Financial Review

Financial highlights

During the fiscal year ended March 31, 2010, the Japanese economy faced uncertainties caused by the worsening employment conditions and sluggish consumer spending triggered by the global recession.

Against this background, we continued to expand our global operations based on our mission to contribute to better health worldwide through creation of innovative products.

Additionally, we completed a stock-for-stock exchange with Otsuka Chemical Company as a result of which Otsuka Chemical Company became a wholly-owned subsidiary of Otsuka Holdings Co., Ltd. (the “Company”), further strengthening the alliance structure.

These efforts resulted in consolidated net sales of ¥1,084.3 billion (13.4% increase from previous year), operating income of ¥98.5 billion (7.6% increase) and net income of ¥67.4 billion (43.2% increase) for the fiscal year ended March 31, 2010.

Operating results by business segments are as follows.

Effective April 1, 2009, the Group modified its business segmentation. The preceding fiscal year data has been reclassified to the new business segmentation for comparability purposes.

Operating results by business segment

The Pharmaceuticals business posted ¥715.9 billion in global net sales (9.8% increase from previous year) backed by strong domestic sales of ABILIFY, Mucosta, Pletaal, and TS-1. In addition, ABILIFY performed well in the United States, Europe and Asia.

The Nutraceuticals business posted ¥248.8 billion in global net sales (13.5% increase from previous year), due to sales of SOYJOY and Pocari Sweat, which introduced a new 900ml PET bottle.

The Consumer Products business posted ¥51.1 billion in global net sales (1.9% decrease from previous year), as a result of sales of Mannan Hikari and Crystal Geyser Water. Net sales in Other businesses were ¥105.1 billion (74.8% increase from previous year) as Otsuka Chemical and its three affiliates were consolidated for the first time in the fiscal year ended March 31, 2010.

Gross profit amounted to ¥727.7 billion (14.9% increase from previous year) and selling, general and administrative expenses rose by ¥87.4 billion to ¥629.2 billion (16.1% increase), with increases primarily in sales promotion expenses (¥40.4 billion) and research and development expenses (¥15.9 billion).

As a result, operating income amounted to ¥98.5 billion (7.6% increase from previous year).

Net non-operating income was ¥3.5 billion, compared to the ¥1.4 billion loss in previous year. Major reasons for the improvement include a ¥4.9 billion increase in equity in earnings of unconsolidated subsidiaries and affiliates, a ¥2.4 billion decrease in foreign exchange loss and revenues related to extension of co-promotion agreement (¥1.8 billion) as a result of the $400 million received from Bristol-Myers Squibb for the extension of the development and commercialization collaboration agreement for ABILIFY.

As a result, net income before tax increased by ¥11.8 billion to ¥101.9 billion and net income increased by ¥20.4 billion to ¥67.4 billion.

(1) Pharmaceuticals business

In the therapeutic drug area, Otsuka Pharmaceutical Company’s atypical antipsychotic drug ABILIFY showed a strong increase in sales. In Japan, a new formulation “ABILIFY Oral Solution 0.1%” was launched in April, expanding the treatment options available to patients. Additionally, the Company extended the U.S. portion of the agreement for the development and commercialization of ABILIFY with Bristol-Myers Squibb in April and the companies also established collaboration for two Bristol-Myers Squibb oncology products.

The impact of the generic versions of Mucosta and Pletaal in Japan was a major concern. However, due to strong promotional efforts, sales of both drugs showed solid performance. SAMSCA, an oral selective vasopressin V2-receptor antagonist, was launched in the U.S. in June and is continuing to grow, and sales began in the EU in September.

Taiho Pharmaceutical’s new formulation of its anticancer drug TS-1, TS-1 Combination Granule, was introduced in Japan in June and sales have shown a steady increase. Global expansion of TS-1 is progressing with launches in China in July and Singapore through our partner

<table>
<thead>
<tr>
<th>Net Sales</th>
<th>(JPY mil)</th>
<th>2008.3</th>
<th>2009.3</th>
<th>2010.3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>(JPY mil)</td>
<td>2008.3</td>
<td>2009.3</td>
<td>2010.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>(JPY mil)</td>
<td>2008.3</td>
<td>2009.3</td>
<td>2010.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Pharmaceuticals net sales for the year ended March 31, 2010 was ¥715.9 billion (9.8% increase from previous year) and operating income was ¥132.9 billion for the period (0.5% decrease from previous year).

(2) Nutraceuticals business

Otsuka Pharmaceutical’s nutritional SOJOY fruit soy bar is currently sold in seven countries and regions, and Otsuka Pharmaceutical is working to turn it into a global product. With the launch of SOJOY Banana Ca Plus in April and SOJOY Blueberry in September in Japan, the SOJOY lineup has been expanded to 11 products.

Pocari Sweat is finding new markets in Asia and overseas brand building is progressing steadily. Sales of Pocari Sweat have expanded particularly well in Indonesia. In Japan, sales of a new 900-ml PET “eco-bottle” with an approximately 30% lighter weight than its predecessor began in August.

The line-up of the nutritionally balanced CalorieMate Blocks was extended by the addition of a new flavor, Maple, in September which contributed to increase in brand sales.

In the Cosmedics (cosmetic + medicine) field, the line expansion of the UL-OS brand (face and body skincare) combined with vigorous promotion contributed to a rise in brand awareness and an increase in brand users.

Sales of Taiho Pharmaceutical’s mainstay Tiovita brand grew as aggressive marketing activities overcame continuing weakness in this category.

Sales of Nutrition & Santé SAS in France, which was acquired in 2008, is included in current year sales.

As a result of these efforts, the Nutraceuticals business achieved sales of ¥248.8 billion (13.5% increase from previous year) and operating income of ¥2.3 billion (¥5.2 billion loss in previous year).

(3) Consumer products business

Development of new sales channels contributed to sales increase in Otsuka Foods’ calorie control food, Mannan Hikari. Otsuka Foods was consolidated for the first time in the fiscal year ended March 31, 2010 due to its increased importance to the Group.

Otsuka Beverage continued marketing activities aimed at gaining greater market acceptance for Sinvino Java Tea Straight while working to strengthen the Crystal Geyser brand.

To further strengthen synergies, Otsuka Beverage was merged into Otsuka Foods effective January 1, 2010.

Despite these efforts, a persistent downturn in the consumption of consumer products resulted in a fall in sales to ¥51.1 billion (1.9% decrease from previous year) and operating loss of ¥8.4 billion (¥3.7 billion loss in previous year).

(4) Other businesses

On July 1, 2009, Otsuka Chemical made a new start as a wholly-owned subsidiary of the Company. From the second half of the period, Otsuka Chemical saw a marked recovery in demand for its functional chemical products so that over the fiscal period as a whole, sales remained at approximately the same level as the previous year. In the fine chemical area, cost savings were achieved through synergies between plants in Japan and India, and net sales remained firm. Otsuka Chemical and its three affiliates were consolidated for the first time in the fiscal year ended March 31, 2010.

Otsuka Warehouse worked to develop an efficient and environment-friendly logistics system.

These results contributed to net sales of ¥105.1 billion (74.8%)
increase from previous year) and operating income of ¥4.4 billion (92.9% increase) for this sector.

Operating results by geographical segments

(1) Japan
In the therapeutic drug sector of the Pharmaceutical business, growth in Otsuka Pharmaceutical’s core products, ABILIFY, Mucosta and Pletaal, contributed to increase in sales. Growth in ABILIFY’s overseas sales resulted in increased exports from Japan while Taiho Pharmaceutical’s Uzel, Procatedin and Zosyn also contributed to the increase.

In the clinical nutrition business, Otsuka Pharmaceutical Factory’s ELNEOPA, Heparin lock flush solution, Neoparen, B-FLUID and Racol all showed strong sales.

In the diagnostics business, Otsuka Pharmaceutical’s influenza virus kit, Quick Navi-Flu, showed strong increase in demand.

In the Nutraceuticals business, Otsuka Pharmaceutical’s Calorie Mate block and Taiho Pharmaceutical’s Tiovita brand contributed to sales increase.

In the Consumer Products business, Otsuka Food’s Mannan-Hikari contributed to sales, while Otsuka Beverage continued marketing activities aimed at gaining greater market acceptance for Sinvino Java Tea Straight and the Crystal Geyser brand.

Net sales in Japan for the year ended March 31, 2010 amounted to ¥709.4 billion (3.0% increase from previous year) and operating income to ¥86.5 billion (17.1% increase).

(2) United States
In the therapeutic drug sector of the Pharmaceutical business, ABILIFY continued to show strong performance and SAMSCA was launched in June 2009.

In the Nutraceuticals business, Nature Made brand continued to grow.

Net sales in the U.S. for the year ended March 31, 2010 came to ¥406.2 billion (28.9% increase from previous year) and operating income to ¥11.3 billion (14.3% increase).

(3) Other
In Europe, ABILIFY continued to perform well and sales of Nutrition & Santé, a nutritional and functional food company acquired in the previous fiscal year, is included in the consolidated sales from the fiscal year under review.

In Asia, the Pharmaceuticals and Nutraceuticals businesses both performed well. The Nutraceuticals business was driven particularly by the increase in Pocari Sweat sales in Indonesia and China.

Net sales excluding Japan and the U.S. for the year ended March 31, 2010 came to ¥121.6 billion (118.7% increase from previous year) and operating income to ¥8.4 billion (60.8% increase).

Cash flows

The balance of cash and cash equivalents as of March 31, 2010 stood at ¥321.3 billion, an increase of ¥91.2 billion compared with the previous fiscal year-end. Net cash provided by operating activities was ¥173.5 billion, an increase of ¥115.0 billion compared with the previous fiscal year, which was partially offset by the net cash used in investing activities and financing activities, ¥59.0 billion and ¥28.1 billion, respectively.

An increase in net cash flow provided by operating activities was due mainly to an ¥11.8 billion increase in income before income taxes and minority interests and a ¥27.6 billion decrease in income taxes paid was mainly due to an increase in the R&D tax credit.

Net cash used in investing activities was ¥59.0 billion, compared with an outflow of ¥213.6 billion in the previous fiscal year. Investing activities in the previous fiscal year included the acquisition of Alma S.A. and Nutrition & Santé SAS for business expansion in Europe. Main investing activities in the current fiscal year included purchases of property, plant and equipment (¥39.7 billion) and investment securities (¥26.9 billion).

Net cash used in financing activities was ¥28.1 billion, compared with an inflow of ¥172.2 billion in the previous year. Whereas ¥94.9 billion was raised through issuance of stock in the previous year, cash flow from operating activities was used to repay debt in the current fiscal year.
Operational risks

The scope of the Group’s operations and the number of industries in which the Group operates means that the Group’s business performance is exposed to various risks.

Below are the major risk factors that could have a major impact on the Group’s financial position and results of operations.

This explanation is not intended to be complete and there may be other risks affecting the Group’s performance not listed below. Forward-looking information reflects our judgment on the basis of information available as of March 31, 2010.

(1) Our ability to pay dividends is substantially dependent on our subsidiaries and affiliated companies’ payments of dividends and management fees to us
As a holding company, dividends and management fees from our subsidiaries and affiliates represent a substantial portion of our cash flow. Under some circumstances, various statutory or contractual provisions may restrict the amount of dividends that our subsidiaries and affiliates are able to pay us. Also, if our subsidiaries and affiliates do not have sufficient earnings, they will be unable to pay dividends and management fees, and we may in turn be unable to pay dividends on our common stocks.

(2) Our pharmaceutical products could have previously unknown side effects
While our pharmaceutical products are subjected to clinical testing during the approval process, there are inherent restrictions on the adequacy of such tests, including the limited number of patients on which such tests are conducted and the limited ability to perform long-term monitoring. There can therefore be no assurance that our pharmaceutical products will not exhibit previously unknown side effects. In the event that such unknown side effects are discovered, we may be required to recall and terminate sales of such products. We could also be subject to liability to users of such products. Although we take out product liability insurance, such insurance coverage is expensive and may be difficult to maintain on acceptable terms or at all. In addition, our insurance coverage is subject to limits, and claims brought against us could significantly exceed such limits. Damage to our reputation and brand value could also arise. As a result, our business, financial condition and results of operations could be materially and adversely affected.

(3) Research and development for pharmaceutical products are subject to uncertainties
Researching and developing a new product requires significant time. It is costly and subject to numerous factors that may delay or prevent the development of new pharmaceutical products. We are also subject to applicable laws and regulations in Japan and other jurisdictions that regulate pharmaceutical products, including approval processes that involve significant uncertainties in terms of the length of time required for approval and whether the products meet the criteria of regulatory authorities with respect to efficacy and safety requirements. These could lead to unexpected delays in, or the termination of, our plans to introduce new products after significant investments of financial and human resources. In addition, there can be no assurance that any investment in research and development will be recouped, even if we are successful in acquiring regulatory approval or commercializing products. As a result, we may not be able to earn the return on investment originally anticipated or any return, and our financial condition and results of operations could be materially and adversely affected.

(4) We are subject to risks related to our reliance on a specific product for a significant portion of our total net sales
Sales of our top-selling pharmaceutical product called ABILIFY constitute approximately 30% of our total consolidated net sales. If sales of this product decrease due to competition from other products, including generic versions of the product becoming available upon the expiration of related patents, or for other reasons, our financial condition and results of operations will be materially and adversely affected.

We maintain a worldwide commercialization agreement with Bristol-Myers Squibb (“BMS”) to co-develop and co-promote ABILIFY, except in Japan, China and eight other mainly Asian countries. Under the terms of the agreement, BMS retains the right to terminate the contract before the expiration date upon the advent of a generic competitor to ABILIFY. We will be required to make a payment to BMS based on a pre-determined schedule upon such termination, and this would have an adverse effect on our financial position and results of operations.

(5) We are subject to risks related to government policies to reduce medical costs
A manufacturer of pharmaceutical products in Japan must have new products listed on a National Health Insurance (“NHI”) price list published by the Ministry of Health, Labor and Welfare (“MHLW”). The NHI price list provides rates for calculating the price of pharmaceutical products used in medical services provided under various public medical care insurance systems. Prices on the NHI price list are subject to revision, generally once every two years, on the basis of the actual prices at which the pharmaceutical products are purchased by medical institutions after discounts and rebates. The MHLW, concerned by the
prospect of spiraling healthcare costs, has been exerting pressure to restrain drug costs. Similarly, in the United States, the second largest market for our pharmaceutical products, the government has been promoting the use of generic drugs and there has been increasing pressure to lower prescription drug prices. Further implementation of such policies could have a material and adverse effect on our financial condition and results of operations.

(6) Some of our products are subject to risks related to consumer sentiment
We sell products in our Nutraceuticals business and Consumer Products business that are subject to fluctuations in demand based on consumer sentiment which in turn is subject to seasonal changes and the general economic environment. A worsening of consumer sentiment could have a material adverse effect on such businesses.

(7) We are subject to risks related to food safety
In recent years, there have been incidents in Japan where concerns over tainted foods, including foods containing highly toxic materials, have led to widespread criticism of food companies, and the sensitivity to food safety in Japan remains high. If our products are found or suspected to have safety problems, sales of our products and our reputation could be materially and adversely affected.

(8) We depend on outside sources for raw materials
We are generally dependent on third-party sources for the raw materials used in our products. The price and availability of the raw materials for our products, including chemical compounds, agricultural products, minerals and other commodities, are subject to the effects of weather, natural disasters, market forces, the economic environment, fuel costs and foreign exchange rates. If the cost of such materials increases, we may not be able to make corresponding increases in the price of products due to market conditions or our relationships with customers, and as a result, our profitability could be materially and adversely affected.

(9) We are subject to risks related to laws and regulations
Our Pharmaceuticals business is subject to extensive regulation under the Pharmaceutical Affairs Law in Japan and relevant laws in other jurisdictions in which we operate. Our Other businesses are also subject to regulation in Japan under the Food and Sanitation Law, recycling-related laws and others, as well as similar laws in other jurisdictions. In the event we are found to have violated any such laws and regulations, we may be required to recall the relevant product, terminate sales of such product, or suspend operations of the relevant business. In some cases where we believe there is a risk of violation, we may decide to take such actions voluntarily. Furthermore, we may become subject to increased compliance costs or restrictions on our business operations as a result of future changes in applicable laws and regulations.

(10) Our pharmaceutical products are subject to significant competition
The pharmaceutical industry is highly competitive, requiring us to maintain ongoing, extensive research for technological innovations. In addition, new products of competitors or the development of new medical technologies and treatments could make our products or technologies lose their competitiveness or become obsolete. Our proprietary rights to our pharmaceutical products are generally based on related patents. Upon the expiration of such patents, our products will become open to competition from generic drugs, which are bioequivalent but lower in price, and could lead to a decline in demand for our products. An increase in competition due to any of the foregoing factors could have a material adverse effect on our financial condition and results of operations.

(11) We are subject to risks related to the infringement of intellectual property rights
If our patent and other intellectual property rights are infringed by third parties, we may not be able to take full advantage of existing demand for our products. We are also subject to the risk of infringement claims directed to us by third parties. If we are found to have infringed the intellectual property rights of others, or if we agree to settle under such terms, we may be required to recall the relevant products, terminate manufacturing and sales of such products, pay significant damages or pay significant royalties. Currently, we have filed patent infringement actions against a number of generic drug companies. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on us. If, however, a generic drug company were to launch “at risk” or if we fail to prevail in these lawsuits, generic drug competition would likely result in substantial decreases in the sales of ABILIFY in the United States, which would have a material adverse effect on our financial condition and results of operations.

(12) We are subject to litigation risk
We are subject to the risk of litigation from third parties with respect to the operation of our business, including claims related to product liability, antitrust regulation, consumer protection statutes, labor issues, contract disputes and the environment issues. In the event of an adverse decision or settlement, our business, financial condition and results of operations could be materially and adversely affected.
(13) We are subject to the risk of natural disasters and accidents
While our facilities, including our manufacturing facilities, are broadly dispersed geographically, a significant portion of such facilities are concentrated in Japan. We thus continue to be subject to stoppage, damage and other risks related to natural disasters such as earthquakes and typhoons as well as accidents. If our facilities are damaged or destroyed due to such incidents, the manufacture or distribution of materials and products could be significantly disrupted, consumer confidence in us could decrease, and we could incur significant expenses to repair, reconstruct or replace such facilities.

(14) Our results of operations and reputation could be harmed if we are found or perceived to have violated environmental regulations
We are subject to various environmental laws and regulations in the various regions in which we operate. In the event we are found to have violated such laws and regulations, including those relating to waste water discharge, air emissions, handling of hazardous materials, disposal of solid and hazardous wastes and remediation of soil and ground water contamination, we could be subject to significant fines, imposition of damages, clean-up costs, suspension of production, cessation of operations or a delay in disposition of unused property. There can be no assurance that there will not be any environmental violation in the future that results in a material adverse effect on our financial condition and results of operations. In addition, even the perception of such violations could have an adverse effect on our reputation and thus negatively affect the results of operations.

(15) We are subject to market risk
In the fiscal year ended March 31, 2010, 48.8% of our net sales were from customers outside of Japan, and we believe that a significant portion of our net sales will continue to be based on foreign currencies from sources outside of Japan. As a result, fluctuations in foreign exchange rates, particularly of the U.S. dollar, beyond levels anticipated by us could have a material effect on our results of operations. In addition, because the financial statements of our foreign subsidiaries are denominated in foreign currencies, fluctuations in foreign currencies and their effects on the yen-equivalent amounts could have an impact on our financial condition and results of operations.

Costs related to our pension and retirement benefit plans may increase if the fair value of our pension plan assets declines or if there is a change in the actuarial assumptions on which the calculations of the retirement benefit obligation are based, which could have a material effect on our financial condition and results of operations.

(16) We face risks related to strategic alliances
From time to time, we enter into various alliances with third parties in connection to research and development, manufacturing and sales activities. If the business environment changes after entering into an alliance or for other reasons, the alliances may not have the effect that we originally anticipated. In addition, to the extent we are subject to non-compete obligations with respect to a particular region, time period or product, our financial condition and results of operations could be materially and adversely affected.

(17) We are subject to risks related to the operation of businesses in foreign countries
Outside of Japan, we conduct business operations mainly in the United States, Europe and Asia, including research and development, manufacturing and sales activities. We are thus subject to risks related to maintaining global operations, including risks related to foreign laws and regulations, the economic environment, political instability and uncertain business environments. If any of the events listed above or other similar events in relation to our international operations should occur, our business, results of operations and financial condition could be adversely affected.

(18) We may be subject to liability and regulatory action if we are unable to protect personal and other confidential information
In connection with our Internet sales of nutraceuticals and consumer products, we hold various information on individual customers that is considered personal information under the Law Concerning Protection of Personal Information of Japan (Law No. 57 of 2003, as amended), a law generally designed to protect the personal information of individuals. Under such law, relevant authorities may issue recommendations or orders against us if we fail to protect the personal information of our customers, and we may be required to provide compensation for economic loss and emotional distress arising out of a failure to protect personal information in accordance with this law. In addition, incidents of mishandling of personal information could create a negative public perception of our operations, which might in turn lead to reduced sales or otherwise materially and adversely affect our business, financial condition and results of operations.