

(Translation)

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March 8, 2017  
Tatsuo Higuchi  
President and Representative Director  
**Otsuka Holdings Co., Ltd.**  
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

**Notice for the Calling of the 9th Annual Shareholders Meeting**  
**(for FY2016)**

Dear Shareholders,

You are cordially invited to attend the 9th 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, March 29, 2017 (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. → Please refer to page 3.

To exercise your voting rights via electromagnetic method (Internet, etc.)

Please access to the Website for Exercising Voting Rights designated by the Company (<http://www.evotep.jp/>) and follow the instructions on the screen to input your approval or disapproval for each proposal by the designated time above. → Please refer to pages 3 and 4.

## Details

**1. Date and Time:**

Thursday, March 30, 2017, 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 Accounting Auditors and the Audit & Supervisory Board for Consolidated Financial Statements, for the 9th Fiscal Year (from January 1, 2016 to December 31, 2016)
- b. Financial Statements for the 9th Fiscal Year (from January 1, 2016 to December 31, 2016)

**Matters to be resolved:**

**Proposal:** Election of Nine (9) 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 in advance to act as your proxy.
- \* If any changes have been made to items in the Reference Documents for Shareholders Meeting, Business Report, Financial Statements, or Consolidated Financial Statements, such changes will be posted on our website.

Our website      **<http://www.otsuka.com/>**

(Translation)

## **Guidance for Exercising Voting Rights**

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–10).

You may exercise your voting rights using the following three methods.

### **1. Attendance**

Please present the enclosed “Voting Form” to the receptionist.

Please also bring with you “Notice for the Calling of the 9th Annual Shareholders Meeting” (this document).

If you choose this first method, you are not required to exercise voting rights by the other two methods; 2. Mail (“Voting Form”), or 3. Internet.

### **2. Mail**

Please indicate on the “Voting Form” whether you approve or disapprove of each proposal and mail it.

The voting forms that arrive by mail before 5:30 p.m. on Wednesday, March 29, 2017 (JST) will be valid.

### **3. Internet**

Please access the Website for Exercising Voting Rights designated by the Company

(<http://www.evotc.jp/>), using a personal computer (PC), a smartphone or a cellular phone and follow the instructions on the screen to input your approval or disapproval for each proposal.

The deadline by which voting rights must be exercised is 5:30 p.m. on Wednesday, March 29, 2017 (JST).

Please refer to the following page for details.

## Key Points When Exercising Voting Rights via the Internet, etc.

### Website for exercising voting rights

- You may exercise your voting rights via the Internet only by visiting the Website for Exercising Voting Rights designated by the Company (<http://www.evote.jp/>), using a personal computer (PC), a smartphone or a cellular phone (i-mode, EZweb, Yahoo! Keitai)\*. (However, the website is closed from 2:00 a.m. to 5:00 a.m. (JST) every day.)
- 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.

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

- 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 the instructions that appear on the screen to input approval or disapproval to each of the agenda items.
- 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.
- Shareholders will be notified of a new login ID and provisional password each time we call for a Shareholders Meeting.

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

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

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

- Expenses necessary to access the Website for Exercising Voting Rights (including those for Internet connection, etc.) shall be borne by shareholders. When you utilize a cellular phone, etc., 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: <b>0120-173-027</b> (toll free (Japan only); 9:00 to 21:00 (JST))
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### 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 Shareholders Meeting of the Company, in addition to the exercise of voting rights via the Internet, specified above.

## Reference Documents for Shareholders Meeting

### Proposal: Election of Nine (9) Directors

The terms of office of all nine (9) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect nine (9) Directors.

The candidates for Directors are as follows:

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
1	<p><b>Reappointment</b></p> <p>Ichiro Otsuka (February 15, 1965)</p> <p>Position and areas of responsibility in the Company: Chairman and Representative Director</p>	<p>April 1987 Joined Otsuka Pharmaceutical Factory, Inc.</p> <p>June 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>December 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</p> <p>May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>December 2003 Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>December 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2010 Vice President and Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>June 2014 Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.</p> <p>March 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>March 2015 Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)</p> <p>March 2015 Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Chairman, Otsuka Pharmaceutical Factory, Inc. Executive Director, Otsuka Pharmaceutical Co., Ltd. President and Representative Director, Otsuka Estate Ltd. President and Representative Director, Otsuka Asset Co., Ltd.</p>	7,009,404
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Ichiro Otsuka has extensive knowledge in all areas of operations of the Otsuka Group (hereinafter the "Group"), which is made up of a wide range of business fields, as well as a high level of management knowledge. He is utilizing that broad experience and strong track record to contribute to the development of the overall Group and to maximize synergy among each of the Group's companies and businesses. The Company deems that it can expect him to, by making use of his track record, ability, broad experience, and expertise, ensure and improve the effectiveness of the Board of Directors and that his election will lead to sustainable and innovative growth for the Group and further increased corporate value. Therefore, the Company nominated him as a candidate for Director.</p>		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
2	<p><b>Reappointment</b></p> <p>Tatsuo Higuchi (June 14, 1950)</p> <p>Position and areas of responsibility in the Company: President and Representative Director</p>	<p>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)</p> <p>November 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>December 2011 Executive Director, Otsuka Chemical Co., Ltd. (Current Position)</p> <p>February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Chemical Co., Ltd.</p>	90,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Tatsuo Higuchi has taken management leadership of the overall Group, and through his outstanding leadership has helped expand the Group's global presence, promoted business expansion, created and implemented a strategy for medium- to long-term growth, and has a track record of producing ample results. The Company deems that it can expect him to, by making use of his high level of management knowledge, track record, ability, broad experience, and expertise, ensure and improve the effectiveness of the Board of Directors and that his election will lead to sustainable and innovative growth for the Group and further increased corporate value. Therefore, the Company nominated him as a candidate for Director.</p>		
3	<p><b>Reappointment</b></p> <p>Atsumasa Makise (June 17, 1958)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director, Corporate Finance</p>	<p>December 1987 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2002 Operating Officer, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>May 2009 Chairman and CEO, Otsuka America Inc.</p> <p>April 2010 Chairman, Otsuka America Inc.</p>	50,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Atsumasa Makise has experience in the finance departments and in the management of foreign subsidiaries, and has been responsible for corporate finance since 2008. The Company deems that, by making use of his track record, high level of expertise in finance, and management knowledge, his election will lead to ensuring and improving the effectiveness of the Board of Directors and further increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
4	<p><u>Reappointment</u></p> <p>Yoshiro Matsuo (November 3, 1960)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director, Corporate Administration</p>	<p>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>January 2003 Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>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.</p> <p>July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.</p> <p>March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Executive Director, Otsuka Medical Devices Co., Ltd.</p>	30,760
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Yoshiro Matsuo has experience in all of the back-office departments, primarily in general affairs departments and human resources departments, and has been responsible for corporate administration since 2008. The Company deems that, by making use of his track record, expertise, and management knowledge, his election will lead to ensuring and improving the effectiveness of the Board of Directors and further increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		
5	<p><u>Reappointment</u></p> <p>Sadanobu Tobe (April 18, 1941)</p> <p>Position and areas of responsibility in the Company: Executive Director</p>	<p>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)</p> <p>July 1993 Vice President and Representative Director, Otsuka Foods Co., Ltd.</p> <p>November 2004 Vice President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)</p> <p>May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.</p> <p>June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.</p> <p>June 2012 Vice Chairman, Otsuka Foods Co., Ltd.</p> <p>June 2013 Standing Audit &amp; Supervisory Board Member, Otsuka Holdings Co., Ltd.</p> <p>November 2013 President and Representative Director, Otsuka Foods Co., Ltd. (Current Position)</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Foods Co., Ltd.</p>	1,191,126
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Sadanobu Tobe has a high level of knowledge and broad experience in overall corporate management, as well as extensive knowledge of manufacturing, product development, and marketing in each of the Group's businesses. The Company deems that, by making use of his track record, experience, and management knowledge, his election will lead to ensuring and improving the effectiveness of the Board of Directors and further increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	<p><b>New appointment</b></p> <p>Masayuki Kobayashi (July 10, 1966)</p> <p>Position and areas of responsibility in the Company: -</p>	<p>October 1993 Joined Taiho Pharmaceutical Co., Ltd.</p> <p>August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.)</p> <p>September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd.</p> <p>April 2010 President and CEO, Otsuka America, Inc.</p> <p>April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position)</p> <p>April 2012 Executive Director, Taiho Pharma USA, Inc.</p> <p>April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.</p>	40,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Masayuki Kobayashi has extensive knowledge in corporate management and the pharmaceutical business, and has produced outstanding results such as business reform for Taiho Pharmaceutical Co., Ltd., a member of the Group, and expansion of said company's global presence. The Company deems that, by utilizing his track record, experience, and management knowledge in the management of the overall Group, his election will lead to ensuring and improving the effectiveness of the Board of Directors and further increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</p>		
7	<p><b>Reappointment</b></p> <p><b>Candidate for Outside Director</b></p> <p>Yasuyuki Hirotoomi (June 15, 1954)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1978 Joined The Daiwa Bank, Ltd. (present day Resona Bank, Limited)</p> <p>October 2003 Executive Officer, Resona Bank, Limited</p> <p>June 2005 Managing Executive Officer, Resona Bank, Limited</p> <p>April 2008 Senior Executive Officer, Resona Bank, Limited</p> <p>June 2008 Director and Senior Executive Officer, Resona Bank, Limited</p> <p>June 2009 Vice President and Representative Director and Executive Officer, Resona Bank, Limited</p> <p>June 2011 Director, The Kinki Osaka Bank, Ltd.</p> <p>June 2013 Outside Director, ELECOM CO., LTD. (Current Position)</p> <p>June 2013 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>June 2014 Board Director and Senior Vice President, KYOEI STEEL LTD. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD.</p>	0
	<p>[Reasons for nominating him as a candidate for Outside Director]</p> <p>Mr. Yasuyuki Hirotoomi has appropriately provided useful statements to the Company's management from an impartial and objective viewpoint based on his abundant experience and extensive knowledge and expertise of corporate management gained through many years in the finance industry. Therefore, the Company nominated him as a candidate to continue serving as Outside Director. His term of office as Outside Director will be three years and nine months at the conclusion of this Shareholders Meeting.</p>		



(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
8	<p>Reappointment</p> <p>Candidate for Outside Director</p> <p>Tadaaki Konose (July 26, 1946)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1970 Joined Snow Brand Milk Products Co., Ltd. (present day MEGMILK SNOW BRAND Co., Ltd.)</p> <p>June 2002 President and Representative Director, Snow Brand Milk Products Co., Ltd.</p> <p>October 2009 President and Representative Director, MEGMILK SNOW BRAND Co., Ltd.</p> <p>April 2011 Director and Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>June 2011 Special Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>September 2011 Administrative Council member, University of Miyazaki, a National University Corporation (Current Position)</p> <p>June 2014 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Administrative Council member, University of Miyazaki, a National University Corporation</p>	0
	<p>[Reasons for nominating him as a candidate for Outside Director]</p> <p>Mr. Tadaaki Konose has appropriately provided useful statements to the Company's management from an impartial and objective standpoint based on his abundant experience and extensive knowledge and expertise gained through many years in corporate management in the food industry. Therefore, the Company nominated him as a candidate to continue serving as Outside Director. His term of office as Outside Director will be two years and nine months at the conclusion of this Shareholders Meeting.</p>		
9	<p>Reappointment</p> <p>Candidate for Outside Director</p> <p>Yukio Matsutani (October 20, 1949)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1975 Intern, Pediatric Department, St. Luke's International Hospital</p> <p>October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)</p> <p>August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare</p> <p>August 2007 Director, National Sanatorium Tama Zenshoen</p> <p>April 2012 President, National Institute of Public Health</p> <p>December 2015 Vice President, International University of Health and Welfare (Current Position)</p> <p>March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Vice President, International University of Health and Welfare</p>	0
	<p>[Reasons for nominating him as a candidate for Outside Director]</p> <p>Mr. Yukio Matsutani has appropriately provided useful statements to the Company's management from an impartial and objective standpoint based on his abundant experience and extensive knowledge and expertise gained in the healthcare and welfare field. Therefore, the Company nominated him as a candidate to continue serving as Outside Director. His term of office as Outside Director will be one year at the conclusion of this Shareholders Meeting.</p>		

Notes:

1. Yasuyuki Hirotoomi was Vice President and Representative Director of Resona Bank, Limited until March 2013. The aforesaid bank is a major creditor of the Group. The other candidates have no special interests in the Company.
2. The numbers of the Company's shares owned by Ichiro Otsuka and Sadanobu Tobe are those actually held, including shares in the Otsuka Founders Shareholding Fund Trust Account.
3. Yasuyuki Hirotoomi, Tadaaki Konose and Yukio Matsutani are candidates for Outside Directors. Furthermore, the three conform with the following Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines, and the Company has registered the three as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc.
4. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Yasuyuki Hirotoomi, Tadaaki Konose and Yukio Matsutani which limit their liabilities for damages under Article 423, Paragraph 1 of the same Act. If their reappointments are approved, the Company plans to continue these agreements. The maximum amount of liabilities under the said agreement shall be the minimum amounts set forth in laws and regulations. The limitation of liability specified in these agreements shall be limited to times when the Outside Directors are without knowledge and not grossly negligent in performing the duties as Outside Director that cause liability.

<Independence Criteria for Outside Directors>

The Company deems that an Outside Director has independence when not falling under any of the below items.

- (1) The Outside Director in question has any close relative within the second degree of kinship who is currently or has in the past three years served as an executive director, executive officer (*shikkoyaku*), corporate officer (*shikkoyakuin*), or important employee (collectively, hereinafter “Executive”) of the Company or one of the Company’s subsidiaries.
- (2) The company at which the Outside Director in question currently serves as an Executive has transactions with Group companies, and the amount of those transactions between the company and any of the Group companies in the past three fiscal years is more than 2% of the consolidated net sales of any of the respective companies.
- (3) The Outside Director in question, in any one fiscal year in the past three fiscal years, has received compensation in excess of ¥10 million as an expert or consultant in law, accounting, or tax, directly from Group companies (excluding the compensation as Director of the Company).
- (4) Contributions to a non-profit organization at which the Outside Director in question serves as an Executive total more than ¥10 million in the past three fiscal years, and, exceed 2% of the gross income of the organization in question.

**Attached documents****Business Report**

(For the fiscal year from January 1, 2016 to December 31, 2016)

**1. Business Progress and Achievement of the Otsuka Group****(1) Overview of Business during the Current Fiscal Year**

## i) Business activity and results

(Adoption of International Financial Reporting Standards [IFRS])

The Group adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2016 to enhance the international comparability of its financial reporting. Accordingly, financial results for fiscal year ended December 31, 2015 are reclassified based on IFRS.

(Summary of operating results for the FY2016 ended December 31, 2016)

During the current fiscal year, economies worldwide remained stuck in a cycle of low growth. Against that backdrop, the widening gap between rich and poor and the flow of immigrants became major social issues. Amid weak economic growth, countries worldwide were forced to review their social welfare policies to address steadily rising costs. That also included moves to cut healthcare spending. Japan was no exception, with the government appearing to be introducing NHI price revisions every year.

Also, as emerging countries become wealthier, their citizens are increasingly interested in leading healthier lifestyles, mirroring the trend in advanced countries. This is opening up more business opportunities for the Otsuka Group, which supplies medicines as well as a wide range of other products that help to maintain health.

During the current fiscal year, the Otsuka Group recorded consolidated net sales of ¥1,195,547 million (down 16.2% from the previous fiscal year), with operating profit of ¥101,145 million (down 32.1%), and profit attributable to owners of the Company of ¥92,563 million (down 9.2%).

Results by business segment are as follows:

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

	Pharmaceuticals	Nutraceuticals*	Consumer Products	Others	Adjustments	Consolidated
Net sales	753,005	311,550	35,468	141,251	(45,727)	1,195,547
Operating profit	92,029	32,507	5,451	7,782	(36,624)	101,145

\*nutraceuticals = nutrition + pharmaceuticals

(Reference: Results for the previous fiscal year)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer Products	Others	Adjustments	Consolidated
Net sales	973,501	315,371	38,541	145,173	(45,211)	1,427,375
Operating profit	146,871	34,438	6,275	963	(39,662)	148,886

## ii) Major business activities (as of December 31, 2016)

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

**Pharmaceuticals**

In the area of central nervous system and neurology, global sales of antipsychotic agent *ABILIFY* fell compared with the previous fiscal year due to the impact of the loss of exclusivity in the U.S. and Europe and repricing measures for market expansion based on NHI price revisions in Japan. However, global sales of *ABILIFY* intramuscular depot formulation *Abilify Maintena*<sup>\*1</sup> (once-monthly injection) increased significantly compared with the previous fiscal year due to the growing number of markets. In the U.S., sales of *Abilify Maintena* increased compared with the previous fiscal year, supported by an increase in use for the treatment of acutely relapsed adults with schizophrenia, a ready-to-use prefilled syringe and an additional administration site at the deltoid muscle. The number of countries where it has been launched expanded in Europe, supporting a large increase in sales compared with the previous fiscal year. In Japan, sales of *ABILIFY for extended-release injectable suspension, for intramuscular use*, for which an additional administration site at the deltoid muscle was approved in March 2016, are rising steadily. The new antipsychotic agent *REXULTI*<sup>\*1</sup> received approval from the U.S. Food and Drug Administration (FDA) in July 2015 simultaneously for indications of schizophrenia and adjunctive therapy in major depressive disorder. Prescriptions have been growing since the drug was launched in the U.S. in August 2015 and the sales increased significantly compared with the previous fiscal year. In Japan, antiepileptic drug *E Keppra*, which is being co-promoted with UCB Japan, was affected by repricing measures for market expansion, but the drug continued to register firm growth in market share as the top-selling brand<sup>\*2</sup> in the domestic antiepileptic drug market. That reflected growth in prescriptions for pediatric patients and for the monotherapy treatment of partial-onset seizures, a new drip formulation, and approval for the additional indication of adjunctive therapy for generalized tonic-clonic seizures in February 2016. *Neupro Patch* for the treatment of Parkinson's disease and restless legs syndrome registered steady sales due to increased understanding of patch-based treatments for Parkinson's disease and growing recognition of its effect in improving wearing-off<sup>\*3</sup> symptoms. Sales of *NUDEXTA* climbed compared with the previous fiscal year. *NUDEXTA* is developed by U.S. company Avanir Pharmaceuticals, Inc., which has strengths to develop drugs in the area of neurological disorders. The drug's growth in prescriptions and stronger sales reflected its increasingly recognized status as the world's first and only treatment for the neurologic disease pseudobulbar affect (PBA) on the back of the strengthened sales network in the U.S.

In the area of oncology, global sales of anti-cancer agent *TS-1* declined compared with the previous fiscal year, mainly due to the impacts of NHI price revisions and rival products in Japan. Sales of anti-cancer agent *UFT* and reduced folic acid formulation *Uzel* both declined compared with the previous fiscal year, due to the impact of rival products. Sales of long-acting 5-HT<sub>3</sub> receptor antagonist antiemetic agent *Aloxi* increased compared with the previous fiscal year, supported by growth of prescriptions for patients with pancreatic cancer, lung cancer and colorectal cancer. Sales of anti-cancer agent *Abraxane* were affected by repricing measures for market expansion and by the impact of rival products, but sales remained level compared with the previous fiscal year supported by an increase in prescriptions for pancreatic cancer. Concerning *LONSURF*, a new anti-cancer agent, prescriptions have been growing steadily as it has come to

hold a position as one of the standard therapies for unresectable advanced or recurrent colorectal cancer since its launch in Japan in May 2014 and the U.S. in October 2015, and globally, its sales have been considerably increasing. Also, Servier, which has concluded a license agreement for *LONSURF* in Europe with Taiho Pharmaceutical Co., Ltd., successively began selling the drug from August 2016, one country at a time. Anti-cancer agent *SPRYCEL*, which is being promoted in Japan, the U.S. and Europe in collaboration with BMS<sup>\*4</sup>, has been widely recognized in the global market as a first-line treatment for chronic myeloid leukemia. However, distributions on a yen basis received by the Company based on sales declined compared with the previous fiscal year due to forex factors.

In the area of the cardiovascular and renal system, *Samsca/JINARC*<sup>\*5</sup>, a vasopressin V<sub>2</sub> receptor antagonist developed by Otsuka Pharmaceutical, was affected by repricing measures for market expansion, but global sales increased compared with the previous fiscal year due to promotional activities targeting medical specialists to highlight its value as an oral aquaretic agent. Globally the drug has also started to be used as the world's first drug for the autosomal dominant polycystic kidney disease (ADPKD), an intractable kidney disease. In Japan, the prescriptions for the drug have been increasing, as understanding of the drug has grown steadily after the drug has been approved for this additional indication in March 2014. The drug is also sold in Canada and Europe for the treatment of ADPKD. As of December 31, 2016, *Samsca/JINARC* was available in 24 markets worldwide.

In the area of the digestive system, effective March 2016, it became possible to write long-term prescriptions of *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited since its launch in February 2015, and prescriptions grew steadily.

In the area of clinical nutrition, sales volume of the high-calorie TPN (total parenteral nutrition) solution *ELNEOPA* remained level compared with the previous fiscal year, as a result of ongoing efforts to promote the solution to welfare facilities.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2016 totaled ¥753,005 million (down 22.6% from the previous fiscal year), with operating profit of ¥92,029 million (down 37.3%).

\*1: Alliance products, under the global alliance with H. Lundbeck A/S, developed by Otsuka Pharmaceutical

\*2: Copyright © 2016 QuintilesIMS. Estimated based on Japan Pharmaceutical Market, January-December 2016. All rights reserved, no reproduction without permission.

\*3: Wearing-off is a complication of dopamine agonist treatments, where symptoms of Parkinson's disease can repeatedly improve and worsen over the course of a day. It is one of the most serious issues affecting the everyday lives of Parkinson's disease sufferers.

\*4: Bristol-Myers Squibb Company

\*5: Sold overseas as a treatment for ADPKD under the brand name *JINARC*.

## Nutraceuticals

Sales volume for the *Pocari Sweat* electrolyte supplement drink increased in Japan compared with the previous fiscal year, despite a weak domestic market for sports drinks<sup>\*6</sup>. Growth was supported by efforts to promote the drink as a source of hydration during Japan's dry autumn and winter period, and by stepped up marketing activities linking TV commercials with in-store promotions, which spurred increased demand from consumers. *Pocari Sweat Jelly*, launched in April 2016, and the relaunched *Pocari Sweat Ion Water*, also made steady inroads into the market. Overseas, where *Pocari Sweat* is sold in 19 markets worldwide, sales volume declined compared with the previous fiscal year. Despite steady growth for *Pocari Sweat 900ml* in China, where it was launched in August 2016, overseas sales were affected by slowing growth in the Chinese economy, unfavorable weather in Indonesia and competition from rival products.

Although promotional activities were stepped up from April 2016, sales volume for carbonated nutritional drink *Oronamin C* declined slightly compared with the previous fiscal year due to fewer consumers buying nutritional drinks.

In the *Calorie Mate* range of balanced nutrition food, *Calorie Mate Jelly* was launched in May 2016 with three flavors (*Apple, Lime & Grapefruit* and *Fruity Milk*). Combined sales volume for the *Calorie Mate* range increased compared with the previous fiscal year, supported by efforts to

promote the benefits of the products including block-type *Calorie Mate* to office workers and students taking exams.

In the soy-related business, sales volume increased steadily across the entire *SOYJOY* range, supported by the April 2016 launch of *SOYJOY Crispy*, which has a new texture and is available in three flavors (*Plain*, *Mixed Berry* and *Golden Berry*), helping to attract different customers from the traditional purchasers of *SOYJOY* products.

Sales of *EQUELLE*, a food product containing equol that supports women's health and beauty, increased significantly, supported by advertising activities and better provision of information through corporate seminars and other means, leading to greater awareness and understanding of the product.

*Nature Made*, supplied by subsidiary Pharmavite LLC is the number one retail vitamin and supplement brand in the U.S.<sup>\*7</sup> On a local currency basis, sales of *Nature Made* supplements in the U.S. increased compared with the previous fiscal year, partly due to growth in the U.S. market<sup>\*8</sup>, but after forex conversion, sales were lower year on year due to the impact of the strong yen. In Japan, sales of multivitamin supplements and Foods with Nutrient Function Claims such as *Fish Oil Pearl* and *Super Fish Oil* increased compared with the previous fiscal year. Sales also continuously increased for *MegaFood* and *INNATE*, natural food-based supplements of FoodState Inc. of the U.S.

Sales increased at Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, supported by growth in gluten-free food products and organic and soy products, health food products sold under the *Gerblé* nutrition and health food brand and other brands.

*Kenja-no-shokutaku* (wise man's dining) *Double Support* is a Food for Specified Health Use that slows down the body's absorption of both sugars and lipids, thereby reducing the rise in blood glucose levels and triglycerides after meals. Sales rose compared with the previous fiscal year on the back of increased advertising on TV and other media, which was linked with in-store promotions, mainly at drugstores, and due to stepped up proposal-based marketing activities tailored to different situations in consumers' lives. Sales volume of *Kenja-no-shokutaku Double Support* are also rising steadily in Hong Kong, where the product was launched in 2015.

In the cosmetics area, sales of the *UL•OS* men's skincare brand were firm overall, driven by growth in sales for cleansing-related products and skincare items. *UL•OS Medicated Skin Whitening*, a pen-type skin treatment that inhibits dark spots, has also proven to be popular with consumers thanks to its unique product value, supporting growth in the number of users. Also in South Korea, sales of the brand increased significantly, supported by efforts to develop the brand. Sales of the women's skincare brand *InnerSignal* registered significant growth continuously as a result of acquiring new customers and expanding the base of loyal users.

Sales volume of nutrient tonic *Tiovita* slightly increased compared with the previous fiscal year, reflecting in-store sales promotions and advertising, etc. to attract new users.

Sales volume of oral rehydration solution *OS-I* increased compared with the previous fiscal year, reflecting greater awareness of the product and increased understanding about the product.

Domestic sales of *Oronine H Ointment* increased slightly compared with the previous fiscal year, supported by efforts to promote the benefits of a laminated tube product, which attracted new customers. Sales in Hong Kong declined compared with the previous fiscal year, due mainly to a drop in the number of tourists visiting the territory.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2016 totaled ¥311,550 million (down 1.2% from the previous fiscal year), with operating profit of ¥32,507 million (down 5.6%). In this business, the Group is making improvements to the value chain, such as rebuilding its product strategy to emphasize growth and profitability.

\*6: INTAGE SRI (01/2016 to 12/2016 +0.2%). All rights reserved, no reproduction without permission.

\*7: © 2017, The Nielsen Company, Scantrack® service, US xAOC channels 2007-2016. All rights reserved, no reproduction without permission.

\*8: © 2016, The Nielsen Company, US xAOC channels 12/2016 +3.0%. All rights reserved, no reproduction without permission.

### **Consumer Products**

Sales volume of *MATCH*, a carbonated electrolyte drink containing vitamins, increased compared with the previous fiscal year, reflecting the launch of new products *Berry MATCH* in March 2016 and *MATCH Set Position* in October 2016 and efforts to reenergize the brand by continuing to implement an aggressive marketing strategy, sales promotion activities and other initiatives. Despite active marketing efforts such as stepped up communication initiatives to attract new customers, sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the previous fiscal year. The weaker sales volume mainly reflected a review of profit structure in the vending machine business. In the *Bon Curry* range of instant curry dishes, while there are impacts of competition, etc., ongoing steps were taken to increase brand value, such as implementing product strategies tailored to consumer needs and stepping up marketing and sales promotion activities.

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2016 totaled ¥35,468 million (down 8.0% from the previous fiscal year), with operating profit of ¥5,451 million (down 13.1%). In the consumer products segment, the Group is continuing its efforts to improve profitability by reviewing marketing strategies and sales promotion activities and improve the expense-to-sales ratio.

### **Others**

In the specialty chemical business, sales remained level compared with the previous fiscal year with growth in the sales of deodorizers for construction materials, flame retardant agents used in mobile devices and conducting materials grew but decline in the sales volume of hydrazine, a chemical ingredient. In the fine chemical business, sales decreased compared with the previous fiscal year, mainly due to making price reductions on pharmaceutical intermediates overseas and forex factors.

In the warehousing and transport business, there was growth in new external customers and increased handling volume resulting from the promotion of a “common distribution platform (distribution of products to market for the Group as well as for other firms)” business. However, overall sales remained level compared with the previous fiscal year. Sales in the direct sales support business increased compared with the previous fiscal year mainly due to the growth in the volume of orders handled.

As a result, net sales in the others segment for the fiscal year ended December 31, 2016 totaled ¥141,251 million (down 2.7% from the previous fiscal year), with operating profit of ¥7,782 million (up 708.1%).

(Translation)

iii) Research and development activities

Research and development expenses for the current fiscal year totaled ¥168,818 million.

Research and development expenses for the pharmaceutical business amounted to ¥159,447 million, those for the nutraceutical business amounted to ¥5,184 million, those for the consumer products business amounted to ¥486 million and those for the other businesses amounted to ¥3,699 million.

Pipeline information

The following compounds are in Phase III or later stage of development as of December 31, 2016.

Category	Development Code (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Central nervous system and neurology	OPC-14597 ( <i>ABILIFY</i> ) <aripiprazole>	Agitation associated with Alzheimer-type dementia / Oral	•					
	( <i>Abilify Maintena</i> ) <aripiprazole>	Bipolar I disorder / Long acting injection	•			•	•	
	ASC-01 <aripiprazole, sertraline>	Major depressive disorder / Oral	•					
	OPC-34712 ( <i>REXULTI</i> ) <brexipiprazole>	Major depressive disorder / Oral					•	
		Schizophrenia / Oral		•*			•	
		Agitation associated with Alzheimer-type dementia / Oral			•		•	
		Posttraumatic stress disorder (PTSD) / Oral			•		•	
Lu AA36143 <nalmefene>	Reduction of alcohol consumption in patients with alcohol dependence / Oral	•						
AVP-786 <deuterium-modified dextromethorphan, quinidine>	Agitation associated with Alzheimer-type dementia / Oral			•		•		
Oncology	TAS-102 ( <i>LONSURF</i> ) <trifluridine, tipiracil>	Gastric cancer / Oral	•		•		•	
	TAS-118 <tegafur, gimeracil, oteracil, folinate>	Pancreatic cancer / Oral	•					
		Gastric cancer / Oral	•					
	( <i>SATIVEX</i> ) <nabiximols>	Cancer pain / Oral spray			•			
SGL-110 <guadecitabine>	Acute myeloid leukemia (AML) / Injection	•		•		•		
Cardiovascular and renal system	OPC-41061 ( <i>Samsca/JINARC</i> ) <tolvaptan>	Autosomal dominant polycystic kidney disease / Oral			•			
	AKB-6548 <vadadustat>	Anemia associated with kidney disease / Oral			•			



(Translation)

Category	Development Code (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Other categories	YP-18 (ZOSYN) <tazobactam, piperacillin>	Complicated skin and soft tissue infections / Injection		•				
	OPC-12759E (Mucosta Ophthalmic Suspension) <rebamipide>	Dry eyes / Eye drops MD (Multi Dose)	•					
	OPC-67683 (Delyba) <delamanid>	Multidrug-resistant tuberculosis / Oral			•			
	OPF-105 <Amino Acid, Carbohydrate, and Fat Emulsion Injection with Electrolytes and Vitamins>	Peripheral parenteral nutrition solution / Injection	•					
Diagnostics	ODK-1003 (WT1 mRNA Assay Kit II 'Otsuka')	Acute lymphoblastic leukemia / In-vitro diagnostic agent		•				

\*Event after January 1, 2017: Brexpiprazole was filed for schizophrenia in Japan in January.

(Translation)

The Otsuka Group conducts research and development with a primary focus on addressing unmet medical needs in the areas of the central nervous system and oncology. The Group also conducts research and development in fields such as cardiovascular and renal system, ophthalmology, etc.

Research and development activities (Phase II or later stage of development) carried out during the current fiscal year in the pharmaceutical business are summarized below.

Category	Brand Name (Generic Name) Development Code	Status
Central nervous system and neurology	AVP-786	[U.S.] <ul style="list-style-type: none"> <li>Phase II trial for the disinhibition syndrome in neurodegenerative disorders was initiated in May 2016.</li> <li>Development for the treatment of major depressive disorder was halted as Phase II trial did not provide sufficient evidence of efficacy to justify continued development.</li> </ul>
	<i>ONZETRA Xsail</i> (sumatriptan) AVP-825	[U.S.] <ul style="list-style-type: none"> <li>Approval was granted in January 2016 for the indications of acute migraine. Also, sales started in May 2016.</li> </ul>
	<i>E Keppra</i> (levetiracetam)	[Japan] <ul style="list-style-type: none"> <li>Approval was granted in February 2016 for the additional indication of adjunctive therapy for generalized tonic-clonic seizures.</li> </ul>
	TAS-205	[Japan] <ul style="list-style-type: none"> <li>Phase II trial for the treatment of duchenne muscular dystrophy was initiated in May 2016.</li> </ul>
	<i>ABILIFY</i> (aripiprazole)	[Japan] <ul style="list-style-type: none"> <li>Approval was granted in September 2016 for the additional indication of irritability associated with pediatric autism spectrum disorder. Also, sales of <i>ABILIFY 1 mg Tablet</i> started in November 2016.</li> </ul>
	<i>Abilify Maintena</i> (aripiprazole)	[U.S.] <ul style="list-style-type: none"> <li>An application was accepted in November 2016 for the additional indication of bipolar disorder.</li> </ul>

Category	Brand Name (Generic Name) Development Code	Status
Oncology	<i>LONSURF</i> (trifluridine, tipiracil) TAS-102	[Europe] <ul style="list-style-type: none"> <li>Approval was granted in April 2016 for the indications of advanced or recurrent colorectal cancer.</li> </ul> [Japan, U.S. and Europe] <ul style="list-style-type: none"> <li>Phase III trial for the treatment of gastric cancer was initiated in February 2016.</li> </ul>
	ASTX727	[U.S.] <ul style="list-style-type: none"> <li>Phase II trial for the treatment of myelodysplastic syndrome was initiated in January 2016.</li> </ul>
	TAS-116	[Japan] <ul style="list-style-type: none"> <li>Phase II trial for the treatment of gastrointestinal stromal tumor was initiated in May 2016.</li> </ul>
	<i>TS-1</i> (tegafur, gimeracil, oteracil) S-1	[Japan and Asia] <ul style="list-style-type: none"> <li>Development for the treatment of uterocervical cancer was halted as Phase III trial did not present sufficient evidence of efficacy.</li> </ul>
	(fosnetupitant) Pro-NETU	[Japan] <ul style="list-style-type: none"> <li>Phase II trial for the treatment of nausea and vomiting related to the administration of anti-cancer agents was initiated in September 2016.</li> </ul>
	TAS-114	[Japan, U.S. and Europe] <ul style="list-style-type: none"> <li>Phase II trial for the treatment of non-small cell lung cancer was initiated in August 2016.</li> </ul>
	<i>Iclusig</i> (ponatinib)	[Japan] <ul style="list-style-type: none"> <li>Approval was granted for the indications of chronic myeloid leukemia and Philadelphia chromosome-positive acute lymphoblastic leukemia in September 2016. Also, sales started in November 2016.</li> </ul>
Cardiovascular and renal system	(vadadustat) AKB-6548	[U.S.] <ul style="list-style-type: none"> <li>Akebia Therapeutics and Otsuka Pharmaceutical concluded an agreement in December 2016 to collaborate in developing and commercializing a new drug in the U.S. to treat anemia associated with kidney disease (currently in Phase III trial).</li> </ul>
Other categories	(emixustat) ACU-4429	[U.S.] <ul style="list-style-type: none"> <li>It was decided to discontinue trial for the treatment of dry age-related macular degeneration in May 2016 as Phase II/ III trial did not meet the primary endpoint. An agreement with Acucela Inc. for the co-development and commercialization of the drug was terminated in June 2016.</li> </ul>
	(tetomilast) OPC-6535	[Japan, U.S. and Asia] <ul style="list-style-type: none"> <li>Development for the treatment of chronic obstructive pulmonary disease was halted as Phase II trial did not present sufficient scientific data to justify continued development.</li> </ul>
	OPA-6566	[U.S.] <ul style="list-style-type: none"> <li>Development for the treatment of glaucoma was halted as Phase I/ II trial did not provide sufficient evidence of efficacy to justify continued development.</li> </ul>

Category	Brand Name (Generic Name) Development Code	Status
	<i>Bilanoa</i> (bilastine) TAC-202	[Japan] • Approval was granted in September 2016 for the indications of allergic rhinitis, and chronic urticaria and pruritus associated with skin disease. Also, sales started in November 2016.
	<i>ZOSYN</i> (tazobactam, piperacillin) YP-18	[Japan] • An application was filed for the indications of complicated skin and soft tissue infections (including diabetic foot infections) in July 2016.
	<i>ELNEOPA-NF No.1 / No. 2 Injection</i> OPF-108	[Japan] • Approval was granted in July 2016 as a high-calorie TPN solution.
	<i>Mikeluna combination ophthalmic solution</i> (carteolol, latanoprost) OPC-1085EL	[Japan] • Approval was granted in September 2016 for the indications of glaucoma and ocular hypertension.
	OPA-15406	[Japan] • Phase II trial for the treatment of atopic dermatitis was initiated in September 2016.
	TAS-303	[Japan] • Phase II trial for the treatment of stress urinary incontinence was initiated in October 2016.
Diagnostics	<i>WT1 mRNA Assay Kit II</i> 'Otsuka' ODK-1003	[Japan] • An application was filed as an in-vitro diagnostic agent for acute lymphoblastic leukemia in July 2016.  [Asia] • An application was filed as an in-vitro diagnostic agent for myelodysplastic syndrome in August 2016.

## iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during the current fiscal year amounted to ¥75,457 million. These investments were funded by own capital.

Capital investments in the pharmaceutical business totaled ¥52,163 million. That amount includes investment to upgrade existing facilities and an upfront payment of \$125 million related to a collaboration and license agreement in the U.S. for vadadustat, which is currently being developed by Akebia Therapeutics, Inc.

Capital investments in the nutraceutical business totaled ¥11,562 million, primarily to upgrade existing facilities. Capital investments in the consumer business totaled ¥2,909 million, while those in other businesses totaled ¥6,303 million, and corporate investments (common) totaled ¥2,518 million.

## (2) Key Issues to be Addressed

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

### <Positioning of Second Medium-Term Management Plan and Main Initiatives>

Under the Second Medium-Term Management Plan, the Otsuka Group will establish a diversified business portfolio and promote sustainable growth through continued investment and corporate structural reform. The Group, to implement total healthcare provision that is centered on our corporate philosophy, aims to become an indispensable contributor to people’s health worldwide by working to expand business opportunities through the seamless combination of its people, technologies and products based on delivering organic growth.

#### i) Strengthen core therapeutic areas

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

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

#### ii) Structural reform, evolution and growth of the nutraceutical business

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

**Progress on Main Initiatives**

Progress with the plan's main initiatives is as follows:

- Global sales of *Abilify Maintena* rose strongly, supported by sales in Japan, the U.S. and Europe. In the U.S., the Group submitted an application for the additional indication of bipolar disorder, as part of efforts to maximize product value.
- Sales of *REXULTI* are growing strongly, supported by sales in the U.S. for the indications of schizophrenia and adjunctive therapy in major depressive disorder. The Group will continue to work toward applying for additional indications and proactively make efforts to increase product value.
- *Samsca/JINARC*'s value increased among medical specialists as an oral aquaretic agent, and it is helping patients in Japan and Europe as the world's first drug for the autosomal dominant polycystic kidney disease.
- Sales of *LONSURF* are growing steadily in Japan, the U.S. and Europe, where it is sold as a treatment for colorectal cancer. In order to increase product value, the Group has started global clinical trials for the treatment of gastric cancer with the aim of securing additional indications.
- In the nutraceutical business, the Group has developed new product categories and actively invested in growth fields, supporting solid sales growth in overseas operations. In order to accelerate product development and overseas business expansion, the Group will review business assets that support the value chain and work toward reform aimed at establishing a stable business portfolio.

**(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 6th fiscal year (Ended March 31, 2014)	The 7th fiscal year (Ended December 31, 2014)	The 8th fiscal year (Ended December 31, 2015)		The 9th fiscal year (Ended December 31, 2016)
	Japan GAAP	Japan GAAP	Japan GAAP	IFRS	IFRS
Net sales (Millions of yen)	1,452,759	1,224,298	1,445,227	1,427,375	1,195,547
Operating income or operating profit (Millions of yen)	198,702	196,528	151,837	148,886	101,145
Net income or profit attributable to owners of the Company (Millions of yen)	150,989	143,143	84,086	101,957	92,563
Net income per share or basic earnings per share (Yen)	278.07	264.20	155.12	188.16	170.82
Total assets (Millions of yen)	2,028,399	2,178,184	2,528,510	2,575,280	2,478,290
Total net assets or total equity (Millions of yen)	1,510,759	1,658,600	1,683,436	1,727,370	1,738,441
Net assets per share or equity attributable to owners of the Company per share (Yen)	2,740.89	3,004.38	3,053.82	3,134.56	3,156.83

Notes:

1. The 7th fiscal year is a period of nine months from April 1, 2014 to December 31, 2014 as a result of changing the fiscal year end.
2. From the 9th fiscal year, consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). For reference purposes, IFRS figures have also been provided for the 8th fiscal year.

**(4) Significant Subsidiaries (as of December 31, 2016)**

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 pharmaceutical products, clinical inspections and medical devices, food and beverages, 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%	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
Otsuka Pharmaceutical Europe Ltd.	U.K.	140,652 thousand euro	*100.00%	Manufacture and sale of pharmaceutical products
Nutrition & Santé SAS	France	65,145 thousand euro	*100.00%	Manufacture and sale of food products

Notes:

- The asterisk (\*) in Percentage of voting rights held by the Company includes the percentage of voting rights held indirectly.
- Specified wholly owned subsidiaries as of the current fiscal year-end are as follows:

Name of specified wholly owned subsidiary	Address of specified wholly owned subsidiary	Book value of specified wholly owned subsidiary at current fiscal year-end
Taiho Pharmaceutical Co., Ltd.	1-27 Kanda Nishikicho, Chiyoda-ku, Tokyo	275,447 million yen
Otsuka Pharmaceutical Co., Ltd.	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo	206,093 million yen

Note: The Company's total assets amounted to ¥995,001 million at the current fiscal year-end.

**(5) Major Offices and Factories (as of December 31, 2016)**

The Company

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

Significant subsidiaries

Company name	Location
Otsuka Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Pharmaceutical Factory, Inc.	Naruto City, 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.
Otsuka Pharmaceutical Europe Ltd.	Buckinghamshire, U.K.
Nutrition & Santé SAS	Occitanie, French Republic

(Translation)

**(6) Employees** (as of December 31, 2016)

i) Employees of the Otsuka Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	18,647	(1,724)	up 700	(up 463)
Nutraceuticals	7,493	(1,722)	up 154	(up 55)
Consumer products	541	(87)	up 27	(down 15)
Others	3,457	(772)	up 316	(up 107)
Corporate (Common)	1,649	(348)	down 48	(up 10)
Total	31,787	(4,653)	up 1,149	(up 620)

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
87 (117)	up 9 (up 33)	44.5	3.7

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.

**(7) Major Creditors** (as of December 31, 2016)

Creditor	Balance of borrowings
Mizuho Bank, Ltd.	72,357 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd	71,001 million yen
Resona Bank, Limited	44,014 million yen
Sumitomo Mitsui Banking Corporation	36,494 million yen
The Awa Bank, Ltd.	12,909 million yen



(Translation)

## 2. Current Status of the Company

### (1) Shares (as of December 31, 2016)

- i) Total number of authorized shares: 1,600,000,000 shares
- ii) Total number of issued shares: 557,835,617 shares
- iii) Number of shareholders: 49,982
- 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	62,597	11.55
Otsuka Estate Ltd.	22,891	4.22
Japan Trustee Services Bank, Ltd. (trust account)	21,821	4.02
The Master Trust Bank of Japan, Ltd. (trust account)	16,682	3.07
Otsuka Group Employee Shareholding Fund	14,131	2.60
The Awa Bank, Ltd	10,970	2.02
STATE STREET BANK WEST CLIENT - TREATY 505234	7,735	1.42
GOLDMAN SACHS & CO. REG	7,486	1.38
Otsuka Asset Co., Ltd.	7,380	1.36
Japan Trustee Services Bank, Ltd. (trust account 9)	6,703	1.23

Notes:

1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,986,347 of its own shares, treasury shares are excluded from the above list.
3. Shareholding ratio is calculated after treasury shares are deducted.

### (2) Status of Share Acquisition Rights

- i) Status of share acquisition rights at current fiscal year-end

(as of December 31, 2016)

	No. 5 share acquisition rights
Date of resolution on issuance	May 13, 2016
Number of share acquisition rights	8,514
Class and number of shares underlying share acquisition rights	Ordinary shares: 851,400 shares (100 shares per share acquisition right)
Amount to be paid in for share acquisition rights for subscription	¥417,300 per share acquisition right (¥4,173 per share)
Value of property to be contributed when such share acquisition rights are exercised	¥100 per share acquisition right (¥1 per share)
Period during which share acquisition rights may be exercised	From March 1, 2019 to February 28, 2021
Conditions for exercise of share acquisition rights	(See Note)
Beneficiaries	Directors of the Company: 6      Number of share acquisition rights: 5,676 Directors of the Company's subsidiaries: 3      Number of share acquisition rights: 2,838

Note: In order to make a greater contribution to the continued improvement of the Group's mid- to long-term business performance and corporate value, remuneration-type stock options (share acquisition rights), along with business performance achievement conditions, are issued to the Company's Directors (excluding Outside Directors) and Directors of the Company's subsidiaries (hereinafter "Beneficiaries") as a mid-term incentive plan (hereinafter "the Mid-term Incentive Plan").

Of the share acquisition rights, the number of share acquisition rights that can finally be exercised is determined based on the level of achievement, etc. of the mid-term management plan for which 2018 is designated as the final year (hereinafter "the Mid-term Management Plan").

The share acquisition rights shall be granted only once until December 31, 2018, during which time the Mid-term Management Plan will be in progress, and it is not scheduled to additionally issue any similar share acquisition rights while the Mid-term Management Plan is in progress.

Under the Mid-term Incentive Plan, the base number for calculating the share acquisition rights that can be exercised in accordance with the title of each Beneficiary is determined, and 40% shall be designated as a fixed portion, which can be

exercised in a lump sum by the elapse of the final year of the subject period, and 60% (i.e., the remainder thereof) shall be designated as a “business performance-linked portion,” which is a system where the number of share acquisition rights that can be exercised will be finalized based on the level of achievement of the consolidated sales objective amount and the consolidated operating profit objective amount in the fiscal year ending December 31, 2018 (200% in the case where the level of achievement of the objective amount is 200% or more, and 0% in the case where the level of achievement of the objective amount is 80% or less).

Each of the number of share acquisition rights to be allotted to the Beneficiaries is designated as the same number of share acquisition rights (the theoretical maximum number) that can be exercised by a person who has the highest title in the case where the greatest possible business performance is achieved, regardless of their actual title as of the allotment to each Beneficiary, in preparation for a situation where there is a change in the level of achievement of the consolidated sales objective amount and the consolidated operating profit objective amount etc., in the fiscal year ending December 31, 2018, established at the time of introducing the Mid-term Incentive Plan and/or each Beneficiary’s title during the subject period.

In addition, a cap is set as a whole for the total number of share acquisition rights that can be finally exercised by six Directors of the Company. Specifically, in principle, in the case where the business operation system as of the allotment date (the titles and the number of persons who assume such titles as of the same day) is maintained and the greatest possible business performance is achieved, the total number of share acquisition rights that can be exercised by the Beneficiaries who assume each title is set as a cap, which is 2,386 share acquisition rights. The condition where no exercise of the excess amount is allowed if such cap is exceeded has been set forth in a share acquisition rights agreement executed between the Company and the Beneficiaries in accordance with a resolution of the Company’s Board of Directors.

Other matters such as the conditions for the exercise of share acquisition rights are set forth in the share acquisition rights agreement executed between the Company and the Beneficiaries.

ii) Status of share acquisition rights held by Directors of the Company granted as compensation for their execution of duties at current fiscal year-end

(as of December 31, 2016)

Name	Number of holders	Number of share acquisition rights	Number of shares underlying share acquisition rights
No. 5 share acquisition rights	Six Directors of the Company (excluding Outside Directors)	5,676	567,600 shares

Note: A summary of the share acquisition rights is provided in i) above.

iii) Status of share acquisition rights granted to employees, etc. as compensation for their execution of duties during the current fiscal year

Name	Number of grantees	Number of share acquisition rights	Number of shares underlying share acquisition rights
No. 5 share acquisition rights	Three Directors of subsidiaries of the Company	2,838	283,800 shares

Note: A summary of the share acquisition rights is provided in i) above.

**(3) Directors and Audit & Supervisory Board Members of the Company**

## i) Directors and Audit &amp; Supervisory Board Members (as of December 31, 2016)

Position in the Company	Name	Areas of Responsibility and Significant Concurrent Positions
Chairman and Representative Director	Ichiro Otsuka	Chairman, Otsuka Pharmaceutical Factory, Inc. Executive Director, Otsuka Pharmaceutical Co., Ltd. President and Representative Director, Otsuka Estate Ltd. President and Representative Director, Otsuka Asset Co., Ltd.
President and Representative Director	Tatsuo Higuchi	President and Representative Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Chemical Co., Ltd.
Senior Managing Director	Atsumasa Makise	In charge of Corporate Finance
Senior Managing Director	Yoshiro Matsuo	In charge of Corporate Administration
Executive Director	Sadanobu Tobe	President and Representative Director, Otsuka Foods Co., Ltd.
Executive Director	Tatsuro Watanabe	Managing Director, Otsuka Pharmaceutical Co., Ltd.
Executive Director	Yasuyuki Hiroto	Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD.
Executive Director	Tadaaki Konose	Administrative Council member, University of Miyazaki, a National University Corporation
Executive Director	Yukio Matsutani	Vice President, International University of Health and Welfare
Standing Audit & Supervisory Board Member	Takaharu Imai	Audit & Supervisory Board Member, Otsuka Chemical Co., Ltd
Audit & Supervisory Board Member	Norikazu Yahagi	
Audit & Supervisory Board Member	Hiroshi Sugawara	Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. Vice President, Will Capital Management Co., Ltd.
Audit & Supervisory Board Member	Yoko Wachi	Attorney at law, KAJITANI LAW OFFICES Corporate Auditor, NICHIAS Corporation

## Notes:

- Executive Directors, Yasuyuki Hiroto, Tadaaki Konose and Yukio Matsutani are Outside Directors.
- Audit & Supervisory Board Members, Norikazu Yahagi, Hiroshi Sugawara and Yoko Wachi are Outside Audit & Supervisory Board Members.
- Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
- The Company appoints Executive Directors Yasuyuki Hiroto, Tadaaki Konose and Yukio Matsutani as well as Audit & Supervisory Board Members Norikazu Yahagi, Hiroshi Sugawara and Yoko Wachi as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc. and have registered them with the Exchange.
- Changes in Directors and Audit & Supervisory Board Members during the current fiscal year are as follows:
  - [Assumption of Office]
  - Executive Director, Yukio Matsutani (assumed his office as of March 30, 2016)
  - Audit & Supervisory Board Member, Yoko Wachi (assumed her office as of March 30, 2016)
  - [Retirement]
  - Executive Director, Juichi Kawaguchi (retired from office due to expiration of his term of office as of March 30, 2016)
  - Audit & Supervisory Board Member, Akihito Nakai (retired from office by resignation as of March 30, 2016)

## ii) Total compensations paid to Directors and Audit &amp; Supervisory Board Members

Classification	Number of persons paid	Amount of compensations paid
Directors (of which Outside Directors)	10 (4)	518 million yen (21 million yen)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	5 (3)	58 million yen (30 million yen)
Total (of which Outside Directors and Audit & Supervisory Board Members)	15 (7)	577 million yen (52 million yen)

## Notes:

1. There are no Directors of the Company who concurrently serve as employees.
2. 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 share acquisition rights of up to 810,000 shares annually of ordinary shares of the Company as stock options was resolved separately at the 8th Annual Shareholders Meeting on March 30, 2016. For details, please refer to the section of 2. Current Status of the Company (2) Status of Share Acquisition Rights ii) Status of share acquisition rights held by Directors and Audit & Supervisory Board Members of the Company granted as compensation for their execution of duties at current fiscal year-end.
3. The upper limit of compensation for Audit & Supervisory Board Members is set at ¥80 million per year as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010.
4. The above amounts of compensation include ¥121 million in bonuses for five Directors and ¥118 million in compensation as stock options for six Directors.
5. During the current fiscal year, Outside Directors and Audit & Supervisory Board Members received total compensation of ¥5 million from the Company's subsidiaries.

## iii) Matters concerning Outside Directors and Outside Audit &amp; Supervisory Board Members

## (i) Significant concurrent positions at other companies and relationships between the Company and such other companies

Executive Director, Yasuyuki Hiroto, serves as Board Director and Senior Vice President of KYOEI STEEL LTD. as well as Outside Director of ELECOM CO., LTD. The Group has no transactions with the said firms.

Executive Director, Tadaaki Konose, serves as Administrative Council member of University of Miyazaki, a National University Corporation. The Group has no transactions with the said organization.

Executive Director, Yukio Matsutani, serves as Vice President of International University of Health and Welfare. The Group has no transactions with the said organization.

Audit & Supervisory Board Member, Hiroshi Sugawara, serves as Audit & Supervisory Board Member of Otsuka Pharmaceutical Co., Ltd., and Vice President at Will Capital Management Co., Ltd. Otsuka Pharmaceutical Co., Ltd. is a wholly-owned subsidiary of the Company. The Group has no transactions with Will Capital Management Co., Ltd.

Audit & Supervisory Board Member, Yoko Wachi, serves as an attorney at law of KAJITANI LAW OFFICES as well as Corporate Auditor of NICHIAS Corporation. The Group has no transactions with the said firms.

## (ii) Major activities during the current fiscal year

Executive Director, Yasuyuki Hiroto attended all thirteen (13) meetings of the Board of Directors 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.

Executive Director, Tadaaki Konose attended all thirteen (13) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his abundant experience and extensive knowledge gained through many years in corporate management.

Executive Director, Yukio Matsutani attended nine (9) of the ten (10) meetings of the Board of Directors held since he assumed the office of Executive Director of the Company,

and provided appropriate comments based on his abundant experience and high-level insights gained in the healthcare and welfare field.

Audit & Supervisory Board Member, Norikazu Yahagi attended all thirteen (13) meetings of the Board of Directors and all fourteen (14) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his extensive experience and high-level insights acquired primarily as an outside Audit & Supervisory Board Member at other listed companies.

Audit & Supervisory Board Member, Hiroshi Sugawara attended all thirteen (13) meetings of the Board of Directors and all fourteen (14) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on his expertise as a certified public accountant.

Audit & Supervisory Board Member, Yoko Wachi attended all ten (10) meetings of the Board of Directors and all eleven (11) meetings of the Audit & Supervisory Board held since she assumed the office of Audit & Supervisory Board Member of the Company, and provided appropriate comments based on her broad experience cultivated as an attorney at law and high level of overall legal knowledge.

iv) Overview of the Agreement for Limitation of Liability

Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with each of Outside Directors and each of Audit & Supervisory Board Members which limit their liabilities for damages under Article 423, Paragraph 1 of the same Act. The maximum amount of liabilities under the said agreements shall be the minimum amounts set forth in laws and regulations.

**(4) Accounting Auditor**

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

ii) Amount of compensations

	Payment
Total compensations for the current fiscal year	114 million yen
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	399 million yen

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. The Audit & Supervisory Board gave its consent for the amount of compensation for the accounting auditor after the verification necessary to determine whether the following matters were appropriate; the content of the accounting auditor's audit plans, the status of execution of duties by the accounting auditor, and the basis for calculating the estimate of compensation.
3. Of the Company's principal subsidiaries, Otsuka America Pharmaceutical, Inc. and three 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)).
4. 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 Audit & Supervisory Board will submit a resolution related to the dismissal or non-reappointment of the accounting auditor. Based on that submission, the Board of Directors will call a shareholders meeting to discuss the resolution.

The Audit & Supervisory Board shall, if finding that the accounting auditor falls under any of the items in Article 340, Paragraph 1 of the Companies Act, and judging that there is no prospect of improvement, dismiss the accounting auditor based on the unanimous consent of all Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member appointed by the Audit & Supervisory Board 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**

At a meeting on April 13, 2015, the Board of Directors approved a resolution to partially revise its basic policies on internal control to ensure the appropriateness of operations (internal control system) in light of revisions to the Companies Act and the Ordinance for Enforcement of the Companies Act that came into effect on May 1, 2015. The revised basic policies are 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 further strengthen corporate governance by separating the Group's management supervisory function from the business execution function.

The Company formulates the Otsuka Group Global Code of Business Ethics 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 Company establishes the Otsuka Holdings Compliance Program as the specific guidelines of the Otsuka Group Global Code of Business Ethics, and leads efforts to promote establishment, maintenance, and improvement of the compliance system thorough education for employees under the Risk Management Committee.

While promoting the establishment of an internal control system to perform appropriate accounting processes and ensure reliability of financial reporting based on the Financial

Instruments and Exchange Act and other relevant laws and regulations, the Company continually assesses whether or not the said system is functioning appropriately, and implements necessary corrective action when it is inadequate.

The Company is resolute in its stance toward all anti-social forces and organizations that threaten social order and corporate soundness and has zero tolerance toward relations with such forces and organizations.

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, the Company shall 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 defines the roles of Corporate Officers executing business operations based on resolutions passed by 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. The Company will maintain a reporting system comprising subsidiary Directors, Corporate Officers, employees responsible for executing operations, and individuals responsible for conducting duties defined in Article 598, Paragraph 1 of the Companies Act, or individuals with authority over those employees (hereinafter "Directors, etc.") and ensure that the Directors, etc. of subsidiaries always conduct their duties efficiently and appropriately.

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 oversee or conduct audits of subsidiaries and affiliates and promote the development of risk management and compliance systems across the Group in accordance with the Internal Audit Regulations to ensure appropriate operations integrally.

- vi) Matters concerning employees in the event where Audit & Supervisory Board Members issue requests for employees to take charge of assisting them with their duties

The Company establishes an Audit & Supervisory Board Member's Office responsible for administering the convocation of meetings of the Audit & Supervisory Board and supporting the duties of Audit & Supervisory Board Members independently from the supervision of Directors.

- vii) Matters concerning the independence of employees referred to in the previous item from Directors and ensuring the effectiveness of instructions issued to them by Audit & Supervisory Board Members

Employees referred to in the previous item will be assigned exclusively to the Audit & Supervisory Board Member's Office, follow the instructions of the Audit & Supervisory Board Members and carry out assigned duties. Personnel transfers and evaluations relating to the Audit & Supervisory Board Member's Office shall be determined by the Board of Directors based on prior approval obtained from the Audit & Supervisory Board and shall secure independence from Directors.

- viii) Systems for reporting to Audit & Supervisory Board Members by Directors, employees, and executives or employees of subsidiaries (including Directors, etc., Audit & Supervisory Board Members and individuals involved in accounting), and other systems for reporting to Audit & Supervisory Board Members

The Company shall ensure that specific means, including a system to have Directors and employees report to Audit & Supervisory Board Members, which allow Audit & Supervisory Board Members to collect information concerning the execution of duties by Directors, in any of the following events take place.

- (i) Any incident that has caused or may cause material damage to the Company
- (ii) Any violation of laws and regulations, or the Articles of Incorporation and any other important compliance matter
- (iii) Progress of business execution by the Company and each of the Group companies
- (iv) Implementation status of internal audits
- (v) Matters to be resolved at important meetings

The Company shall establish a system that allows executives or employees of any company in the Otsuka Group, or individuals who have received reports from those executives or employees, to report matters related to (i) through (v) above to the Company's Audit & Supervisory Board Members.

The system shall also ensure that individuals who have submitted reports shall not be treated unfavorably for their actions.

- ix) Policy for treating expenses incurred by Audit & Supervisory Board Members in the course of executing their duties

The Company shall establish a system to ensure advance payments or reimbursement procedures for expenses incurred by Audit & Supervisory Board Members in the course of their duties, or the payment and reimbursement of expenses incurred by other duties, are conducted smoothly upon request from the Audit & Supervisory Board Members.

- x) Other systems to ensure effective audits by Audit & Supervisory Board Members

Audit & Supervisory Board Members 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 Audit & Supervisory Board Members, 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



Audit & Supervisory Board Members with information as necessary and cooperate in ensuring and improving the effectiveness of audits performed by Audit & Supervisory Board Members.

**(6) Overview of Current Status of System to Ensure the Appropriateness of Operations**

The Company, in accordance with its basic policies on system to ensure the appropriateness of operations, works to improve the system and ensure it functions appropriately.

Below is an overview of the status of the system in the current fiscal year, based on the Corporate Governance Guidelines established by the Company.

i) Overview of internal control system

To ensure the appropriateness of operations in the Otsuka Group, the Company received reports from the Directors and Audit & Supervisory Board Members of affiliates with respect to operations, earnings, risk and the status of legal compliance depending on the level of importance, and regularly held Group Internal Control Meetings. The Internal Audit Department, which is under the direct reporting line to the President, conducted internal audits of the internal control system structure and status of operation, including at affiliates, in accordance with audit plans approved by the President.

Internal control systems related to financial reporting at the Company and each of the Group companies were also evaluated at the account settlement period of each fiscal year to strengthen systems to ensure the preparation of appropriate financial documents.

ii) Compliance efforts

(i) The Otsuka Group Global Code of Business Ethics and the Otsuka Group Global Anti-Corruption Policy

Under its corporate philosophy, “Otsuka-people creating new products for better health worldwide,” the Otsuka Group has formulated the Otsuka Group Global Code of Business Ethics to realize promotion of compliance in the Group. Tatsuo Higuchi, the President and Representative Director of the Company, widely communicates the Group’s stance for the Code of Business Ethics as the President’s message.

The Company and each of the Group companies have also formulated ethics regulations to make the Code of Business Ethics more tangible. At subsidiaries in regions including Asia, the Company and each of the Group companies implemented a project to support the promotion of compliance, and all Group companies have strengthened compliance rules through Compliance Officers, and ensured their adherence.

(ii) Compliance training

The Company and each of the Group companies conduct training programs to ensure employees are aware of the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy and the ethics regulations of each Group company. Compliance forums are also held as part of training for executives and employees at affiliates.

iii) Reinforcing risk management system

(i) Risk management system

Meetings of the Risk Management Committee are held to consult on and raise awareness of measures to mitigate different types of risk in the Company’s and the Group’s business environment, including product quality risk, environmental risk and pharmacovigilance (PV) risk. The committee also updated the Emergency Response Manual, regularly reviewed the emergency contact system and promoted awareness to ensure rapid responses to situations at overseas affiliates.

(ii) Information security

The Company entrusts a specialist information security company to regularly check all the websites operated by the Company and each of the Group companies. The Company also conducts drills related to targeted email attacks.

Administrators at the Company and each of the Group companies held regular Group information security meetings to share information including the latest technologies and discuss measures to resolve internal issues. Training on information security was also held regularly.

iv) Management of affiliates

In accordance with the Affiliate Management Regulations, the Company's Board of Directors approves important decisions related to affiliates. Reports stipulated under the Affiliate Management Regulations were submitted to the Board of Directors or principal departments depending on the level of importance, and where necessary, the Board of Directors or the principal departments issued directions as appropriate.

v) Execution of duties by Directors

In accordance with the Regulations of the Board of Directors, a regular Board meeting was held each month. At the meetings, the Board of Directors made decisions on important matters stipulated by laws and regulations or in the Articles of Incorporation and conducted oversight of Directors using reports about the execution of their duties. The Board of Directors makes important decisions for the Company and each of the Group companies with respect to business trends, investment projects and other areas, and fulfills its business oversight functions through sufficient discussion of reported matters by using business analysis reports, documents on specialist fields and other materials.

vi) Execution of duties by Audit & Supervisory Board Members

In accordance with the Regulations of the Audit & Supervisory Board and the Audit Standards of the Audit & Supervisory Board, the Audit & Supervisory Board Members conducted the following audits.

Through attendance at meetings of the Board of Directors and other important meetings, the Audit & Supervisory Board Members gave their opinion as needed, inspected documents, such as circulars for managerial approval, requested explanations from Directors and employees, and provided guidance as necessary.

The Audit & Supervisory Board Members also receive information, including regular reports, and secure opportunities to view documents. Meetings of the Audit & Supervisory Board were held regularly and at other times when needed to work to improve the effectiveness and efficiency of audits through reporting the audit activities of individual Audit & Supervisory Board Members, and exchanging opinions and information.

The Audit & Supervisory Board Members received reports required by laws and regulations from Representative Directors, Directors and employees of the Company and each of the Group companies, and on a regular basis, and at other times when necessary, received information about earnings, business operations, and the status and operation of the internal control system, and provided guidance as necessary.

Audit & Supervisory Board Members regularly hold a meeting of the Group's Audit & Supervisory Board, and exchange opinions and share information with the accounting auditor. In addition, Audit & Supervisory Board Members visited and inspected the Group companies and received reports from Representative Directors and other individuals at those companies to gain understandings of business issues, risk and other matters, and provided guidance as necessary.

**(7) Policy on Decisions on Dividends**

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 ¥50 per share for the current fiscal year. Combined with the interim dividend of ¥50 per share that was paid on September 5, 2016, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 31, 2017.

(Translation)

**Consolidated Statement of Financial Position**

(As of December 31, 2016)

(Millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>		<b>Current liabilities</b>	
Cash and cash equivalents	369,875	Trade and other payables	162,349
Trade and other receivables	353,193	Bonds and borrowings	79,264
Inventories	133,758	Other financial liabilities	3,872
Income taxes receivable	14,381	Income taxes payable	21,482
Other financial assets	209,289	Provisions	552
Other current assets	33,031	Other current liabilities	169,091
Subtotal	1,113,529	<b>Total current liabilities</b>	<b>436,613</b>
Assets held for sale	325	<b>Non-current liabilities</b>	
<b>Total current assets</b>	<b>1,113,855</b>	Bonds and borrowings	193,972
<b>Non-current assets</b>		Other financial liabilities	11,942
Property, plant and equipment	358,762	Net defined benefit liabilities	15,331
Goodwill	231,839	Provisions	504
Intangible assets	446,974	Deferred tax liabilities	70,264
Investments in associates	166,600	Other non-current liabilities	11,219
Other financial assets	143,278	<b>Total non-current liabilities</b>	<b>303,235</b>
Deferred tax assets	6,939	<b>Total Liabilities</b>	<b>739,848</b>
Other non-current assets	10,038	<b>Equity</b>	
<b>Total non-current assets</b>	<b>1,364,434</b>	<b>Equity attributable to owners of the Company</b>	
		Share capital	81,690
		Capital surplus	503,979
		Treasury shares	(47,264)
		Retained earnings	1,209,139
		Other components of equity	(37,012)
		<b>Total equity attributable to owners of the Company</b>	<b>1,710,531</b>
		<b>Non-controlling interests</b>	<b>27,910</b>
		<b>Total Equity</b>	<b>1,738,441</b>
<b>Total Assets</b>	<b>2,478,290</b>	<b>Total Liabilities and Equity</b>	<b>2,478,290</b>

(Translation)

## **Consolidated Statement of Income**

(From January 1, 2016 to December 31, 2016)

(Millions of yen)

Item	Amount
Net sales	1,195,547
Cost of sales	(406,331)
<b>Gross profit</b>	<b>789,216</b>
Selling, general and administrative expenses	(535,852)
Research and development expenses	(168,818)
Share of profit of associates	15,974
Other income	4,569
Other expenses	(3,943)
<b>Operating profit</b>	<b>101,145</b>
Finance income	3,814
Finance costs	(13,126)
Other non-operating income	24,846
<b>Profit before taxes</b>	<b>116,680</b>
Income tax expenses	(23,347)
<b>Profit for the year</b>	<b>93,332</b>
Attributable to:	
Owners of the Company	92,563
Non-controlling interests	769
Total	93,332

(Translation)

**Consolidated Statement of Changes in Equity**

(From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2016	<b>81,690</b>	<b>503,384</b>	<b>(47,262)</b>	<b>1,159,537</b>	–	<b>23,096</b>
Profit for the year	–	–	–	92,563	–	–
Other comprehensive income	–	–	–	–	11,159	(673)
Comprehensive income	–	–	–	<b>92,563</b>	<b>11,159</b>	<b>(673)</b>
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	147	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	448	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	11,223	(11,159)	(63)
Total transactions with owners, etc.	–	<b>595</b>	<b>(2)</b>	<b>(42,961)</b>	<b>(11,159)</b>	<b>(63)</b>
Balance as of December 31, 2016	<b>81,690</b>	<b>503,979</b>	<b>(47,264)</b>	<b>1,209,139</b>	–	<b>22,358</b>

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Other components of equity			Total		
	Foreign currency translation reserve	Cash flow hedges	Total			
Balance as of January 1, 2016	<b>(22,112)</b>	<b>130</b>	<b>1,113</b>	<b>1,698,463</b>	<b>28,906</b>	<b>1,727,370</b>
Profit for the year	–	–	–	92,563	769	93,332
Other comprehensive income	(37,265)	(123)	(26,903)	(26,903)	(1,802)	(28,705)
Comprehensive income	<b>(37,265)</b>	<b>(123)</b>	<b>(26,903)</b>	<b>65,660</b>	<b>(1,032)</b>	<b>64,627</b>
Purchase of treasury shares	–	–	–	(2)	–	(2)
Dividends	–	–	–	(54,184)	(501)	(54,686)
Share-based payment transactions	–	–	–	147	–	147
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	448	538	986
Transfer from other components of equity to retained earnings	–	–	(11,223)	–	–	–
Total transactions with owners, etc.	–	–	<b>(11,223)</b>	<b>(53,591)</b>	<b>36</b>	<b>(53,555)</b>
Balance as of December 31, 2016	<b>(59,377)</b>	<b>6</b>	<b>(37,012)</b>	<b>1,710,531</b>	<b>27,910</b>	<b>1,738,441</b>

## Notes to Consolidated Financial Statements

### 1. Basis of Preparation of Consolidated Financial Statements

#### (1) Accounting Principles for Preparing Consolidated Financial Statements

The consolidated financial statements of the Company, its subsidiaries and interests in its associates (hereinafter collectively referred to as the “Group”), are prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) pursuant to the provisions of Article 120, Paragraph 1 of the Ordinance on Accounting of Companies. Pursuant to the provisions of the second sentence of the same paragraph, some disclosure items required under IFRS are omitted.

The Group has adopted IFRS for the first time in the current fiscal year and the date of transition to IFRS is January 1, 2015.

#### (2) Scope of Consolidation

i) Number of consolidated subsidiaries: 147

ii) 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, Otsuka Pharmaceutical Europe Ltd. and Nutrition & Santé SAS

#### (3) Application of the Equity Method

i) Number of associates accounted for by the equity method: 32

ii) Names of principal companies accounted for by the equity method:

Earth Chemical Co., Ltd., ALMA S.A., CG Roxane LLC, China Otsuka Pharmaceutical Co., Ltd. and Nichiban Co., Ltd.

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

Otsuka Furniture Manufacturing and Sales Co., Ltd., which had been the Company’s consolidated subsidiary, was excluded from the scope of consolidation as a result of sale of all its shares.

Otsuka Ridge Co., Ltd., which had been the Company’s consolidated subsidiary, was absorbed by Otsuka Naruto Development, Inc., a subsidiary of the Company.

VV Food & Beverage Co., Ltd., which had been the Company’s associate accounted for by the equity method, was excluded from the scope of equity-method application as a result of sale of part of its shares.

#### (5) Fiscal Year End of Consolidated Subsidiaries, Etc.

For consolidated subsidiaries and associates accounted for by the equity method whose fiscal year end differs from the consolidated fiscal year end, financial statements based on the provisional settlement of accounts as of December 31 have been used for the purpose of consolidation.

#### (6) Accounting Policies

i) Valuation of major assets

A. Financial assets

(i) Initial recognition and measurement

Trade and other receivables are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At the initial recognition, all financial assets, except for those measured at fair value through profit or loss, are measured at fair value plus transaction costs that are directly attributable to

the financial asset. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

At the initial recognition, financial assets are classified as (a) Financial assets measured at amortized cost, (b) Debt instruments measured at fair value through other comprehensive income, (c) Equity instruments measured at fair value through other comprehensive income or (d) Financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met.

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Debt instruments measured at fair value through other comprehensive income

Financial assets are classified as debt instruments measured at fair value through other comprehensive income if both of the following conditions are met.

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at fair value through other comprehensive income

For investments in some equity instruments, the Group has chosen an irrevocable option to present subsequent changes in the fair value of investments that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 Business Combinations applies in other comprehensive income, and classifies such investments as equity instruments measured at fair value through other comprehensive income.

(d) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and equity instruments measured at fair value through other comprehensive income stated above, are classified as financial assets measured at fair value through profit or loss.

(ii) Subsequent measurement

After the initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Equity instruments measured at fair value through other comprehensive income

Equity instruments measured at fair value through other comprehensive income are measured at fair value. Any changes in fair value are recognized in other comprehensive income. When such financial assets are derecognized, the accumulated other comprehensive income is transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit or loss.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Impairment

With respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition.

If credit risk on a financial instrument has not increased significantly since the initial recognition, the allowance for such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased



significantly since the initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in credit risk when payments have not been made and more than 30 days have passed since the contractual due date. The assessment of whether or not credit risk has increased significantly takes into account information that is reasonably available to the Group and supportable as well as past due information.

When the credit risk on a financial asset is considered low at the end of fiscal year, the Group determines that the credit risk on the financial asset has not increased significantly since initial recognition.

However, with regards to trade receivables, etc., that do not contain a significant financing component, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition.

Expected credit losses of a financial instrument are measured in a way that reflects the following items:

- Unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- Time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amounts of these measurements are recognized in profit or loss. The amount of expected credit losses (or reversal) required to adjust the loss allowance at the end of fiscal year to the amount that is required to be recognized is recognized in profit or loss, as impairment gains or impairment losses.

(iv) Derecognition

The Group derecognizes financial assets only when the contractual rights to the cash flows from the financial assets expire, or when the Group transfers financial assets and substantially all the risks and rewards of ownership of the financial assets.

B. Financial liabilities

(i) Initial recognition and measurement

Bonds and borrowings are initially recognized on the date when they are issued or incurred. All other financial liabilities are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments.

At the initial recognition, financial liabilities are classified as (a) financial liabilities measured at amortized cost and (b) financial liabilities measured at fair value through profit or loss.

At the initial recognition, financial liabilities measured at amortized cost are measured at fair value net of transaction costs that are directly attributable to the financial liability.

Transaction costs of financial liabilities measured at fair value through profit or loss are recognized in profit or loss.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes the financial liability when a financial liability is extinguished, that is, the obligations specified in a contract are discharged, cancelled or expired.

C. Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is presented only when the Group currently has a legally enforceable right to set off the recognized amount and intends either to settle on a net basis or realize the assets and settle the liabilities simultaneously.

D. Derivatives and hedge accounting

Derivatives are initially recognized at fair value. After the initial recognition, derivatives are measured at fair value.

The Group utilizes forward foreign exchange contracts, currency swap agreements, currency option transactions, interest rate swap agreements and other derivatives to hedge foreign currency risk and interest rate risk.

At the inception of a hedging relationship, the Group formally designates and documents the hedging relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and the methods of assessing whether the hedging relationship meets the hedge effectiveness requirements. In addition, the Group assesses whether the hedging relationship meets the hedge effectiveness requirements, both at the inception and on an ongoing basis. Ongoing assessments are performed at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes first.

The Group applies hedge accounting to cash flow hedges which meet the criteria for hedge accounting and such hedges are accounted for as follows:

The portions of the gain or loss on the hedging instrument that are determined to be effective hedges are recognized in other comprehensive income, while the remaining ineffective portions are recognized in profit or loss. The amounts associated with the hedging instruments recognized in other comprehensive income are reclassified to profit or loss when the hedged transactions affect profit or loss. However, in cases where the hedged forecast transaction subsequently results in the recognition of a non-financial asset or liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or liability.

When the hedging relationship ceases to meet the qualifying criteria, or the hedging instrument expires or is sold, terminated or exercised, the application of hedge accounting is discontinued prospectively. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gains or losses that have been recognized in equity through other comprehensive income are reclassified to profit or loss.

The Group does not undertake any fair value hedges and any hedges of net investment in foreign operations.

E. Inventories

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The cost of inventories is determined mainly by using the weighted-average cost formula. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition.

ii) Depreciation or amortization methods of property, plant and equipment, intangible assets and leased assets

A. Property, plant and equipment

The cost model is applied in measurement of property, plant and equipment. Property, plant and equipment are carried at cost less any accumulated depreciation and any accumulated impairment losses.

The cost of property, plant and equipment includes cost directly incidental to the acquisition

of assets, and the initial estimated costs of dismantling and removing the assets and restoration costs.

Depreciation expense for assets except for land and construction in progress is recognized mainly by the straight-line method over the respective estimated useful lives. The estimated useful lives of major asset items are as follows:

- Buildings and structures: 2 to 65 years
- Machinery and vehicles: 2 to 58 years
- Tools, furniture and fixtures: 2 to 30 years

The estimated useful lives, residual values and depreciation methods of assets are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

#### B. Intangible assets

The cost model is applied in measurement of intangible assets. Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Separately acquired intangible assets are measured at cost at the time of the initial recognition.

Intangible assets acquired in business combinations are measured at fair value at the acquisition date.

Internally generated intangible assets, other than development expenses that meet the requirements for capitalization, are recognized as an expense when incurred.

Amortization expense on each intangible asset with a finite useful life is recognized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible assets are as follows:

- Patents: 5 to 10 years
- Trademarks, distribution rights and others: 3 to 16 years
- Software: 2 to 10 years

The estimated useful lives, residual values and amortization methods are reviewed at the end of each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

Intangible assets with indefinite useful lives consist mainly of brands and trademarks acquired separately or in business combinations, and are included in intangible assets as trademarks, distribution rights and others. Intangible assets with indefinite useful lives are reviewed at the end of each fiscal year to determine whether the indefinite useful life assessment remains appropriate. If it is no longer appropriate, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate.

In-process research and development acquired separately or in business combinations are included in intangible assets as in-process research and development. Because these assets are intangible assets that are not yet available for use, they are not amortized and are tested for impairment. An asset in “in-process research and development” is transferred to trademarks, distribution rights and others when the asset becomes available for use by obtaining permits and approvals from regulatory authorities in a subsequent period, and begins to be amortized by the straight-line method over the estimated useful life from that time.

#### C. Leased assets

Lease transactions in which substantially all the risks and rewards incidental to ownership are transferred to the Group are classified as finance leases. All other lease transactions are classified as operating leases.

With regards to finance leases, the Group initially recognizes lease assets and liabilities at the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Leased assets are depreciated using the straight-line method over their estimated useful lives or lease terms, whichever is shorter. Lease payments are apportioned between the finance costs and the repayments of the lease obligations. Finance costs are allocated to each period

during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments under operating leases are recognized as expenses using the straight-line method over the lease term.

D. Impairment of property, plant and equipment and intangible assets

The Group assesses whether there is any indication of impairment at the end of each fiscal year for property, plant and equipment and intangible assets. If any such indication exists, the recoverable amount of the asset is estimated. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. For the intangible assets with indefinite useful lives, or those not yet available for use, the recoverable amounts are estimated at the end of each fiscal year, regardless of whether there is any indication of impairment.

The recoverable amount of an individual asset or a cash-generating unit is measured at the higher of its fair value less cost of disposal or its value in use. The value in use is calculated by discounting the estimated future cash flows to the present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

The corporate assets do not independently generate cash inflows. When there is an indication of impairment of the corporate assets, the recoverable amount of the cash-generating unit to which the corporate assets belong is calculated.

Impairment loss is recognized in profit or loss when the carrying amount of the asset or cash-generating unit exceeds the recoverable amount.

For an impairment loss recognized in prior periods, the Group assesses whether there is any indication of a decrease or disappearance of the impairment loss at the end of each fiscal year. If there is any indication of reversal of impairment loss, the recoverable amounts of assets or cash-generating units are estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the recoverable amount or the carrying amount less any depreciation and amortization costs that would have been determined had no impairment loss been recognized.

iii) Goodwill

Goodwill is measured as the excess of the aggregate of the consideration transferred in business combination, the amount of non-controlling interests in the acquiree and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. In case the identifiable net asset exceeds the aggregate of the consideration and others, such excess is immediately recognized in profit or loss.

The consideration transferred is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer. The consideration transferred includes any assets or liabilities resulting from a contingent consideration arrangement. The amount of non-controlling interests in the acquiree is measured for each business combination either at fair value or as the present ownership instruments' proportionate share in the recognized amounts of the acquiree's identifiable net assets. After the initial recognition, the amount is recorded at its cost less any accumulated impairment losses.

Goodwill is allocated to each of the cash-generating units or groups of cash-generating units (hereinafter referred to as the "Cash-Generating Units") that is expected to benefit from the synergies of the business combination. Cash-Generating Units to which goodwill has been allocated are tested for impairment annually and whenever there is an indication that the unit may be impaired. If the recoverable amount of Cash-Generating Units is less than their carrying amounts, an impairment loss is recognized in profit or loss. With regard to allocation of impairment losses recognized in association with Cash-Generating Units, first the carrying amount of goodwill that has been allocated to the unit is reduced, and then the remaining

amount of impairment loss is allocated to other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. For impairment losses recognized on goodwill, no reversal is made in subsequent periods.

iv) Provisions

Provisions are recognized when there are present legal or constructive obligations as a result of past events, it is probable that outflows of resources embodying economic benefits will be required to settle the obligations, and reliable estimates can be made of the amount of obligations.

The amount recognized as provisions is the best estimate taking into account the risks and uncertainties of the expenditure required to settle the present obligations on the reporting date. When the time value of money is material, the amount of provision is measured at the present value of the expenditures expected to be required to settle the obligation.

v) Post-employment benefits

The Group's post-employment benefit plans for its employees include defined benefit plans and defined contribution plans.

The Group uses the projected unit credit method to determine the present value of the defined benefit obligations, the related current service cost and the past service cost.

The discount rate is determined based on the market yield on high quality corporate bonds at the end of fiscal year that are consistent with the discount period, which is set for the projected period until the expected date of benefit payment in each fiscal year.

Net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. If the defined benefit plan has surplus, the defined benefit asset is limited to the asset ceiling that is the present value of any future economic benefits available in the form of reductions in the future contributions to the plan or cash refunds.

Service costs and net interest on the net defined benefit liabilities (assets) are recognized in profit or loss.

The rereasured amount of a defined benefit plan is recognized at once in other comprehensive income when it occurs, and immediately transferred to retained earnings. Contributions to the defined contribution retirement benefits are recognized as expenses when employees have rendered service.

vi) Foreign currency translation

A. Foreign currency transactions

Foreign currency transactions are translated to the respective functional currencies of the group companies at exchange rates on the transaction dates or exchange rates which are close to the actual rate on the transaction dates. Foreign currency monetary assets and liabilities are translated to the functional currency at the closing rate. Foreign currency monetary assets and liabilities that are measured at fair value are translated into the functional currency using the exchange rate at the date of measurement.

Translation differences arising from translations or settlements are recognized as profit or loss; provided, however, that translation differences arising from financial assets measured through other comprehensive income as well as from cash flow hedges are recognized as other comprehensive income.

B. Foreign operations

The assets and liabilities of foreign operations are translated into Japanese yen at the closing rate. The revenues and expenses of foreign operations are translated into Japanese yen at the average exchange rate for the reporting period. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. Foreign currency translation reserve are recognized as profit or loss for the period in which the foreign operations concerned are disposed.

The Group has adopted the exemption of IFRS 1 and accordingly the cumulative amount of

(Translation)

foreign currency translation reserve at the IFRS transition date (January 1, 2015) is deemed to be zero and the entire amount has been reclassified to retained earnings.

vii) Other

A. Accounting method for consumption taxes

Consumption taxes are excluded from revenues and expenses.

B. Adoption of the consolidated taxation system

In the current fiscal year, the Company and certain domestic subsidiaries applied for approval of the adoption of the consolidated taxation system and it is to be adopted from the following fiscal year. Therefore, from the current fiscal year, deferred tax assets and liabilities are accounted for assuming the adoption of the consolidated taxation system.

(Translation)

## 2. Notes to Consolidated Statement of Financial Position

### (1) Allowance for Credit Losses Directly Deducted from Assets

		(Millions of yen)
Trade and other receivables	¥	1,259
Other financial assets (non-current assets)		80

### (2) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Property, plant and equipment	¥	
Buildings and structures		641
Machinery and vehicles		1,315
Land		733
Other		174
Total	¥	2,865

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥600 million and bonds and borrowings (non-current liabilities) of ¥1,994 million.

### (3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses)

¥640,526 million

### (4) Contingent Liabilities

Outstanding guarantees given to financial institutions and others of associates and others:

¥261 million

## 3. Notes to Consolidated Statement of Income

Other non-operating income consists of ¥18,119 million of gain on sales of shares of VV Food & Beverage Co., Ltd. that was accounted for using the equity method, and ¥6,727 million of gain, which was recognized by remeasuring fair value of the residual interest at the date when the equity method was discontinued.

## 4. Notes to Consolidated Statement of Changes in Equity

### (1) Total Number of Issued Shares

Class of shares	Number of shares as of January 1, 2016	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 December 31, 2016
Ordinary shares	557,835 thousand shares	–	–	557,835 thousand shares

### (2) Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2016	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 December 31, 2016
Ordinary shares	15,985 thousand shares	0 thousand shares	–	15,986 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares 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 February 12, 2016	Ordinary shares	¥27,092 million	¥50	December 31, 2015	March 31, 2016
Meeting of the Board of Directors held on August 9, 2016	Ordinary shares	¥27,092 million	¥50	June 30, 2016	September 5, 2016

## ii) Dividends whose record date is in the current fiscal year but whose 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 February 14, 2017	Ordinary shares	Retained earnings	¥27,092 million	¥50	December 31, 2016	March 31, 2017

**5. Notes to Financial Instruments**

## (1) Matters Concerning Conditions of Financial Instruments

## i) Financial risk management

The Group is exposed to financial risks (market risk, credit risk and liquidity risk) in the course of operating activities and conducts risk management in accordance with certain policy to mitigate these financial risks. The Group uses derivative transactions to avoid foreign currency risks or interest rate risks and, in accordance with its policy, does not carry out any speculative transactions.

## ii) Market risk management

The Group's activities are mainly exposed to risks of changes in economic circumstances and financial market circumstances. Specifically, the risks of changes in financial market circumstances include A. Foreign currency risks, B. Interest rate risks, and C. Risk of fluctuations in equity instrument prices.

## A. Foreign currency risks

## • Foreign currency risk management

The Group engages in business globally, and fluctuations in exchange rates of the US dollar and Euro principally affect its operating results.

With regard to settlement of receivables and payables arising from ongoing operating activities, the Group's policy is to balance foreign exchange receipts and payments as much as possible with three major currencies, namely the US dollar, Euro and Yen. More specifically, operating subsidiaries that continuously engage in export and import transactions reduce the frequency of exchanging foreign currencies by holding foreign currencies received as export proceeds without exchanging them for the local currency, and using them directly in payment for imports, in order to mitigate foreign currency risks.

## • Forward exchange contracts and others

With regard to management of derivative transactions including forward exchange contracts, the Group has established management rules for derivative transactions and limits derivative transactions to those made for the purpose of hedging risks.

The Group may enter into forward exchange contracts and other agreements to fix future



cash flows related to lending and borrowing of funds within the Group in association with receivables and payables denominated in foreign currencies or to determine the amount of dividends within the Group. In this case, the Group also manages these contracts appropriately in accordance with the internal rules.

**B. Interest rate risk management**

The Group is exposed to various interest rate risks in its business activities, and especially subject to fluctuations in interest rates associated with borrowings. However, the effect of interest rate fluctuations on borrowing costs is offset by income arising from assets that are affected by the interest rate fluctuations.

The Group monitors fluctuations in interest rates arising from these assets and liabilities, and manages interest rate risks through refinancing and other means when interest rates drastically fluctuate.

**C. Management of risk of fluctuations in equity instrument prices**

The Group is exposed to risk of fluctuations in share prices arising from equity instruments (shares). The Group has no equity instruments held for short-term trading and owns equity instruments to smoothly execute business strategies. The Group does not sell these investments actively. With regard to equity instruments, the Group regularly assesses fair value and financial conditions of issuers.

**iii) Credit risk management**

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. The Group has the sales department and the accounting and finance department monitor the status of business partners in terms of trade receivables, etc., regularly and manage due dates and balances for each business partner while working to early identify and mitigate any concerns about collections due to deterioration in each business partner's financial position and other factors. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be a default. With regard to shares in securities and investment securities, financial conditions of issuers are assessed regularly in accordance with management rules of each Group company. With regard to public and corporate bonds, credit risks are insignificant because the Group invests only in highly rated bonds.

The Group recognizes that there is little credit risk in the use of derivatives since it only deals with financial institutions with high credit ratings to mitigate credit risk.

The Group does not have any credit risk overly concentrated in a specific counterparty or a group to which the counterparty belongs.

The carrying amounts after impairment presented in the consolidated statement of financial position represent the Group's maximum exposure to credit risk of financial assets.

**iv) Liquidity risk management**

The Group manages liquidity risk by having the accounting and finance department prepare and update a cash flow management plan, maintaining a constant level of liquidity at hand, and other means. A temporary shortage of funds due to payment of dividends, bonuses and others is covered with loans from banks and other financial institutions.

(Translation)

(2) Fair Value of Financial Instruments

The carrying amount and fair value of financial instruments at the end of the fiscal year are as follows:

	(Millions of yen)	
	Carrying amount	Fair value
<Financial assets>		
Financial assets measured at amortized cost		
Other financial assets (bonds)	15,388	15,384
Total financial assets	15,388	15,384
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Bonds and borrowings	273,236	273,154
Other financial liabilities (lease obligations)	7,036	7,444
Total financial liabilities	280,273	280,598

Note: Information on financial instruments measured at fair value is omitted, since the carrying amount is equal to the fair value. Information is also omitted on financial instruments measured at amortized cost of which the carrying amount approximates the fair value.

Other financial assets (bonds)

The fair value of bonds is determined based on the quoted price at the stock exchange.

Bonds and borrowings

The fair value of bonds and borrowings with floating interest rates reflects market interest rates within a short period of time, and the carrying amount reasonably approximates the fair value. The fair value of those with fixed interest rates is determined by the method in which future cash flows are discounted using the interest rate for the case where funds are borrowed under the same terms and conditions with the same remaining period.

Other financial liabilities (lease obligations)

The fair value of lease obligations is determined by the method in which future cash flows are discounted using the interest rate for the case where leases are entered into under the same terms and conditions with the same remaining period.

**6. Notes to Per Share Information**

(1) Equity Attributable to Owners of the Company per Share	¥3,156.83
(2) Basic Earnings per Share	¥170.82

**7. Notes to Significant Subsequent Events**

Not applicable.

(Translation)

**Balance Sheet**  
(As of December 31, 2016)

(Millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>250,076</b>	<b>Current liabilities</b>	<b>32,305</b>
Cash and bank deposits	112,772	Lease obligations	36
Marketable securities	45,000	Accounts payable-other	1,782
Supplies	50	Accrued expenses	251
Prepaid expenses	328	Income taxes payable	289
Short-term loans receivable from subsidiaries and affiliates	44,563	Deposits received from subsidiaries and affiliates	29,854
Income taxes receivable	12,070	Provision for bonuses	26
Deferred tax assets	4,721	Provision for directors' bonuses	40
Other current assets	30,570	Other current liabilities	23
<b>Non-current assets</b>	<b>744,924</b>	<b>Long-term liabilities</b>	<b>974</b>
<b>Property, plant and equipment</b>	<b>389</b>	Lease obligations	89
Buildings	24	Deferred tax liabilities	884
Structures	48	<b>Total Liabilities</b>	<b>33,279</b>
Furniture and fixtures	196	<b>Net Assets</b>	
Leased assets	120	<b>Shareholders' equity</b>	<b>958,888</b>
<b>Intangible assets</b>	<b>1,102</b>	<b>Share capital</b>	<b>81,690</b>
Software	1,063	<b>Capital surplus</b>	<b>810,216</b>
Trademark rights	38	Additional paid-in capital	731,816
<b>Investments and other assets</b>	<b>743,431</b>	Other capital surplus	78,400
Investment securities	17,239	<b>Retained earnings</b>	<b>114,245</b>
Shares of subsidiaries and affiliates	724,956	Other retained earnings	114,245
Long-term loans receivable from subsidiaries and affiliates	1,164	Retained earnings brought forward	114,245
Other assets	71	<b>Treasury shares</b>	<b>(47,264)</b>
<b>Total Assets</b>	<b>995,001</b>	<b>Valuation and translation adjustments</b>	<b>2,685</b>
		Unrealized gain on available-for-sale securities	2,685
		<b>Share acquisition rights</b>	<b>147</b>
		<b>Total Net Assets</b>	<b>961,721</b>
		<b>Total Liabilities and Net Assets</b>	<b>995,001</b>

(Translation)

**Statement of Income**  
(From January 1, 2016 to December 31, 2016)

(Millions of yen)

Item	Amount	
<b>Operating revenues</b>		<b>92,190</b>
<b>Operating expenses</b>		<b>8,814</b>
<b>Operating income</b>		<b>83,376</b>
<b>Non-operating income</b>		
Interest and dividend income	653	
Business consignment fees	842	
Other	137	
		<b>1,633</b>
<b>Non-operating expenses</b>		
Interest expenses	1	
Commission fees	5	
Withholding income tax	8	
Other	0	
		<b>15</b>
<b>Ordinary income</b>		<b>84,994</b>
<b>Extraordinary loss</b>		
Loss on retirement of non-current assets	1	<b>1</b>
<b>Income before income taxes</b>		<b>84,992</b>
<b>Income taxes-current</b>		<b>10</b>
<b>Income taxes-deferred</b>		<b>(5,021)</b>
<b>Net income</b>		<b>90,004</b>

(Translation)

**Statement of Changes in Net Assets**

(From January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
<b>Beginning balance as of January 1, 2016</b>	<b>81,690</b>	<b>731,816</b>	<b>78,400</b>	<b>810,216</b>	<b>78,426</b>	<b>78,426</b>	<b>(47,262)</b>	<b>923,071</b>
<b>Changes in the year</b>								
Dividends					(54,184)	(54,184)		(54,184)
Purchase of treasury shares							(2)	(2)
Net income					90,004	90,004		90,004
Net changes other than shareholders' equity								
<b>Total changes in the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35,819</b>	<b>35,819</b>	<b>(2)</b>	<b>35,817</b>
<b>Ending balance as of December 31, 2016</b>	<b>81,690</b>	<b>731,816</b>	<b>78,400</b>	<b>810,216</b>	<b>114,245</b>	<b>114,245</b>	<b>(47,264)</b>	<b>958,888</b>

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments		
<b>Beginning balance as of January 1, 2016</b>	<b>3,651</b>	<b>3,651</b>	<b>-</b>	<b>926,723</b>
<b>Changes in the year</b>				
Dividends				(54,184)
Purchase of treasury shares				(2)
Net income				90,004
Net changes other than shareholders' equity	(965)	(965)	147	(818)
<b>Total changes in the year</b>	<b>(965)</b>	<b>(965)</b>	<b>147</b>	<b>34,998</b>
<b>Ending balance as of December 31, 2016</b>	<b>2,685</b>	<b>2,685</b>	<b>147</b>	<b>961,721</b>

## Notes to Financial Statements

### 1. Summary of Significant Accounting Policies

#### (1) Valuation of Major Assets

- i) Shares 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 Noncurrent Assets

- i) Property, plant and equipment (excluding leased assets):  
The Company uses the straight-line method.
- ii) Intangible assets:  
The Company uses the straight-line method over their estimated useful lives. Software for internal use is amortized by the straight-line method based on internal guidelines (5 years).
- iii) Leased assets:  
The Company uses the straight-line method over the terms of its leases with zero residual value for leased assets related to finance leases that do not transfer ownership.

#### (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 is 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 is attributable to the corresponding fiscal year.

#### (4) Other

- i) Accounting method for consumption taxes:  
Consumption taxes are excluded from revenues and expenses.
- ii) Adoption of the consolidated taxation system  
In the current fiscal year, the Company applied for approval of the adoption of the consolidated taxation system and it is to be adopted from the following fiscal year. Therefore, from the current fiscal year, deferred tax assets and liabilities are accounted for assuming the adoption of the consolidated taxation system.

### 2. Notes to Balance Sheet

- |  |                 |
|--|-----------------|
| (1) Accumulated Depreciation on Property, Plant and Equipment  | ¥346 million    |
| (2) Monetary Assets from and Liabilities to Subsidiaries and Affiliates (Excluding Those Classified Separately in the Balance Sheet) |                 |
| i) Short-term monetary assets  | ¥30,411 million |
| ii) Short-term monetary liabilities  | ¥771 million    |

(Translation)

### 3. Notes to Statement of Income

Transactions with Subsidiaries and Affiliates

i) Operating revenues	¥92,190 million
ii) Operating expenses	¥3,269 million
iii) Non-operating transactions	¥914 million

### 4. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2016	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 December 31, 2016
Ordinary shares	15,985 thousand shares	0 thousand shares	–	15,986 thousand shares

Note: The 0-thousand-share increase in the number of treasury shares is due to the purchase of shares less than one share unit.

### 5. Notes to Income Taxes

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

Deferred tax assets		(Millions of yen)
Provision for bonuses	¥	9
Accrued directors' salaries		25
Accrued enterprise tax		66
Accrued business office taxes		1
Share-based compensation expenses		44
Depreciation of an upfront payment under the agreement		325
Accounts payable - other		12
Loss on valuation of shares of subsidiaries and affiliates		121
Loss on extinguishment of tie-in shares		176
Adjustment of tax-basis book value of shares of subsidiaries and affiliates		110
Tax loss carryforwards		6,085
Subtotal		6,979
Valuation allowance		(1,957)
Total of deferred tax assets	¥	5,021
Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(1,184)
Total of deferred tax liabilities		(1,184)
Net deferred tax assets	¥	3,837

(Adjustments to deferred tax assets and deferred tax liabilities due to change in corporate income tax rates, etc.)

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 15 of 2016), and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 13 of 2016), were enacted in the Diet on March 29, 2016. Under these acts, the corporate income tax rates, etc., are to be lowered effective from the fiscal year beginning on or after April 1, 2016.

In conjunction with this, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous fiscal year's rate of 32.2% to 30.8% for temporary differences expected to be recovered or settled in the fiscal year beginning on January 1, 2017 and the fiscal year beginning on January 1, 2018, and to 30.6% for temporary differences expected to be recovered or settled in the fiscal years beginning on or after January 1, 2019.

The effect of the change in the tax rates is immaterial.

## 6. Notes to Related Party Transactions

### (1) Subsidiaries

Type	Company name	Percentage owned	Relationship		Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
			Interlocking directors and audit & supervisory board members	Business relationship				
Subsidiary	Otsuka Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	4	Investment in stock	Salaries of seconded employees (Note 1)	1,127	Accounts payable-other	216
					Borrowing and lending of funds (Note 2)	7,475	Accrued expenses	26
					Receipt of interest (Note 3)	54	Short-term loans receivable from subsidiaries and affiliates (Note 3)	44,428
					Payment of interest (Note 3)	0	Other current assets (Accrued interest)	0
					Business consignment fees (Note 4)	385	Other current assets (Accounts receivable-other)	62
Subsidiary	Taiho Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	-	Investment in stock	Borrowing of funds (Note 2) Payment of interest (Note 3)	16,149 0	Deposits received from subsidiaries and affiliates	25,616
Affiliate	ReCor Medical Inc.	(Held by the Company) 21.9% direct (Held by the affiliate) None	-	Investment in stock	Upfront payment under the agreement (Note 5)	1,077	-	-

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 Group utilizes an intercompany cash management process for efficient use of its funds. The transaction amount represents the average balance during the fiscal year. The balance of short-term loans receivable from subsidiaries and affiliates includes ¥30,000 million paid before the current fiscal year.
3. The interest rate is mutually agreed upon based on market rates.
4. The Company's business support center performs certain indirect services for the Group companies. Terms and conditions of the transactions are mutually agreed upon based on actual service costs incurred.
5. This payment is mutually agreed upon based on the details of the agreement.



(Translation)

(2) Officers, Significant Individual Shareholders, Etc.

Type	Company name or individual's name	Percentage owned	Relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Close family member of Director	Yujiro Otsuka	(Held by the close family member of Director) 0.0% direct	Close family member of Director of the Company	Payment of consulting fee (Note)	24	-	-

Terms and conditions of transactions and policy on determination thereof

Note: Payment of consulting fee is decided by agreement between the two parties based on the details of the consulting agreement.

**7. Notes to Per Share Information**

(1) Net Assets per Share	¥1,774.61
(2) Earnings per Share	¥166.10

(Translation)

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

February 13, 2017

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Mitsuru Hirano [Seal]

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

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Koichi Niki [Seal]

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated statement of financial position as of December 31, 2016 of Otsuka Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries, and the consolidated statements of income and changes in equity for the fiscal year from January 1, 2016 to December 31, 2016, 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 pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under Designated International Financial Reporting Standards, 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

(Translation)

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, prepared with the omission of a part of the disclosures required under Designated International Financial Reporting Standards pursuant to the provisions of the second sentence of the first paragraph of Article 120 of the Ordinance on Company Accounting, present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of December 31, 2016, and the results of their operations for the year then ended.

### **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)

(TRANSLATION)

## INDEPENDENT AUDITOR'S REPORT

February 13, 2017

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Mitsuru Hirano [Seal]

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

Designated Unlimited Liability Partner,  
Engagement Partner,  
Certified Public Accountant:  
Koichi Niki [Seal]

Pursuant to the first item, the second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2016 of Otsuka Holdings Co., Ltd. (the "Company") and the related statements of income and changes in net assets for the ninth fiscal year from January 1, 2016 to December 31, 2016, and the related notes and the accompanying supplemental schedules.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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 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 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 financial statements and the accompanying supplemental schedules in order to design audit

(Translation)

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 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 financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. as of December 31, 2016, 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 and “the accompanying supplemental schedules” referred to in this report are not included in the attached financial documents.

**(TRANSLATION)**

**Audit Report of the Audit & Supervisory Board**

**AUDIT REPORT**

Regarding the performance of duties by the Directors for the 9th Fiscal Year from January 1, 2016 to December 31, 2016, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

1. Auditing Methods and Content of Audits

- (1) The Audit & Supervisory Board established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member 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.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Audit & Supervisory Board Member endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and audits were implemented as follows:
  - i) Each Audit & Supervisory Board Member attended the meeting of the Board of Directors and other important meetings to receive reports regarding performance of duties from Directors and other employees, and sought explanations as necessary. Each Audit & Supervisory Board Member also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
  - ii) 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 business group comprising its subsidiaries, 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.
  - iii) Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and 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 Business Report and the accompanying supplementary schedules, the financial statements (Balance Sheet, Statement of Income, Statement of Changes in Net Assets, and Notes to Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Statement of Financial Position, Consolidated Statement of Income, Consolidated Statement of Changes in Equity 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 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.

February 13, 2017

Audit & Supervisory Board, Otsuka Holdings Co., Ltd.

Standing Audit & Supervisory Board Member	Takaharu Imai	[Seal]
Outside Audit & Supervisory Board Member	Norikazu Yahagi	[Seal]
Outside Audit & Supervisory Board Member	Hiroshi Sugawara	[Seal]
Outside Audit & Supervisory Board Member	Yoko Wachi	[Seal]