, following the approval of generic products in April 2015. Sales of *ABILIFY* in Europe also declined steeply from the same period in the previous year as generic products were launched in more countries. In Asia, while sales of *ABILIFY* declined in South Korea due to the drug price reduction, sales in Asia continued to grow sharply overall on the back of higher sales in China and other Asian markets. In Japan, sales of *ABILIFY* rose year-on-year, supported by an increase in prescriptions and sales share for orally disintegrating tablets for the three approved indications of schizophrenia, manic episodes of bipolar disorder and major depressive disorder.

Aripiprazole intramuscular depot formulation *Abilify Maintena*[*1] (once-monthly injection) registered significant sales growth in the U.S., supported by efforts to promote the drug's efficacy for the treatment of acutely relapsed adults with schizophrenia and the merits of a ready-to-use prefilled syringe launched in March 2015 and an additional administration route using the deltoid muscle approved in July 2015. In Europe, sales of *Abilify Maintena* continued to increase as the number of countries where it has been launched in Europe expanded to 27 as of December 31, 2015. *Abilify Maintena* was also launched in Australia in March 2015, as well as in Japan in May 2015, as *ABILIFY for extended-release injectable suspension, for intramuscular use*, adding to the growing number of markets worldwide where the drug is now available and significantly boosting global sales. The new antipsychotic agent *REXULTI* (generic name: brexpiprazole)[*1] received approval from the U.S. Food and Drug Administration (FDA) in July 2015 simultaneously for indications of schizophrenia and adjunctive therapy in major depressive disorder. Prescriptions have been growing steadily since the drug was launched in the U.S. in August 2015.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, has firmly achieved growth in market share as the top-selling brand[*2] in the domestic antiepileptic drug market. This reflected growth in prescriptions for pediatric patients and approval in February 2015 for the monotherapy treatment of epileptic partial-onset seizures. Furthermore, in December 2015 a drip infusion formulation, as a new formulation type, was launched. *Neupro Patch*, the world's only transdermal dopamine agonist, benefited from increasing understanding of use of the patch formulation and growing recognition of its effect in improving wearing-off[*3] symptoms in indications of Parkinson's disease and restless legs syndrome, and is seeing continued strong growth in sales. It has become the top-selling brand[*2] in the dopamine agonist market in Japan.

Sales of *NUEDEXTA* climbed significantly. *NUEDEXTA* is developed by U.S. company Avanir Pharmaceuticals, Inc., which became part of the Otsuka Group in January 2015 and has strengths to develop drugs in the area of neurologic diseases. The drug's stronger sales reflected its increasingly recognized status as the world's first and only treatment for the neurologic disease pseudobulbar affect (PBA) on the back of the strengthened sales network in the U.S.

In the area of oncology, sales of anti-cancer agent *TS-1* declined in Japan compared with the same period in the previous year, mainly due to the impact of rival products for gastric cancer. Global sales of the drug fell compared with the same period in the previous year, despite expanding the countries where it is marketed and growing sales overseas on the back of additional indication of the drug. Sales of anti-cancer agent *UFT* declined due to the impact of rival products, and sales of reduced folic acid formulation *Uzel* were steady year on year on the back of renewed efforts to promote the drug using existing data. Sales of long-acting 5-HT_3 receptor antagonist antiemetic agent *Aloxi* increased compared to the same period in the previous year, supported by the use in new clinical departments. Sales of anti-cancer agent *Abraxane* grew strongly compared with the same period in the previous year, supported by an increase in prescriptions due to its approval for the additional indication of pancreatic cancer in December 2014. *Lonsurf*, a new anti-cancer agent, was launched in Japan in May 2014. Prescriptions for the indications of unresectable advanced or recurrent colorectal cancer are rising, leading to steady growth in sales of the drug. In the U.S., *Lonsurf* received FDA approval in September 2015 for the treatment of unresectable advanced or recurrent colorectal cancer that is refectory or intolerant to standard chemotherapies, and was launched by Taiho Oncology Inc. in October 2015.

The anti-cancer agent *SPRYCEL*, which is being promoted in Japan, the U.S. and Europe, in collaboration with BMS[*4], has seen growth in prescriptions worldwide as a first-line treatment for chronic myeloid leukemia. Sales of the drug increased compared with the same period in the previous year. *Busulfex*, an allogeneic hematopoietic stem cell pre-transplanting regimen now sold in more than 50 markets worldwide, has established a standard drug therapy approach as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation. Sales of *Busulfex* increased compared with the same period in the previous year.

In the area of cardiovascular system, the number of markets where *Samsca*, a vasopressin V_2-receptor antagonist developed by Otsuka Pharmaceutical, was on sale grew to 21 markets worldwide as of December 31, 2015. The drug is gaining more acceptance among medical specialists due to its value as an oral aquaretic agent, supporting a large increase in global sales compared with the same period in the previous year. *Samsca/Jinarc*[*5] is the world's first drug therapy for the additional indication of autosomal dominant polycystic kidney disease (ADPKD), an intractable kidney disease. The drug was approved in Japan in March 2014. Prescriptions for the drug have increased as education of patients and prescribers has increased understanding of the therapy. In May 2015, the drug was launched in Canada and approved in Europe, and through such developments, the number of countries where it is marketed as a treatment for ADPKD is expanding. Sales of antiplatelet agent *Pletaal/Pletal* declined compared with the same period in the previous year due to the impact of promotion of generic products in Japan.

In the area of digestive system, *TAKECAB®*, co-promoted with Takeda Pharmaceutical Company Limited, has seen steady growth in prescriptions since its launch in February 2015. Sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* declined compared with the same period in the previous year due to the impact of promotion of generic products in Japan.

In other areas, prescriptions for dry eye treatment *Mucosta ophthalmic suspension UD 2%* expanded steadily and sales grew firmly compared with the same period in the previous year.

In the area of clinical nutrition, sales of the high-calorie TPN solution *ELNEOPA* remained level compared with the same period in the previous year. The result reflected 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, 2015 totaled ¥971,842 million (down 14.9% from the same period in the previous year), with operating income of ¥156,813 million (down 33.1%).

*1: Alliance products under the global alliance with H. Lundbeck A/S
*2: ©2016 IMS Health. Estimated based on "Japan Pharmaceutical Market, January-December 2015." 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: The brand name in Japan is *Samsca*. The brand name overseas is *Jinarc*.

2) Nutraceuticals

The *Pocari Sweat* electrolyte supplement drink is marketed in 20 countries and regions worldwide. Sales volume in Japan increased compared with the same period in the previous year, despite a weak domestic market for sports drinks[*6]. The result reflected demand from users, stimulated in part by efforts to provide health information based on scientific evidence. Overseas, sales volumes declined compared with the same period in the previous year, with sales volume in Indonesia affected by rival products and other factors, while sales volume in China grew through efforts to cultivate consumers and promote the product's benefits.

Total brand sales volume for carbonated nutritional drink *Oronamin C* declined slightly compared with the same period in the previous year, despite steady growth in the number of stores that stock *Oronamin C Royalpolis*, which was relaunched in March 2015. *Oronamin C* was launched in Hong Kong in May 2015. *Oronamin C* is now sold in nine markets worldwide.

Sales volume for balanced nutrition food *Calorie Mate* increased compared with the same period in the previous year. This reflected enhanced efforts to increase consumer understanding about the product and secure new users, mainly targeting students preparing for entrance exams and office workers.

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. As new items in the *SOYJOY* baked soy bar range, the Group relaunched *Strawberry* and *Blueberry* in March 2015, followed in September 2015 by the relaunch of *Raisin, Apple and Hawthorn Berry* in Japan. Operations are gradually deploying overseas as well.

Sales of *EQUELLE*, a food product containing equol for supporting women's health, have progressed steadily, reflecting the Group's efforts to provide information with a focus on the relationship between equol and physical and emotional changes in women.

Nature Made, supplied by the subsidiary Pharmavite LLC of the U.S. ("Pharmavite"), has been the number one retail national vitamin and supplement brand in the U.S. for nine consecutive years[*7]. Sales of *Nature Made* supplements rose compared with the same period in the previous year in conjunction with an upswing in the U.S. market[*8]. Also, with the acquisition of FoodState Inc. in the U.S. in December 2014, Pharmavite succeeded in newly entering the natural food market. Sales of the company's natural food-based supplements, *MegaFood* and *INNATE* were also firm. In Japan, Otsuka Pharmaceutical relaunched five items as Foods with Nutrient Function Claims under the *Nature Made* brand: *Lutein*, *Astaxanthin, Fish Oil Pearl*, *Super Fish Oil,* and *Ginkgo Biloba* (Japan's first Food with Nutrient Function Claims for cognitive function). The products have been steadily introduced to the market.

In regard to *OMUGI SEIKATSU*, food products that contain barley β-glucans, *Omugi Gohan* and *Omugi Gohan Japanese-style* have also been relaunched as Foods with Nutrient Function Claims. These are the first rice products in Japan to be sold as Foods with Nutrient Function Claims.

At Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, 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 October 2015, Nutrition & Santé SAS acquired Biocentury, a leading Spanish health and functional foods company.

Kenja-no-shokutaku (wise man's dining) *Double Support,* a Food for Specified Health Use, has the functions of slowing down the body's absorption of both sugars and lipids, thereby reducing the rise in blood glucose levels and triglycerides after meals. The product's user base has grown through activities targeting a clearly defined customer segment. In April 2015, *Kenja-no-shokutaku Double Support* was also launched in Hong Kong.

In the cosmedics area, the Group launched new products in Japan in the *UL•OS* men's skincare brand, *UL•OS Adult Body Sheet* and *UL•OS Adult Facial Sheet* in March 2015, followed by *UL•OS Medicated Skin Whitening*, a new pen-type skin treatment that inhibits dark spots and freckles, in August 2015. Sales of the new products have been growing steadily. In South Korea, sales of the brand increased compared with the same period in the previous year, supported by efforts to develop the brand. Sales of the women's skincare brand *InnerSignal* increased compared with the same period in the previous year as a result of acquiring new customers and expanding the base of loyal users.

Sales volume for nutrient tonic *Tiovita* declined compared with the same period in the previous year, due mainly to the shrinking market for nutrient tonics and the impact of rival products.

Sales volume for oral rehydration solution *OS-1* increased compared with the same period in the previous year due to greater awareness of the product. This reflected focused activities targeting medical personnel and healthcare professionals with the aim of getting them to recommend the drug to patients, the provision of heat stroke medical treatment guideline, support activities for the Hidden Dehydration Committee and active sales promotion efforts such as television commercials and sampling.

Sales of *Oronine H Ointment* increased year on year in Japan and in Hong Kong. In Japan, this was supported by efforts to promote the benefits of a new laminated tube product launched in August 2015 and in Hong Kong the increase was due to promotion activities on the back of a reinforced marketing structure.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2015 totaled ¥330,203 million (up 11.9% from the same period in the previous year), with operating income of ¥31,267 million (up 51.5%).

*6: Inryo Soken data: Down 4% in sales in January–December 2015

*7: Pharmavite calculation based in part on data reported by Nielsen through its Scantrack® service for the Total Vitamins Category in dollar and unit sales, for the 52-week periods ending 12/27/2008 in the US Food Drug Mass channels; and for the 52-week periods ending 12/26/2009 through 12/19/2015 in the US xAOC channels. ©2016, The Nielsen Company

*8: Nielsen xAOC through 12/05/15 Up 4.2% for the last 4 periods.

3) Consumer Products

Sales volume for *Match*, a carbonated electrolyte drink containing vitamins, declined compared with the same period in the previous year. Nevertheless, we are working to reenergize the brand in the market by continuing to implement an aggressive marketing strategy and sales promotion activities mainly targeting the high school student market. Although sales volume for mineral water products, centered on *Crystal Geyser*, remained level compared with the same period in the previous year, we have reinforced our communication efforts targeting growth in new customers. In the *Bon Curry* range of instant curry dishes, sales volume increased compared with the same period in the previous year due to a stepped up marketing strategy and sales promotion activities that boosted brand value. This included the launch of new products, such as the upgraded *Bon Curry Gold* from 2013, which can be heated in a microwave oven without removing the curry pouch from the box, special winter and summer products for a limited period only, and *The Bon Curry* – the highest-quality product in the range so far.

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

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2015 totaled ¥43,200 million (down 2.1% from the same period in the previous year), with operating loss of ¥3,314 million (compared with an operating loss of ¥1,780 million for the same period in the previous year).

4) Others

In the specialty chemical business, sales of *TERPLUS*, pigment dispersing agents used in color filters and inkjets, increased compared with the same period in the previous year due to increases in the number of new users and sales to existing users. However, sales volume of hydrazine hydrate and sales volume of tire additives *BMH* and *PHZ* both declined. As a result, sales overall in the specialty chemical business were steady compared with the same period in the previous year.

In the fine chemical business, sales increased compared with the same period in the previous year due to higher unit sales prices for pharmaceutical intermediates overseas and forex factors.

In the transportation and warehousing business, there were increases in new external customers and in new deals in the overseas distribution business resulting from the promotion of a “common distribution platform (distribution of products to market for the Group as well as for other firms)” business. As a result, sales increased compared with the same period in the previous year. Sales in the direct sales support business increased compared with the same period in the previous year 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, 2015 totaled ¥145,193 million (up 7.8% from the same period in the previous year), with operating income of ¥5,893 million (down 13.3%).

(Projected Consolidated Financial Results for FY2016)

(Millions of yen)

	FY December, 2015 (Actual)	FY December, 2016 (Forecast)	Change	% Change
Net sales	1,445,227	1,250,000	(195,227)	(13.5)%
Operating Income	151,837	70,000	(81,837)	(53.9)%
Ordinary Income	159,899	80,000	(79,899)	(50.0)%
Net Income	84,086	50,000	(34,086)	(40.5)%
R&D Expense	201,010	185,000	(16,010)	(8.0)%

(Note) FY2016 exchange rate: 120 yen/USD 135 yen/EUR

In our pharmaceutical business we project a drop in sales and earnings due to the impact of NHI price revisions and generic erosion in Europe and the U.S. affecting our atypical antipsychotic agent *ABILIFY*. At the same time, we project an increase in sales of other products including *Abilify Maintena*, *REXULTI*, and *Lonsurf*. In our nutraceutical business, we expect higher revenues driven by global sales of *Pocari Sweat* 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. 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%.

We project that this will result in consolidated sales in FY2016 (January through December) of ¥1,250,000 million (decrease of 13.5% compared to FY2015), operating income of ¥70,000 million (decrease of 53.9%), ordinary income of ¥80,000 million (decrease of 50.0%) and net profits of ¥50,000 million (decrease of 40.5%).

(2) Research and Development Activities

Research and development expenses for the fiscal year ended December 31, 2015 totaled ¥201,010 million.
The primary areas of research and development as well as the status of new product development by business segment were as follows:

(Pharmaceuticals)

1) Therapeutic drugs

The Otsuka Group conducts research and development with a primary focus on the areas of the central nervous system and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular system and ophthalmology.

Research and development activities carried out during the fiscal year ended December 31, 2015 in the area of therapeutic drugs are summarized below.

Category	*Brand Name,* (Generic Name), Development Code	Status
Central nervous system	*ABILIFY* *ABILIFY for extended-release injectable suspension, for intramuscular use* (aripiprazole)	<Japan> An application was filed in December 2015 for *ABILIFY* for an additional indication of autism. Approval for *ABILIFY for extended–release injectable suspension, for intramuscular use* was granted in March 2015 for the indications of schizophrenia.
	REXULTI (brexpiprazole)	<U.S.> Approval was granted in July 2015 for the indications of schizophrenia and adjunctive therapy in major depressive disorder. Development for the treatment of attention deficit hyperactivity disorder (ADHD) in adults was halted following a review of the entire brexpiprazole development program.
	E Keppra (levetiracetam)	<Japan> A partial change approval was granted in February 2015 for effects and efficacy of monotherapy treatment of epileptic for partial-onset seizures. An application was filed in March 2015 for the indications of epileptic for generalized onset seizures. A drip infusion formulation, as a new formulation type, was launched.
	Lu AF20513	<Europe> Phase I trial for the treatment of Alzheimer-type dementia was initiated in April 2015.
	(nalmefene) Lu AA36143	<Japan> Phase III trial was initiated in February 2015 for the reduction of alcohol consumption in patients with alcohol dependence.
	NUEDEXTA (dextromethorphan, quinidine) AVP-923*	<U.S.> Currently in Phase II trial for the treatment of dyskinesia associated with Parkinson's disease.

Category	*Brand Name*, (Generic Name), Development Code	Status
	(deuterium-modified dextromethorphan, quinidine) AVP-786*	<U.S.> Currently in Phase II trial for the treatment of major depressive disorder. Phase II trial for the treatment of residual symptoms of schizophrenia was initiated in September 2015. <U.S. and Europe> Phase III trial for the treatment of agitation associated with Alzheimer-type dementia was initiated in August 2015.
	ONZETRA Xsail (sumatriptan) AVP-825*	(Additional information) <U.S.> Approval was granted in January 2016 for the indications of acute migraine.
Oncology	*Lonsurf* TAS-102	<U.S.> Approval was granted in September 2015 for the indications of colorectal cancer. <Europe> An application was filed in February 2015 for the indications of colorectal cancer. A license agreement was concluded with Servier in June 2015 for the development and commercialization of TAS-102 in Europe and other countries (excluding North America and Asia). <Japan> A partial change approval was granted in March 2015 for effects and efficacy of colorectal cancer.
	ASTX660	<U.S.> Phase I trials for the treatment of solid cancer and lymphoma were initiated in August 2015.
	(guadecitabine) SGI-110	<U.S., Europe, Japan and Asia> Phase III trial for the treatment of acute myeloid leukemia (AML) was initiated in March 2015. <Japan> Phase I trial for the treatment of AML was initiated in January 2015.
	AT13387	<U.S. and Europe> Development was halted as efficacy for the treatment of prostate cancer could not be confirmed in Phase II trial.
	TAS-117	<Japan> Phase I trial for the treatment of solid cancer was initiated in February 2015.
	TAS-118	<Japan and Asia> Phase III trial for the treatment of gastric cancer was initiated in January 2015.
	Yondelis (trabectedin) ET-743	<Japan> Approval was granted in September 2015 for the indications of malignant soft tissue sarcoma.

Category	*Brand Name*, (Generic Name), Development Code	Status
	SPRYCEL (dasatinib)	<U.S. and Europe> Development was halted as efficacy for the treatment of pancreatic cancer could not be confirmed in Phase II trial.
	OPB-31121	<Japan, U.S. and Asia> Development was halted as Phase I trial for the treatment of cancer could not provide sufficient data to justify progression to Phase II trial.
	OPB-51602	<Japan, U.S. and Asia> Development was halted as Phase I trial for the treatment of cancer could not provide sufficient data to justify progression to Phase II trial.
	OCV-101	<Japan> Development was halted as development rights were returned to OncoTherapy Science, Inc.
Cardiovascular system	*Samsca/Jinarc* (tolvaptan)	<Europe> A positive opinion for the maintenance treatment of autosomal dominant polycystic kidney disease (ADPKD) by the European Medicines Agency (EMA) was received in February 2015 and approval was granted by the European Commission (EC) in May 2015. A recommendation was received from the National Institute for Health and Care Excellence (NICE) in the United Kingdom in October 2015.
Other categories	*Zosyn* (tazobactam, piperacillin)	<Japan> Approval for an additional indication of febrile neutropenia was granted in June 2015.
	(bilastine) TAC-202	<Japan> An application was filed in November 2015 for the indications of allergic rhinitis, urticaria, and itching resulting from skin diseases (eczema/dermatitis, prurigo, and cutaneous pruritus).
	OPS-2071	<Japan and Asia> Phase II trials for the treatment of clostridium difficile infection and enteric infection were initiated in August 2015.
	(carteolol, latanoprost) OPC-1085EL	<Japan> An application was filed in October 2015 for the indications of glaucoma and ocular hypertension.
	OLANEDINE (olanexidin) OPB-2045G	<Japan> Approval was granted in July 2015 as antiseptics for external use.
	OPF-108	<Japan> An application was filed in July 2015 for a high-calorie TPN solution containing carbohydrate, electrolytes, amino acids, vitamins and trace elements that enables supplementation of nutrition via central veins.

* Drugs currently under development, acquired through the purchase of Avanir Pharmaceuticals, Inc. in January 2015.

2) Diagnostic

The *Otsuka Major BCR-ABL mRNA Measurement Kit*, which is used as a marker to monitor treatment effectiveness for chronic myeloid leukemia, was covered by Health Insurance in Japan from April 2015. C13-URA had been under development as a diagnostic agent to identify abnormal gastric emptying, but development was halted due to a lack of evidence showing its effectiveness as a diagnostic agent.

Research and development expenses for the pharmaceutical business for the fiscal year ended December 31, 2015 were ¥191,424 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 products and beverages that support the maintenance and improvement of day-to-day well-being.

In the cosmedics business, in March 2015, the Group relaunched *UL•OS Refresh Sheet* (medicated cosmetic) and launched two refreshing sheets designed specifically for the face and body, *UL•OS Adult Body Sheet* and *UL•OS Adult Facial Sheet*. Also, in August 2015, the Group launched *UL•OS Medicated Skin Whitening*, a new pen-type skin treatment that inhibits dark spots.

Research and development expenses for the nutraceutical business for the fiscal year ended December 31, 2015 were ¥5,077 million.

(Consumer products)

In the consumer products business, the 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, 2015 were ¥475 million.

(Others)

In the other businesses, the 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, 2015 were ¥4,032 million.

(3) Analysis of Financial Position

1) Assets

Total assets as of December 31, 2015 were ¥2,528,510 million, an increase of ¥350,325 million compared to ¥2,178,184 million at the end of the previous fiscal year. This increase was due to a ¥68,720 million decrease in current assets, a ¥419,056 million increase in non-current assets and a ¥9 million decrease in deferred assets.

(Current Assets)

Total current assets as of December 31, 2015 were ¥1,176,882 million, a decrease of ¥68,720 million compared to ¥1,245,602 million at the end of the previous fiscal year. This was mainly due to an increase in marketable securities by ¥79,065 million, while there were decreases in cash and deposits by ¥83,757 million, notes and accounts receivable - trade by ¥26,972 million, and other current assets by ¥22,714 million.

(Non-current Assets)

Total non-current assets as of December 31, 2015 were ¥1,351,578 million, an increase of ¥419,056 million compared to ¥932,522 million at the end of the previous fiscal year. This increase was mainly due to a ¥11,638 million increase in property, plant and equipment including new investments at Otsuka Warehouse’s West Japan Logistics Center and a ¥421,319 million increase in intangible assets due to the full consolidation of Avanir Pharmaceuticals, Inc.

2) Liabilities

(Current Liabilities)

Total current liabilities as of December 31, 2015 were ¥467,075 million, an increase of ¥30,048 million compared to ¥437,026 million at the end of the previous fiscal year. This was mainly due to an increase of ¥102,833 million in accrued expenses, while there were decreases in notes and accounts payable - trade by ¥48,094 million and accounts payable-other by ¥35,550 million.

(Non-current Liabilities)

Total non-current liabilities as of December 31, 2015 were ¥377,998 million, an increase of ¥295,440 million compared to ¥82,557 million at the end of the previous fiscal year. This increase mainly resulted from increases in long-term loans payable related to the acquisition of Avanir Pharmaceuticals, Inc. by ¥211,977 million and deferred tax liabilities by ¥87,914 million.

3) Net Assets

Total net assets as of December 31, 2015 were ¥1,683,436 million, an increase of ¥24,836 million compared to ¥1,658,600 million at the end of the previous fiscal year. This was mainly due to payment of ¥48,764 million in dividends, a ¥34,865 million increase in total shareholders’ equity as a result of net income of ¥84,086 million, and a ¥7,920 million decrease of accumulated other comprehensive income (decrease of net assets) influenced by stock market and exchange rate movements.

(4) Analysis of Cash Flows

Cash and cash equivalents increased by ¥4,069 million during fiscal year ended December 31, 2015 to ¥460,609 million. Net cash provided by operating activities and financing activities were ¥253,873 million and ¥176,505 million respectively, while net cash used in investing activities was ¥420,056 million.

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥253,873 million in the fiscal year ended December 31, 2015. Conbtributing factors were ¥138,167 million in income before income taxes and minority interest, a ¥97,555 million increase in accrued expenses, ¥57,486 million in depreciation and amortization, and a ¥47,496 million decrease in notes and accounts payable - trade.

(Cash Flows from Investing Activities)

Net cash used in investing activities was ¥420,056 million in the fiscal year ended December 31, 2015. Main investing activities included ¥392,527 million in investments in subsidiaries resulting in a change in scope of consolidation, ¥57,255 million in purchases of property, plant and equipment, and a decrease of ¥29,602 million in time deposits.

(Cash Flows from Financing Activities)

Net cash provided by financing activities was ¥176,505 million in the fiscal year ended December 31, 2015. Main financing activities included ¥266,694 million in proceeds from long-term loans payable, ¥24,407 million in repayments of long-term loans payable, ¥48,764 million in dividends paid, and a ¥16,101 million decrease in short-term loans payable.

(Cash Flow Indicator Ratios)

	FY2011 ended March	FY2012 ended March	FY2013 ended March	FY2014 ended December	FY2015 ended December
Equity ratio (%)	72.5	73.7	73.2	74.7	65.4
Market capitalization to total assets ratio (%)	82.0	102.1	82.4	90.0	95.2
Cash flow to debt ratio (%)	40.1	33.1	21.5	44.9	73.6
Interest coverage ratio (times)	90.8	157.7	243.4	106.2	70.2

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) Basic Policy for Profit Distribution and Dividends for FY2015 and FY2016

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 to invest in 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 ¥50 per share, resulting in a total of ¥100 per share annual dividend for the fiscal year ended December 31, 2015 with an interim dividend of ¥50 per share which was paid on September 7, 2015. The effective date for the year-end dividend of FY2015 is March 31, 2016.

2. Group Overview

The Otsuka Group consists of Otsuka Holdings Co., Ltd., its 145 subsidiaries and 32 affiliates. Otsuka is a globally operating diversified healthcare group engaged in pharmaceuticals, nutraceuticals, consumer products and other businesses, which include logistics services, optical inspection and measurement equipment, and specialty 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., Taiho Pharmaceutical Co., Ltd., and others engage in sales of pharmaceutical products in Japan while Otsuka America Pharmaceutical, Inc., Otsuka Pharmaceutical Europe Ltd. and others 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 each country. Otsuka Pharmaceutical Factory, Inc. and EN Otsuka Pharmaceutical Co., Ltd. operate in the Japanese market, and group companies expand business in China, India, 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.

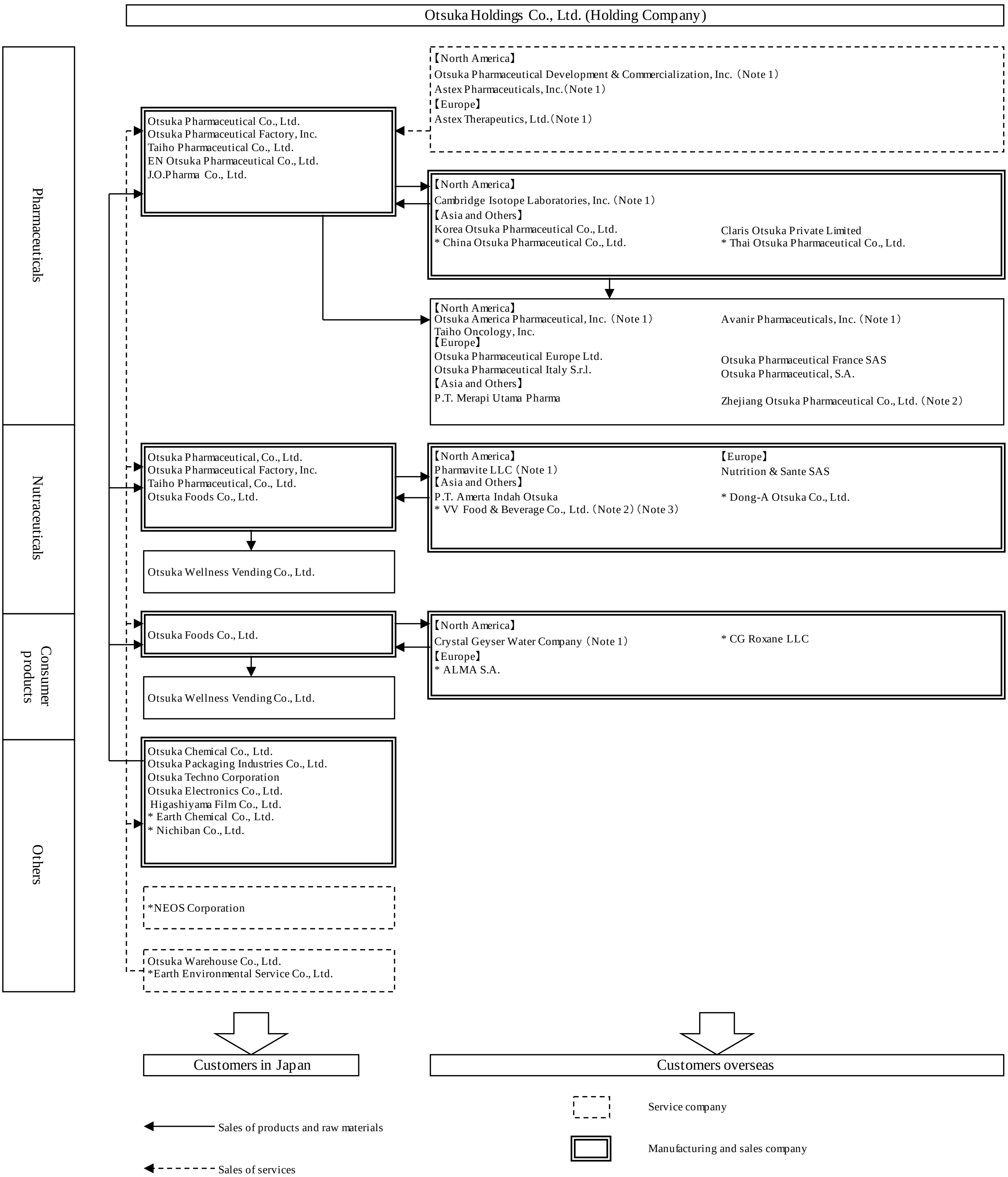
(Consumer Product Segment)

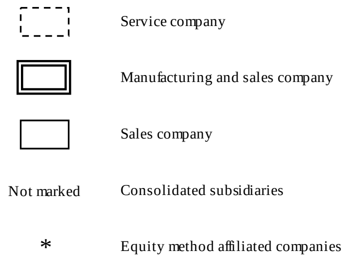
Otsuka Foods Co., Ltd. manufactures and markets consumer products in Japan. CG Roxane LLC and ALMA S.A. engage in the manufacturing and sales of bottled mineral water overseas.

(Other Segment)

Otsuka Chemical Co., Ltd. conducts the manufacturing and sales of specialty 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 logistics 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, 2015.





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 is implementing specific initiatives under its Second Medium-Term Management Plan covering the period up to fiscal 2018, with the aim of realizing its corporate philosophy "Otsuka-people creating new products for better health worldwide."

<Positioning of Second Medium-Term Management Plan and main initiatives>

Under the Second Medium-Term Management Plan, the Otsuka Group will establish a diversified business portfolio and promote sustainable growth through continued investment and corporate structural reform. The Group aims to become an indispensable contributor to people's health worldwide by 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 organic growth.

A. Strengthen core therapeutic areas

In the pharmaceutical business, the Otsuka Group will focus on strengthening the core therapeutic areas of CNS and oncology. In doing so, the Group will seek out unmet medical needs of patients, and aim to create a wide range of new values to satisfy those needs.

- In CNS, the Group will step up efforts to maximize the medical and commercial value of *Abilify Maintena* and *REXULTI* (generic name: brexpiprazole). Furthermore, the Group has positioned its development pipeline for Alzheimer-related diseases as the most important driver of medium to long-term growth from 2020 onward. The Group will also accelerate its strategy to expand its entire CNS area by combining its business base in the neurologic area, which has been strengthened with the acquisition of Avanir Pharmaceuticals, Inc., with its business base in the psychiatric area, where the Group has been active for a long time.
- In the field of oncology, the Group is developing its business in a wide range of areas, including hematological cancer, solid cancer and cancer-supportive care, and is actively working to increase the medical value of its portfolio of oncology products. The Group will establish an in-house sales platform for *Lonsurf* in the U.S. to accelerate its growth, and will work to maximize its value quickly through an alliance with Servier which mainly operates in Europe.
- The Group will promote the global development of a vasopressin V_2-receptor antagonist *Samsca/Jinarc*, not only through growth in its conventional application as an aquaretic agent, but also as the first and only drug therapy for ADPKD.
- In Japan, the Group will focus on quickly nurturing new products that were launched during the period of the Second Medium-Term Management Plan in addition to promoting the continued growth of new products launched during the period of the First Medium-Term Management Plan.
- In the clinical nutrition business, the Group will pursue overseas development, mostly in Asia, and in the medical devices business, the Group will focus efforts on diversifying treatment solutions.

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.

C. Active investment in new growth areas and shareholder return

- The Group will continue to invest in R&D under the Second Medium-Term Management Plan in order to achieve sustainable growth from fiscal 2018 and beyond.
- The Group will strike a balance between strategic investment for future growth and return to shareholders.

4. Basic Rationale for Selection of Accounting Standards

The Group is considering the adoption of IFRS from the year-end reporting of the fiscal year ending December 31, 2016 to enhance the international comparability of its financial reporting.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

		(Millions of yen)
	As of December 31, 2014	As of December 31, 2015
ASSETS		
Current assets		
Cash and deposits	523,135	439,377
Notes and accounts receivable - trade	406,431	379,459
Marketable securities	48,535	127,601
Merchandise and finished goods	80,011	71,254
Work-in process	31,783	34,725
Raw materials and supplies	41,915	38,908
Deferred tax assets	37,782	32,455
Other	76,547	53,833
Allowance for doubtful receivables	(541)	(733)
Total current assets	1,245,602	1,176,882
Non-current assets		
Property, plant and equipment		
Buildings and structures	352,971	365,989
Accumulated depreciation	(221,950)	(228,838)
Buildings and structures, net	131,020	137,151
Machinery, equipment and vehicles	373,882	381,872
Accumulated depreciation	(283,934)	(289,032)
Machinery, equipment and vehicles, net	89,948	92,840
Tools, furniture and fixtures	88,869	92,353
Accumulated depreciation	(73,162)	(75,727)
Tools, furniture and fixtures, net	15,706	16,626
Land	82,784	82,287
Lease assets	14,599	13,585
Accumulated depreciation	(7,164)	(6,858)
Lease assets, net	7,434	6,726
Construction in progress	17,889	20,790
Total property, plant and equipment	344,784	356,422
Intangible assets		
Goodwill	93,162	233,971
In-process research and development	33,106	238,301
Other	94,904	170,219
Total intangible assets	221,173	642,492
Investments and other assets		
Investment securities	270,804	258,928
Investments in capital	42,538	42,917
Long-term loans receivable	5,636	5,600
Net defined benefit asset	17,486	22,769
Deferred tax assets	15,476	7,397
Other	15,461	15,833
Allowance for investment loss	(78)	(75)
Allowance for doubtful accounts	(759)	(707)
Total investments and other assets	366,565	352,663
Total non-current assets	932,522	1,351,578
Deferred assets	59	49
Total assets	2,178,184	2,528,510

Consolidated Balance Sheets—Continued

(Millions of yen)

	As of December 31, 2014	As of December 31, 2015
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	130,784	82,690
Short-term loans payable	70,178	79,679
Lease obligations	2,139	2,106
Accounts payable - other	102,005	66,454
Accrued expenses	67,127	169,960
Income taxes payable	14,498	19,336
Provision for bonuses	8,563	14,149
Provision for directors' bonuses	600	259
Provision for sales returns	13	11
Other	41,116	32,428
Total current liabilities	437,026	467,075
Non-current liabilities		
Long-term loans payable	22,251	234,229
Lease obligations	5,800	5,299
Deferred tax liabilities	12,027	99,941
Provision for directors' retirement benefits	2,787	2,495
Net defined benefit liability	10,921	9,753
Negative goodwill	19,691	17,227
Other	9,077	9,051
Total non-current liabilities	82,557	377,998
Total liabilities	519,584	845,073
NET ASSETS		
Shareholders' equity		
Capital stock	81,690	81,690
Capital surplus	512,747	512,702
Retained earnings	990,906	1,025,663
Treasury shares	(47,415)	(47,262)
Total shareholders' equity	1,537,928	1,572,793
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,152	27,053
Deferred gains on hedges	392	130
Foreign currency translation adjustment	57,161	41,749
Remeasurements of defined benefit plans	19,167	13,019
Total accumulated other comprehensive income	89,873	81,952
Minority interests	30,798	28,689
Total net assets	1,658,600	1,683,436
Total liabilities and net assets	2,178,184	2,528,510

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

Consolidated Statements of Income

(Millions of yen)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Net sales	1,224,298	1,445,227
Cost of sales	346,300	449,270
Gross profit	877,997	995,956
Selling, general and administrative expenses		
Promotion expenses	188,009	195,560
Salaries and bonuses	89,940	138,216
Provision for bonuses	5,335	10,191
Retirement benefit expenses	1,665	3,483
Provision for directors’ retirement benefits	318	363
Provision for directors’ bonuses	600	259
Depreciation	22,897	31,767
Amortization of goodwill	3,812	13,991
Research and development expenses	172,851	201,010
Other	196,038	249,276
Total selling, general and administrative expenses	681,469	844,118
Operating income	196,528	151,837
Non-operating income		
Interest income	1,269	1,703
Dividend income	967	1,558
Amortization of negative goodwill	1,848	2,694
Share of profit of entities accounted for using equity method	3,873	8,032
Foreign exchange gains	12,871	-
Other	2,260	2,374
Total non-operating income	23,091	16,364
Non-operating expenses		
Interest expenses	1,657	4,104
Foreign exchange losses	-	2,999
Other	752	1,198
Total non-operating expenses	2,410	8,301
Ordinary income	217,210	159,899
Extraordinary income		
Gain on sales of non-current assets	131	917
Gain on sales of investment securities	0	2,821
Gain on change in equity	124	518
Subsidy income	937	415
Other	248	322
Total extraordinary income	1,442	4,994
Extraordinary losses		
Loss on retirement of non-current assets	606	1,205
Impairment loss	5,377	18,819
Loss on valuation of investment securities	1,482	899
Loss on valuation of investments in capital	-	2,501
Extra retirement payments	558	-
Other	361	3,301
Total extraordinary losses	8,386	26,727
Income before income taxes and minority interests	210,265	138,167
Income taxes		
Current	46,219	37,753
Deferred	19,832	18,692
Total income taxes	66,051	56,446
Income before minority interests	144,213	81,721
Minority interests in net income	1,070	(2,364)
Net income	143,143	84,086

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Income before minority interests	144,213	81,721
Other comprehensive income		
Valuation difference on available-for-sale securities	(760)	13,999
Deferred gains or losses on hedges	397	(262)
Foreign currency translation adjustment	42,401	(9,322)
Remeasurements of defined benefit plans	(976)	(6,234)
Share of other comprehensive income of entities accounted for using equity method	12,327	(7,581)
Total other comprehensive income	53,389	(9,401)
Total comprehensive income	197,603	72,319
Comprehensive income attributable to:		
Owners of parent	194,329	75,896
Minority interests	3,273	(3,577)

(3) Consolidated Statements of Changes in Equity

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

(Millions of yen)

	Shareholders' Equity				
	Capital Stock	Capital surplus	Retained earnings	Treasury shares	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)
Restated balance	81,690	512,895	886,315	(47,928)	1,432,973
Changes of items during the period					
Increase in retained earnings due to change of fiscal year end			177		177
Change in scope of consolidation			(815)		(815)
Dividends of surplus			(37,914)		(37,914)
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		(148)		514	365
Net income			143,143		143,143
Net changes of items other than shareholders' equity					
Total changes of items 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					Subscription rights to shares	Minority interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	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)
Restated balance	13,819	(7)	12,152	20,331	46,296	104	26,085	1,505,460
Changes of items during the period								
Increase in retained earnings due to change of fiscal year end								177
Change in scope of consolidation								(815)
Dividends of surplus								(37,914)
Purchase of treasury shares								(1)
Disposal of treasury shares								365
Net income								143,143
Net changes of items other than shareholders' equity	(667)	399	45,008	(1,163)	43,576	(104)	4,713	48,184
Total changes of items 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

FY2015 (From December 1, 2015 to December 31, 2015)

(Millions of yen)

	Shareholders' Equity				
	Capital Stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Beginning balance	81,690	512,747	990,906	(47,415)	1,537,928
Changes of items during the period					
Change in scope of consolidation			(565)		(565)
Dividends of surplus			(48,764)		(48,764)
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares		(45)		155	110
Net income			84,086		84,086
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	(45)	34,757	153	34,865
Ending balance	81,690	512,702	1,025,663	(47,262)	1,572,793

	Accumulated other comprehensive income					Minority interests	Total Net Assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other com-prehensive income		
Beginning balance	13,152	392	57,161	19,167	89,873	30,798	1,658,600
Changes of items during the period							
Change in scope of consolidation							(565)
Dividends of surplus							(48,764)
Purchase of treasury shares							(1)
Disposal of treasury shares							110
Net income							84,086
Net changes of items other than shareholders' equity	13,901	(262)	(15,411)	(6,147)	(7,920)	(2,108)	(10,029)
Total changes of items during the period	13,901	(262)	(15,411)	(6,147)	(7,920)	(2,108)	24,836
Ending balance	27,053	130	41,749	13,019	81,952	28,689	1,683,436

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Cash flows from operating activities		
Income before income taxes and minority interests	210,265	138,167
Depreciation and amortization	41,725	57,486
Impairment loss	5,377	18,819
Amortization of goodwill	1,964	11,296
Increase (decrease) in allowance for doubtful accounts	(163)	204
Decrease/increase in net defined benefit asset/liability	(9,583)	(9,840)
Interest and dividend income	(2,236)	(3,263)
Interest expenses	1,657	4,104
Share of (profit) loss of entities accounted for using equity method	(3,873)	(8,032)
Loss on valuation of investments in capital	-	2,501
Decrease (increase) in notes and accounts receivable - trade	(61,285)	27,443
Decrease (increase) in inventories	17,700	14,818
Increase (decrease) in notes and accounts payable - trade	(3,886)	(47,496)
Increase (decrease) in accounts payable - other	(9,880)	(16,420)
Increase (decrease) in accrued expenses	2,536	97,555
Increase (decrease) in long-term unearned revenue	(5,567)	(10)
Other, net	(13,184)	(20,303)
Subtotal	171,566	267,031
Interest and dividend income received	7,132	8,936
Interest expenses paid	(1,682)	(3,930)
Income taxes paid	(88,481)	(18,164)
Net cash provided by operating activities	88,535	253,873
Cash flows from investing activities		
Decrease (Increase) in short-term investment securities	19,593	(7,604)
Purchase of property, plant and equipment	(32,888)	(57,255)
Proceeds from sales of property, plant and equipment	498	1,631
Purchases of intangible assets	(7,071)	(15,582)
Purchases of investment securities	(9,669)	(5,324)
Proceeds from sales and redemptions of investment securities	1,346	10,059
Payments for investments in capital	(123)	(422)
Purchases of shares of subsidiaries resulting in change in scope of consolidation	(26,703)	(392,527)
Payments of loans receivables	(2,771)	(977)
Collection of loans receivables	339	19,401
Decrease (increase) in time deposits	28,500	29,602
Other, net	266	(1,056)
Net cash used in investing activities	(28,682)	(420,056)

Consolidated Statements of Cash Flows—Continued

(Millions of yen)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Cash flows of financing activities		
Increase (decrease) in short-term loans payable	(4,201)	(16,101)
Proceeds from long-term loans payable	9,392	266,694
Repayments of long-term loans payable	(1,819)	(24,407)
Proceeds from disposal of treasury shares	365	110
Purchases of treasury shares	(1)	(6)
Cash dividends paid	(37,914)	(48,764)
Cash dividends paid to minority shareholders	(362)	(415)
Proceeds from share issuance to minority shareholders	807	866
Other, net	(2,222)	(1,469)
Net cash provided by (used in) financing activities	(35,957)	176,505
Effect of exchange rate change on cash and cash equivalents	14,283	(8,796)
Net increase (decrease) in cash and cash equivalents	38,179	1,526
Cash and cash equivalents at beginning of period	417,538	456,540
Increase (decrease) in cash and cash equivalents due to change in scope of consolidation	951	2,542
Decrease in cash and cash equivalents due to change of fiscal year end	(128)	-
Cash and cash equivalents at end of period	456,540	460,609

(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: 112

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		

Avanir Pharmaceuticals, Inc., Biocentury, S.L.U., and four other companies were newly included in the scope of consolidation from the fiscal year ended December 31, 2015 as a result of the acquisition of their shares.

Otsuka Wellness Vending Co., Ltd., Taiho Oncology, Inc., Otsuka Chemical America, Inc., and four other companies were newly included in the scope of consolidation from the fiscal year ended December 31, 2015 due to their increase in materiality.

Diatranz Otsuka Limited which had been an affiliated company accounted for by the equity method was included in the scope of consolidation from the fiscal year ended December 31, 2015 as it has become a subsidiary.

Bigarade Corporation, a previously consolidated subsidiary, was absorbed by Avanir Pharmaceuticals, Inc., a consolidated subsidiary of the Group. Also, Nardobel Participacoes Ltda., a previously consolidated subsidiary, was absorbed by Jasmine Comercio de Produtos Alimenticios LTDA, a consolidated subsidiary of the Group.

Otsuka America Foods, Inc. a previously consolidated subsidiary, was excluded from the scope of consolidation upon liquidation. Also, American Peptide Company, Inc., a previously consolidated subsidiary, was excluded from the scope of consolidation as the Group sold its shares.

(2) Non-consolidated subsidiaries

Major non-consolidated subsidiaries:

Otsuka Pakistan Ltd.

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: 15

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.

Diatranz Otsuka Limited which had been an affiliated company accounted for by the equity method was included in the scope of consolidation from the fiscal year ended December 31, 2015 as it has become a subsidiary.

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

Main companies:

Otsuka Australia Pharmaceutical Pty Ltd

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 by the equity method and whose fiscal year end differs from the Group's fiscal year end, pro-forma financial accounts as of December 31 have been used for the purpose of consolidation.

3. Fiscal Year End of Consolidated Subsidiaries

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

4. 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

-Consolidated subsidiaries of the Group in Japan value finished goods, work-in-process and raw materials by applying the weighted average costing method. Overseas subsidiaries apply the lower of cost or market method.

-Consolidated subsidiaries of the Group in Japan apply the first-in first-out method to merchandise and supplies. Overseas subsidiaries apply the lower of cost or market method.

(2) Method of depreciation used for major depreciable assets

a. Property, plant and equipment (excluding lease assets)

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

-Estimated useful lives:

Buildings and structures: 2-65 years

Machinery, equipment and vehicles: 2-58 years

b. Intangible assets (excluding lease assets)

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

-Consolidated subsidiaries overseas 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 provisions

a. Allowance for doubtful accounts

-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. Provision for bonuses

-To set aside funds for the payment of bonuses to employees, the Company and its domestic consolidated 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 its certain domestic consolidated 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 consolidated subsidiaries make provisions based on historical return rates and profit margins.

e. Provision for directors' retirement benefits

-Based on internal accounting rules, some consolidated subsidiaries make provisions for the payment of retirement benefits to directors and corporate officers at the amount that would be required if all directors 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, 2015 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 and minority interests in net assets section.

(6) Principal Methods of Hedge Accounting

a. Methods of Hedge Accounting

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

-Certain foreign exchange contracts are subject to appropriation if they meet the requirements of appropriation treatment.

-Interest-rate swaps that meet the respective criteria are accounted for using preferential treatment 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 payable

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 and negative 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 deposits and highly liquid short-term investments due within three months from the date of acquisition, which are easily convertible into cash with little or no risk due to fluctuations in value.

(9) Other

National and local consumption tax are excluded from revenues and expenses.

(Changes in Presentation)

(Consolidated Balance Sheets)

In the previous fiscal year, “In-process research and development” was included in “Other” under “Intangible assets,” however, it is now separately presented due to its increased materiality in the amount. To reflect this change in method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified accordingly.

As a result, ¥128,010 million previously presented as “Other” under “Intangible assets” is now presented as ¥33,106 million in “In-process research and development” and ¥94,904 million in “Other.”

In the previous fiscal year, “Accounts payable-other” and “Accrued expenses” were included in “Other” under “Current liabilities,” however, they are now separately presented due to their increased materiality in the amount. To reflect this change in the method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified accordingly.

As a result, ¥210,249 million previously presented as “Other” under “Current liabilities” is now presented as ¥102,005 million in “Accounts payable-other,” ¥67,127 million in “Accrued expenses,” and ¥41,116 million in “Other.”

(Consolidated Statements of Income)

In the previous fiscal year, “Gain on change in equity” was included in “Other” under “Extraordinary income,” however, it is now separately presented due to its increased materiality in the amount. To reflect this change in the method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified accordingly.

As a result, ¥373 million previously presented as “Other” under “Extraordinary income” is now presented as ¥124 million in “Gain on change in equity” and ¥248 million in “Other.”

(Consolidated Statements of Cash Flows)

In the previous fiscal year, “Increase (decrease) in accounts payable - other” and “Increase (decrease) in accrued expenses” were included in “Other” under “Cash flows from operating activities,” however, these items are now separately presented due to their increased materiality. To reflect this change in the method of presentation, the consolidated financial statements for the previous fiscal year have been reclassified accordingly.

As a result, ¥(20,528) million previously presented as “Other” under “Cash flows from operating activities” is now presented as ¥(9,880) million in “Increase (decrease) in accounts payable - other,” ¥2,536 million in “Increase (decrease) in accrued expenses,” and ¥(13,184) million in “Other.”

(Business Combinations)

Business Combinations due to acquisition

(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) Period of performance of the acquired company are included in the consolidated financial statements
    From January 13, 2015 to December 31, 2015

(3) Total Acquisition Price and Breakdown
    Acquisition price: US$3,507 million in cash
    Direct costs related to the acquisition: US$20 million

(4) Amount, cause, amortization method and period of goodwill generated
1) Amount of goodwill generated
   ¥160,633 million
2) Cause of the generation of goodwill
   The amount of the acquisition price exceeding net acquired assets and liabilities is recognized as goodwill.
3) Method and period of amortization
   Straight-line method over 20 years

(5) The amount and major breakdown of assets accepted and liabilities taken on the day in which the businesses are combined

(Millions of yen)

Current assets	41,309
Non-current assets	299,710
Total assets	341,019
Current liabilities	11,013
Non-current liabilities	76,813
Total liabilities	87,826

(6) Amount allocated to intangible assets other than goodwill, its breakdown by major types, and weighted average amortization period by major types
1) Amount allocated to intangible assets
   ¥298,671 million
2) Breakdown by major types
   Distribution rights and others: ¥96,449 million
   In-process research and development: ¥202,221 million
3) Weighted average amortization period by major types
   Distribution rights and others: 12 years
   In-process research and development: Planned to be amortized over the expected period of use.

(7) Estimated amount and calculation of the impact on the consolidated statements of income for the current consolidated fiscal year assuming that the business combination is completed on the first day of the current consolidated fiscal year
    Omitted due to immateriality.

(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.

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. Business activities are conducted by the Group's subsidiaries and affiliates.

Centering on healthcare business, the Group operates activities inside and outside Japan relating to the following four reporting segments: "Pharmaceuticals", "Nutraceuticals", "Consumer products" and "Others" businesses.

The Group defines the reporting segments as follows:

- "Pharmaceuticals" comprises manufacturing and sales of prescription drugs, intravenous solutions, and others.
- "Nutraceuticals" comprises manufacturing and sales of functional foods and drinks, over-the-counter drugs and nutritional supplements.
- "Consumer products" comprises manufacturing and sales of mineral water, soft beverages and food products.

- "Others" encompass logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

2. Computation method of the amount of sales, profit and loss, assets, and other items by reporting segment

The segment accounting policies are the same as those described in the "Basis of Presenting Consolidated Financial Statements."

Segment profit is based on operating income.

Internal earnings and transfers between segments are based on market value.

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

(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 assets	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
Amortization of goodwill	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 property, plant and equipment and non-current assets	31,658	31,873	2,868	18,607	85,007	3,218	88,226

(For the fiscal year ended December 31, 2015)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Total	Adjustments	Consolidated
Net sales							
Sales to customers	971,842	321,555	42,874	108,954	1,445,227	-	1,445,227
Intersegment sales	-	8,647	325	36,238	45,211	(45,211)	-
Total	971,842	330,203	43,200	145,193	1,490,439	(45,211)	1,445,227
Segment income (loss)	156,813	31,267	(3,314)	5,893	190,660	(38,822)	151,837
Segment assets	1,286,233	271,232	147,531	172,773	1,877,770	650,739	2,528,510
Other items							
Depreciation	35,826	11,414	1,102	4,760	53,103	4,383	57,486
Amortization of goodwill	11,161	2,226	58	545	13,991	-	13,991
Investment in equity method companies	27,658	13,076	114,707	20,118	175,560	-	175,560
Increase in property, plant and equipment and non-current assets	488,117	19,029	5,971	8,018	521,137	2,726	523,863

(Notes)

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

(Millions of yen)

Segment income (loss)	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Intersegment eliminations	116	628
Unallocated expenses*	(34,375)	(39,450)
Total	(34,259)	(38,822)

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

(Millions of yen)

Segment assets	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Intersegment eliminations	(8,306)	(8,267)
Corporate assets*	700,448	659,007
Total	692,141	650,739

*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 property, plant, and equipment and non-current assets and long-term prepaid expenses as assets associated with headquarter of the Company and certain consolidated subsidiaries.

Increase in property, plant and equipment and non-current assets:

Adjustments to increase in property, plant and equipment and non-current 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 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) Property, plant and equipment

(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

(For the fiscal year ended December 31, 2015)

1. Net sales by product

(Millions of yen)

	ABILIFY	Others	Total
Sales to customers	347,470	1,097,756	1,445,227

2. Territory information

(1) Net Sales

(Millions of yen)

Japan	North America	Others	Total
639,474	465,561	340,191	1,445,227

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

(2) Property, plant and equipment

(Millions of yen)

Japan	North America	Others	Total
234,301	49,790	72,330	356,422

3. Major customers

This note is omitted as no individual external customer had a transaction volume with the Group which exceeded 10% of consolidated sales.

c. Impairment loss

(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

(For the fiscal year ended December 31, 2015)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Impairment loss	14,780	292	-	3,624	121	18,819

d. Goodwill

(For the fiscal year ended December 31, 2014)

(Millions of yen)

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

(For the fiscal year ended December 31, 2015)

(Millions of yen)

	Pharma-ceuticals	Nutra-ceuticals	Consumer products	Others	Corporate/ Eliminations	Consolidated
Amortization in current year	11,161	2,226	58	545	-	13,991
Unamortized balance	191,074	36,579	355	5,961	-	233,971

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
Amortization in current year	2,207	-	-	256	-	2,464
Unamortized balance	15,590	-	-	1,636	-	17,227

e. Negative Goodwill

Omitted due to immateriality.

(Per Share Information)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Net assets per share	¥3,004.38	¥3,053.82
Net income per share (basic)	¥264.20	¥155.12
Net income per share (diluted)	¥264.12	¥155.11

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

(Millions of yen)

	FY2014 (From April 1, 2014 to December 31, 2014)	FY2015 (From January 1, 2015 to December 31, 2015)
Basic net income per share		
Net income	143,143	84,086
Net income attributable to common shares	143,112	84,053
Amounts not attributable to common shares		
Dividends from overseas consolidated subsidiaries other than common shares	31	33
Average number of common shares outstanding during the year	541,679,314 shares	541,838,851 shares
Diluted net income per share		
Adjustments to net income	-	-
(including minority interest)	-	-
Increase in number of common shares	159,760 shares	42,135 shares
(including subscription rights to shares)	(159,760 shares)	(42,135 shares)
Residual securities that were not used in calculating diluted net income per share due to the lack of dilutive effects	-	-

(Subsequent Events)

Not applicable.

6. Other

(1) Changes in Officers (as of March 30, 2016)

1. Changes in Representative Directors

   Not applicable.

2. Changes in other officers

   -Proposal for new Director (Board Member)

   Yukio Matsutani (current Deputy President of the International University of Health and Welfare)

   (Note) Yukio Matsutani is a candidate for the position of Outside Director (Board Member)

   - Outside Director (Board Member) scheduled to resign

   Juichi Kawaguchi

   -Proposal for new Audit & Supervisory Board Member

   Yoko Wachi (current Outside Audit & Supervisory Board Member of NICHIAS Corporation)

   (Note) Yoko Wachi is a candidate for the position of Outside Audit & Supervisory Board Member

   -Outside Audit & Supervisory Board Member scheduled to resign

   Akihito Nakai

3. Scheduled Date of Assuming Office

   March 30, 2016