Q1: Regarding page 38 of the presentation materials on the financial base, the total of cash flow accumulated in five years and net cash comes to approximately ¥1,050 billion. Assuming that shareholder returns over five years is ¥250 billion and working capital is ¥200 billion – ¥300 billion, is it correct to think that the half of the remain will be transferred to strategic investments and that you will transfer funds to shareholder returns in the absence of investment opportunities? Can you maintain the target of 8% – 10% ROE for fiscal 2018?

A1: We have taken stable dividends into account. Following on from the First Medium-Term Management Plan, our policy is to consider raising dividends in line with profit growth and try to avoid reducing dividends. It is difficult to forecast the timing and scale of investment opportunities. It is not clear at the current stage whether there will be investment opportunities during the period of this medium-term plan or after fiscal 2018, but we will consider active shareholder returns, taking the balance with strategic investments into account. We hope to maintain the target of 8% – 10% for ROE in fiscal 2018.
Q2: What do “Impact of U.S. ABILIFY and contribution of new drugs” and “Effect of R&D acceleration” in the graph on page 15 of the presentation materials mean?

A2: “Impact of U.S. ABILIFY and contribution of new drugs” includes the decline in ABILIFY sales in the US and Europe due to the patent expiry (which also includes a decrease in co-promotion fee) and the growth of new drugs. “Effect of R&D acceleration” means the ¥80 billion decrease in R&D expenses from the accelerated ¥24.9 billion for fiscal 2013 to adjusted ¥17 billion. We have been accelerating R&D investments since fiscal 2013 and before, and, as a result, the products that will be our future growth drivers have achieved the prospect of early launches, enabling us to hold down R&D investments during the period of this medium-term business plan. “Cost optimization” shows a reduction of ¥40 billion through optimization, particularly a review of the selling and administration costs that increased when we established the U.S. sales infrastructure, and an increase of ¥20 billion in investment in areas such as advertisement expenses for growth. As a result, we will secure ¥100 billion in operating income in fiscal 2016. We have been accelerating investments for a few years in anticipation of the dip in profit in fiscal 2016 and the subsequent contribution from the sales of new drugs, and the plan reflects such preparations we have been makings.

Q3: Could you tell us about timing of NDA filings for additional indications of brexpiprazole, PTSD and agitation associated with dementia of the Alzheimer’s type?

A3: We intend to file during the period of this plan.
Q4: Is the profit contribution from Astex Pharmaceuticals included in the target operating income of ¥200 billion for fiscal 2018?

A4: Around ¥5 billion is included, such as sales of *Dacogen*.

Q5: How motivated are you in terms of increasing the share price?

A5: We are fully aware of the share price. However, we believe that long-term growth is difficult under management that sets targets for the share price.

Q6: If we calculate backwards from the target 8% – 10% ROE for fiscal 2018, equity won’t increase during this period. Is it correct to understand that you will use 50% – 70% of profits for investments for growth or shareholder returns?

A6: We will take full account of the balance between investment and shareholder return.

Q7: Is the message in this medium-term management plan reflected in the ROE target of 8% – 10%?

A7: We are fully aware of ROE.
Q8: There is a view in relation to the oncology business strategy that it is difficult for a product to succeed in the market without combination with tumor immunological agents or breakthrough therapy designation. Could you tell us about your company’s development strategy?

A8: We are currently developing OCV-501 cancer vaccine that activates helper T cells, and we believe that it will potentially be used in combination with immune checkpoint agents. A combination of anti-metabolites and immune checkpoint agents is also possible. Immune checkpoint agents are expected to become one of the mainstream cancer therapies, but our strategy is focused on medications that will be used by a large number of patients, such as anti-metabolites, which our rivals are not very much involved in as well as a vaccine that activates T cells themselves.

Q9: Are you planning co-development of BACE inhibitor AZD3293, which Astex Pharmaceuticals has licensed to AstraZeneca?

A9: We are not currently considering co-development.
Q10: The net sales target for fiscal 2018 is higher than the market consensus and pharmaceutical sales in Japan are particularly strong in my impression. Assuming that risk is inherent in success, where do you expect the risk to lie?

A10: Eighty percent of the products we expect to contribute to the projected sales of $4.3 billion in FY2018 have been already filed or launched. These drugs are promising because the uncertain risks during clinical trials have been reduced. The reason why we expect growth in the future for new drugs in Japan is that our own brand products, such as ABILIFY, which have been rated highly around the world thus far, have also been highly rated in Japan. Tolvaptan, for example, was approved for the indication of autosomal dominant polycystic kidney disease (ADPKD) in Japan first in the world. In addition, we have launched products in Japan that have a track record overseas such as E Keppra and Abraxane. Because sales of ABILIFY have been significant to date, attention has only focused on drugs related to ABILIFY, such as Abilify Maintena and brexpiprazole, but there are other really great products among our new drugs in Japan. Regarding such drugs, there seems to be some gaps between our guidance and the market consensus. Our explanations could also have been insufficient.
Q11: Do you think the operating income target of ¥200 billion for fiscal 2018 is challenging or conservative?

A11: Forecasts for ABILIFY in the First Medium-Term Management Plan were considered challenging, but sales have increased, even after we began marketing it by ourselves. It is difficult to evaluate whether target figures are challenging or conservative. In order to keep our business on a growth track, it is important for us to make sure that we are advancing to become a world-class company with sustained growth through investments. It is essential for us to continue to take on the challenges that only Otsuka can overcome, and I believe profit will come as a result of such efforts.

Q12: Are milestone payments from Lundbeck included in net sales and operating income for fiscal 2016 and fiscal 2018?

A12: Milestone payments from Lundbeck are recorded in fiscal 2015 and fiscal 2017. They are not included in net sales disclosed for fiscal 2016 and fiscal 2018.

Q13: What is the COG ratio for fiscal 2016 and fiscal 2018?

A13: We do not disclose the COG ratio, but it is currently about 30%. In fiscal 2018, it will increase by about 5 points from the present level.

Q14: Under the current plan, are you planning to market Lonsurf by Taiho Pharmaceutical alone in the U.S. and Europe? What is your projection of sales force number?

A14: We are planning a sales structure based on Taiho Pharmaceutical alone. We expect sales force of around 80 people.
Q15: Does “utilize & coordinate research function in the Group” in the cost strategy mean a partial integration of research functions in Otsuka Pharmaceutical and Taiho Pharmaceutical?

A15: The Otsuka Group’s research structure has traditionally taken the form of in-house ventures by separate units. Utilization in the Group means mutually enhancing in-house drug discovery capabilities with each company collaborating on information and sharing technology. In terms of sales infrastructure, we envisage the sharing of common indirect divisions.

Q16: R&D expenses are projected to be reduced by ¥79 billion. Will there be a sharp decrease from next fiscal year and beyond? Has the prospect of the success of major development projects such as brexipiprazole, Abilify Maintena and Lonsurf allowed the reduction?

A16: It is because we accelerated development in preparation for this period rather than having a sudden suspension of projects.

Q17: The growth estimation of the atypical antipsychotics LAI market in the presentation is higher than our forecast. What is the ratio of Abilify Maintena sales in Europe and the U.S., and could you tell us how you will accelerate sales in the future?

A17: We have been promoting development and sales in full discussion with Lundbeck. We have entered a LAI business from the antipsychotic tablet business and now have the prospects in overcoming the challenges to date. We also expect to launch a product in dual-chamber bag this fiscal year and plan an additional filing for the deltoid administration route. In addition, we are promoting development for an additional indication of bipolar disorder, and, with these, we will try to gain a 30% market share. As for the regional percentages of Abilify Maintena sales, we forecast a ratio of 1:2 for Europe:U.S.
**Q18:** Assuming that the sales contribution of tolvaptan is not expected to be that high in the fiscal 2018 sales forecast for the “3 global products” on page 13 of the presentation materials, would you expect the sales ratio of *Abilify Maintena* and brexpiprazole to be 1:1?

**A18:** In addition to the existing indications for tolvaptan (*Samsca*) in Japan, the U.S. and Europe, we have obtained an additional indication of ADPKD in Japan, and we are expecting to gain this additional indication in Europe and the U.S. during the term of this plan. We cannot disclose the sales ratio, but sales projections for brexpiprazole are conservative.

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<tr>
<th>Q19: Would cross-licensing arrangement with a company that has a platform and sales track record in oncology area be better for <em>Lonsurf</em> in Europe and the U.S. than marketing it alone?</th>
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<td>A19: We are considering that possibility as well.</td>
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<th>Q20: During the period of this plan, will you make a filing for Lu AE58054 and will it contribute to profits?</th>
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<td>A20: It is projected that it will contribute to profits.</td>
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**Q21:** Could R&D expenses be targeted for reductions if sales do not increase as expected? I get the impression that R&D expenses are quite contracted, but what level of R&D expenses do you consider to be appropriate for your company? Also, could you tell us about plans for R&D expenses from fiscal 2018 onwards?

**A21:** One guideline for the appropriate level of R&D expenses is 20% of pharmaceutical sales. R&D expenses ballooned in fiscal 2013 due to accelerated investment, so it looks as if they are to decrease sharply in fiscal 2016, but this is because we systematically promoted development, based on the order of priority, in the past. The R&D expenses that we will invest during the period of this plan also include investments in the early phase products that will be growth drivers beyond fiscal 2018. In the event that our plans do not go well, we will make adjustments to overall expenses rather than reducing R&D investments.
Q22: So far the company has developed with a focus on expansion in terms of business opportunities, however, considering the globalization and intensification of competition and capital efficiency, could there come a time when you consider narrowing down the businesses as an option?

A22: Throughout our history since the establishment in 1921, there have been periods when our business performance was flat and periods when there were opportunities and our performance improved considerably. Sales of ¥1,440 billion and operating income of ¥200 billion in fiscal 2018 would be roughly the same as the figures for fiscal 2013, but the vision for the business is vastly different. Growth is required in all segments in order to manage business with complex structure. This is an era in which Japanese companies must expand globally to survive. In assessing growth, we do not simply look at figures. It is important how we can build up the management resources, human resources, technology, assets and networks that underpin the figures. Doing business overseas is a hard work. It also takes time and requires persistence. In this process, I hope we will carefully pursue the quality of our business.