(Translation)

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Tatsuo Higuchi
President and Representative Director
**Otsuka Holdings Co., Ltd.**
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo
Securities Code: 4578

# Notice for the Calling of the 4th Annual Shareholders Meeting

June 6, 2012

Dear Shareholders,

You are cordially invited to attend the 4th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the "Company"). The meeting will be held as described below.

**If you are unable to attend the meeting in person, you may exercise your voting rights by either of the following methods. Prior to voting, please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights so that your vote is received by 5:30 p.m. (the close of business hours) on Wednesday, June 27, 2012 (JST).**

**[To exercise your voting rights by post]**
Please indicate on the enclosed "Voting Form" whether you approve or disapprove of each proposal and return the completed form by the designated time above.

**[To exercise your voting rights via electromagnetic method (Internet, etc.)]**
Please refer to the Guidance for Exercising Voting Rights via the Internet, etc. on page 48 and follow the instructions on the screen to input your approval or disapproval for each proposal.

## Details

1. **Date and Time:**
   Thursday, June 28, 2012, at 10:00 a.m.

2. **Place:**
   ANA InterContinental Tokyo, B1F, Prominence
   1-12-33 Akasaka, Minato-ku, Tokyo

3. **Purpose of the Meeting**
   **Matters to be reported:**
   a. Business Report and Consolidated Financial Statements, as well as the audit reports of the Independent Auditors and the Board of Corporate Auditors for Consolidated Financial Statements, for the 4th Fiscal Year (from April 1, 2011 to March 31, 2012)
   b. Non-consolidated Financial Statements for the 4th Fiscal Year (from April 1, 2011 to March 31, 2012)

   **Matters to be resolved:**
   **Proposal:** Election of Eight (8) Directors

Notes:

* You are kindly requested to present the enclosed “Voting Form” to the receptionist when you attend the meeting.
* You may designate one other shareholder with voting rights as your proxy to exercise your voting rights in accordance with the Articles of Incorporation. In such a case, your proxy will be required to submit documentation indicating his/her authority to act as your proxy.
* Please note that of the documents that should accompany this Notice, the information regarding matters to be presented as “Notes to Consolidated Financial Statements” and “Notes to Non-Consolidated Financial Statements” are not recorded herein since they are provided on our website, which is in accordance with the provisions of the respective laws and regulations and the Articles of Incorporation.

  The Consolidated Financial Statements and Non-consolidated Financial Statements that were audited by the Corporate Auditors and the Independent Auditors in preparing their audit reports respectively include, in addition to the information provided in this document, the information regarding matters to be presented as the aforementioned “Notes to Consolidated Financial Statements” and “Notes to Non-Consolidated Financial Statements.”
* If any changes have been made to items in the Reference Documents for Shareholders Meeting, Business Report, Non-consolidated Financial Statements, or Consolidated Financial Statements, such changes will be posted on our website.

| | |
|---|---|
| Our website | http://www.otsuka.com/ |

(Translation)

**Attached documents**

# Business Report

(For the fiscal year from April 1, 2011 to March 31, 2012)

## 1. Business Progress and Achievement of the Otsuka Group

### (1) Overview of business during the current fiscal year

i) Business activity and results

In the current fiscal year, the Japanese economy started to recover more strongly from the Great East Japan Earthquake and the operating environment for companies gradually improved. Overseas, the economic outlook remained uncertain amid the sovereign debt crisis in Europe and high crude oil prices.

Against this backdrop, the Otsuka Group (the "Group") reported consolidated net sales of ¥1,154,573 million (2.4% increase year on year) for the current fiscal year, with operating income of ¥148,661 million (17.7% increase year on year), ordinary income of ¥152,119 million (18.5% increase year on year) and net income of ¥92,174 million (11.9% increase year on year).

Results by business segment are as follows:

Net sales by business area during the current fiscal year (Millions of yen)

| | Pharmaceuticals | Nutraceuticals | Consumer Products | Other | Adjustments | Consolidated |
|---|---|---|---|---|---|---|
| Net sales | 782,248 | 254,825 | 49,206 | 108,602 | (40,309) | 1,154,573 |
| Segment income (loss) | 168,480 | 22,143 | (2,309) | 1,943 | (41,597) | 148,661 |

**Pharmaceuticals**

In the area of the central nervous system, sales of antipsychotic agent *ABILIFY*, which is sold in 65 markets worldwide, continued to expand on a global basis, bringing it into the top ten drugs worldwide based on sales[*1]. Sales in the U.S. and Europe expanded at a double-digit pace, exceeding growth in the market for atypical antipsychotic agents as a whole, on the back of growth in prescriptions. In Japan, growth in sales accompanied continued strengthening of information provision regarding the treatment of schizophrenia and additional indications for the treatment of manic symptoms of bipolar disorder.

Sales of antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, grew sharply following its approval for long-term prescriptions from October 2011.

As part of efforts to accelerate growth in the central nervous system area, Otsuka Pharmaceutical signed an alliance agreement in November 2011 with H. Lundbeck A/S ("Lundbeck") of Denmark, a global leader in this field, for co-development and co-commercialization of aripiprazole[*2] intramuscular depot formulation (once-monthly injection) and OPC-34712. This alliance is aimed at maximizing the medical and commercial value of both companies in the area of the central nervous system. The alliance has also made it possible for Otsuka Pharmaceutical to expand beyond Japan, Asia and the U.S., into Lundbeck's existing marketing channels in Europe, Eastern Europe and emerging countries.

In the area of anti-cancer and cancer-supportive care, sales in Japan of anti-cancer agent *TS-1* were affected by a decline in the number of gastric cancer patients. However, there was growth in new prescriptions for conditions such as lung cancer and colorectal cancer. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined as a result of competition. On the other hand, sales of *Aloxi*, a 5-HT3 receptor antagonist antiemetic agent, and anti-cancer agent *Abraxane* grew steadily. Overseas, sales of *TS-1 / Teysuno* started in Europe through an alliance with the Nordic Group BV. Anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with BMS[*3], registered solid sales growth on progress in securing approval as a first-line treatment for chronic myeloid leukemia in markets worldwide. However, alliance income to the Company declined slightly due to appreciation of the yen.

In the area of the cardiovascular system, awareness grew gradually among medical specialists of first-in-class drug *SAMSCA*, because of the new value it brings and its method of use as a diuretic that results in the excretion of water only. In the U.S., sales of *SAMSCA* were double the level in the previous fiscal year. In Japan, one year has passed since its launch and awareness of *SAMSCA* as an important treatment option for edema in heart failure is growing. Sales of antiplatelet agent *Pletaal/Pletal* have been impacted by generics, but sales were stronger than the Company's estimate due to an increase in prescriptions for patients with cerebral infarction sequelae following the switch to orally disintegrating tablets, which are easier to take as they can be administered without water.

In other areas, steps were taken to use the brand power of anti-gastritis and anti-gastric ulcer agent *Mucosta*, which is the third most prescribed drug in Japan, in an effort to counter the impact of generics. In the area of ophthalmology, *Mucosta ophthalmic suspension UD 2%*, in which *Mucosta* is applied as a treatment for dry eyes, was launched in January 2012.

In the area of clinical nutrition, the high-calorie TPN solution *ELNEOPA* registered solid sales in Japan, mainly because of wider adoption by hospitals and an increase in prescriptions in response to promotion of the benefits of trace elements in the product.

As a result, net sales in the pharmaceutical segment for the current fiscal year totaled ¥782,248 million (4.1% increase year on year), with operating income of ¥168,480 million (18.0% increase year on year).

*[1]: Estimate based on "IMS World Review Preview (Dec 2011 MAT)," reprinted with permission of 2012 IMS Health©, all rights reserved.
*[2]: Aripiprazole is the generic name of an active ingredient of *ABILIFY*.
*[3]: Bristol-Myers Squibb Company

**Nutraceuticals**

*Pocari Sweat*, an electrolyte supplement drink, is sold in 16 markets, mainly in Asia. In markets outside Japan, sales volume grew by more than 20% year on year, as consumers responded to ongoing promotion activities emphasizing product value. Sales of *Pocari Sweat* were particularly strong in Indonesia, where they reached a new record high. Although sales volume in Japan was lower than the level in the previous fiscal year, when the severe summer heat had a favorable impact on sales, sales volume was generally in line with targets.

The Otsuka Group is pushing forward with the development of products that make full use of the nutrition in soy as a solution to various health and environmental issues faced by people today under the concept of "Soylution." The Group focused on promoting the value of the fruit soy bar *SOYJOY*, which is sold in 11 markets around the world and packed with the wholesome nutrition of soy. For the soy soda beverage *SOYSH*, the Group worked on attracting customers by implementing a consumer awareness campaign about the health benefits of soy targeting people throughout the country. In March 2012, the Group announced the launch of nutritional soy snack *SoyCarat* as the third Soylution product.

*Nature Made*, which is supplied by subsidiary Pharmavite LLC of the U.S., is now stocked by all Wal-Mart stores in the U.S. and registered strong exports to the Middle East, driving healthy sales.

Sales at Nutrition & Santé SAS of France, which is a subsidiary that operates in more than 40 countries, mainly in Europe, were driven by organic food products and diet food products. In Japan, nationwide sales of the nutrition and health food brand *Gerble* began in October 2011. A decision was also taken to start nationwide sales of *Gerlinea*, the leading*[4] calorie control brand in the French diet food market.

Sales of the carbonated nutritional drink *Oronamin C* grew as its customer base expanded, particularly among young consumers. This was the result of the partnership with Ito En Limited regarding the vending machine business which started in April 2011, in addition to continued efforts to acquire customers. In May 2011, *Oronamin C* became the first small volume vitamin drink to register cumulative sales of over 30 billion units in Japan.

Sales volume of the balanced nutrition food *Calorie Mate* was below the level in the previous fiscal year, but it remains a leading brand in the nutritional food category as a readily available source of five main nutrients.

In the cosmedics area, where the Company holds a concept of "healthy skin," *UL•OS Scalp*

*Shampoo* (medicated) was launched in September 2011 in the *UL•OS* men's skincare brand. The *UL•OS* range now contains a comprehensive lineup of products for all areas of men's skincare. In addition, the cosmedics business made its first move overseas with the launch of the brand in South Korea in March 2012.

Nutrient tonic *Tiovita* registered steady growth in sales volume owing to an aggressive marketing strategy.

The nutraceutical segment focused on implementing promotional activities emphasizing the core concept of the products. It also took steps to boost profitability, including an ongoing review of the cost structure.

As a result, net sales in the nutraceutical segment for the current fiscal year totaled ¥254,825 million (1.5% decrease year on year), with operating income of ¥22,143 million (20.2% increase year on year).

*[4]: IRI, July 2009 (PDM volume CC á P7 source IRI)

**Consumer Products**

Sales of *Crystal Geyser* and other mineral waters were solid, mainly owing to the addition of new bottle size and changes to pricing. Sales volume grew steadily for *Match*, a carbonated electrolyte drink containing vitamins, due to an increase in the number of stores handling the product and expansion in the consumer base resulting from aggressive marketing and sales promotion activities. Sales of *Java Tea* and other tea beverages also grew. Sinvino Java Tea Straight White was launched in 500ml PET bottles in March 2012.

In the consumer products segment, the Company continues to implement a range of initiatives aimed at improving profitability, in addition to stepping up marketing initiatives.

As a result, net sales in the consumer products segment for the current fiscal year totaled ¥49,206 million (2.7% increase year on year), with operating loss of ¥2,309 million.

**Others**

In the specialty chemical business, despite the tough operating environment caused by the Great East Japan Earthquake, the flooding in Thailand and the sovereign debt crisis in Europe, sales of friction materials *TISMO* and *Terracess* recovered and grew from the second half of the fiscal year, supported by a recovery in the automotive field in the U.S. and solid market growth in China. Sales in the fine chemical business declined due to factors such as the impact from generics overseas on the antibiotic ingredient *YTR* and the impact of falling prices for pharmaceutical intermediate *GCLE*.

As a result, net sales in the other businesses for the current fiscal year totaled ¥108,602 million (1.6% increase year on year), with operating income of ¥1,943 million (55.6% decrease year on year).

ii) Research and Development Activities

Research and development expenses for the current fiscal year totaled ¥159,229 million.

Research and development expenses for the pharmaceutical business amounted to ¥149,320 million, those for the nutraceutical business amounted to ¥4,368 million, those for the consumer products business amounted to ¥514 million and those for others amounted to ¥5,026 million.

a. Therapeutic drugs

The Otsuka Group conducts research and development with a primary focus on addressing unmet medical needs in the areas of central nervous system and anti-cancer and cancer-supportive care. The Group also conducts research and development in fields such as cardiovascular and ophthalmology, focusing on diseases with unmet medical needs.

Research and development activities carried out during the current fiscal year in the area of therapeutic drugs are summarized below.

| Category | Brand Name / Generic Name / Development Code | Status |
|---|---|---|
| Central nervous system | *ABILIFY* | [Global]<br>• A global alliance agreement was concluded with Lundbeck in November 2011 for the co-development of aripiprazole intramuscular depot formulation worldwide.<br>[U.S.]<br>• A new once-weekly oral formulation for the treatment of Tourette syndrome advanced to Phase III trials.<br>• A new drug application for the aripiprazole intramuscular depot formulation for the treatment of schizophrenia was accepted for review by the U.S. Food and Drug Administration.<br>[Asia]<br>• An oral formulation was approved in South Korea for chronic tic disorder and Tourette syndrome.<br>[Japan]<br>• In January 2012, approvals were received for the additional indication of improvement of manic symptoms associated with bipolar disorder, and for the new formulation *ABILIFY OD Tablets*. |
| | OPC-34712 | [Global]<br>• A global alliance agreement was concluded with Lundbeck for the co-development of OPC-34712 worldwide.<br>• OPC-34712 advanced to Phase III trials in the U.S. for major depressive disorder. It also advanced to Phase III trials in the U.S. and Europe as a treatment for schizophrenia.<br>• Phase II trial results for the treatment of schizophrenia were presented at the 24th U.S. Psychiatric and Mental Health Congress in November 2011.<br>[Japan]<br>• OPC-34712 advanced to Phase III trials as a treatment for schizophrenia. |
| | rotigotine patch | [Japan]<br>• Rotigotine patch, which has been developed as a dopamine agonist transdermal patch preparation, was simultaneously filed in December 2011 for the treatment of two disorders: Parkinson's disease and restless legs syndrome. |
| | *E Keppra* | [Japan]<br>• Phase III trials have been initiated for the monotherapy for epileptic partial seizures. |
| Anti-cancer and cancer-supportive care | *TS-1 / Teysuno* | [Japan]<br>• The results of clinical trials for anti-cancer agent *TS-1* for the treatment of unresectable colorectal cancer (clinical trial name: FIRIS) and for the treatment of advanced pancreatic cancer (clinical trial name: GEST) were presented at the 47th Annual Meeting of the American Society of Clinical Oncology in June 2011.<br>[Europe]<br>• A co-development and co-commercialization agreement in Europe was concluded with the Nordic Group BV of the Netherlands in July 2011.<br>• Sales began in four Scandinavian countries (Sweden, Denmark, Norway and Finland) in March 2012.<br>[Asia]<br>• Marketing approval was received in Thailand in March 2012. |
| | *SPRYCEL* | [U.S. and Europe]<br>• The drug advanced to Phase II trials in the U.S. and Europe as a treatment of pancreatic cancer.<br>[Japan]<br>• *SPRYCEL* is an anti-cancer agent discovered by BMS and is being co-developed and co-promoted globally with the Company. An additional indication for *SPRYCEL* as a first-line treatment for chronic myeloid leukemia (CML) in adults was approved in Japan in June 2011. |

| Category | Brand Name / Generic Name / Development Code | Status |
|---|---|---|
| | TAS-102 | [U.S.]<br>• Phase I trials have been initiated for the treatment of colorectal cancer.<br>[Japan]<br>• Phase II trials have confirmed the efficacy of TAS-102 for extending the survival period of patients with recurrent colorectal cancer that does not respond to standard treatments. The results of these trials were presented at the 9th Annual Meeting of the Japanese Society of Medical Oncology in July 2011 and the European Multidisciplinary Cancer Congress in September 2011. |
| | TAS-115 | [Japan]<br>• Phase I trials have been initiated for the treatment of solid cancer. |
| | *Abraxane* | [Japan]<br>• Applications for approval were filed in February 2012 for the additional indications for gastric cancer and non-small-cell lung cancer. |
| | OCV-105 | [Japan]<br>• OCV-105 is a cancer vaccine being developed in collaboration with OncoTherapy Science, Inc. Phase I trials for the treatment of pancreatic cancer have been initiated. |
| | OCV-501 | [Japan]<br>• OCV-501 is a WT1-targeted cancer vaccine being developed in collaboration with International Institute of Cancer Immunology, Inc. Phase I trials for the treatment of acute myeloid leukemia (AML) in elderly patients have been initiated. |
| | *SATIVEX* | [U.S.]<br>• *SATIVEX* advanced to Phase III trials for the treatment of cancer pain. |
| Cardiovascular | *SAMSCA* | [Global]<br>• *SAMSCA*, regarded as a first-in-class drug in new diuretics capable of selectively excreting only excess water, went on sale in Canada, China and Taiwan and was approved in Hong Kong, South Korea and Indonesia as a treatment for hyponatremia. |
| | OPC-108459 | [Global]<br>• Phase I trials have been initiated in Japan and the U.S. for the treatment of paroxysmal and persistent atrial fibrillation. |
| Other categories | *Mucosta ophthalmic suspension UD 2%* | [Japan]<br>• Sales of the drug as a treatment for dry eyes began in January 2012. |
| | OPC-67683<br>delamanid | [Global]<br>• OPC-67683 advanced to Phase III trials in Japan, the U.S. and Europe.<br>• In December 2011, a new drug application was filed in Europe for the treatment of multidrug-resistant tuberculosis. |
| | YP-18<br>(*Zosyn*) | [Japan]<br>• Phase III trials have been initiated for the treatment of febrile neutropenia. |
| | OPC-262<br>saxagliptin | [Japan]<br>• (Additional information) In April 2012, an application was filed for the treatment for Type 2 diabetes mellitus. |

b. Clinical nutrition

In the clinical nutrition area, the electrolyte correction solution *Sodium Phosphate Correction Solution 0.5 mmol/mL* was launched in Japan in April 2011.

c. Diagnostics

In the diagnostics area, WT1 mRNA assay kit *Otsuka*, which is already included in NHI coverage and widely used as a monitoring marker for minimal residual disease (MRD) in acute myeloid leukemia (AML), was additionally approved for NHI coverage in August 2011 for myelodysplastic syndrome (MDS).

*RAPIRUN S. pneumoniae HS* (otitis media, sinusitis), which is a diagnostic kit for *streptococcus pneumoniae*, was launched in December 2011. This product has higher sensitivity and thus can more easily detect the pneumococcal antigen than conventional products. *H. influenzae* ELISA kit *Otsuka* was also approved as a diagnostic aid for *H. influenzae* infection.

iii) Capital Investments

Capital investments during the current fiscal year amounted to ¥43,302 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥20,810 million. Principal investments included Otsuka Pharmaceutical Co., Ltd.'s pharmaceutical manufacturing facility at the Tokushima Wajiki Factory and the renewal of existing facilities.

Capital investments in the nutraceutical business totaled ¥11,501 million. Principal investments included the *Pocari Sweat* manufacturing facility at Otsuka Pharmaceutical Co., Ltd.'s Saga Factory and renewal of existing facilities.

Capital investments in the consumer business totaled ¥1,970 million, while those in other businesses totaled ¥4,556 million, and corporate investments totaled ¥4,462 million.

**(2) Key issues to be addressed**

The Otsuka Group is implementing concrete initiatives under its First Medium-Term Management Plan ending in FY2013, in order to realize its corporate philosophy, "Otsuka-people creating new products for better health worldwide."

The key initiatives during the period of the Medium-Term Management Plan are as follows.

i) Delivering value and maximizing earnings in the pharmaceutical business

- In the area of the central nervous system, the Otsuka Group will work with alliance partner Lundbeck to create a long-term collaborative global framework centered on aripiprazole intramuscular depot formulation (once-monthly injection) and OPC-34712, both drugs that were created by the Company, in order to more rapidly maximize the medical and commercial value of both companies in this field.
- Product value for *ABILIFY* will be maximized through continuous research and development in the U.S. including the development of the once-weekly tablet and other formulations. Earnings will also be maximized through a change in profit sharing based on the amended contract with alliance partner BMS.
- In the anti-cancer and cancer-supportive care field, the product lineup will be enhanced in the areas of metabolic antagonists, molecular-targeted agents, new mechanism cancer vaccines, and supportive care in an effort to expand business in a way that covers the entire spectrum of cancer treatment.
- The Otsuka Group will pursue further growth through the cultivation of new products *SAMSCA*, *E Keppra*, *Aloxi*, *Abraxane*, and *Mucosta ophthalmic suspension*.

ii) Expansion and profit growth in the nutraceutical business

- Based on the idea of soy, a familiar and highly nutritious food, as a solution to various problems faced by people today including health and environmental issues ("Soylution"), the Otsuka Group will push ahead with the development and global expansion of tasty products that make full use of the nutrition in soy. Going forward, the Group will channel its management resources into Soylution products on a global basis. In addition, the Group will accelerate overseas development by expanding the *Pocari Sweat* business in the growing markets of Asia, the *Nature Made* business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
- The Otsuka Group will also develop the cosmedics business with a view to global expansion, underpinned by the *UL•OS* and *InnerSignal* brands.
- Improvement in profitability will be pursued through a focus on implementing promotional activities emphasizing the core concept of the products as well as an ongoing review of the cost structure.

iii) Strategic initiatives for future growth

- The medical device business will be built into one of the Otsuka Group's core businesses, led by Otsuka Medical Devices Co., Ltd. In November 2011, the Group acquired KiSCO Co., Ltd., a medical devices company with a specialty in the orthopedic surgery field. In December 2011, it acquired a stake in Era Endoscopy S.r.l. of Italy, an innovator in self-propelled robotic colonoscopy. Going forward, the Group plans to develop its medical device business in Japan and overseas, mainly in Asia.
- In April 2012, the Otsuka Group launched the healthy soy snack *SoyCarat*, its third Soylution product after fruit soy bar *SOYJOY* and soy soda beverage *SOYSH*. All these Soylution products are tasty even for people in countries where soy is not part of the traditional diet and have long shelf lives. Going forward, the Group plans to accelerate the development of its soy business to build it into one of the Group's core businesses.
- The Otsuka Group will pursue continuous growth by (1) reforming its business model, (2) developing personnel, and (3) making indirect expenses more efficient to create a system that drives reform within the Group.

### (3) Trends in consolidated operating results and assets for and at the end of the current fiscal year and the most recent three fiscal years

| Item | The 1st fiscal year (Ended March 31, 2009) | The 2nd fiscal year (Ended March 31, 2010) | The 3rd fiscal year (Ended March 31, 2011) | The 4th fiscal year (Ended March 31, 2012) |
|---|---|---|---|---|
| Net sales (Millions of yen) | 955,947 | 1,084,291 | 1,127,589 | 1,154,573 |
| Ordinary income (Millions of yen) | 96,103 | 109,057 | 128,400 | 152,119 |
| Net income (Millions of yen) | 47,083 | 67,443 | 82,369 | 92,174 |
| Net income per share (Yen) | 2,727.20 | 143.50 | 164.51 | 165.20 |
| Total assets (Millions of yen) | 1,298,789 | 1,458,375 | 1,589,717 | 1,666,767 |
| Net assets (Millions of yen) | 863,815 | 948,456 | 1,163,325 | 1,222,764 |
| Net assets per share (Yen) | 36,005.26 | 1,964.70 | 2,061.88 | 2,166.55 |

Notes:

1. Effective on June 30, 2009 in the 2nd fiscal year, the Otsuka Group executed a twenty-for-one common share split. Net income per share is computed as if the share split had been conducted at the beginning of the fiscal year.
2. Conventionally, income and expenses of overseas subsidiaries, etc. were converted into yen at the spot exchange rate of the financial closing date of such overseas subsidiaries, etc. However, the Group, effective from the current fiscal year, has changed the method of yen conversion to the use of the average exchange rate of the period. In addition, revenues from up-front payments received associated with consent for license were conventionally posted to “Revenues related to extension of co-promotion agreement” and “Other” included in non-operating income. However, the Group has changed the method to post such revenue to net sales effective the current fiscal year. The figures under consolidated operating results and assets for the 3rd fiscal year (ended March 31, 2011) reflect the retroactive application of these changes made.

### (4) Significant subsidiaries

| Company name | Country | Capital | Percentage of voting rights held by the Company | Major business activities |
|---|---|---|---|---|
| Otsuka Pharmaceutical Co., Ltd. | Japan | 20,000 million yen | 100.00% | Manufacture and sale of pharmaceuticals, clinical inspections and medical devices, food products, and cosmetic products |
| Otsuka Pharmaceutical Factory, Inc. | Japan | 80 million yen | 100.00% | Manufacture and sale of pharmaceutical products |
| Taiho Pharmaceutical Co., Ltd. | Japan | 200 million yen | 100.00% | Manufacture and sale of pharmaceutical products |
| Otsuka Warehouse Co., Ltd. | Japan | 800 million yen | 100.00% | Warehousing and transport business |
| Otsuka Chemical Co., Ltd. | Japan | 5,000 million yen | 100.00% | Sale of beverages, manufacture and sale of chemical products |
| Otsuka Foods Co., Ltd. | Japan | 1,000 million yen | *100.00% | Manufacture and sale of food and beverages, sale of alcoholic drinks (wine) |
| Otsuka America Pharmaceutical, Inc. | U.S. | 50,000 thousand U.S. dollars | *100.00% | Manufacture and sale of pharmaceutical products |
| Pharmavite LLC | U.S. | 1,032 thousand U.S. dollars | *100.00% | Manufacture and sale of nutritional products |
| Nutrition & Santé SAS | France | 30,150 thousand euro | *100.00% | Manufacture and sale of food products |

Note: The asterisk (*) in “Percentage of voting rights held by the Company” includes the percentage of voting rights held indirectly.

### (5) **Major business activities** (as of March 31, 2012)

| Business segment | Business activities |
|---|---|
| Pharmaceuticals | Manufacture, purchase, and sale of pharmaceutical products<br>Consignment of research and development of new drugs<br>Manufacture and sale of analytical and measurement equipment<br>Manufacture, sale, and consigned analysis of reagents for research use<br>Development and sale of therapeutic systems |
| Nutraceuticals | Manufacture, purchase, and sale of functional foods, quasi-pharmaceuticals, nutritional supplements, and others |
| Consumer products | Manufacture, purchase, and sale of consumer products |
| Other | Warehousing and transport business<br>Liquid crystal and spectroscope business<br>Manufacture and sale of printing and packaging goods<br>Manufacture and sale of synthetic resin molded products<br>Manufacture and sale of chemical products |

### (6) **Major offices and factories** (as of March 31, 2012)

i) The Company

| | |
|---|---|
| Head Office | 2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo |
| Tokyo Headquarters | 2-16-4 Konan, Minato-ku, Tokyo |

ii) Significant subsidiaries

| Company name | Location |
|---|---|
| Otsuka Pharmaceutical Co., Ltd. | Chiyoda-ku, Tokyo |
| Otsuka Pharmaceutical Factory, Inc. | Naruto, Tokushima |
| Taiho Pharmaceutical Co., Ltd. | Chiyoda-ku, Tokyo |
| Otsuka Warehouse Co., Ltd. | Minato-ku, Osaka |
| Otsuka Chemical Co., Ltd. | Chuo-ku, Osaka |
| Otsuka Foods Co., Ltd. | Chuo-ku, Osaka |
| Otsuka America Pharmaceutical, Inc. | Maryland, U.S. |
| Pharmavite LLC | California, U.S. |
| Nutrition & Santé SAS | Aude, France |

### (7) **Employees** (as of March 31, 2012)

i) Employees of the Otsuka Group

| Business segment | Number of employees | Increase / Decrease from the previous fiscal year |
|---|---|---|
| Pharmaceuticals | 14,063 (583) | down 599 (down 290) |
| Nutraceuticals | 5,422 (773) | down 318 (down 107) |
| Consumer products | 819 (92) | down 36 (up 16) |
| Other | 2,490 (668) | up 272 (up 63) |
| Corporate (Common) | 1,801 (301) | up 88 (up 11) |
| Total | 24,595 (2,417) | down 593 (down 307) |

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

ii) Employees of the Company

| Number of employees | Increase / Decrease from the previous fiscal year | Average age | Average service years |
|---|---|---|---|
| 65 (65) | Down 8 (down 3) | 46.3 | 2.5 |

Note: The number of employees indicates the number of employees currently on duty and the yearly average number of part-time and temporary employees is separately indicated in parentheses.

**(8) Major creditors** (as of March 31, 2012)

| Creditor | Balance of borrowings |
|---|---|
| Sumitomo Mitsui Banking Corporation | 21,444 million yen |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 14,752 million yen |
| Resona Bank, Ltd. | 4,870 million yen |
| Mitsubishi UFJ Trust and Banking Corporation | 4,000 million yen |
| Mizuho Corporate Bank, Ltd. | 3,222 million yen |

## 2. Current Status of the Company

**(1) Shares** (as of March 31, 2012)

i) Total number of authorized shares: 1,600,000,00 shares
ii) Total number of issued shares: 557,835,617 shares
iii) Number of shareholders: 43,720
iv) Principal shareholders (top 10 shareholders):

| Name of shareholder | Number of shares held (thousand) | Shareholding ratio (%) |
|---|---|---|
| The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account | 65,029 | 11.65 |
| Otsuka Estate Ltd. | 40,629 | 7.28 |
| Otsuka Group Employee Shareholding Fund | 28,540 | 5.11 |
| Japan Trustee Services Bank, Ltd. (trust account) | 20,081 | 3.59 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 17,217 | 3.08 |
| Otsuka Asset Co., Ltd. | 12,000 | 2.15 |
| The Awa Bank, Limited | 10,970 | 1.96 |
| SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS | 8,645 | 1.54 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 6,004 | 1.07 |
| Toho Holdings Co., Ltd. | 5,670 | 1.01 |

Notes:

1. Number of shares held is rounded down to the nearest thousand.
2. Shareholding ratio is calculated after treasury stock (3,978 shares) is deducted.

**(2) Status of stock acquisition rights**

Holding of stock acquisition rights issued as compensation for the execution of duties by Directors and Corporate Auditors

(As of March 31, 2012)

| | No. 1 stock acquisition rights | No. 2 stock acquisition rights |
|---|---|---|
| Date of resolution on issuance | June 29, 2010 | June 29, 2010 |
| Number of stock acquisition rights | 450,000 | 24,000 |
| Class and number of shares underlying stock acquisition rights | Common stock: 450,000 shares (One share per stock acquisition right) | Common stock: 24,000 shares (One share per stock acquisition right) |
| Amount to be paid in for stock acquisition rights for subscription | No payment required | No payment required |
| Value of property to be contributed when such stock acquisition rights are exercised | ¥1 per stock acquisition right (¥1 per share) | ¥2,100 per stock acquisition right (¥2,100 per share) |
| Period during which stock acquisition rights may be exercised | From July 23, 2012 to July 31, 2015 | From July 23, 2012 to July 31, 2015 |
| Conditions for exercise of stock acquisition rights | (See Note) | (See Note) |
| Status of holdings of Directors and Corporate Auditors | Number of Directors of the Company: 10 | Number of Corporate Auditors of the Company: 3 |

Note: Matters relating to conditions for exercise of stock acquisition rights are as follows.

a. A party having received an allotment of stock acquisition rights (hereafter, "holder of stock acquisition rights") must hold the same position in the Company at the time of exercising the stock acquisition rights as that held at the time of the allotment of stock acquisition rights. However, the Company's Board of Directors may waive this limit if they deem it appropriate.
b. A holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights in the event the holder of stock acquisition rights, without obtaining prior approval from the Board of Directors of the Company or a subsidiary,

assumes or agrees to assume an office either as an executive or employee of another company, or engages in a business that competes directly or indirectly with the business of the Company or its subsidiary.

c. A holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights in the event the holder of stock acquisition rights commits a major violation of laws and regulations or the internal rules of the Company or a subsidiary.
d. A holder of stock acquisition rights shall not pledge or dispose of the stock acquisition rights in any other way.
e. In the event of the death of a holder of stock acquisition rights, the heirs of the deceased holder of stock acquisition rights shall not be permitted to exercise stock acquisition rights.
f. A stock acquisition right shall not be split for exercising.
g. Other conditions for exercising of stock acquisition rights shall be as provided in the agreement for the allotment of stock acquisition rights entered into between the Company and the holders of stock acquisition rights based on the resolution of the Company's Board of Directors.

## (3) Directors and Corporate Auditors of the Company

i) Directors and Corporate Auditors (as of March 31, 2012)

| Position in the Company | Name | Areas of Responsibility and Significant Concurrent Positions |
|---|---|---|
| Chairman, Representative Director | Akihiko Otsuka | Chairman of Otsuka Pharmaceutical Co., Ltd.<br>Executive Director of Otsuka Pharmaceutical Factory, Inc.<br>Chairman of Otsuka Foods Co., Ltd.<br>President and Representative Director of Otsuka Estate Ltd.<br>President and Representative Director of Otsuka Asset Co., Ltd. |
| Vice Chairman, Representative Director | Kenichiro Otake | |
| President and Representative Director | Tatsuo Higuchi | Executive Director of Otsuka Pharmaceutical Co., Ltd.<br>Executive Director of Otsuka Chemical Co., Ltd. |
| Vice President, Executive Director | Ichiro Otsuka | President and Representative Director of Otsuka Pharmaceutical Factory, Inc.<br>Vice President and Representative Director of Otsuka Estate Ltd. |
| Senior Managing Director | Atsumasa Makise | In charge of Corporate Finance<br>Chairman of Otsuka America, Inc. |
| Managing Director | Noriko Tojo | In charge of Corporate Development |
| Managing Director | Yoshiro Matsuo | In charge of Corporate Administration |
| Executive Director | Yujiro Otsuka | |
| Executive Director | Yukio Kobayashi | |
| Executive Director | Sadanobu Tobe | Vice Chairman and Representative Director of Otsuka Foods Co., Ltd. |
| Standing Corporate Auditor | Masatoshi Taniguchi | |
| Corporate Auditor | Yasuhisa Katsuta | Outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd.<br>Outside Director of Funai Electric Co., Ltd. |
| Corporate Auditor | Norikazu Yahagi | Outside Corporate Auditor of Nippon Office Systems Ltd.<br>Outside Corporate Auditor of Square Enix Holdings Co., Ltd.<br>Outside Corporate Auditor of T.D.I. Co., Ltd. |
| Corporate Auditor | Hiroshi Sugawara | Vice President of Will Capital Management Co., Ltd. |

Notes:

1. Corporate Auditors Yasuhisa Katsuta, Norikazu Yahagi and Hiroshi Sugawara are Outside Corporate Auditors.
2. Corporate Auditor Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
3. The Company appoints Hiroshi Sugawara as an Independent Officer as provided for under the rules of Tokyo Stock Exchange, Inc. and has registered him with the exchange.
   The Company newly appointed Corporate Auditor Norikazu Yahagi as an Independent Officer on June 1, 2012, and has registered him with the same exchange.
4. Changes in Directors and Corporate Auditors during the current fiscal year are as follows:
   [Resignation]
   Managing Director, Katsuya Yamasaki (retired from office due to expiration of his term of office as of June 29, 2011)
   Standing Corporate Auditor Masahiko Kato (resigned as of June 29, 2011)
   [Assumption of Office]
   Standing Corporate Auditor, Masatoshi Taniguchi (assumed his office as of June 29, 2011)

ii) Total compensations paid to Directors and Corporate Auditors

| Classification | Number of persons paid | Amount of compensations paid (millions of yen) |
|---|---|---|
| Directors | 11 | 1,245 |
| Corporate Auditors<br>[incl. Outside Corporate Auditors] | 5<br>(3) | 49<br>(29) |
| Total<br>[incl. Outside Directors and Corporate Auditors] | 16<br>(3) | 1,294<br>(29) |

Notes:

1. There are no Directors of the Company who concurrently serve as employees.
2. The above includes one Director and one Corporate Auditor who both retired at the conclusion of the 3rd Annual Shareholders Meeting held on June 29, 2011.
3. The upper limit of compensation for Directors is set at ¥1,500 million per year (does not include the portion of salary for an employee position) as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010. Issuance of stock acquisition rights of up to 500,000 shares of common stock of the Company as stock options was resolved separately at the 2nd Annual Shareholders Meeting on June 29, 2010. For details, please refer to the section of "2. Current Status of the Company (2) Status of stock acquisition rights: Holding of stock acquisition rights issued as compensation for the execution of duties by Directors and Corporate Auditors."
4. The upper limit of compensation for Corporate Auditors is set at ¥80 million per year as approved at the 2nd Annual Shareholders Meeting on June 29, 2010. Issuance of stock acquisition rights of up to 32,000 shares of common stock of the Company as stock options was resolved separately at the 2nd Annual Shareholders Meeting on June 29, 2010. For details, please refer to the section of "2. Current Status of the Company (2) Status of stock acquisition rights: Holding of stock acquisition rights issued as compensation for the execution of duties by Directors and Corporate Auditors."
5. The above amounts of compensation include the following.
   - Bonuses for 11 Directors: ¥250 million
   - Compensation based on stock options for 11 Directors: ¥481 million

iii) Matters concerning Outside Corporate Auditors

a. Significant concurrent positions at other companies and relationships between the Company and such other companies

Corporate Auditor, Yasuhisa Katsuta, serves as outside Corporate Auditor of Otsuka Pharmaceutical Co., Ltd. and Outside Director of Funai Electric Co., Ltd. Otsuka Pharmaceutical Co., Ltd. is a wholly-owned subsidiary of the Company. The Company has no transactions with Funai Electric Co., Ltd.

Corporate Auditor, Norikazu Yahagi, serves as outside Corporate Auditor of Nippon Office Systems Ltd., Square Enix Holding Co., Ltd., and T.D.I. Co., Ltd. The Company has no transactions with the said firms.

Corporate Auditor, Hiroshi Sugawara, is a Vice President at Will Capital Management Co., Ltd. The Company has no transactions with the said firm.

b. Major activities during the current fiscal year

Corporate Auditor, Yasuhisa Katsuta, attended twelve (12) of the thirteen (13) meetings of the Board of Directors and twelve (12) of the thirteen (13) meetings of the Board of Corporate Auditors held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights acquired throughout many years in corporate management.

Corporate Auditor, Norikazu Yahagi, attended all thirteen (13) meetings of the Board of Directors and all thirteen (13) meetings of the Board of Corporate Auditors held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights acquired primarily as an outside Corporate Auditor at other listed companies.

Corporate Auditor, Hiroshi Sugawara attended all thirteen (13) meetings of the Board of Directors and all thirteen (13) meetings of the Board of Corporate Auditors held during the current fiscal year, and provided appropriate comments based on his expertise as a certified public accountant.

c. Overview of the agreement for limitation of liability

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has executed agreements with Outside Corporate Auditors which limit the Outside Corporate Auditors' indemnity liability under Article 423, Paragraph 1 of the same Act to the amount provided for in the laws and regulations.

**(4) Accounting auditor**

i) Name of accounting auditor (Independent Auditor): Deloitte Touche Tohmatsu LLC

ii) Amount of compensations

| | Payment (millions of yen) |
|---|---|
| Total compensations for the current fiscal year | 96 |
| Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor | 348 |

Notes:

1. The Company compensates the accounting auditor for advice and guidance, etc. concerning international financial reporting standards, which is a service other than the services prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act.
2. Of the Company's principal subsidiaries, Otsuka America Pharmaceutical, Inc. and two other companies are audited by a certified public accountant or an audit corporation (including parties holding qualifications comparable to those of a certified public accountant or an audit corporation in a country besides Japan) other than the accounting auditor of the Company (provided, however, that such parties fall under the provisions of the Companies Act or the Financial Instruments and Exchange Act (or foreign laws comparable to the said Acts)).
3. As compensations for audits based on the Companies Act and that based on the Financial Instruments and Exchange Act are not clearly distinguished under the audit agreement concluded between the Company and the accounting auditor nor can they be classified in practice, the amount of compensations for the accounting auditor in the current fiscal year, represents the aggregate amount for these audits.

iii) Policy for determining dismissal or non-reappointment of accounting auditor

In the event any deficiency is found in the execution of duties by the accounting auditor, or if judging the necessity thereof, the Board of Directors shall, with prior consent obtained from the Board of Corporate Auditors or based on a request from the Board of Corporate Auditors as mentioned below, address dismissal or non-reappointment of the accounting auditor as an item of the agenda of a shareholders meeting.

The Board of Corporate Auditors shall, if noting any deficiency in the execution of duties by the accounting auditor or if judging the necessity thereof, request the Board of Directors to address dismissal or non-reappointment of the accounting auditor as an item of the agenda of a shareholders meeting.

The Board of Corporate Auditors shall, if recognizing that the accounting auditor falls under any of the items in Article 340, Paragraph 1 of the Companies Act, dismiss the accounting auditor based on the unanimous consent of all Corporate Auditors. In this case, the Corporate Auditor appointed by the Board of Corporate Auditors shall report the dismissal of accounting auditor and the reason thereof at the first shareholders meeting convened after dismissal.

**(5) System to ensure appropriate operations**

The Company defines the basic policies on internal control to ensure the appropriateness of operations (internal control system) as follows.

i) System to ensure that the execution of the duties by the Directors and employees complies with the laws and regulations and the Articles of Incorporation

The Otsuka Group adopts a pure holding company system within the Company to strengthen corporate governance by separating the management supervisory function from the business execution function.

The Company formulates the Otsuka Group Code of Conduct in order to ensure compliance with laws and regulations, the Articles of Incorporation, and other relevant rules and the underlying concepts, and to ensure corporate activities are carried out based on high ethical standards. The Otsuka Holdings Compliance Program is established to provide specific guidelines that reflect the Otsuka Group Code of Conduct, based on which the Risk Management Committee leads efforts to ensure thorough education for employees and to promote establishment, maintenance, and improvement of the compliance system.

An Internal Audit Department established under the direct reporting line to the President shall periodically perform internal audits of the assets and the overall operations of the company based on Internal Audit Regulations, and report the results to the President. Should a need for improvement be found, the Internal Audit Department provides comments on such improvement and subsequently follows up the status of such improvement.

ii) System for preserving and managing information regarding the execution of duties by Directors

The Company shall appropriately and securely retain and manage records of meetings of the Board of Directors and circulars for managerial approval, etc., in accordance with Corporate Document Control Regulations and maintain a system to allow such records and circulars to be accessed as necessary.

iii) Regulations and other systems for the management of risk of loss

To establish a risk management system for the Company and each of the Group companies, a Risk Management Committee along with Risk Management Rules shall be established. The Risk Management Committee shall evaluate and comprehensively manage risks that may impair improving the sustainable value of the Otsuka Group by managing each of the risk management departments within the organization.

In the event of an unforeseen situation, an emergency response committee shall lead efforts to promptly implement responsive measures to minimize any damage caused by the emergent situation.

iv) System to ensure efficient execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting shall be held on a monthly basis and an extraordinary meeting whenever deemed necessary to discuss and determine important matters such as management policies and strategies.

A Corporate Officer system shall be put in place that clearly defines the roles of Corporate Officers executing business operations separately from the Board of Directors, which serves as the management decision-making and supervisory function, to ensure the transparency of management and prompt execution of business operations.

v) System to ensure appropriate operations in the business group comprising the Company and its subsidiaries

The Company, as the holding company that undertakes the role of maximizing the corporate value of the Otsuka Group, shall put in place a system to secure the appropriateness of operations from the viewpoint of the entire Otsuka Group.

Subsidiaries and affiliates shall report matters provided for in the Affiliate Management Regulations to the Company as necessary, and seek approval from the Company for any significant matters under the framework to establish a collaborative system within the Otsuka Group.

The Company shall ensure that audits of subsidiaries and affiliates are managed and conducted in accordance with the Internal Audit Regulations and promote the development of risk management and compliance systems across the Group to ensure that operations are uniformly and appropriately performed.

vi) Matters concerning employees in cases where Corporate Auditors issue requests for employees to take charge of assisting them with their duties

The Company establishes a Corporate Auditor's Office responsible for administering the convocation of meetings of the Board of Corporate Auditors and supporting the duties of Corporate Auditors independently from the supervision of Directors.

vii) Matters concerning the independence of employees from Directors, as mentioned in the preceding paragraph

Personnel transfers and evaluations relating to the Corporate Auditor's Office shall be determined by the Board of Directors based on prior approval obtained from the Board of Corporate Auditors and shall secure independence from Directors.

viii) Systems for reporting to Corporate Auditors by Directors and employees and other systems for reporting to Corporate Auditors

The Company shall ensure that specific means are in place to allow Corporate Auditors to collect information concerning the execution of duties by Directors, including a system to have Directors and employees report to Corporate Auditors in the event any of the following takes place.

a. Any incident that has caused or may cause material damage to the Company
b. Any violation of laws, regulations, or the Articles of Incorporation and any other important compliance matter
c. Progress of business execution by the Company and each of the Group companies
d. Status of internal audits performed
e. Matters to be resolved at important meetings

ix) Other systems to ensure effective audits by Corporate Auditors

Corporate Auditors may attend meetings of the Board of Directors and other important meetings to understand the process whereby important decisions are made and the status of Directors' and employees' performance of duties, question Directors and employees on the status of their performance of duties, and access important records relating to the business operations such as circulars for managerial approval.

Directors and employees, if so requested by Corporate Auditors, shall promptly report matters relating to business executions.

Internal Audit Department, Administration Department, Corporate Finance & Accounting Department, Internal Control Department and any other relevant department shall provide Corporate Auditors with information as necessary and cooperate in ensuring and improving the effectiveness of audits performed by Corporate Auditors.

**(6) Policy on decisions on dividends from surplus**

The Company recognizes returning profits to shareholders to be one of the key management measures. The Company adopts a basic policy of continuously distributing profits to shareholders in line with the growth of profits while securing adequate internal reserves necessary to support future corporate growth and respond to changes in the business environment.

Based on this policy, the Company has resolved to pay a year-end dividend of ¥25 per share for the current fiscal year. Combined with the interim dividend of ¥20 per share that was paid on December 2, 2011, this amounts to annual dividends of ¥45 per share.

(Translation)

# Consolidated Balance Sheet

(As of March 31, 2012)

(Millions of yen)

| Item | Amount | Item | Amount |
|---|---|---|---|
| **Assets** | | **Liabilities** | |
| **Current assets** | **1,012,299** | **Current liabilities** | **311,359** |
| Cash and deposits | 411,584 | Notes and accounts payable-trade | 94,796 |
| Notes and accounts receivable-trade | 263,457 | Short-term borrowings | 39,692 |
| Marketable securities | 151,777 | Lease obligations | 2,974 |
| Merchandise and finished goods | 60,778 | Accounts payable-other | 50,764 |
| Work in process | 26,931 | Accrued expenses | 33,847 |
| Raw materials and supplies | 31,656 | Income taxes payable | 33,822 |
| Deferred tax assets | 34,341 | Provision for bonuses | 16,141 |
| Other current assets | 32,161 | Provision for directors' bonuses | 366 |
| Allowance for doubtful accounts | (389) | Provision for loss on business liquidation | 2,185 |
| | | Other current liabilities | 36,767 |
| **Noncurrent assets** | **654,404** | **Long-term liabilities** | **132,642** |
| **Property, plant and equipment** | **255,515** | Long-term debt | 25,947 |
| Buildings and structures | 98,340 | Lease obligations | 5,786 |
| Machinery and equipment | 51,425 | Deferred tax liabilities | 7,982 |
| Furniture and fixtures | 10,719 | Liability for retirement benefits | 44,708 |
| Land | 74,926 | Liability for directors' retirement benefits | 3,091 |
| Lease assets | 8,714 | Negative goodwill | 26,469 |
| Construction in progress | 11,388 | Other long-term liabilities | 18,655 |
| **Intangible assets** | **67,121** | **Total Liabilities** | **444,002** |
| Goodwill | 36,825 | **Net Assets** | |
| Patent rights | 3,673 | **Shareholders' equity** | **1,267,732** |
| Software | 11,696 | Common stock | 81,690 |
| Other intangible assets | 14,926 | Capital surplus | 510,639 |
| **Investments and other assets** | **331,767** | Retained earnings | 675,410 |
| Investment securities | 267,011 | Treasury stock, at cost | (8) |
| Investments in capital | 23,332 | **Accumulated other comprehensive income** | **(59,144)** |
| Long-term loans receivable | 1,303 | Unrealized gain on available-for-sale securities | 750 |
| Deferred tax assets | 25,347 | Deferred gain on derivatives under hedge accounting | 10 |
| Other assets | 16,275 | Foreign currency translation adjustments | (59,904) |
| Allowance for investment loss | (1,010) | **Stock acquisition rights** | **1,134** |
| Allowance for doubtful accounts | (491) | **Minority interests** | **13,041** |
| **Deferred assets** | **63** | **Total net assets** | **1,222,764** |
| **Total Assets** | **1,666,767** | **Total Liabilities and Net Assets** | **1,666,767** |

(Translation)

# Consolidated Statement of Income

(From April 1, 2011 to March 31, 2012)

(Millions of yen)

| Item | Amount | |
|---|---|---|
| **Net sales** | | **1,154,573** |
| **Cost of sales** | | **389,262** |
| **Gross profit** | | **765,311** |
| **Selling, general and administrative expenses** | | **616,649** |
| **Operating income** | | **148,661** |
| **Non-operating income** | | |
| Interest and dividend income | 2,803 | |
| Amortization of negative goodwill | 2,464 | |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 1,216 | |
| Other | 2,130 | **8,615** |
| **Non-operating expenses** | | |
| Interest expense | 1,702 | |
| Foreign exchange loss, net | 2,712 | |
| Other | 742 | **5,157** |
| **Ordinary income** | | **152,119** |
| **Extraordinary income** | | |
| Gain on sales of noncurrent assets | 200 | |
| Gain on change in equity interest | 322 | |
| Gain on reversal of disaster-related loss | 580 | |
| Other | 68 | **1,171** |
| **Extraordinary loss** | | |
| Loss on retirement of noncurrent assets | 644 | |
| Impairment loss | 2,684 | |
| Loss on valuation of investment securities | 3,665 | |
| Loss on transfer of business | 684 | |
| Disaster-related loss | 267 | |
| Provision for loss on business liquidation | 2,185 | |
| Other | 754 | **10,886** |
| **Income before income taxes and minority interests** | | **142,405** |
| **Income taxes-current** | 54,988 | |
| **Income taxes-deferred** | (5,396) | **49,591** |
| **Income before minority interests** | | **92,813** |
| **Minority interests in net income** | | **639** |
| **Net income** | | **92,174** |

# Consolidated Statement of Changes in Net Assets

(From April 1, 2011 to March 31, 2012)

(Millions of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Common stock | Capital surplus | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Beginning balance as of April 1, 2011** | **81,690** | **510,639** | **605,882** | **(4)** | **1,198,208** |
| **Cumulative effect of changes in accounting policies** | **-** | **-** | **4,084** | **-** | **4,084** |
| **Beginning balance as of April 1, 2011 as restated** | **81,690** | **510,639** | **609,967** | **(4)** | **1,202,293** |
| **Changes in the year** | | | | | |
| Change in scope of consolidation | | | 45 | | 45 |
| Dividends | | | (26,775) | | (26,775) |
| Purchase of treasury stock | | | | (4) | (4) |
| Net income | | | 92,174 | | 92,174 |
| Net changes other than shareholders' equity | | | | | |
| **Total changes in the year** | **-** | **-** | **65,443** | **(4)** | **65,439** |
| **Ending balance as of March 31, 2012** | **81,690** | **510,639** | **675,410** | **(8)** | **1,267,732** |

| | Accumulated other comprehensive income | | | | Stock acquisition rights | Minority interests | Total net assets |
|---|---|---|---|---|---|---|---|
| | Unrealized gain on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Total accumulated other comprehensive income | | | |
| **Beginning balance as of April 1, 2011** | **358** | **(3)** | **(48,438)** | **(48,084)** | **464** | **12,658** | **1,163,247** |
| **Cumulative effect of changes in accounting policies** | **-** | **-** | **(4,007)** | **(4,007)** | **-** | **-** | **77** |
| **Beginning balance as of April 1, 2011 as restated** | **358** | **(3)** | **(52,446)** | **(52,091)** | **464** | **12,658** | **1,163,325** |
| **Changes in the year** | | | | | | | |
| Change in scope of consolidation | | | | | | | 45 |
| Dividends | | | | | | | (26,775) |
| Purchase of treasury stock | | | | | | | (4) |
| Net income | | | | | | | 92,174 |
| Net changes other than shareholders' equity | 391 | 14 | (7,458) | (7,052) | 669 | 383 | (5,999) |
| **Total changes in the year** | **391** | **14** | **(7,458)** | **(7,052)** | **669** | **383** | **59,439** |
| **Ending balance as of March 31, 2012** | **750** | **10** | **(59,904)** | **(59,144)** | **1,134** | **13,041** | **1,222,764** |

## Notes to Consolidated Financial Statements

### 1. Basis of Presenting Consolidated Financial Statements

(1) Scope of Consolidation

i) Consolidated subsidiaries

- Number of consolidated subsidiaries: 67
- Names of principal 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, Nutrition & Santé SAS

ii) Unconsolidated subsidiaries

- Names of principal unconsolidated subsidiaries:
  Otsuka Pakistan Ltd., Otsuka Pharmaceutical (H.K.) Ltd., Interpharma Praha, a.s.
- Reasons for excluding from the scope of consolidation
  Unconsolidated subsidiaries are small in size and the aggregate total assets, sales, net income (based on the Company's ownership percentage), retained earnings (based on 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

i) Unconsolidated subsidiaries and affiliates accounted for by the equity method

- Number of unconsolidated subsidiaries and affiliates accounted for by the equity method: 13
- Names of principal equity method companies:
  Otsuka Pakistan Ltd., Earth Chemical Co., Ltd., ALMA S.A., CG Roxane LLC, VV Food & Beverage Co., Ltd., China Otsuka Pharmaceutical Co., Ltd.

ii) Unconsolidated subsidiaries and affiliates not accounted for by the equity method

- Names of principal companies:
  Otsuka Pharmaceutical (H.K.) Ltd., Interpharma Praha, a.s.
- Reasons for excluding from the scope of the equity method
  Based on the Company's ownership share of net income and retained earnings, and other factors, exclusion of certain unconsolidated subsidiaries and affiliates from being accounted for by the equity method does not have a material effect on the consolidated financial statements.

iii) Special note on the application of the equity method

The fiscal year ends of certain companies accounted for by the equity method are different from the consolidated fiscal year end. In preparing the consolidated financial statements, the Company uses the financial statements of these companies as of their fiscal year end.

(3) Changes in the Scope of Consolidation and the Scope of Equity-Method Application

Chongqing Otsuka Huayi Chemical Co., Ltd. was newly included in the scope of consolidation from the current fiscal year due to an increase in materiality.

Céréalpes SAS and M-fold Biotech, GmbH, which had been in the scope of consolidation, were absorbed by consolidated subsidiaries, Nutrition & Nature SAS and Cambridge Isotope Laboratories (Europe), GmbH, respectively.

Guangdong Otsuka Pharmaceutical Co., Ltd., which had been in the scope of consolidation, became the affiliate accounted for by the equity method from the current fiscal year because the ownership share of the Group decreased due to the transfer of its equity shares.

(4) Fiscal Year End of Consolidated Subsidiaries

Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd. and eleven other consolidated subsidiaries have a fiscal year ending March 31. Other than Giant Harvest Limited which has a fiscal year ending July 31, 51 other consolidated subsidiaries have a fiscal year ending December 31.

In preparing the consolidated financial statements, other than Giant Harvest Limited, the Company uses the financial statements as of the respective fiscal year ends of its subsidiaries. The Company uses the tentative financial statements as of January 31 for Giant Harvest Limited. For major transactions that occurred between the fiscal year end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements.

(5) Accounting Policies

i) Valuation of Major Assets

a. Held-to-maturity securities:
Stated at amortized cost (straight-line method).

b. Shares and investments in capital of unconsolidated subsidiaries, affiliates and limited liability entities not accounted for by the equity method:
Stated at cost, determined by the moving-average method.

c. Other securities

- Marketable securities classified as available-for-sale:
Stated at fair value based on the quoted market price at the end of the fiscal year with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving average method.
- Non-marketable securities classified as available-for-sale:
Stated at cost, determined primarily by the moving average method.

d. Valuation of inventories

- Merchandise and supplies:
Merchandise and supplies of domestic consolidated subsidiaries are stated at the lower of cost or net selling value, determined primarily by the first-in, first-out method. Merchandise and supplies of foreign consolidated subsidiaries are stated at the lower of cost or market value, determined by the first-in, first-out method.
- Finished goods, work in process and raw materials:
Finished goods, work in process and raw materials of domestic consolidated subsidiaries are stated at the lower of cost or net selling value, determined primarily by the gross average method. Finished goods, work in process and raw materials of foreign consolidated subsidiaries are stated at the lower of cost or market value, determined by the gross average method.

e. Derivatives:
Stated at fair value.

ii) Depreciation and Amortization of Major Depreciable and Amortizable Assets

a. Property, plant and equipment (excluding lease assets):
The Company and its domestic consolidated subsidiaries primarily use the declining-balance method.
Foreign consolidated subsidiaries outside Japan primarily use the straight-line method.
However, for buildings (excluding attached facilities) acquired by the Company's domestic consolidated subsidiaries on or after April 1, 1998, the straight-line method is adopted.

b. Intangible assets (excluding lease assets):
The Group mainly uses the straight-line method.

c. Lease assets
The Group uses the straight-line method over the terms of their respective leases with a zero residual value for lease assets related to finance leases that do not transfer ownership.

iii) Reserves

a. Allowance for doubtful accounts
In order to cover potential losses from uncollectable notes and accounts receivable, provisions are made on general receivables based on historical loss rates while specific cases are evaluated individually.

b. Provision for bonuses
In order to cover payment of bonuses to employees, the Company and its domestic

consolidated subsidiaries set up reserves in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

c. Provision for directors' bonuses
In order to cover payment of bonuses to directors, the Company and certain of its domestic consolidated subsidiaries set up provisions in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

d. Provision for loss on business liquidation
In order to cover loss on business liquidation, provisions have been booked based on the estimated amount of possible loss.

e. Liability for retirement benefits
In order to cover payment of retirement benefits to employees, provisions have been booked based on an estimate of the projected retirement benefit obligation and the fair value of the pension fund assets at the end of the current fiscal year.

f. Liability for directors' retirement benefits
In order to cover payment of retirement benefits to directors, corporate auditors and corporate officers of some consolidated subsidiaries, the amount that would be required if all directors, corporate auditors and corporate officers retired is recorded at the balance sheet date pursuant to the retirement benefit regulations for executive directors, retirement benefit regulations for corporate auditors, and retirement benefit regulations for corporate officers (internal regulations).

g. Allowance for investment loss
In order to cover potential future losses on non-marketable securities, the Group recognizes reserves as deemed necessary.

iv) Principal Methods of Hedge Accounting

a. Methods of hedge accounting
Hedging activities are principally accounted for under the deferral hedge accounting method. The allocation method is applied to forward exchange contracts and other foreign exchange contracts, and designated exceptional treatment to interest rate swaps that meet their respective requirements.

b. Hedging instruments and hedged items
Hedging instruments: currency exchange forward contracts, interest rate swaps and foreign currency deposits
Hedged items: assets and liabilities denominated in foreign currencies, forecasted foreign currency transactions and long-term debt

c. Hedging policies
Certain consolidated subsidiaries conduct currency exchange forward contracts based on the principle of actual demand in order to hedge currency exchange fluctuation risk associated with foreign currency transactions and conduct interest rate swaps in order to hedge interest rate fluctuation risk.

d. Evaluation of effectiveness of hedges
a. Currency exchange forward contracts and foreign currency deposits
Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are the same currencies, and changes in the cash flow caused by foreign exchange rate fluctuations are expected to be completely offset.
b. Interest rate swaps
Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are under the same conditions, and changes in the cash flow are expected to be completely offset from the start of hedging activities onward.

v) Amortization of goodwill and negative goodwill
Goodwill and negative goodwill are amortized on the straight-line method over a period of 5 or 20 years.

vi) Other
Accounting method for consumption taxes:
Consumption taxes are excluded from revenues and expenses.

**2. Notes to Changes in Accounting Policies**

(Change in the method of translating revenue and expense accounts of foreign subsidiaries and affiliates)

Previously, revenue and expense accounts of foreign subsidiaries and affiliates were translated into Japanese yen at the current exchange rate as of the balance sheet date of such foreign subsidiaries and affiliates. From the current fiscal year, the Group has changed to the average exchange rate. The Group changed its method of translation to more accurately reflect the performances of foreign subsidiaries and affiliates in the consolidated financial statements by mitigating the effects of temporary fluctuations in exchange rates and taking into consideration the importance of foreign subsidiaries and affiliates.

This change in accounting policy was applied retrospectively, and its cumulative effect is reflected in the carrying value for net assets at the beginning of the current fiscal year. As a result, the effect of this change was to increase the beginning balance of retained earnings by ¥4,084 million and decrease the beginning balance of foreign currency translation adjustments by ¥4,007 million in the consolidated statement of changes in net assets after retrospective application.

(Application of accounting standard for earnings per share )

Effective from the current fiscal year, the Group applied the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2 revised on June 30, 2010), the “Guidance on Accounting Standard for Earnings per Share” (ASBJ Guidance No. 4 revised on June 30, 2010) and the “Practical Solution on Accounting for Earnings Per Share” (ASBJ PITF No. 9 revised on June 30, 2010).

**3. Notes to Changes in Method of Presentation**

(Change in the method of presentation for up-front licensing payments received)

Previously, up-front licensing payments received were recorded as “revenues related to extension of co-promotion agreement” and “other” included in non-operating income. However, as such income is directly attributable to the core business activities in the pharmaceutical business and as such transactions are likely to grow in importance, the Group has changed its method of presentation to include such income as net sales from the current fiscal year.

Net sales recognized in the previous fiscal year as revenue from the up-front licensing payments received were ¥7,323 million.

**4. Notes to Additional Information**

(Application of the “Accounting Standard for Accounting Changes and Error Corrections” and others)

For the accounting changes and prior period error corrections made from the beginning of the current fiscal year, the Group has applied the “Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Statement No. 24 issued on December 4, 2009) and the “Guidance on Accounting Standard for Accounting Changes and Error Corrections” (ASBJ Guidance No. 24 issued on December 4, 2009).

(Accounting Method for Employee Shareholding Incentive Plan)

The Company adopts a “Trust-type Employee Shareholding Incentive Plan (E-Ship)” (the “Plan”) in order to provide an enhanced benefits package and an incentive to increase the long-term enterprise value for its Group’s employees.

Under the Plan, the “Employee Stock Holding Trust” (the “Trust”) acquires the Company shares expected to be purchased by the “Otsuka Group Employee Stock Holding Plan” in the five-year period from July 2008 through a third-party allocation of new shares by the Company. Until termination, the Trust is responsible for transferring shares to the Employee Stock Holding Plan and receives dividends from the Company. If any money remains within the Trust, such money will be distributed as residual assets to those employees that fulfill the requirements for eligible beneficiaries.

The Company guaranteed the Trust's borrowings from financial institutions for the acquisition of Company shares. The Trust has repaid all of the borrowings as of March 31, 2011.

The Company does not recognize the Company shares owned by the Trust on its balance sheet as treasury stock and increased its common stock and additional paid-in capital (a component of capital surplus) at the time of the third-party allocation of new shares.

All of the Company shares owned by the Trust were sold at the end of the current fiscal year, and the beneficiaries to receive the equivalent amount of surplus have been determined.

In addition, as of March 31, 2012, the Company had temporary custody of the residual assets (¥7,389 million) to be distributed to the beneficiaries, and this was included in the Company's other current liabilities.

(Adjustments to deferred tax assets and deferred tax liabilities due to change in corporate income tax rate)

On December 2, 2011, the "Act to Partially Revise the Income Tax Act and Others in Order to Construct a Tax System Corresponding to Changes in the Structure of Economic System" (Act No. 114 of 2011) and "Special Measures Act to Secure the Financial Resources Required to Implement Policy on Restoration after the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated. Under these acts, effective from the fiscal year beginning on or after April 1, 2012, the corporate income tax rate will be changed.

As a result, the effective statutory tax rates to calculate deferred tax assets and liabilities will be changed from 40.6% to 38.0% for temporary differences that are expected to be recovered or settled in the three consecutive fiscal years beginning on or after April 1, 2012, and from 40.6% to 35.6% for temporary differences that are expected to be recovered or settled in the fiscal years beginning on or after April 1, 2015.

Due to these revisions, deferred tax assets (net amount after deducting deferred tax liabilities) decreased by ¥3,322 million, unrealized gain on available-for-sale securities (plus in net assets) increased by ¥98 million, and income taxes-deferred (expense) increased by ¥3,420 million.

## 5. Notes to Consolidated Balance Sheet

(1) Assets Pledged as Collateral and Secured Liabilities

| | | (Millions of yen) |
|---|---|---|
| Cash and deposits | ¥ | 588 |
| Notes and accounts receivable-trade | | 755 |
| Merchandise and finished goods | | 918 |
| Work in process | | 320 |
| Raw materials and supplies | | 500 |
| Buildings and structures | | 1,053 |
| Machinery and equipment | | 1,383 |
| Furniture and fixtures | | 119 |
| Land | | 70 |
| Lease assets | | 530 |
| Total | ¥ | 6,240 |

The properties above are pledged as collateral for short-term borrowings of ¥24 million, lease obligations (current liabilities) of ¥187 million, long-term debt of ¥70 million, and lease obligations (long-term liabilities) of ¥37 million.

(2) Accumulated Depreciation on Property, Plant and Equipment 488,430 million yen

(3) Contingent Liabilities

i) The Company guarantees the obligations of the below companies to financial and other institutions:

| | | (Millions of yen) |
|---|---|---|
| Otsuka Furniture Manufacturing and Sales Co., Ltd. | ¥ | 1,040 |
| American Peptide Company Inc. | | 858 |
| Trocellen GmbH | | 495 |
| ILS Inc. | | 480 |
| Dairin Integrated Transportation Co., Ltd | | 420 |
| Otsuka OPV Co., Ltd. | | 359 |
| NEOS Corporation | | 351 |
| Otsuka Sims (Guangdong) Beverage Co., Ltd. | | 306 |
| Otsuka Chemical do Brasil Ltda. | | 280 |
| Other five companies | | 276 |
| Total | ¥ | 4,868 |

ii) On April 4, 2009, Otsuka Pharmaceutical Co., Ltd., a consolidated subsidiary of the Company, signed an agreement with Bristol-Myers Squibb Company (“BMS”) to extend the contract period for the U.S. portion of the development and commercialization collaboration agreement for *ABILIFY* from November 2012 to April 2015, and to increase the profit share of *ABILIFY* U.S. net sales that Otsuka Pharmaceutical Co., Ltd. records effectively in January 2010. Under the terms of the agreement, Otsuka Pharmaceutical Co., Ltd. received $400 million in April 2009, which was recorded as unearned revenue and long-term unearned revenue, and is amortized as revenue over the period beginning on January 1, 2010 until the end of the contract in April 2015. The balance of the amount of the up-front payment received, reduced by the amortization, is recorded as unearned revenue and long-term unearned revenue at each fiscal year end. In the current fiscal year, ¥7,321 million were recognized as net sales.

In addition to the above, Otsuka Pharmaceutical Co., Ltd. and BMS Company entered into a contract regarding the anti-cancer agents *SPRYCEL* and *IXEMPRA* as described below, and revenues associated with this contract have been recognized effective from January 1, 2010.

a. Otsuka Pharmaceutical Co., Ltd. co-develops and co-promotes *SPRYCEL* with BMS in the U.S., Japan and major countries in Europe, and incurs certain expenses in the U.S., Europe and Japan.
b. From 2010 to 2020, Otsuka Pharmaceutical Co., Ltd. receives a profit share based on the total sales amount of *SPRYCEL* and *IXEMPRA*.

With regard to the aforementioned contracts, a provision went into effect on January 1, 2010 stipulating that if during the above contract period generic products of *ABILIFY* were launched in the U.S. and BMS requests cancellation of the contract, Otsuka Pharmaceutical Co., Ltd. is obligated to pay compensation including the above up-front payment as agreed upon under the agreement. The compensation amount, reduced by the unearned revenue and long-term unearned revenue balances, represents the contingent liability at each fiscal year end. As of March 31, 2012, the contingent liability balance was ¥63,231 million. BMS also retains the right to cancel the contracts for *SPRYCEL* and *IXEMPRA* in the event generic products of *ABILIFY* are launched in the U.S. prior to February 22, 2014.

In the U.S., Otsuka Pharmaceutical Co., Ltd. filed patent infringement actions against a number of generic drug companies which had sought FDA approval to commercialize generic versions of *ABILIFY*. The U.S. Court of Appeals for the Federal Circuit issued a judgment dated May 7, 2012, in favor of Otsuka Pharmaceutical Co., Ltd.

(4) Trade Notes Discounted ¥278 million

**6. Notes to Consolidated Statement of Income**

(1) Net sales include ¥14,871 million recognized as revenue from the up-front licensing payments received.

(2) Provision for loss on business liquidation
Provision for loss on business liquidation is the result of consolidation and reduction of the specialty chemical business.

(3) Disaster-related loss
Disaster-related loss relates to the Great East Japan Earthquake of 2011 and primarily includes disaster relief money, costs for restoring buildings damaged in the disaster and other costs.

**7. Notes to Consolidated Statement of Changes in Net Assets**

(1) Total Number of Issued Shares

| Class of shares | Number of shares as of April 1, 2011 | Increase in number of shares during the current fiscal year | Decrease in number of shares during the current fiscal year | Number of shares as of March 31, 2012 |
|---|---|---|---|---|
| Common stock | 557,835 thousand shares | - | - | 557,835 thousand shares |

(2) Number of Shares of Treasury Stock

| Class of shares | Number of shares as of April 1, 2011 | Increase in number of shares during the current fiscal year | Decrease in number of shares during the current fiscal year | Number of shares as of March 31, 2012 |
|---|---|---|---|---|
| Common stock | 2 thousand shares | 1 thousand shares | - | 3 thousand shares |

Note: The increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.

(3) Dividends

i) Payment of dividends

| Resolution | Class of shares | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|
| Meeting of the Board of Directors held on May 12, 2011 | Common stock | 15,619 million yen | 28 yen | March 31, 2011 | June 30, 2011 |
| Meeting of the Board of Directors held on November 10, 2011 | Common stock | 11,156 million yen | 20 yen | September 30, 2011 | December 2, 2011 |

ii) Dividends whose record date is in the current fiscal year, while the effective date falls in the following fiscal year

| Resolution | Class of shares | Source of dividends | Total amount of dividends | Dividends per share | Record date | Effective date |
|---|---|---|---|---|---|---|
| Meeting of the Board of Directors held on May 11, 2012 | Common stock | Retained earnings | 13,945 million yen | 25 yen | March 31, 2012 | June 29, 2012 |

## 8. Per Share Information

(1) Net assets per share 2,166.55 yen

(2) Net income per share 165.20 yen

## 9. Notes on Financial Instruments

(1) Matters Concerning Conditions of Financial Instruments

The Group limits its investments to low-risk financial assets and uses borrowings from financial institutions, mainly banks, for its financing needs. The Group manages its customer credit risk from receivables based on the credit management guidelines in an effort to reduce risk. Marketable and investment securities are primarily stocks and public and corporate bonds. Listed stocks are marked to market on a quarterly basis.

Borrowings are used for working capital (mainly short term) and for capital investments (long term).

The Group enters into foreign currency forward contracts and foreign currency option contracts to hedge foreign exchange fluctuation risk associated with foreign currency-denominated transactions based on the principle of actual demand. The Group also enters into interest rate swap contracts to hedge interest rate fluctuation risk.

(2) Fair Value of Financial Instruments

Carrying amounts of financial instruments, fair values of financial instruments and their differences as of March 31, 2012 are as follows. Financial instruments whose fair value cannot be reliably determined are excluded (See Note 2 below).

(Millions of yen)

| | Carrying Amount | Fair value | Difference |
|---|---|---|---|
| i) Cash and deposits | 411,584 | 411,584 | - |
| ii) Notes and accounts receivable-trade | 263,457 | | |
| Allowance for doubtful accounts (*1) | (383) | | |
| | 263,073 | 263,073 | - |
| iii) Marketable and investment securities (Note 2) | | | |
| Investments in unconsolidated subsidiaries and affiliates | 27,623 | 70,826 | 43,203 |
| Held-to-maturity securities | 90,618 | 91,072 | 454 |
| Available-for-sale securities | 157,899 | 157,899 | - |
| Total Assets | 950,799 | 994,457 | 43,657 |
| i) Notes and accounts payable-trade | 94,796 | 94,796 | - |
| ii) Short-term borrowings (excluding current portion of long-term debt) | 34,668 | 34,668 | - |
| iii) Accounts payable-other | 50,764 | 50,764 | - |
| iv) Income taxes payable | 33,822 | 33,822 | - |
| v) Long-term debt (including current portion of long-term debt) | 30,972 | 30,993 | 21 |
| Total Liabilities | 245,024 | 245,046 | 21 |
| Derivative transactions (*2) | <521> | <534> | (13) |

(*1) Excludes amount of allowance for doubtful accounts included in notes and accounts receivable-trade

(*2) Assets and liabilities arising from derivative transactions are presented on a net basis. Net liability is indicated in parentheses.

Notes:

1. Methods of measuring fair value of financial instruments and other matters concerning securities and derivatives

Assets

i) Cash and deposits ii) Notes and accounts receivable-trade

The carrying value of cash and deposits and notes and accounts receivable-trade approximate fair value because of their short maturity.

iii) Marketable and investment securities

The fair value of bonds and equity securities is measured at the quoted market price of the exchange. The fair value of certificate of deposits is stated at carrying value as the carrying value approximates the fair value.

Liabilities

i) Notes and accounts payable-trade ii) Short-term borrowings iii) Accounts payable-other

iv) Income taxes payable

The carrying value of payables and short-term borrowings approximates fair value because of their short maturity.

v) Long-term debt (including current portion of long-term debt)

The fair value of long-term debt is determined by discounting the principal and interest payments at the refinancing rate.

Derivatives

The fair value of derivative transactions is measured at the quoted price obtained from financial and other institutions.

2. Financial instruments whose fair value cannot be reliably determined.

(Millions of yen)

| | Carrying amount | |
|---|---|---|
| Marketable and investment securities | | |
| Available-for-sale securities | | 11,610 |
| Stocks of unconsolidated subsidiaries and affiliates | 131,037 | |
| Allowance for investment loss | (968) | 130,068 |
| | | 141,679 |
| Investments in capital | | |
| Investments in capital of unconsolidated subsidiaries and affiliates | 23,332 | |
| Allowance for investment loss | (42) | 23,289 |

The above items are excluded from marketable and investment securities and investments in capital, as they do not have a quoted market price in an active market and their fair value cannot be reliably determined.

## Independent Auditor's Report (Consolidated Financial Statements)

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 8, 2012

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tatsuaki Kitachi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Kenichi Kimura

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2012 of Otsuka Holdings Co., Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2011 to March 31, 2012, and the related notes.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2012, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Emphasis of matters**

1. As discussed in Note2 to the consolidated financial statements, previously, revenue and expense accounts of foreign subsidiaries and affiliates were translated into Japanese yen at the current exchange rate as of the balance sheet date of such foreign subsidiaries and affiliates. The Group has changed to the average exchange rate from the current fiscal year. Our opinion is not qualified with respect to this matter.
2. As discussed in Note3 to the consolidated financial statements, previously, up-front licensing payments received were recorded as "revenues related to extension of co-promotion agreement" and "other" included in non-operating income. The Group has changed its method of presentation to include such income as net sales from the current fiscal year. Our opinion is not qualified with respect to this matter.

**Interest**

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(Translation)

# Non-consolidated Balance Sheet

(As of March 31, 2012)

(Millions of yen)

| Item | Amount | Item | Amount |
|---|---|---|---|
| **Assets** | | **Liabilities** | |
| **Current assets** | **230,959** | **Current liabilities** | **27,695** |
| Cash and deposits | 148,474 | Accounts payable-other | 804 |
| Marketable securities | 75,000 | Accrued expenses | 18 |
| Supplies | 44 | Income tax payable | 185 |
| Prepaid expenses | 146 | Deposits received from subsidiaries and affiliates | 19,087 |
| Income taxes receivable | 6,805 | Provision for bonuses | 108 |
| Other current assets | 488 | Provision for directors' bonuses | 83 |
| **Noncurrent assets** | **733,160** | Other current liabilities | 7,407 |
| **Property, plant and equipment** | **95** | **Long-term liabilities** | **136** |
| Buildings | 37 | Deferred tax liabilities | 136 |
| Structures | 28 | **Total Liabilities** | **27,832** |
| Furniture and fixtures | 29 | **Net Assets** | |
| **Intangible assets** | **1,646** | **Shareholders' equity** | **934,906** |
| Software | 1,551 | **Common stock** | **81,690** |
| Trademark rights | 95 | **Capital surplus** | **810,740** |
| **Investments and other assets** | **731,419** | Additional paid-in capital | 731,816 |
| Investment securities | 9,760 | Other capital surplus | 78,924 |
| Stocks of subsidiaries and affiliates | 721,625 | **Retained earnings** | **42,483** |
| Long-term prepaid expenses | 15 | Other retained earnings | 42,483 |
| Other assets | 18 | Retained earnings brought forward | 42,483 |
| | | **Treasury stock, at cost** | **(8)** |
| | | **Valuation and translation adjustments** | **247** |
| | | Unrealized gain on available-for-sale securities | 247 |
| | | **Stock acquisition rights** | **1,134** |
| | | **Total net assets** | **936,288** |
| **Total Assets** | **964,120** | **Total Liabilities and Net Assets** | **964,120** |

# Non-consolidated Statement of Income

(From April 1, 2011 to March 31, 2012)

(Millions of yen)

| Item | Amount | |
|---|---|---|
| **Operating revenues** | | **36,867** |
| **Operating expenses** | | **6,794** |
| **Operating income** | | **30,072** |
| **Non-operating income** | | |
| Interest and dividend income | 529 | |
| Business consignment fees | 609 | |
| Other | 43 | **1,182** |
| **Non-operating expenses** | | |
| Interest expense | 6 | |
| Commission fee | 7 | |
| Other | 0 | **13** |
| **Ordinary income** | | **31,241** |
| **Extraordinary loss** | | |
| Disaster-related loss | 30 | **30** |
| **Income before income taxes** | | **31,210** |
| **Income taxes-current** | | **11** |
| **Net income** | | **31,199** |

# Non-consolidated Statement of Changes in Net Assets

(From April 1, 2011 to March 31, 2012)

(Millions of yen)

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | | |
| | | | | | Other retained earnings | | | |
| | Common stock | Additional paid-in capital | Other capital surplus | Total capital surplus | Retained earnings brought forward | Total retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Beginning balance as of April 1, 2011** | **81,690** | **731,816** | **78,924** | **810,740** | **38,059** | **38,059** | **(4)** | **930,486** |
| **Changes in the year** | | | | | | | | |
| Dividends | | | | | (26,775) | (26,775) | | (26,775) |
| Purchase of treasury stock | | | | | | | (4) | (4) |
| Net income | | | | | 31,199 | 31,199 | | 31,199 |
| Net changes other than shareholders' equity | | | | | | | | |
| **Total changes in the year** | **-** | **-** | **-** | **-** | **4,423** | **4,423** | **(4)** | **4,419** |
| **Ending balance as of March 31, 2012** | **81,690** | **731,816** | **78,924** | **810,740** | **42,483** | **42,483** | **(8)** | **934,906** |

| | Valuation and translation adjustments | | | |
|---|---|---|---|---|
| | Unrealized gain (loss) on available-for-sale securities | Total valuation and translation adjustments | Stock acquisition rights | Total net assets |
| **Beginning balance as of April 1, 2011** | **(260)** | **(260)** | **464** | **930,690** |
| **Changes in the year** | | | | |
| Dividends | | | | (26,775) |
| Purchase of treasury stock | | | | (4) |
| Net income | | | | 31,199 |
| Net changes other than shareholders' equity | 507 | 507 | 669 | 1,177 |
| **Total changes in the year** | **507** | **507** | **669** | **5,597** |
| **Ending balance as of March 31, 2012** | **247** | **247** | **1,134** | **936,288** |

# Notes to Non-consolidated Financial Statements

## 1. Notes to Summary of Significant Accounting Policies

(1) Valuation of Major Assets

i) Stocks of subsidiaries and affiliates:
Stated at cost determined by the moving-average method.

ii) Other securities

- Marketable securities classified as available-for-sale:
Stated at fair value based on the quoted market price at the end of the fiscal year with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving average method.
- Non-marketable securities classified as available-for-sale:
Stated at cost, determined by the moving average method.

iii) Valuation of inventories

- Supplies:
Stated at the lower of cost or net selling value, determined by the first-in, first-out method.

(2) Depreciation and Amortization of Non-current Assets

i) Property, plant and equipment:
The Company uses the declining-balance method.

ii) Intangible assets:
The Company uses the straight-line method over their estimated useful lives. Software for internal use is depreciated by the straight-line method based on internal guidelines (5 years).

(3) Reserves

i) Provision for bonuses:
In order to cover payment of bonuses to employees, the Company sets up a reserve in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

ii) Provision for directors' bonuses:
In order to cover payment of bonuses to directors, the Company sets up a provision in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

(4) Other

- Accounting method for consumption taxes:
Consumption taxes are excluded from revenues and expenses.

## 2. Notes to Changes in Accounting Policies

(Application of accounting standard for earnings per share)

Effective from the current fiscal year, the Company applied the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2 revised on June 30, 2010), the "Guidance on Accounting Standard for Earnings per Share" (ASBJ Guidance No. 4 revised on June 30, 2010) and the "Practical Solution on Accounting for Earnings Per Share" (ASBJ PITF No. 9 revised on June 30, 2010).

## 3. Notes to Additional Information

(Application of the "Accounting Standard for Accounting Changes and Error Corrections" and others)

For the accounting changes and error corrections made in after the beginning of the current fiscal year, the Company has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

(Accounting Method for Employee Shareholding Incentive Plan)

The Company adopts a "Trust-type Employee Shareholding Incentive Plan (E-Ship)" (the "Plan") in order to provide an enhanced benefits package and an incentive to increase the long-term enterprise value for its Group's employees.

Under the Plan, the "Employee Stock Holding Trust" (the "Trust") acquires the Company shares expected to be purchased by the "Otsuka Group Employee Stock Holding Plan" in the five-year period from July 2008, through a third-party allocation of new shares by the Company. Until termination, the Trust is responsible for transferring shares to the Employee Stock Holding Plan and receives dividends from the Company. If any money remains within the Trust, such money will be distributed as residual assets to those employees that fulfill the requirements for eligible beneficiaries.

The Company guaranteed the Trust's borrowings from financial institutions for the acquisition of Company shares. The Trust has repaid all of the borrowings as of March 31, 2011.

The Company does not recognize the Company shares owned by the Trust on its balance sheet as treasury stock and increased its common stock and additional paid-in capital at the time of the third-party allocation of new shares.

All of the Company shares owned by the Trust were sold at the end of the current fiscal year, and the beneficiaries to receive the equivalent amount of surplus have been determined.

In addition, as of March 31, 2012, the Company had temporary custody of the residual assets (¥7,389 million) to be distributed to the beneficiaries, and this was included in the Company's other current liabilities.

## 4. Notes to Non-consolidated Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment 108 million yen

(2) Monetary Assets from and Liabilities to Subsidiaries and Affiliates (Excluding Those Classified Separately in the Non-consolidated Balance Sheet)

i) Short-term monetary assets 305 million yen
ii) Short-term monetary liabilities 202 million yen

## 5. Notes to Non-consolidated Statement of Income

(1) Transactions with Subsidiaries and Affiliates

i) Operating revenues 36,867 million yen
ii) Operating expenses 1,409 million yen
iii) Non-operating transactions 653 million yen

(2) Disaster-related loss

Disaster-related loss relates to the Great East Japan Earthquake of 2011 and consists of disaster relief money.

## 6. Notes to Non-consolidated Statement of Changes in Net Assets

Number of Shares of Treasury Stock

| Class of shares | Number of shares as of April 1, 2011 | Increase in number of shares during the current fiscal year | Decrease in number of shares during the current fiscal year | Number of shares as of March 31, 2012 |
|---|---|---|---|---|
| Common stock | 2 thousand shares | 1 thousand shares | - | 3 thousand shares |

Note: The increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.

## 7. Income Taxes

Major components of deferred tax assets and liabilities are as follows:

| Deferred tax assets | | (Millions of yen) |
|---|---|---|
| Provision for bonuses | ¥ | 38 |
| Accrued directors' salaries | | 59 |
| Accrued enterprise tax | | 63 |
| Accrued business office taxes | | 2 |
| Loss on valuation of stocks of subsidiaries and affiliates | | 140 |
| Loss on extinguishment of tie-in shares | | 205 |
| Share-based compensation expenses | | 403 |
| Tax loss carryforwards | | 4,402 |
| Subtotal | | 5,316 |
| Valuation allowance | | (5,316) |
| Total of deferred tax assets | ¥ | - |

| Deferred tax liabilities | | (Millions of yen) |
|---|---|---|
| Unrealized gain on available-for-sale securities | ¥ | (136) |
| Total of deferred tax liabilities | | (136) |
| Net deferred tax liabilities | ¥ | (136) |

(Adjustments to deferred tax assets and deferred tax liabilities due to change in corporate income tax rate)

On December 2, 2011, the "Act to Partially Revise the Income Tax Act and Others in Order to Construct a Tax System Corresponding to Changes in the Structure of Economic System" (Act No. 114 of 2011) and "Special Measures Act to Secure the Financial Resources Required to Implement Policy on Restoration after the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated. Under these acts, effective from the fiscal year beginning on or after April 1, 2012, the corporate income tax rate will be changed.

As a result, the effective statutory tax rates to calculate deferred tax assets and liabilities will be changed from 40.6% to 38.0% for temporary differences that are expected to be recovered or settled in the three consecutive fiscal years beginning on or after April 1, 2012, and from 40.6% to 35.6% for temporary differences that are expected to be recovered or settled in the fiscal years beginning on or after April 1, 2015.

Due to these revisions, deferred tax liabilities decreased by ¥19 million and unrealized gain on available-for-sale securities (plus in net assets) increased by ¥19 million.

## 8. Related Party Transactions

Subsidiaries

| Type | Company name | Percentage Owned | Relationship | | Transaction detail | Transaction amount (Millions of yen) | Item | Balance as of fiscal year end (Millions of yen) |
|---|---|---|---|---|---|---|---|---|
| | | | Interlocking directors and corporate auditors | Business relationship | | | | |
| Subsidiary | Otsuka Pharma-ceutical Co., Ltd. | (Held by the Company) 100.0% direct<br>(Held by the subsidiary) None | 3 | Investment in stock | Salaries of seconded employees (Note 1)<br>Business consignment fees (Note 2) | 893<br>398 | Accounts payable - other<br>Accrued expenses<br>Accounts receivable - other | 44<br>15<br>141 |
| Subsidiary | Taiho Pharma-ceutical Co., Ltd. | (Held by the Company) 100.0% direct<br>(Held by the subsidiary) None | - | Investment in stock | Borrowing of funds (Note 3)<br>Payment of interest (Note 4) | 11,977<br>2 | Deposits received from subsidiaries and affiliates | 9,945 |

Terms and conditions of transactions and policy on determination thereof

Notes:
1. The amount is mutually agreed upon based on salaries of seconded employees.
2. The Company's business support center performs certain indirect services of the Group companies. Terms of the transactions are mutually agreed upon based on actual service costs incurred.
3. The Group utilizes an intercompany cash management process for efficient use of its funds. The transaction amount represents the average balance during the fiscal year.
4. Interest rate is mutually agreed upon based on market rates.

## 9. Per Share Information

| | |
|---|---|
| (1) Net Assets per Share | 1,676.40 yen |
| (2) Net Income per Share | 55.93 yen |

(Translation)

## Independent Auditor's Report (Non-consolidated Financial Statements)

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

May 8, 2012

To the Board of Directors of
Otsuka Holdings Co., Ltd.:

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tatsuaki Kitachi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Yukitaka Maruchi

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Kenichi Kimura

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheet as of March 31, 2012 of Otsuka Holdings Co., Ltd. (the "Company"), and the related non-consolidated statements of income and changes in net assets for the fourth fiscal year from April 1, 2011 to March 31,2012, and the related notes and the accompanying supplemental schedules. The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

**Management's Responsibility for the Non-consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and the accompanying supplemental schedules in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these non-consolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the non-consolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying supplemental schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Audit Opinion**
In our opinion, the non-consolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company as of March 31, 2012, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**
Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

## Audit Report of the Board of Corporate Auditors

# AUDIT REPORT

Regarding the performance of duties by the Directors for the 4th Fiscal Year ( FY2011 ) from April 1, 2011 to March 31, 2012, the Board of Corporate Auditors hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Corporate Auditor.

1. Auditing Methods and Content of Audits

   The Board of Corporate Auditors established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Corporate Auditor regarding the status of his or her audit and the results thereof, as well as reports from the Directors and independent auditors regarding performance of their duties, and sought explanations as necessary.

   In accordance with the auditing standards for Corporate Auditors determined by the Board of Corporate Auditors, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Corporate Auditor endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and attended the Board of Directors' meeting and other important meetings to receive reports regarding performance of duties from Directors, the Internal Audit Department, etc. and sought explanations as necessary. Each Corporate Auditor also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices.

   In addition, with respect to contents of resolutions of the Board of Directors regarding the development of the system to ensure that the performance of duties by the Directors conforms to the laws and regulations and the Articles of Incorporation and other systems that are stipulated in Article 100 (1) and (3) of the Ordinance for Enforcement of the Companies Act as being necessary to ensure appropriateness of operations of a joint stock company, and also the systems (internal control systems) developed based on such resolutions, which are described in the Business Report, we periodically received reports from the Directors and other relevant personnel, sought explanations as necessary and made opinions, on the establishment and management of such systems. With respect to subsidiaries, we communicated and exchanged information with Directors, Corporate Auditors, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary. Based on the above methods, we examined the business report and supplementary schedules thereof related to the relevant fiscal year.

   Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and we received reports from the independent auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the independent auditors that "the system for ensuring that duties are performed properly" (matters set forth in each Item of Article 131 of the Corporate Accounting Rules) is organized in accordance with the "product quality management standards regarding audits" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary. Based on the above methods, we examined the financial statements (Non-consolidated Balance Sheets, Non-consolidated Statements of Income, Non-consolidated Statements of Changes in Net Assets, and Notes to Non-consolidated Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Balance Sheets, Consolidated Statement of Income, Consolidated Statement of Changes in Net Assets and Notes to Consolidated Financial Statements) related to the relevant fiscal year.

2. Results of Audit

(1) Results of Audit of the Business Report, etc.

i) In our opinion, the business report and the accompanying supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.

ii) With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.

iii) In our opinion, resolutions of the Board of Directors for internal control systems are fair and reasonable. And there is no problem with the contents of the Business Report and the performance of duties by the Directors with respect to internal control systems.

(2) Results of Audit of Non-consolidated Financial Statements and the Accompanying Supplementary Schedules

In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

May 10, 2012

Board of Corporate Auditors, Otsuka Holdings Co., Ltd.

| | | |
|---|---|---|
| Standing Corporate Auditor | Masatoshi Taniguchi | [Seal] |
| Outside Corporate Auditor | Yasuhisa Katsuta | [Seal] |
| Outside Corporate Auditor | Norikazu Yahagi | [Seal] |
| Outside Corporate Auditor | Hiroshi Sugawara | [Seal] |

(Translation)

# Reference Documents for Shareholders Meeting

**Proposal:** Election of Eight (8) Directors

The terms of office of all ten (10) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect eight (8) Directors.

The candidates for Directors are as follows:

| Candidate No. | Name (Date of birth) | Career summary, position and areas of responsibility in the Company (Significant concurrent positions outside the Company) | Number of the Company's shares owned |
|---|---|---|---|
| 1 | Akihiko Otsuka (July 21, 1937) | March 1960 Joined Otsuka Pharmaceutical Factory<br>June 1976 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.<br>December 1998 Resigned as President and Representative Director, Otsuka Pharmaceutical Co., Ltd.<br>Senior Advisor and Executive Director, Otsuka Pharmaceutical Factory, Inc.<br>June 2000 Executive Director, Otsuka Pharmaceutical Co., Ltd.<br>July 2008 Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)<br>September 2008 Executive Director, Otsuka Pharmaceutical Factory, Inc. (Current Position)<br>June 2009 Executive Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)<br>January 2010 Chairman and Representative Director, Otsuka Foods Co., Ltd.<br>June 2010 Chairman, Otsuka Foods Co., Ltd. (Current Position)<br>April 2011 Chairman, Otsuka Pharmaceutical Co., Ltd. (Current Position)<br>[Significant concurrent positions outside the Company]<br>Chairman, Otsuka Pharmaceutical Co., Ltd.<br>Executive Director, Otsuka Pharmaceutical Factory, Inc.<br>Chairman, Otsuka Foods Co., Ltd.<br>President and Representative Director, Otsuka Estate Ltd.<br>President and Representative Director, Otsuka Asset Co., Ltd. | 3,505,146 |
| 2 | Kenichiro Otake (July 10, 1946) | May 1970 Joined the Ministry of Finance<br>May 1995 Deputy Director-General, Ministry of Finance<br>July 1998 Deputy Commissioner, National Tax Agency<br>July 2001 Director-General of the Tax Bureau, Ministry of Finance<br>July 2004 Commissioner, National Tax Agency<br>July 2005 Deputy President of the Board of Trustees of Shoko Chukin Bank (present day The Shoko Chukin Bank, Ltd.)<br>April 2008 Joined Otsuka Pharmaceutical Co., Ltd. as Advisor<br>July 2008 Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position) | 10,000 |

| Candidate No. | Name (Date of birth) | Career summary, position and areas of responsibility in the Company (Significant concurrent positions outside the Company) | Number of the Company's shares owned |
|---|---|---|---|
| 3 | Tatsuo Higuchi (June 14, 1950) | March 1977 Joined Otsuka Pharmaceutical Co., Ltd.<br>June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)<br>November 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.<br>June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.<br>June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.<br>June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)<br>July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)<br>December 2011 Executive Director, Otsuka Chemical Co., Ltd. (Current Position)<br>[Significant concurrent positions outside the Company]<br>Executive Director, Otsuka Pharmaceutical Co., Ltd.<br>Executive Director, Otsuka Chemical Co., Ltd. | 46,000 |
| 4 | Ichiro Otsuka (February 15, 1965) | April 1987 Joined Otsuka Pharmaceutical Factory, Inc.<br>June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.<br>June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.<br>December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc<br>May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc<br>December 2003 Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.<br>December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc (Current Position)<br>July 2008 Executive Director, Otsuka Holdings Co., Ltd.<br>June 2010 Vice President and Executive Director, Otsuka Holdings Co., Ltd. (Current Position)<br>[Significant concurrent positions outside the Company]<br>President and Representative Director, Otsuka Pharmaceutical Factory, Inc.<br>Vice President and Representative Director, Otsuka Estate Ltd. | 6,288,920 |
| 5 | Atsumasa Makise (June 17, 1958) | December 1987 Joined Otsuka Pharmaceutical Co., Ltd.<br>June 2002 Operating Officer, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd.<br>June 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.<br>June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd.<br>July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position)<br>May 2009 Chairman and CEO, Otsuka America Inc.<br>April 2010 Chairman, Otsuka America Inc. (Current Position)<br>[Significant concurrent positions outside the Company]<br>Chairman, Otsuka America Inc. | 30,000 |

| Candidate No. | Name (Date of birth) | Career summary, position and areas of responsibility in the Company (Significant concurrent positions outside the Company) | | Number of the Company's shares owned |
|---|---|---|---|---|
| 6 | Yoshiro Matsuo (November 3, 1960) | April 1985 | Joined Otsuka Pharmaceutical Co., Ltd. | 10,760 |
| | | January 2003 | Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd. | |
| | | June 2006 | Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd. | |
| | | November 2007 | Senior Operating Officer, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd. | |
| | | July 2008 | Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position) | |
| 7 | Yujiro Otsuka (July 27, 1941) | March 1964 | Joined Otsuka Pharmaceutical Factory | 378,602 |
| | | June 1976 | Executive Director, Otsuka Pharmaceutical Co., Ltd. | |
| | | July 1976 | President and Representative Director, Otsuka Warehouse Co., Ltd. | |
| | | November 1986 | President and Representative Director, Otsuka Chemical Co., Ltd. | |
| | | July 2001 | Chairman and Representative Director, Otsuka Warehouse Co., Ltd. | |
| | | September 2002 | President and Representative Director, Otsuka Chemical Holdings Co., Ltd. | |
| | | May 2006 | Chairman and Representative Director, Otsuka Chemical Holdings Co., Ltd. | |
| | | July 2008 | Executive Director, Otsuka Holdings Co., Ltd. (Current Position) | |
| | | June 2009 | Chairman, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.) | |
| | | June 2011 | Senior Advisor and Executive Director, Otsuka Chemical Co., Ltd. | |
| 8 | Yukio Kobayashi (January 26, 1931) | January 1954 | Joined Otsuka Pharmaceutical Factory | 1,502,816 |
| | | June 1963 | President and Representative Director, Taiho Pharmaceutical Co., Ltd. | |
| | | February 1989 | Chairman and Representative Director, Nichiban Co., Ltd. | |
| | | January 1999 | President and Representative Director, Otsuka Pharmaceutical Co., Ltd. | |
| | | September 2001 | Chairman and Representative Director, Taiho Pharmaceutical Co., Ltd. | |
| | | July 2008 | Executive Director, Otsuka Holdings Co., Ltd. (Current Position) | |

Notes:

1. Each candidate has no special interests in the Company.
2. The numbers of the Company's shares owned by Akihiko Otsuka, Ichiro Otsuka and Yujiro Otsuka are those actually held, including shares in the Otsuka Founders Shareholding Fund Trust Account.

(Translation)

## Guidance for Exercising Voting Rights via the Internet, etc.

When you exercise your voting rights via electromagnetic method (Internet, etc.), the Company requests you to check the following items and do so by 5:30 p.m., Wednesday, June 27, 2012.

If you attend the meeting on the date, it is unnecessary to exercise your voting rights by posting voting forms or via the Internet, etc.

### 1. Website for exercising voting rights

(1) You may exercise your voting rights via the Internet only by visiting the Website for Exercising Voting Rights designated by the Company, using a personal computer (PC), a smartphone or a cellular phone (i-mode, EZweb, Yahoo! Keitai)* :

http://www.evote.jp/

(However, the website is closed from 2:00 a.m. to 5:00 a.m. every day.)

(2) When exercising your voting rights using a PC, a smartphone or a cellular phone, please note that you might not be able to exercise your voting rights via the Internet depending on the Internet environment, services provided, or the model of the cellular phone. For details, please direct your inquiries to the Help Desk shown below.

* i-mode, EZweb, and Yahoo! are the trademarks or the registered trademarks of NTT DoCoMo, Inc., KDDI Corporation and Yahoo! Inc. of the U.S., respectively.

### 2. How to exercise your voting rights via the Internet

(1) Please access the Website for Exercising Voting Rights (http://www.evote.jp/) using the login ID and provisional password provided on the Voting Form, and follow instructions that appear on the screen to input approval or disapproval to each of the agenda items.

(2) Please note that shareholders who utilize the Website for Exercising Voting Rights will be asked to change the provisional password on the Website for Exercising Voting Rights in order to prevent people other than shareholders from accessing it illegally (impersonating shareholders) or falsifying the content of votes.

(3) Shareholders will be notified of a new login ID and provisional password each time we call for a Shareholders Meeting.

### 3. Handling of voting rights when they are exercised more than once

(1) Please note that your online vote will prevail should you exercise your voting rights both by post and via the Internet.

(2) If you exercise your voting rights more than once via the Internet, only the last vote shall be deemed effective. In addition, if you exercise your voting rights more than once using a PC, a smartphone and a cellular phone, only the last vote shall be deemed effective.

### 4. Expenses necessary to access the Website for Exercising Voting Rights

Expenses necessary to access the Website for Exercising Voting Rights (including those for dial-up connection and telephone charge) shall be borne by shareholder. When you utilize a cellular phone, expenses necessary for packet communication or other cellular-phone usage shall also be borne by shareholders.

For inquiries about the system for exercising voting rights, please contact:
**Corporate Agency Division (Help Desk),**
**Mitsubishi UFJ Trust and Banking Corporation**
Phone: 0120-173-027 (toll free (Japan only); 9:00 to 21:00 (Japan Time))

### [Electronic voting platform]

If nominal shareholders (including standing proxies), such as management trust banks, apply in advance for the use of the platform for electronic exercise of voting rights for institutional investors, which is operated by ICJ, Inc., a joint venture set up by Tokyo Stock Exchange, Inc. and other companies, they may utilize the said platform as a method for exercising voting rights via an electromagnetic method for this Annual Shareholders Meeting of the Company, in addition to the exercise of voting rights via the Internet, specified above.