(Translation)

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translation and the Japanese original, the Japanese original shall prevail.
The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

March 6, 2019
Tatsuo Higuchi
President and Representative Director
Otsuka Holdings Co., Ltd.
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

Notice for the Calling of the 11th Annual Shareholders Meeting (for FY2018)

Dear Shareholders,

You are cordially invited to attend the 11th 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 27, 2019 (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 the Internet

Please access to the Website for Exercising Voting Rights designated by the Company (https://evote.tr.mufg.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.

(Translation)

Details

1. **Date and Time:**
   Thursday, March 28, 2019, 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 11th Fiscal Year (from January 1, 2018 to December 31, 2018)
   b. Financial Statements for the 11th Fiscal Year (from January 1, 2018 to December 31, 2018)

   Matters to be resolved:
   Proposal 1: Election of Twelve (12) Directors
   Proposal 2: Remuneration Paid to Directors for the Grant of Shares with Transfer Restrictions

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 **https://www.otsuka.com/**

Guidance for Exercising Voting Rights

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–16).
You may exercise your voting rights using the following three methods.

1. To exercise your voting rights by attending the Shareholders Meeting
Please submit the enclosed "Voting Form" to the receptionist.
Please also bring with you "Notice for the Calling of the 11th Annual Shareholders Meeting" (this document).
Date and time of the meeting: Thursday, **March 28, 2019, at 10:00 a.m.**

2. To exercise your voting rights by post
Please indicate on the enclosed "Voting Form" whether you approve or disapprove of each proposal, and return it by the voting deadline below.
Deadline: to be received on Wednesday, **March 27, 2019, at 5:30 p.m.**

3. To exercise your voting rights via the Internet
You can exercise your voting rights using a personal computer (PC), a cellular phone or a smartphone.
Please refer to the following page for details.
Deadline: to be exercised on Wednesday, **March 27, 2019, at 5:30 p.m.**

[How to fill out the "Voting Form"]
Please indicate whether you approve or disapprove of each proposal.
(When neither "Approve" nor "Disapprove" is circled on a Proposal, that proposal will be deemed to indicate approval.)

Proposal 1
- To mark your approval for all candidates → Circle "Approve."
- To mark your disapproval for all candidates → Circle "Disapprove."
- To mark your disapproval for certain candidates → Circle "Approve" and write the number of the candidate(s) you wish to disapprove.

Proposal 2
- To mark your approval → Circle "Approve."
- To mark your disapproval → Circle "Disapprove."

Please note that your online vote will prevail should you exercise your voting rights both in writing (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.

(Translation)

Guidance for Exercising Voting Rights via the Internet

How to scan QR code

You can log in the Website for Exercising Voting Rights by scanning the QR code® without entering your login ID and password.

- Please scan QR code provided at the bottom right of the "Voting Form."
  *QR Code is registered trademarks of DENSO WAVE INCORPORATED.
- Please follow the directions that appear on the screen to input approval or disapproval to each proposal.

Exercising voting rights by scanning the QR code is available only once.

If you need to change your votes after excising your voting rights, please log in the Website for Exercising Voting Rights for a personal computer by using your login ID and provisional password provided on the "Voting Form" and exercise your voting rights again.
*If you rescan the QR code, you can access the Website for Exercising Voting Rights for a personal computer.

How to enter login ID and password

Website for Exercising Voting Rights: **https://evote.tr.mufg.jp/**

1. Please access the Website for Exercising Voting Rights.
2. Please enter the login ID and provisional password provided on the "Voting Form."
3. If you log in the website by using the provisional password, you will be asked to change your password on the screen. Please change it to any password of your choosing.
4. Please follow the directions that appear on the screen to input approval or disapproval to each proposal.

If you have any inquiries about the operation of a PC, a cellular phone or a smartphone regarding the exercise of voting rights via the Internet, contact the following:

Corporate Agency Division (Help Desk), Mitsubishi UFJ Trust and Banking Corporation Phone: **0120-173-027** (9:00 to 21:00 (JST); toll free (Japan only))

Institutional investors may use the platform for electronic exercise of voting rights for institutional investors, operated by ICJ, Inc.

Reference Documents for Shareholders Meeting

Proposal 1: Election of Twelve (12) Directors

The terms of office of all eleven (11) Directors will expire at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect twelve (12) Directors.
The candidates for Directors are as follows:

Candidate No.		Name	Term of office as Director*	Current position and areas of responsibility in the Company	Attendance rate at meetings of the Board of Directors
1	Reappointment	Ichiro Otsuka	10 years and 8 months	Chairman and Representative Director	100%
2	Reappointment	Tatsuo Higuchi	10 years and 8 months	President and Representative Director	100%
3	Reappointment	Yoshiro Matsuo	10 years and 8 months	Senior Managing Director, Corporate Administration	100%
4	Reappointment	Yuko Makino	1 year	Executive Director, Corporate Finance	100%
5	Reappointment	Sadanobu Tobe	8 years and 8 months	Executive Director	100%
6	Reappointment	Atsumasa Makise	10 years and 8 months	Executive Director	100%
7	Reappointment	Masayuki Kobayashi	2 years	Executive Director	100%
8	Reappointment	Noriko Tojo	4 years and 10 months	Executive Director	100%
9	New appointment	Shuichi Takagi	–	Senior Vice President, President’s Office	–
10	Reappointment Outside Independent	Yukio Matsutani	3 years	Outside Director	100%
11	Reappointment Outside Independent	Ko Sekiguchi	1 year	Outside Director	100%
12	New appointment Outside Independent	Yoshihisa Aoki	–	–	–

* The term of office as director represents the total period including their past term of office.

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th colspan="3">Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="17">1</td><td rowspan="16">Reappointment

Ichiro Otsuka
(February 15, 1965)

Position and areas of responsibility in the Company:
Chairman and Representative Director

Term of office as Director:
10 years and 8 months</td><td>April</td><td>1987</td><td>Joined Otsuka Pharmaceutical Factory, Inc.</td><td rowspan="17">7,018,704</td></tr>
<tr><td>June</td><td>1997</td><td>Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</td></tr>
<tr><td>June</td><td>1998</td><td>Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</td></tr>
<tr><td>December</td><td>2001</td><td>Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</td></tr>
<tr><td>May</td><td>2002</td><td>Representative Director, Otsuka Pharmaceutical Factory, Inc.</td></tr>
<tr><td>December</td><td>2003</td><td>Executive Deputy President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</td></tr>
<tr><td>December</td><td>2004</td><td>President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</td></tr>
<tr><td>July</td><td>2008</td><td>Executive Director, Otsuka Holdings Co., Ltd.</td></tr>
<tr><td>June</td><td>2010</td><td>Executive Deputy President and Executive Director, Otsuka Holdings Co., Ltd.</td></tr>
<tr><td>June</td><td>2014</td><td>Representative Director, Otsuka Pharmaceutical Factory, Inc.</td></tr>
<tr><td></td><td></td><td>Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.</td></tr>
<tr><td>March</td><td>2015</td><td>Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</td></tr>
<tr><td></td><td></td><td>Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)</td></tr>
<tr><td></td><td></td><td>Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</td></tr>
<tr><td colspan="3">[Significant concurrent positions outside the Company]
Chairman, Otsuka Pharmaceutical Factory, Inc.
Executive Director, Otsuka Pharmaceutical Co., Ltd.
President and Representative Director, Otsuka Estate Co., Ltd.
President and Representative Director, Otsuka Asset Co., Ltd.</td></tr>
<tr><td colspan="3"></td></tr>
<tr><td colspan="4">[Reasons for nominating him as a candidate for Director]
Mr. Ichiro Otsuka has extensive knowledge in all areas of wide-ranged operations of the Otsuka group of companies (hereinafter the "Group") as well as a proven track record of enhancing corporate value by helping the development of businesses through the promotion of cooperation among the Group and its businesses and areas. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
</table>

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th>Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">2</td><td>Reappointment

Tatsuo Higuchi
(June 14, 1950)

Position and areas of responsibility in the Company:
President and Representative Director

Term of office as Director:
10 years and 8 months</td><td>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.
June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)
November 1998 Executive Deputy President and Executive Director, Otsuka Pharmaceutical Co., Ltd.
June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.
June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.
July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)
December 2011 Executive Director, Otsuka Chemical Co., Ltd.
February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</td><td rowspan="2">90,000</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Tatsuo Higuchi has promoted expansion of each of the Group's businesses through his outstanding leadership, created and implemented a strategy for future growth, and has a track record of producing considerable results. Consequently, globalization and diversification of each of the Group's businesses have been advanced steadily. In addition, he has also advanced managerial reform including enhancement of corporate governance. The Company deems that it can expect him to, by making use of his broad experience, expertise, and high level of management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
<tr><td rowspan="2">3</td><td>Reappointment

Yoshiro Matsuo
(November 3, 1960)

Position and areas of responsibility in the Company:
Senior Managing Director, Corporate Administration

Term of office as Director:
10 years and 8 months</td><td>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.
January 2003 Vice President, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
June 2006 Vice President, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.
November 2007 Senior Vice President, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.
July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.
March 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)
January 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
Executive Director, Otsuka Medical Devices Co., Ltd.</td><td rowspan="2">30,760</td></tr>
<tr><td colspan="2">[Reasons for nominating him as a candidate for Director]
Mr. Yoshiro Matsuo has abundant operational experience in all of the back-office departments, primarily in general affairs departments and human resources departments, as well as in-depth knowledge in group operations and corporate governance. The Company deems that it can expect him to, by making use of his expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
4	Reappointment Yuko Makino (October 23, 1961) Position and areas of responsibility in the Company: Executive Director, Corporate Finance Term of office as Director: 1 year	April 1982 Joined Otsuka Pharmaceutical Co., Ltd. April 1996 Joined Baxter Limited April 2000 Joined Otsuka Pharmaceutical Co., Ltd. March 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. September 2016 Vice President, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd. Vice President, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd. April 2017 Vice President, Director of the Tax Department, Otsuka Holdings Co., Ltd. Vice President, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd. March 2018 Executive Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] –	2,500
	[Reasons for nominating her as a candidate for Director] Ms. Yuko Makino has high level of expertise in finance and a proven track record in the finance departments of the Company. The Company deems that it can expect her to, by making use of her broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.		
5	Reappointment Sadanobu Tobe (April 18, 1941) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 8 years and 8 months	April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.) July 1993 Executive Deputy President and Representative Director, Otsuka Foods Co., Ltd. November 2004 Executive Deputy President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.) May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd. July 2008 Executive Director, Otsuka Holdings Co., Ltd. June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd. June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd. June 2012 Vice Chairman, Otsuka Foods Co., Ltd. June 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. November 2013 President and Representative Director, Otsuka Foods Co., Ltd. June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position) March 2018 Chairman, Otsuka Foods Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Chairman, Otsuka Foods Co., Ltd.	1,191,126
	[Reasons for nominating him as a candidate for Director] Mr. Sadanobu Tobe has broad experience and a track record in corporate management, as well as extensive knowledge of each of the Group's businesses, research and development, manufacturing, and marketing centered on consumer products. The Company deems that it can expect him to, by making use of his broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
6	Reappointment Atsumasa Makise (June 17, 1958) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 10 years and 8 months	December 1987 Joined Otsuka Pharmaceutical Co., Ltd. June 2002 Vice President, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd. June 2003 Vice President, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd. June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd. July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. May 2009 Chairman and CEO, Otsuka America Inc. March 2017 Executive Director, Otsuka Foods Co., Ltd. March 2018 President and Representative Director, Otsuka Foods Co., Ltd. (Current Position) Executive Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] President and Representative Director, Otsuka Foods Co., Ltd.	50,000
	[Reasons for nominating him as a candidate for Director] Mr. Atsumasa Makise has broad experience in group operations as Director of the Company and experience in the management of a subsidiary in the U.S. In addition, in Otsuka Foods Co., Ltd., he has worked on business reform. The Company deems that it can expect him to, by making use of his broad experience and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		
7	Reappointment Masayuki Kobayashi (July 10, 1966) Position and areas of responsibility in the Company: Executive Director Term of office as Director: 2 years	October 1993 Joined Taiho Pharmaceutical Co., Ltd. August 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.) September 2003 Executive Director, Taiho Pharmaceutical Co., Ltd. April 2010 President and CEO, Otsuka America, Inc. April 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position) Executive Director, Taiho Pharma USA, Inc. April 2014 Chairman, TAIHO ONCOLOGY, INC. (Current Position) March 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.	40,000
	[Reasons for nominating him as a candidate for Director] Mr. Masayuki Kobayashi has broad experience and track record in corporate management as well as extensive knowledge in the pharmaceutical business. In Taiho Pharmaceutical Co., Ltd., he has a proven track record such as expanding the businesses and the global presence of the company as its corporate manager. The Company deems that it can expect him to, by utilizing his broad experience, expertise and management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.		

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th colspan="3">Career summary and
significant concurrent positions outside the Company</th><th>Number of the Company's shares owned</th></tr>
<tr><td rowspan="2">8</td><td>Reappointment

Noriko Tojo
(February 28, 1964)

Position and areas of responsibility in the Company:
Executive Director

Term of office as Director:
4 years and 10 months</td><td colspan="3">April 1987 Joined Goldman Sachs (Japan) Corporation
August 1991 Joined Shearson Lehman Brothers Holdings Inc.
July 2002 Engagement Manager, McKinsey & Company, Japan Office
June 2006 Director, Intel Capital Japan, Intel Corporation
August 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.
February 2011 Executive Director, Otsuka Medical Devices Co., Ltd.
April 2012 President and CEO, Otsuka America, Inc.
August 2015 Executive Director and CEO, Pharmavite LLC
January 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position)
May 2017 Executive Director, Otsuka America, Inc.
August 2017 Chairman, Pharmavite LLC
March 2018 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]
President and Representative Director, Otsuka Medical Devices Co., Ltd.</td><td rowspan="2">40,000</td></tr>
<tr><td colspan="4">[Reasons for nominating her as a candidate for Director]
In Otsuka Medical Devices Co., Ltd., Ms. Noriko Tojo has promoted business reform and has a proven track record after experience in the corporate development department at the Company and the management of a subsidiary in the U.S. The Company deems that it can expect her to, by making use of her broad experience, expertise, and management knowledge, ensure and improve the effectiveness of the Board of Directors and that she is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated her as a candidate for Director.</td></tr>
<tr><td rowspan="2">9</td><td>New appointment

Shuichi Takagi
(January 3, 1966)

Position and areas of responsibility in the Company:
Senior Vice President, President's Office

Term of office as Director:
–</td><td colspan="3">April 1989 Joined TOBISHIMA CORPORATION
September 1995 Joined Otsuka Pharmaceutical Co., Ltd.
August 2002 Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.
July 2003 Corporate Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.
March 2015 Vice President responsible for India Business, Otsuka Pharmaceutical Factory, Inc.
May 2015 CEO, Claris Otsuka Private Limited (present day Otsuka Pharmaceutical India Private Limited)
January 2019 Senior Vice President, President's Office, Otsuka Holdings Co., Ltd. (Current Position)
[Significant concurrent positions outside the Company]</td><td rowspan="2">6,900</td></tr>
<tr><td colspan="4">[Reasons for nominating him as a candidate for Director]
Mr. Shuichi Takagi worked in the fields of finance and accounting, during which time he was seconded to subsidiaries in the US and Europe, and later, he developed a proven track record in the management of an Indian subsidiary. The Company deems that it can expect him to, by making use of his broad experience and insight relating to global business, and his management knowledge, ensure and improve the effectiveness of the Board of Directors and that he is capable of seeking sustainable and innovative growth and increased corporate value for the Group. Therefore, the Company nominated him as a candidate for Director.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
10	Reappointment Candidate for Outside Director Candidate for Independent Officer Yukio Matsutani (October 20, 1949) Position and areas of responsibility in the Company: Outside Director Term of office as Director: 3 years	April 1975 Intern, Pediatric Department, St. Luke's International Hospital October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare) August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare August 2007 Director, National Sanatorium Tama Zenshoen April 2012 President, National Institute of Public Health December 2015 Vice President, International University of Health and Welfare (Current Position) March 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Vice President, International University of Health and Welfare	0
	[Reasons for nominating him as a candidate for Outside Director] Mr. Yukio Matsutani has provided valuable and pertinent suggestions and advice to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience and extensive knowledge in the healthcare and welfare field and high level of expertise in overall health care. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.		
11	Reappointment Candidate for Outside Director Candidate for Independent Officer Ko Sekiguchi (May 4, 1948) Position and areas of responsibility in the Company: Outside Director Term of office as Director: 1 year	April 1973 Joined Mitsubishi Corporation May 1990 Joined The Boston Consulting Group January 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company) November 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K.K.) July 2009 Chairman and Director, Janssen Kyowa Co., Ltd. October 2009 Supreme Advisor, Janssen Kyowa Co., Ltd. January 2011 Representative Director, DIA Japan (present day SH DIA Japan) April 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation) (Current Position) March 2014 Outside Director, Kenedix, Inc. (scheduled to retire in March 2019) March 2018 Outside Director, Otsuka Holdings Co., Ltd. (Current Position) [Significant concurrent positions outside the Company] Outside Director, Solasto Corporation	0
	[Reasons for nominating him as a candidate for Outside Director] Mr. Ko Sekiguchi has provided valuable and pertinent suggestions and advice to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience, track record, and extensive knowledge as a corporate manager and high level of expertise in pharmaceutical business. Therefore, the Company nominated him as a candidate to continue serving as Outside Director.		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
12	New appointment Candidate for Outside Director Candidate for Independent Officer Yoshihisa Aoki (January 17, 1952) Position and areas of responsibility in the Company: – Term of office as Director: –	April 1974 Joined ITOCHU Corporation June 2003 Executive Officer, ITOCHU Corporation April 2009 Managing Executive Officer, President, Food Company, ITOCHU Corporation April 2010 Member of the Board, Senior Managing Executive Officer, President, Food Company, ITOCHU Corporation March 2017 Administrative Officer, ITOCHU Corporation (Current Position) June 2017 Outside Director, ARATA CORPORATION (Current Position) [Significant concurrent positions outside the Company] Outside Director, ARATA CORPORATION	0
	[Reasons for nominating him as a candidate for Outside Director] Mr. Yoshihisa Aoki is expected to provide valuable and pertinent suggestions and advice to the Company's management from an objective and expert viewpoint as an outside director based on his abundant experience, track record, and extensive knowledge as a corporate manager and abundant experience, expertise, and network in food industry. Therefore, the Company nominated him as a candidate for Outside Director.		

Notes:

1. The 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. Yukio Matsutani, Ko Sekiguchi and Yoshihisa Aoki are candidates for Outside Directors.
   The three conform with the following Independence Criteria for Outside Directors in the Company's Corporate Governance Guidelines, and the Company has registered Yukio Matsutani and Ko Sekiguchi as Independent Officers as provided for under the rules of the Tokyo Stock Exchange. If the appointment of Yoshihisa Aoki is approved, the Company plans to register him as an Independent Officer with the Exchange.
4. Pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company has entered into agreements with Yukio Matsutani and Ko Sekiguchi 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. If the appointment of Yoshihisa Aoki is approved, the Company will enter into the same agreement with him. 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 items below.

(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*), vice president (*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 remuneration in excess of ¥5 million as an expert or consultant in law, accounting, or tax, directly from Group companies (excluding the remuneration 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.

Proposal 2: Remuneration Paid to Directors for the Grant of Shares with Transfer Restrictions

At the 2nd Annual Shareholders Meeting held on June 29, 2010, approval was obtained for remuneration for the Company's Directors in the amount of ¥1.5 billion or less per year (excluding the employee salary of Directors concurrently serving as employees of the Company). At the 8th Annual Shareholders Meeting held on March 30, 2016, aside from the previously mentioned remuneration limitation, the Company resolved to introduce a share remuneration-type stock options system as a mid-term incentive plan, which applied to the three-year period commencing in the fiscal year ending December 31, 2016, and ending in the fiscal year ending December 31, 2018. However, this plan has been terminated due to the lapse of the applicable period.
The Company has revised the remuneration system for Directors and Officers due to the termination of the share remuneration-type stock options system and has decided to introduce a restricted stock remuneration plan (the "Plan") aimed at granting the Directors of the Company, excluding Outside Directors, (collectively, the "Directors Covered by the Plan"), incentives so as to achieve the medium-term management plan, to sustainably improve the medium- to long-term performance and corporate value of the Company, and to further share more of that value with the shareholders. Therefore, approval is sought for the remuneration paid to the Directors Covered by the Plan for the grant of shares with transfer restrictions pursuant to the Plan, aside from the above-mentioned existing remuneration limitation.
The remuneration paid to the Directors Covered by the Plan for the grant of shares with transfer restrictions under this Plan will be monetary claims (the "Monetary Remuneration Claims"), and the total amount will be ¥1 billion or less per year (excluding the employee salary of Directors concurrently serving as employees of the Company). This is a reasonable amount in the light of the above-mentioned purposes. The specific payment timing and allocation for each Director Covered by the Plan will be decided by the Board of Directors after consulting with the Company's Corporate Governance Committee and receiving the report from such committee. Under this Plan, the Directors Covered by the Plan will pay all of the Monetary Remuneration Claims paid by the Company under this Proposal as property contributed in kind (*genbutsu shusshi*) and then acquire newly issued or disposed ordinary shares of the Company. The total number of the Company's ordinary shares newly issued or disposed under the Plan will be 160,000 shares or less per year. However, in the event of a share split (including share allotment without contribution), share consolidation of the Company's ordinary shares, or other necessary adjustments of the Company's ordinary shares issued or disposed as shares with transfer restrictions after the date on which the Proposal is approved, reasonable adjustments will be made to the total number of shares.
The amount paid per share will be determined by the Board of Directors based on the closing price of the ordinary shares of the Company on the Tokyo Stock Exchange on the business day immediately prior to the date of each resolution (if the transaction is not established on that day, then the closing price on the most recent trading day prior to the date of the resolution) and be within an amount that is not particularly advantageous to the Directors Covered by the Plan who subscribe for said ordinary shares.

The current number of Directors of the Company is eleven (11) (including three (3) Outside Directors). If Proposal 1 "Election of Twelve (12) Directors" is approved as originally proposed, the number of Directors Covered by the Plan will be nine (9), excluding Outside Directors.

1. Reasons for the Proposal and Reasonableness of the Remuneration
The purpose of the Plan is to grant the Directors Covered by the Plan incentives to achieve the medium-term management plan, to sustainably improve the medium- to long-term performance and corporate value of the Company, and to further share more of that value with the shareholders. Under the Plan, the Company will grant the Directors Covered by the Plan shares with restrictions on transfer, attachment of security interest, and other dispositions (the "Transfer Restrictions") for a fixed term. The release of the Transfer Restrictions will be subject to conditions of remaining in office as Director of the Company for a certain term and meeting certain performance achievements.
In this new incentive plan, the Company aims to achieve a more effective remuneration system by granting shares with Transfer Restrictions as an incentive to sustainably improve medium- to long-term performance and corporate value. The shares with Transfer Restrictions shall be granted with the timing, in principle, of simultaneously in the first fiscal year, and the Transfer Restrictions will not only have

multiple release conditions, including performance achievement, but will also be subject to performance evaluation of the next several fiscal years.
When issuing or disposing of the ordinary shares of the Company under the Plan, the Company will conclude a restricted stock allocation agreement (the "Allocation Agreement") with the Directors Covered by the Plan, which will include the contents listed under Section 2 below.
In addition to the Directors Covered by the Plan, the Company also plans to grant about forty (40) Directors of subsidiaries, who do not concurrently serve as Directors of the Company, shares with Transfer Restrictions through a restricted stock remuneration plan similar to this Plan.

2. Overview of the Allocation Agreement

(1) Transfer Restriction Period
Directors Covered by the Plan will not transfer, attach security interest to, or otherwise dispose of the Company's ordinary shares allotted under the Allocation Agreement (the "Allotted Shares") for a period between three years and twenty years from the payment date of the Allotted Shares prescribed by the Company's Board of Directors (the "Transfer Restriction Period").

(2) Treatment upon Resignation or Removal
In the event of any Director Covered by the Plan resigning or being removed from the Company's Director before the expiration of the Transfer Restriction Period, the Company will acquire all of the Allotted Shares free of charge, with the exception of cases where the Company determines that the term of office has expired, or there is a death or other reasonable cause existing for the resignation or removal.

(3) Release of Transfer Restrictions
Notwithstanding Item (1) above, the Company will release the Transfer Restriction with respect to all of the Allotted Shares upon the expiration of the Transfer Restriction Period on the condition that the relevant Director Covered by the Plan continues to be a Director of the Company during the Transfer Restriction Period. However, in the event that a Director Covered by the Plan resigns or is removed from the Company's Director due to expiration of term of office, death or other reasonable cause set forth in Item (2) above before the expiration of the Transfer Restriction Period, the number of the Allotted Shares and the time of release from the Transfer Restriction will be reasonably adjusted as necessary. Immediately after it becomes clear that the number of the Allotted Shares to be released from the Transfer Restriction will be adjusted pursuant to the above, the Company will acquire, free of charge, all of the Allotted Shares for which the Transfer Restriction is determined not to have been released.

(4) Performance Achievement Conditions
Notwithstanding Item (3) above, the Company will release the Transfer Restriction with respect to all of the Allotted Shares on the condition of meeting the performance achievement as determined by the Board of Directors in advance, based on consolidated revenue, consolidated operating profit, and other indicators. Immediately after it becomes clear that the Transfer Restriction will not be released due to a performance condition not having been achieved, the Company will acquire all of the Allotted Shares free of charge.

(5) Treatment in Organizational Restructuring
Notwithstanding Item (1) above, in the event of a merger agreement in which the Company will be extinguished or in the event that a share exchange agreement, share transfer plan, or other organizational restructuring in which the Company becomes a wholly owned subsidiary is approved at the Shareholders Meeting of the Company (or the Company's Board of Directors, where approval by the Shareholders Meeting of the Company is not required for said organization restructuring) during the Transfer Restriction Period, the Company will release the Transfer Restrictions for the Allotted Shares in numbers reasonably determined by resolution of the Board of Directors prior to the effective date of the said organization restructuring based on the period from the start date of the Transfer Restriction Period to the approval date of the said organizational restructuring.
Immediately after the release of the Transfer Restrictions pursuant to the above, the Company will acquire all of the Allotted Shares for which the Transfer Restrictions have not been released.

(6) Other Items Specified by the Board of Directors
Notwithstanding the above, the methods for manifestation of intention and notification under the Allocation Agreement, the method for amending the Allocation Agreement, and other items specified by the Board of Directors will be included in the provisions of the Allocation Agreement.

[For Reference]
The Company, based on the completion of the Second Medium-Term Management Plan having the 2018 fiscal year as its final year, plans to proceed with formulating a new medium-term management plan (the "Third Medium-Term Management Plan") that covers the period from fiscal year 2019 to 2023 and announce it on May 30, 2019.
The shares with Transfer Restrictions that are to be granted under this Plan during the target period of the Third Medium-Term Management Plan are planned to be set as a remuneration system reflecting the achievement status of the Third Medium-Term Management Plan by combining multiple performance achievement conditions based on consolidated revenue, consolidated operating profit, and other indicators that are listed throughout the Third Medium-Term Management Plan.

(Translation)

Attached documents

Business Report

(For the fiscal year from January 1, 2018 to December 31, 2018)

1. Business Progress and Achievement of the Group

(1) Overview of Business during the Current Fiscal Year

i) Business activity and results

The healthcare industry is experiencing a period of changing environment. An aging society, the introduction of expensive drugs, outbreaks of communicable disease, and etc. are contributing an ever-increasing health care budget and making governments of Japan, the United States and those in the Europe become more aware of costs for medical treatments. Facing limited financial resources, those governments are weighing the balance between benefits and costs of medical treatments. The penetration of generic drugs and NHI pricing system reforms are progressing while expensive medical treatments and new technologies are evolving as well.

Under these circumstances, the need is steadily increasing for day-to-day disease preventive measures and balanced life plans exercising, resting and taking necessary nutrition.

The Group's operations encompass two core businesses: the pharmaceutical business, which provides comprehensive health support from diagnosis to treatment of diseases, and the nutraceutical business, which helps people maintain and improve day-to-day health. Seeing an increasing interest in healthy life, we are reconfirming our strong believe in the importance of total health care.

During the fiscal year ended December 31, 2018, the Group recorded consolidated revenue of ¥1,291,981 million (up 4.2% from the previous fiscal year), with operating profit of ¥108,304 million (up 4.0%), and profit attributable to owners of the Company of ¥82,492 million (down 26.7%). The main reason for the fall in profit attributable to owners of the Company was that income tax expenses had been reported as profit in the previous fiscal year due to a temporary effect from the U.S. taxation reform. Excluding that effect, the profit was flat compared with the previous fiscal year.

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

	Pharmaceuticals	Nutraceuticals*	Consumer products	Others	Adjustments	Consolidated
Revenue	817,110	338,957	33,807	141,249	(39,144)	1,291,981
Operating profit	84,823	43,041	8,668	9,882	(38,111)	108,304

*Nutraceuticals = nutrition + pharmaceuticals

Overview of Second Medium-Term Management Plan

In the Second Medium-Term Management Plan, during which the exclusive sales period of *ABILIFY*, former mainstay product, expired, the Group set the priority issue of diversifying the revenue structure to realize sustainable growth. The Group strove to achieve its key strategic points of strengthening the core treatment fields in the pharmaceutical business and conducting structural reform of the nutraceutical business.

・In the pharmaceutical business, the Group conducted active investments to maximize the product values of three global products (*ABILIFY MAINTENA, REXULTI* and *Samsca/JINARC*[*1]*/JYNARQUE*[*2]). As launches of the products in the markets of major areas and additional indications made smooth progress, the Group managed to establish the base for making these products lead the Group's growth.

・In addition to strengthening the area of psychiatry and neurology and that of oncology, the Group nurtured the area of the cardiovascular and renal system as a core area in the next generation.

・As to new drug development and medical treatment technologies, the Group actively promoted alliances with other companies and external research institutions. By combining the external resources with its own research and development assets, the Group advanced the building of a base for creating innovative technologies toward its growth in 2030 onward.

・During the Second Medium-Term Management Plan, the business situation remained severe due to sharper changes in the external environment surrounding the pharmaceutical business than initially assumed, including drastic NHI pricing system reforms and policy measures to promote generics drugs. However, new drugs in global markets and new drugs in Japan grew more than expected and the Group managed to achieve the diversification of the revenue structure.

・In the nutraceutical business, the Group developed and introduced original products focusing on expanding life expectancy in good health, accelerated the global development of core brand products and reviewed the management resources that support its value chain. As a result of drastic reform of the revenue structure, both revenue and operating profit achieved the initial targets and realized a major target of the Medium-Term Management Plan of over 10% in the operating margin earlier than planned.

*1: Brand name for ADPKD treatment in multiple regions outside Japan
*2: Brand name for ADPKD treatment in the U.S.

ii) Major business activities (as of December 31, 2018)

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

The global new products centered on the antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*, the vasopressin V_2-receptor antagonist *Samsca/JINARC/JYNARQUE* and the anti-cancer agent *LONSURF* lead the sustainable growth of the pharmaceuticals business of the Group.

Revenue in the pharmaceutical segment for the fiscal year ended December 31, 2018 totaled ¥817,110 million (up 5.5% year on year), with operating profit of ¥84,823 million (up 2.6%).

Japan

In the area of psychiatry and neurology, sales of antipsychotic agent *ABILIFY MAINTENA* grew steadily as prescriptions increased. The new antipsychotic agent *REXULTI*, which was launched in April 2018 for the indication of schizophrenia, has grown recognition of its efficacy and smoothly increased prescriptions. Antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions, listing in the latest treatment guidelines for epilepsy and reflecting strong support from medical specialists due to the drug's efficacy and safety. *Neupro Patch*, a treatment for Parkinson's disease and restless legs syndrome, also registered growth in sales, due to improved usability through the expansion of our product line-up.

In the area of oncology, sales of anti-cancer agent *Abraxane* increased as its usage and dosage for weekly administration was added for treatment of gastric cancer in addition to growth of prescriptions for patients with pancreatic cancer. Sales of anti-cancer agent *LONSURF* increased as it has been established as one of the standard therapies for unresectable advanced or recurrent colorectal cancer. Sales of antiemetic agent *Aloxi* increased compared with the previous fiscal year.

In the area of the cardiovascular and renal system, *Samsca* was highly recommended in various guidelines and its prescriptions as an oral aquaretic agent have continued to grow. *Samsca* is also the only drug for autosomal dominant polycystic kidney disease (“ADPKD”), an intractable kidney disease, and sales increased significantly for *Samsca* products as whole, driven by high continuity rates as well as the increased number of patients due to growing awareness of the disease.

In the area of the digestive system, prescriptions for maintenance therapy of reflux esophagitis increased for *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited.

In the area of ophthalmology, sales of dry eye treatment *Mucosta ophthalmic suspension UD 2%* was steady compared with the previous fiscal year.

In the area of immunology and allergy, sales of antiallergic agent *Bilanoa* increased significantly due to the steady recognition in the market.

In the area of diagnostics, a sales increase in influenza test agent *Quick Navi-Flu2* made a large contribution to overall sales of diagnostics, which posted an increase.

In the area of clinical nutrition, sales volume of high-calorie total parenteral nutrition (“TPN”) solution *ELNEOPA-NF Injection*, a new prescription that launched in January 2017, increased, and market share was steadily growing. However, overall sales were flat compared with the previous fiscal year due to the impact of the NHI price revisions and other factors.

North America

Sales of *ABILIFY MAINTENA* continued to increase compared with the previous fiscal year, spurred by efforts to promote the product’s efficacy as a treatment for schizophrenia, by growing awareness of the drug’s ease of use and by contribution of the additional indication of bipolar disorder. Sales of *REXULTI* has grown significantly, as it has been highly evaluated for its efficacy and safety since the drug was launched in the U.S. in 2015 as a new treatment option for an adjunctive therapy in major depressive disorder and a treatment for schizophrenia. Sales of *LONSURF* declined due to the impact of the external environment, including competition. Sales of *Samsca*, which is sold as a treatment for hyponatremia, has increased due to stepped up efforts to promote the product’s benefits. *JYNARQUE*, a treatment for ADPKD, was launched in the U.S. in May 2018, and its prescriptions have been steadily increasing.

Others

Prescriptions for *ABILIFY MAINTENA* increased in Europe, contributing to a large increase in sales compared with the previous fiscal year. Under a license agreement with Servier, a French pharmaceutical company, *LONSURF* has been launched in a growing number of countries. Sales of oral aquaretic agent *Samsca* continued to increase in Europe and Asia. Sales of *JINARC*, a treatment for ADPKD, sharply rose as the number of countries where it has been put on the market increased and new prescriptions have expanded there.

Nutraceuticals

In the nutraceutical segment, the Group operates a global business focused on functional beverages and foods that support the maintenance and improvement of day-to-day well-being.

Revenue in the nutraceutical segment for the fiscal year ended December 31, 2018 totaled ¥338,957 million (up 3.9% year on year), with operating profit of ¥43,041 million (up 9.9%).

Japan

In FY2018, the extraordinary heat in the summer and natural disasters had large effects on supply and demand of beverages. With respect to *POCARI SWEAT*, shipments of 500-milliliter bottles marked their record highs in July and August as consumers understood more of the importance of hydration and replenishment of electrolytes (ions) and the usefulness of the product. Meanwhile, the product achieved growth in sales that exceeded the overall growth of sales in the beverage and sports drink markets[*1], in part a result of activities throughout the year, which although specifically targeted the youth market, seemingly resonated with many generations. Sales volume of carbonated nutritional drink *ORONAMIN C drink* decreased compared with the previous fiscal year partially due to a voluntary recall of some product lots.

Sales volume for the *Calorie Mate* range, the brand with the leading share in the nutritionally balanced foods market[*2], increased compared with the previous fiscal year as the overall brand's contact points with customers expanded due to efforts to promote the variety of the product range through emphasizing the characteristics of the other product forms, in addition to the block, and consumers understood the advantage and convenience as a ready source of balanced nutrition for various opportunities.

Sales from the *SOYJOY Crispy* series increased as the new flavors, *SOYJOY Crispy Banana* and *SOYJOY Crispy Peach*, were supported by new consumers. However, sales volume of the overall brand for the *SOYJOY* range of baked soy bars decreased slightly compared with the previous fiscal year, as sales of some products were discontinued in reviewing the product lineup.

North America

Sales of *Nature Made*, supplied by subsidiary Pharmavite LLC of the U.S., continued to increase on a local currency basis, partly due to growth in the U.S. market for supplements[*3]. However, its sales on a yen basis were flat compared with the previous fiscal year due to forex factors. Revenue continued to increase for Daiya Foods Inc., which develops, manufactures and sells plant-based foods in North America.

Others

At Nutrition & Santé SAS, one of the Group's subsidiaries that operates in more than 40 countries, mainly in Europe, selling nutrition and health food mainly under the *Gerblé* brand, France's leading health food brand[*4], sales decreased compared with the previous fiscal year mainly affected by entries of competitors despite the expansion of the market on the back of increasing concerns about health among consumers.

POCARI SWEAT, which is sold in more than 20 markets, mainly in Asia, registered an increase in overseas sales volume compared with the previous fiscal year. This was the result of greater product recognition in each region mainly due to activities catered to each market, which capitalized on the strengths of *POCARI SWEAT* that are backed by scientific evidence. In Indonesia, *ORONAMIN C drink* with the Halal certification was launched in June 2018 and Halal-certified *SOYJOY* soy bars were launched in July 2018. The products have smoothly been introduced into retail stores.

*1: INTAGE SRI 01/2018 to 12/2018, overall beverage market: +0.9%, sports drink market: +6.0%, POCARI SWEAT: +8.5%) All rights reserved, no reproduction without permission.
*2: INTAGE SRI, nutritionally balanced foods market (categories: cookies and biscuits, cereal, cakes) 01/2018 to 12/2018. All rights reserved, no reproduction without permission.
*3: © 2018, The Nielsen Company, Scantrack© service, US xAOC Channel 52-weeks ended 12/29/2018, the Total Vitamin Category: +4.6%. All rights reserved, no reproduction without permission.
*4: 2018 Value Share of Market, Information Resources Inc. All rights reserved, no reproduction without permission.

Consumer Products

Revenue in the consumer product segment for the fiscal year ended December 31, 2018 totaled ¥33,807 million (down 5.0% year on year), with operating profit of ¥8,668 million (down 22.0%).

Sales volume for *MATCH*, a carbonated electrolyte drink containing vitamins, increased compared with the previous fiscal year due to an increase in storefront sales as a result of aggressive marketing strategy and the revamping of *Berry MATCH*, a product flavored with mixed berries.

Sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the previous fiscal year, mainly due to weaker sales in the direct sales channel, despite an increase in storefront sales for 700-milliliter bottles.

Bon Curry, which is a food product in a retort pouch, had marked its 50th anniversary since launch in FY2018, and its sales increased compared with the previous fiscal year mainly due to stepped up marketing activities and more frequent media exposure.

Others

Revenue in the others segment for the fiscal year ended December 31, 2018 totaled ¥141,249 million (down 6.5% year on year), with operating profit of ¥9,882 million (up 1.4%).

In the specialty chemical business, sales increased compared with the previous fiscal year, supported by growth in sales volume for hydrazine hydrate, friction materials and other products. In the fine chemical business, sales decreased compared with the previous fiscal year due to factors such as a delay in order receipts.

Sales in the warehousing and transport business increased compared with the previous fiscal year mainly due to the growth in handling volume of the Group products and expansion of the "common distribution platform" in line with external customers.

iii) Research and development activities

Research and development expenses for the current fiscal year totaled ¥216,140 million.

Research and development expenses for the pharmaceutical business amounted to ¥205,737 million, those for the nutraceutical business amounted to ¥5,849 million, those for the consumer products business amounted to ¥596 million and those for the other businesses amounted to ¥3,957 million.

Pipeline information

Compounds in Phase III or later stage of development as of December 31, 2018

The Group conducts research and development with a primary focus on the areas of the psychiatry and neurology and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, etc.

Category	*Brand name* (Generic name) Development Code	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Psychiatry and neurology	*REXULTI* (brexpiprazole) OPC-34712	Major depressive disorder / Oral	●				●	
		Agitation associated with Alzheimer-type dementia / Oral	●		●		●	
		Bipolar I disorder / Oral			●		●	
	(nalmefene) Lu AA36143	Alcohol dependence / Oral		●*1				
	(deuterium-modified dextromethorphan, quinidine) AVP-786	Agitation associated with Alzheimer-type dementia / Oral			●		●	
	(fremanezumab) TEV-48125	Migraine / Injection	●*2					
Oncology	*LONSURF* (trifluridine, tipiracil) TAS-102	Gastric cancer / Oral		●		●		●
	(tegafur, gimeracil, oteracil, folinate) TAS-118	Gastric cancer / Oral	●					
	(guadecitabine) SGI-110	Acute myeloid leukemia / Injection	●		●		●	
		Myelodysplastic syndrome / Injection	●		●		●	
	ASTX727	Myelodysplastic syndrome / Oral			●			
	TAS-116	Gastrointestinal stromal tumor / Oral	●					

(Translation)

Category	*Brand name* (Generic name) Development Code	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Cardiovascular and renal system	*Samsca* (tolvaptan) OPC-41061	Syndrome of inappropriate antidiuretic hormone secretion / Oral	●					
	(vadadustat) AKB-6548	Anemia associated with chronic kidney disease / Oral			●		●	
Other categories	*Deltyba* (delamanid) OPC-67683	Multidrug-resistant tuberculosis / Oral			●			
	(glucose, electrolyte, amino acid, fat and vitamin) OPF-105	Peripheral parenteral nutrition solution / Injection	●					

*1: Manufacturing and marketing approval was granted in January 2019.
*2: Phase II/ III

Research and development activities

Phase II or later stage of development

Brand Name, (Generic Name), Development Code	Status
Psychiatry and neurology	
REXULTI (brexpiprazole) OPC-34712	<Japan> ・Approval was granted in January 2018 for the indication of schizophrenia. ・Phase III trials for the adjunctive therapy in major depressive disorder were initiated in August 2018. ・Phase III trials for the treatment of agitation associated with Alzheimer-type dementia were initiated in September 2018. <Europe> ・Approval was granted in July 2018 for the indication of schizophrenia.
(aripiprazole, sertraline) ASC-01	<Japan> ・An application for the adjunctive therapy in major depressive disorder was withdrawn as a result of consultation with the authority.
(dextromethorphan, quinidine) AVP-923	<U.S.> ・Development for the treatment of dyskinesia associated with Parkinson's disease was halted in line with development strategy.
(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> ・Development for the treatment of disinhibition syndrome in neurodegenerative disorders was halted in line with development strategy. ・Phase II trial for the treatment of intermittent explosive disorder was initiated in February 2018.
Oncology	
LONSURF (trifluridine, tipiracil) TAS-102	<Japan, U.S. and Europe> ・An application for the indication of gastric cancer was filed in Japan in August 2018 and in U.S. and Europe in October 2018.
TAS-116	<Japan> ・Phase III trial for the treatment of gastrointestinal stromal tumor was initiated in October 2018.
TAS-120	<Japan, U.S. and Europe> ・Phase II trial for the treatment of intrahepatic cholangiocarcinoma was initiated in April 2018.
TAS-121	<Japan> ・Development was halted in line with development strategy.
TAS0313	<Japan> ・Phase I/ II trial for the treatment of solid cancer was initiated in January 2018.
TAS0728	<U.S. and Europe> ・Phase I/ II trial for the treatment of solid cancer was initiated in April 2018.
ASTX727	<U.S.> ・Phase III trial for the treatment of myelodysplastic syndrome was initiated in February 2018.
TBI-1301[*1]	<Japan> ・Phase I/II trial for the treatment of synovial sarcoma is currently underway.
TBI-1501[*1]	<Japan> ・Phase I/II trial for the treatment of acute lymphoblastic leukemia is currently underway.

Brand Name, (Generic Name), Development Code	Status
OCV-C02	<Japan> ・Development was halted in line with development strategy.
OCV-501	<Japan> ・Development was halted in line with development strategy.
Cardiovascular and renal system	
Samsca/JINARC/JYNARQUE (tolvaptan) OPC-41061	<U.S.> ・Approval was granted in April 2018 for the indication of ADPKD.
Other categories	
TAS-115	<Japan> ・Phase II trial for the treatment of idiopathic pulmonary fibrosis was initiated in June 2018.
VIS410*2	<U.S.> ・Phase II trial for the treatment of Type A influenza infection is currently underway.
TAS5315	<Japan> ・Phase II trial for the treatment of rheumatoid arthritis was initiated in August 2018.
OPC-167832	<U.S.> ・Phase I/ II trial for the treatment of tuberculosis was initiated in October 2018.
Live Cell TSAb 'Otsuka' ODK-1403	<Japan> ・Approval was granted in May 2018 as an in-vitro diagnostic agent for Grave's disease.

*1: Agreement with Takara Bio concluded for co-development and exclusive sales rights in Japan in April 2018.

*2: Drug currently under development, acquired through the purchase of Visterra Inc. in August 2018.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during the current fiscal year amounted to ¥193,782 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥166,872 million. That amount includes goodwill and intangible assets totaling ¥66,121 million related to ReCor Medical, Inc., which was acquired on June 29, 2018, and goodwill and intangible assets totaling ¥49,164 million related to Visterra, Inc., which was acquired on August 31, 2018.

Capital investments in the nutraceuticals business totaled ¥11,789 million, while those in consumer business totaled ¥1,939 million, other businesses totaled ¥9,546 million, and corporate investments (common) totaled ¥3,635 million.

(2) Key Issues to be Addressed

Revenue fell below the Group's target under the Second Medium-Term Management Plan covering the period up to FY2018 as a result of reduced sales from long-listed drugs and new drugs in Japan due to considerable changes in the external environment from the assumptions when the plan was prepared, such as drastic NHI price system reforms and policy measures to promote generic drugs in Japan and Europe. The changes in the external environment are expected to continue because cutting medical costs is an urgent global issue as the aging of the society is making progress. On the other hand, the need is steadily increasing for disease preventive measures and balanced life plans exercising, resting and taking necessary nutrition based on the administrative standpoint of reducing medical costs and the people's hope for staying healthy.

The Group's operations encompass two core businesses: the pharmaceutical business, which provides comprehensive health support from diagnosis to treatment of diseases, and the nutraceutical business, which helps people maintain and improve day-to-day health. Seeing an increasing interest in healthy life, we are newly strengthening our already strong belief in the importance of total health care. In terms of long-term prospects, the Group expects drastic changes in the business environment and aims to continue its contribution to global total healthcare through two equally important areas: the pharmaceutical business aimed at treatment and the nutraceutical business themed upon prevention.

Under the Second Medium-Term Management Plan, the Group conducted the diversification of the revenue structure, managing to offset the impact of the loss of exclusivity of *ABILIFY* with increases in sales of new products. Due to the reform of profitability in nutraceutical business, the operating margin in the segment surpassed 10%. The Group finds it important to continue strengthening the profitability in the existing businesses and to conduct investments for sustainable growth. The Group will carry out initiatives for maximizing value in existing businesses while keeping close watch on changes in the business environment, and building new business (new business areas and solutions) in which Otsuka is uniquely suited to meet the challenge, from the long-term perspective.

Under its corporate philosophy "Otsuka-people creating new products for better health worldwide," the Group will promote CSR activity in association with its businesses with the aim of realizing a healthy society and creating sustainable corporate value.

The Company plans to announce the Third Medium-Term Management Plan, which is under preparation, on May 30, 2019.

(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 8th fiscal year (Ended December 31, 2015)		The 9th fiscal year (Ended December 31, 2016)	The 10th fiscal year (Ended December 31, 2017)	The 11th fiscal year (Ended December 31, 2018)
	Japan GAAP	IFRS	IFRS	IFRS	IFRS
Revenue (Millions of yen)	1,445,227	1,427,375	1,195,547	1,239,952	1,291,981
Operating income or operating profit (Millions of yen)	151,837	148,886	101,145	104,181	108,304
Net income or profit attributable to owners of the Company (Millions of yen)	84,086	101,957	92,563	112,492	82,492
Net income per share or basic earnings per share (Yen)	155.12	188.16	170.82	207.60	152.24
Total assets (Millions of yen)	2,528,510	2,575,280	2,478,290	2,480,256	2,476,634
Total net assets or total equity (Millions of yen)	1,683,436	1,727,370	1,738,441	1,821,950	1,732,266
Net assets per share or equity attributable to owners of the Company per share (Yen)	3,053.82	3,134.56	3,156.83	3,309.55	3,145.71

Note: 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, 2018)

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:

1. The asterisk (*) in Percentage of voting rights held by the Company includes the percentage of voting rights held indirectly.
2. 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 (Millions of yen)
Taiho Pharmaceutical Co., Ltd.	1-27 Kanda Nishikicho, Chiyoda-ku, Tokyo	275,447

Note: The Company's total assets amounted to ¥1,047,843 million at the current fiscal year-end.

(5) Major Offices and Factories (as of December 31, 2018)

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

(6) **Employees** (as of December 31, 2018)

i) Employees of the Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	19,397	(1,284)	up 229	(down 352)
Nutraceuticals	7,856	(1,587)	down 17	(up 99)
Consumer products	541	(72)	up 15	(down 11)
Others	3,557	(807)	down 39	(down 10)
Corporate (Common)	1,584	(313)	down 70	(down 30)
Total	32,935	(4,063)	up 118	(down 304)

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
94 (128)	up 8 (up 7)	44.0	3.3

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, 2018)

(Millions of yen)

Creditor	Balance of borrowings
MUFG Bank, Ltd.	59,590
Mizuho Bank, Ltd.	50,716
Resona Bank, Limited	28,272
Sumitomo Mitsui Banking Corporation	26,267
The Awa Bank, Ltd.	15,684

2. Current Status of the Company

(1) Shares (as of December 31, 2018)

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: 54,112
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	57,798	10.66
The Master Trust Bank of Japan, Ltd. (trust account)	42,358	7.81
Japan Trustee Services Bank, Ltd. (trust account)	26,882	4.96
Otsuka Estate Co., Ltd.	23,296	4.29
Otsuka Group Employee Shareholding Fund	13,202	2.43
The Awa Bank, Ltd.	10,970	2.02
Japan Trustee Services Bank, Ltd. (trust account 9)	7,799	1.43
STATE STREET BANK WEST CLIENT - TREATY 505234	7,740	1.42
Japan Trustee Services Bank, Ltd. (trust account 5)	7,476	1.37
Otsuka Asset Co., Ltd.	7,380	1.36

Notes:
1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,987,217 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 held by Directors and Audit & Supervisory Board Members of the Company granted as remuneration for their execution of duties at current fiscal year-end

(as of December 31, 2018)

	No. 5 share acquisition rights
Date of resolution on issuance	May 13, 2016
Number of share acquisition rights	5,676
Class and number of shares underlying share acquisition rights	Ordinary shares: 567,600 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)
Number of holders	Directors of the Company: 6 (excluding Outside Directors)

Note: In order to make a greater contribution to the continued improvement of the Group's medium- 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 medium-term incentive plan (hereinafter "the Medium-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 Second Medium-term Management Plan for which 2018 is designated as the final year.

Under the Medium-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 is finalized based on the level of achievement of the consolidated sales objective amount and the consolidated operating profit objective amount in the fiscal year ended 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 ended December 31, 2018, established at the time of introducing the Medium-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 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 granted to employees, etc. as remuneration for their execution of duties during the current fiscal year

No items to report.

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

i) Directors and Audit & Supervisory Board Members (as of December 31, 2018)

Position in the Company	Name	Areas of responsibility and significant concurrent positions outside the Company
Chairman and Representative Director	Ichiro Otsuka	Chairman, Otsuka Pharmaceutical Factory, Inc. Executive Director, Otsuka Pharmaceutical Co., Ltd. President and Representative Director, Otsuka Estate Co., Ltd. President and Representative Director, Otsuka Asset Co., Ltd.
President and Representative Director	Tatsuo Higuchi	President and Representative Director, Otsuka Pharmaceutical Co., Ltd.
Senior Managing Director	Yoshiro Matsuo	In charge of Corporate Administration Executive Director, Otsuka Medical Devices Co., Ltd.
Executive Director	Yuko Makino	In charge of Corporate Finance
Executive Director	Sadanobu Tobe	Chairman, Otsuka Foods Co., Ltd.
Executive Director	Atsumasa Makise	President and Representative Director, Otsuka Foods Co., Ltd.
Executive Director	Masayuki Kobayashi	President and Representative Director, Taiho Pharmaceutical Co., Ltd. Chairman, TAIHO ONCOLOGY, INC.
Executive Director	Noriko Tojo	President and Representative Director, Otsuka Medical Devices Co., Ltd.
Executive Director	Tadaaki Konose	
Executive Director	Yukio Matsutani	Vice President, International University of Health and Welfare
Executive Director	Ko Sekiguchi	Outside Director, Solasto Corporation Outside Director, Kenedix, Inc.
Standing Audit & Supervisory Board Member	Yozo Toba	
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
Audit & Supervisory Board Member	Kazuo Takahashi	

Notes:

1. Executive Directors, Tadaaki Konose, Yukio Matsutani and Ko Sekiguchi are Outside Directors.
2. Audit & Supervisory Board Members, Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi are Outside Audit & Supervisory Board Members.
3. Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
4. The Company appoints Executive Directors Tadaaki Konose, Yukio Matsutani and Ko Sekiguchi as well as Audit & Supervisory Board Members Hiroshi Sugawara, Yoko Wachi and Kazuo Takahashi as Independent Officers as provided for under the rules of the Tokyo Stock Exchange and have registered them with the Exchange.
5. 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.
6. Changes in Directors and Audit & Supervisory Board Members during the current fiscal year are as follows:

   [Assumption of Office]
   Executive Director, Yuko Makino (assumed her office as of March 29, 2018)
   Executive Director, Noriko Tojo (assumed her office as of March 29, 2018)
   Outside Director, Ko Sekiguchi (assumed his office as of March 29, 2018)
   Audit & Supervisory Board Member, Yozo Toba (assumed his office as of March 29, 2018)
   Outside Audit & Supervisory Board Member, Kazuo Takahashi (assumed his office as of March 29, 2018)

[Retirement]
Outside Director, Yasuyuki Hirotomi, (retired from office due to expiration of his term of office as of March 29, 2018)
Audit & Supervisory Board Member, Takaharu Imai (retired from office due to expiration of his term of office as of March 29, 2018)
Outside Audit & Supervisory Board Member, Norikazu Yahagi (retired from office due to expiration of his term of office as of March 29, 2018)

ii) Total remuneration to Directors and Audit & Supervisory Board Members

Classification	Number of persons	Amount of remuneration (Millions of yen)
Directors (of which Outside Directors)	12 (4)	372 (21)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	6 (4)	58 (32)
Total (of which Outside Directors and Audit & Supervisory Board Members)	18 (8)	430 (54)

Notes:
1. There are no Directors of the Company who concurrently serve as employees.
2. The upper limit of remuneration 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 i) Status of share acquisition rights held by Directors and Audit & Supervisory Board Members of the Company granted as remuneration for their execution of duties at current fiscal year-end.
3. The upper limit of remuneration 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 remuneration to Directors include ¥123 million in bonuses for five (5) Directors and deduction of ¥45 million in remuneration as stock options for six (6) Directors.
5. During the current fiscal year, Outside Directors and Audit & Supervisory Board Members received total remuneration of ¥3 million from the Company's subsidiaries for their services as Directors and Audit & Supervisory Board Members.

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

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

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

Executive Director, Ko Sekiguchi, serves as Outside Director of Solasto Corporation and Outside Director of Kenedix, Inc. (scheduled to retire from latter in March 2019). The Group has no transactions with each of the said organizations.

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, 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 extensive knowledge and experience gained through many years in corporate management.

Executive Director, Yukio Matsutani 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 gained in the healthcare and welfare field.

Executive Director, Ko Sekiguchi attended all 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 extensive knowledge and experience gained in the pharmaceutical business.

Audit & Supervisory Board Member, Hiroshi Sugawara attended all thirteen (13) meetings of the Board of Directors and all sixteen (16) 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 thirteen (13) meetings of the Board of Directors and all sixteen (16) meetings of the Audit & Supervisory Board held during the current fiscal year, and provided appropriate comments based on her broad experience cultivated as an attorney at law and high level of overall legal knowledge.

Audit & Supervisory Board Member, Kazuo Takahashi attended all ten (10) meetings of the Board of Directors and all thirteen (13) meetings of the Audit & Supervisory Board held since he assumed the office of Audit & Supervisory Board Member of the Company, and provided appropriate comments based on his extensive experience and high-level insights gained through many years in corporate management.

(4) Accounting Auditor

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

ii) Amount of remuneration

(Millions of yen)

	Payment
Total remuneration for the current fiscal year	127
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	426

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 remuneration 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 remuneration.
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 remuneration 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 remuneration 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 Regulation for Enforcement of the Companies Act that came into effect on May 1, 2015. The revised basic polices 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, 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

In accordance with regulations to ensure the appropriateness of operations in the Otsuka Group, the Company's Board of Directors, Audit & Supervisory Board and relevant departments receive reports, depending on the level of importance, from the Directors and Audit & Supervisory Board Members of the Company and affiliates with respect to operations, earnings, risk and the status of legal compliance, supporting the operation of the internal control system. The Company also regularly holds Group Internal Control Meetings. By sharing information, it makes efforts to conduct and manage operations in a consistent manner across the Group. The Internal Audit Department, which is under the direct reporting line to the President, conducts 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 promote 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, and the Company's Directors, the internal audit department and Audit & Supervisory Board Members confirm that the Group's stance is being implemented.

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 are implementing a project to support the promotion of compliance, and all Group companies are working to ensure adherence to compliance rules through their Compliance Officers.

(ii) Compliance training

In accordance with the Otsuka Group Global Code of Business Ethics, the Otsuka Group Global Anti-Corruption Policy and the ethics regulations of each Group company, the Company conducts training programs for executives and employees to educate them and ensure awareness about compliance. Compliance forums are also held as part of training for directors and employees at Group companies.

iii) Reinforcing risk management system

(i) Risk management system

Meetings of the Risk Management Committee are held and risk management training is conducted to discuss and raise awareness of business continuity plans and 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.

In risk management training, drills based on the themes of effective business management during crisis situations, and manufacturing and quality management were conducted for the senior management of the Company and key Group companies.

The committee has also developed an Emergency Response Manual to ensure rapid responses to situations at overseas affiliates and conducts training based on various scenarios.

(ii) Information security

In addition to conducting security checks, the Company and every Group company are continuingly raising their levels of defense against risks, by such means as conducting drills related to targeted e-mail attacks.

The Company and Group companies also participate in regular Group information security meetings, which involve information sharing about the latest technologies and other training.

Responding to information security regulations in each country, such as the General Data Protection Regulation in the EU and Japan's Act on the Protection of Personal Information, the Company and Group companies adjusted the relevant rules and reviewed the management system.

iv) Management of affiliates

In accordance with the Affiliate Management Regulations, the Company's Board of Directors or principle departments received reports about decision-making at affiliates and approved decisions, issued instructions or took other steps.

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, etc., 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 monthly 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 other individuals of the Company and each of the Group companies, received information about earnings, business operations, the status and operation of the internal control system and implementation status of internal audits on a regular basis and at other times when necessary, and provided guidance as necessary.

Audit & Supervisory Board Members regularly hold a meeting of the Group's Audit & Supervisory Board as well as regularly receive reports from, exchange opinions with, 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, in accordance with a resolution of the Board of Directors meeting held on February 13, 2019, 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 3, 2018, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 29, 2019.

Consolidated Statement of Financial Position

(As of December 31, 2018)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets		**Current liabilities**	
Cash and cash equivalents	285,022	Trade and other payables	170,854
		Bonds and borrowings	65,912
Trade and other receivables	378,520	Other financial liabilities	4,202
		Income taxes payable	7,211
Inventories	157,128	Contract liabilities	10,809
Income taxes receivable	9,226	Other current liabilities	168,511
		Total current liabilities	**427,502**
Other financial assets	66,614	**Non-current liabilities**	
Other current assets	36,573	Bonds and borrowings	139,973
		Other financial liabilities	22,826
Subtotal	933,085	Net defined benefit liabilities	18,337
		Provisions	619
Assets held for sale	16	Contract liabilities	87,245
Total current assets	**933,102**	Deferred tax liabilities	35,564
		Other non-current liabilities	12,300
Non-current assets		**Total non-current liabilities**	**316,865**
Property, plant and equipment	393,572	**Total Liabilities**	**744,368**
		Equity	
Goodwill	284,097	**Equity attributable to owners of the Company**	
Intangible assets	483,942	Share capital	81,690
Investments in associates	189,633	Capital surplus	505,894
		Treasury shares	(47,268)
Other financial assets	155,153	Retained earnings	1,229,360
Deferred tax assets	28,428	Other components of equity	(65,177)
Other non-current assets	8,704	**Total equity attributable to owners of the Company**	**1,704,499**
Total non-current assets	**1,543,532**	**Non-controlling interests**	**27,766**
		Total Equity	**1,732,266**
Total Assets	**2,476,634**	**Total Liabilities and Equity**	**2,476,634**

Consolidated Statement of Income

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

Item	Amount
Revenue	1,291,981
Cost of sales	(441,823)
Gross profit	**850,157**
Selling, general and administrative expenses	(564,374)
Research and development expenses	(216,140)
Share of profit of associates	16,508
Other income	24,482
Other expenses	(2,328)
Operating profit	**108,304**
Finance income	9,178
Finance costs	(7,985)
Profit before taxes	**109,497**
Income tax expenses	(24,101)
Profit for the year	**85,395**
Attributable to:	
Owners of the Company	82,492
Non-controlling interests	2,903
Total	85,395

(Translation)

Consolidated Statement of Changes in Equity

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Equity attributable to owners of the Company					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasure-ments of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2018	**81,690**	**505,620**	**(47,267)**	**1,266,399**	**–**	**42,915**
Changes in accounting policies	–	–	–	(70,242)	–	–
Restated balance	81,690	505,620	(47,267)	1,196,157	–	42,915
Profit for the year	–	–	–	82,492	–	–
Other comprehensive income	–	–	–	–	(2,725)	(11,950)
Comprehensive income	**–**	**–**	**–**	**82,492**	**(2,725)**	**(11,950)**
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(54,184)	–	–
Share-based payment transactions	–	(22)	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	296	–	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	4,895	2,725	(7,621)
Total transactions with owners, etc.	**–**	**274**	**(1)**	**(49,289)**	**2,725**	**(7,621)**
Balance as of December 31, 2018	**81,690**	**505,894**	**(47,268)**	**1,229,360**	**–**	**23,344**

(Continued)

(Millions of yen)

	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, 2018	**(56,072)**	**(8)**	**(13,165)**	**1,793,278**	**28,671**	**1,821,950**
Changes in accounting policies	–	–	–	(70,242)	–	(70,242)
Restated balance	(56,072)	(8)	(13,165)	1,723,036	28,671	1,751,707
Profit for the year	–	–	–	82,492	2,903	85,395
Other comprehensive income	(32,461)	9	(47,128)	(47,128)	(1,389)	(48,518)
Comprehensive income	**(32,461)**	**9**	**(47,128)**	**35,363**	**1,513**	**36,877**
Purchase of treasury shares	–	–	–	(1)	–	(1)
Dividends	–	–	–	(54,184)	(1,111)	(55,295)
Share-based payment transactions	–	–	–	(22)	–	(22)
Changes in ownership interests in subsidiaries that do not result in loss of control	12	–	12	309	(805)	(496)
Disposal of subsidiaries	–	–	–	–	(501)	(501)
Transfer from other components of equity to retained earnings	–	–	(4,895)	–	–	–
Total transactions with owners, etc.	**12**	**–**	**(4,883)**	**(53,900)**	**(2,418)**	**(56,318)**
Balance as of December 31, 2018	**(88,521)**	**0**	**(65,177)**	**1,704,499**	**27,766**	**1,732,266**

(Concluded)

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.

(2) Scope of Consolidation

i) Number of consolidated subsidiaries: 162

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: 26

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

Visterra, Inc., Veryan Medical Ltd. and four other companies were newly included in the scope of consolidation from the current fiscal year as a result of acquisitions of their shares.

Otsuka Pharmaceutical Development & Commercialisation Europe GmbH and eight other companies were newly included in the scope of consolidation from the current fiscal year due to being newly established.

ReCor Medical Inc. and one other company were changed from the scope of equity-method application to the scope of consolidation, since the Company exercised an acquisition option and obtained the controls of these companies in the current fiscal year.

Otsuka Saha Asia Research Co., Ltd., which had been the Company's consolidated subsidiary, was excluded from the scope of consolidation upon liquidation.

Nutrinat AG and three other companies, which had been the Company's consolidated subsidiaries, were absorbed by Nardobel SAS and other consolidated subsidiaries of the Company.

Changzhou Otsuka Econ Techno Co., Ltd. and ILS, Inc., which had been the Company's consolidated subsidiaries, were excluded from the scope of consolidation as a result of sale of their shares.

Achieva Medical Limited and three other companies, which had been the Company's associates accounted for by the equity method, were excluded from the scope of equity-method application as a result of sale of their shares, whereas TSUNAGUTE Co., Ltd., which was newly established, was newly included in the scope of equity-method application.

(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 assets. 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 the 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 the 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 or 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, 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 market yields on high quality corporate bonds at the end of the 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 remeasured 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 is 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 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) Revenue

A. Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is therefore recognized upon delivery of the products because legal title, physical possession, significant risks and rewards of ownership of the products are transferred to customer upon delivery, and the customer obtains control over the products.

Products may be sold with rebate for the achievement of sales volume and amount. In such a case, transaction price is recognized at the consideration promised in contract with a customer, less estimated rebates and other items. Rebates are measured by most likely amount method based on historical performance; revenue is recognized only to the extent that it is highly probable that significant reversal will not occur.

The consideration of sales is received primarily within one year from the time of delivery, and it does not include significant financing component.

B. License and royalty income

License income is up-front and milestone payments that the Group receives based on license agreements, etc., which the Group and a third party enter into for development and distribution right of development and finished products. Under license agreements, etc., if contractual obligations are fulfilled at a specific point in time, up-front payments are recognized as revenue once development and distribution rights are granted. If contractual obligations are fulfilled over a period of time, such payments are recorded as contract liabilities and recognized as revenue over a period (estimated contract term, etc.) in accordance with the method of measuring progress towards complete satisfaction of performance obligations determined by each contract. Income from milestone payments received under license agreements is recognized as revenue from the point when the conditions are met to avoid future reversal of revenues.

Royalty income is the income from license contracts, etc., calculated based on the sales, etc., of counterparties and its revenue is recognized at the later point of either the counterparty’s revenue recognition, etc., or satisfaction of performance obligations.

License and royalty income is received primarily within one year from the time when the right is acquired based on the contract, and it does not include material financial factors.

viii) Other

A. Accounting method for consumption taxes

Consumption taxes are excluded from revenues and expenses.

B. Application of the consolidated taxation system

The Company and certain domestic subsidiaries apply the consolidated taxation system.

2. Notes to Changes in Accounting Policies

Changes in Accounting Policies Required by IFRS

The Group has adopted the following standard from the current fiscal year.

IFRS		Description of new standards, interpretations and amendments
IFRS 15	Revenue from Contracts with Customers	Amendment concerning accounting treatment for revenue recognition

Starting from the current fiscal year, the Group adopted IFRS 15, "Revenue from Contracts with Customers" (issued in May 2014), and "Clarifications to IFRS 15" (issued in April 2016) (together, hereinafter "IFRS 15").

In accordance with the transitional measures under IFRS 15, the Group adopts the method where IFRS 15 is applied retrospectively to contracts that have not been completed as of the initial application date (January 1, 2018), and the cumulative effect is recognized as an adjustment to the opening balance of retained earnings of the current fiscal year.

In accordance with IFRS 15, except for interests and dividend income stipulated by IFRS 9, "Financial Instruments," revenue is recognized based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Please refer to "1. Basis of Preparation of Consolidated Financial Statements" for further details about accounting policies for significant revenue.

Based on the above five-step model, as a result of reviewing the time of revenue recognition for license income (up-front income, etc.) in accordance with fulfillment of performance obligations under license agreements, in some contracts, license income which was already recognized based on the former accounting standard was accounted for as contract liabilities, and related license income is recognized over a period in accordance with the method of measuring progress towards complete satisfaction of performance obligations determined by each contract based on IFRS 15.

Furthermore, as a result of review of consideration payable to a customer, the portion of sales promotion and other expenses that is consideration paid by the Group to customers, which had previously been accounted for as selling, general and administrative expenses, is accounted for as reductions of revenue from the current fiscal year.

In addition, with the application of IFRS 15, the portion of advances and deferred income, which had previously been included in "other current liabilities," and long-term deferred income, which had previously been included in "other non-current liabilities," are presented as "contract liabilities" from the current fiscal year.

As a result, compared with the application of the former accounting standard, as of the beginning of the current fiscal year, mainly, retained earnings and deferred tax liabilities decreased by ¥70,242 million and ¥17,108 million, respectively, while deferred tax assets and contract liabilities in current liabilities and non-current liabilities increased by ¥13,751 million, ¥11,170 million and ¥92,711 million, respectively.

In the consolidated statement of income, as a result of a change in accounting policy, revenue and

selling, general and administrative expenses decreased by ¥2,801 million and ¥8,004 million, respectively, and cost of sales increased by ¥212 million. Both operating profit and profit before taxes increased by ¥4,989 million, and profit for the year increased by ¥3,464 million.
In the consolidated statement of financial position, as a result of a change in accounting policy, deferred tax assets and contract liabilities in current liabilities and non-current liabilities increased by ¥21,480 million, ¥10,809 million and ¥87,245 million, respectively, while retained earnings and deferred tax liabilities decreased by ¥66,778 million and ¥7,853 million, respectively.

3. Notes to Consolidated Statement of Financial Position

(1) Allowance for Credit Losses Directly Deducted from Assets

		(Millions of yen)
Trade and other receivables	¥	1,892
Other financial assets (non-current assets)		114

(2) Assets Pledged as Collateral and Secured Liabilities

		(Millions of yen)
Trade and other receivables	¥	255
Inventories		353
Property, plant and equipment		
Buildings and structures		481
Machinery and vehicles		1,161
Tools, furniture and fixtures		6
Land		904
Total	¥	3,160

The properties above are pledged as collateral for bonds and borrowings (current liabilities) of ¥1,068 million and bonds and borrowings (non-current liabilities) of ¥954 million.

(3) Accumulated Depreciation on Property, Plant and Equipment (including accumulated impairment losses) ¥669,862 million

(4) Contingent Liabilities
Outstanding guarantees given to financial institutions and others of associates and others: ¥120 million

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, 2018	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, 2018
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, 2018	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, 2018
Ordinary shares	15,986 thousand shares	0 thousand shares	–	15,987 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 14, 2018	Ordinary shares	¥27,092 million	¥50	December 31, 2017	March 30, 2018
Meeting of the Board of Directors held on August 8, 2018	Ordinary shares	¥27,092 million	¥50	June 30, 2018	September 3, 2018

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 13, 2019	Ordinary shares	Retained earnings	¥27,092 million	¥50	December 31, 2018	March 29, 2019

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 the 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.

(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)	560	581
Total financial assets	560	581
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Bonds and borrowings	205,885	205,092
Other financial liabilities (lease obligations)	8,054	8,633
Total financial liabilities	213,940	213,726

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 when 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 when 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 ¥3,145.71
(2) Basic Earnings per Share ¥152.24

7. Notes to Significant Subsequent Events

Not applicable.

8. Other Notes

(Business Combinations)
(Acquisition of ReCor Medical Inc.)
The Company exercised an acquisition option to acquire the remaining shares of ReCor Medical Inc., which had previously been the Company's associate company, on June 29, 2018 (Japan time) and made ReCor Medical Inc. its wholly owned subsidiary (hereinafter referred to as "the Acquisition"). ReCor Medical Inc. manufactures and develops medical devices in the United States.

(1) Overview of Business Combination

i) Name of company acquired and nature of business
Name of company acquired: ReCor Medical Inc.
Nature of business: Manufacture and development of medical devices (ultrasound renal denervation devices)

ii) Primary reasons for business combination
The Group has had a minority interest in ReCor Medical Inc. since 2014 and obtained the exclusive development and sales rights of ultrasound renal denervation therapeutic devices in Asia. Since then, the two parties have developed a good working relationship through jointly developing the device (conducting the REQUIRE test) in Japan and South Korea.
ReCor Medical Inc.'s clinical trial (RADIANCE-HTN SOLO trial) showed a positive result, and in June, it obtained permission to implement the next clinical trial (RADIANCE II) from the Food and Drug Administration (FDA) in the U.S. After that, the Group exercised the acquisition option.

iii) Acquisition date
June 29, 2018

iv) Acquisition background and percentage of voting equity interests acquired
Before the acquisition, the Group held 22% of the voting equity interests. As a result of exercising its acquisition option, the Group acquired all the remaining shares and converted existing convertible loans that Otsuka Medical Devices Co., Ltd., held. ReCor Medical Inc. has become a 100%-owned subsidiary of the Group.

(2) Fair Values of Consideration Transferred, Assets Acquired and Liabilities Assumed as of the Acquisition Date

(Millions of yen)

	Amount
Fair value of consideration transferred	50,854
Cash	16,293
Contingent consideration	7,931
Fair value of existing shareholding	9,066
Others (Note 1)	17,563

(Millions of yen)

	Amount
Fair value of assets acquired and liabilities assumed	
Current assets	671
Non-current assets	56,577
Current liabilities	(384)
Non-current liabilities	(15,646)
Fair value of assets acquired and liabilities assumed	41,219
Goodwill	9,635
Total	50,854

Notes:

1. The amount of "others" under the fair value of consideration transferred includes the fair values of the acquisition option, of existing convertible loans and of contractual rights on the basis of the joint development and commercializing agreement between the Group and ReCor Medical Inc. (hereinafter referred to as "the co-development and commercializing agreement"). The fair value of the co-development and commercializing agreement is based on estimated future cash flows arising from the contract.
2. The Group remeasured its existing shareholding, acquisition option, convertible loans and the co-development and commercializing agreement at the fair value at the date of acquisition. The Group recognizes ¥8,442 million remeasurement gain from its shareholding, ¥833 million remeasurement gain of the acquisition option, ¥3,067 million remeasurement gain from convertible loans and ¥9,529 million remeasurement gain from the co-development and commercializing agreement. The remeasurement gains from the shareholding and the co-development and commercializing agreement are included in "other income," and the remeasurement gains from acquisition option and convertible loans are included in "finance income" in the consolidated statement of income.
3. Total acquisition-related costs are ¥66 million and included in "selling, general and administrative expenses" in the consolidated statement of income.
4. For acquired trade and other receivables, there is no contractual cash flow that is not expected to be collected.
5. Major components of goodwill are synergies with existing businesses expected to be generated from the acquisition and excess earnings power. With regard to goodwill, there is no amount expected to be deductible for tax purposes.
6. Of non-current assets, a major component allocated to intangible assets is in-process research and development of ¥56,452 million.
7. Of non-current liabilities, deferred tax liabilities recognized in the business combination is ¥15,645 million.
8. Measurement of fair values of assets acquired and liabilities assumed and allocation of the acquisition price were completed in the current fiscal year. Major adjustments from the initial provisional amount were increases in in-process research and development and deferred tax liabilities of ¥1,133 million and ¥305 million, respectively. As a result, goodwill increased by ¥273 million.

(3) Effect on Operating Results of the Group

The amounts of revenue and profit or loss of ReCor Medical Inc. since the acquisition date that are included in the Group's consolidated statement of income are insignificant.
Furthermore, the information about revenue and profit and loss on the assumption that the acquisition date had been January 1, 2018 (so-called "pro-forma" information) is not disclosed because the effect is insignificant.

(Acquisition of Visterra, Inc.)

On July 11, 2018, Otsuka Pharmaceutical Co., Ltd. ("Otsuka"), a consolidated subsidiary of the Company, entered into an agreement to acquire all shares of Visterra, Inc. ("Visterra"), which is engaged in research and development of pharmaceutical products in the United States, through an acquisition company set up by Otsuka America, Inc. ("Otsuka America"), a consolidated subsidiary of the Company. This acquisition was completed on August 31, 2018.

(1) Overview of Business Combination

i) Name of company acquired and nature of business
Name of company acquired: Visterra, Inc.
Nature of business: Research and development of pharmaceutical products

ii) Primary reasons for business combination
Visterra has unique antibody platform technologies (Hierotope® platform) that enable computer estimations of three-dimensional structures of a portion of a protein deemed essential for its function, simulations of the structure in combination with numerous partial structures of antibodies, detection of optimal antibody structures, and design of antibody drugs. These

technologies may make it possible to develop antibody drugs to many biological materials that were previously considered difficult to address. Visterra has already created several clinical development products from the antibody technologies, and it also has multiple programs that will move to clinical development soon. Among them, a clinical trial was launched for "VIS649," which is aimed at treatment of IgA nephropathy, as an effective therapeutic approach to this disease for which there is currently no approved medication.
Otsuka will promote further drug development by newly acquiring the base for antibody drug discovery, in addition to the existing base for small-molecule drug discovery, through this acquisition.

iii) Acquisition date
August 31, 2018

iv) Acquisition background and percentage of voting equity interests acquired
The acquisition company set up by Otsuka America acquired 100% of the outstanding voting shares in Visterra in exchange for cash.

(2) Fair Values of Consideration Transferred, Assets Acquired and Liabilities Assumed as of the Acquisition Date

(Millions of yen)

	Amount
Fair value of consideration transferred	47,813
Cash	47,813
Fair value of assets acquired and liabilities assumed	
Current assets	1,260
Non-current assets	22,667
Current liabilities	(1,683)
Non-current liabilities	(1,161)
Fair value of assets acquired and liabilities assumed	21,083
Goodwill	26,730
Total	47,813

Notes:

1. Acquisition-related costs are ¥475 million and included in "selling, general and administrative expenses" in the consolidated statement of income.
2. The total amount of trade and other receivables is ¥1,030 million, none of which is expected to be uncollectible.
3. Major components of goodwill are synergies with existing businesses expected to be generated from the acquisition and excess earnings power. With regard to goodwill, there is no amount expected to be deductible for tax purposes.
4. Of non-current assets, a major component allocated to intangible assets is in-process research and development of ¥17,658 million and other intangible assets of ¥4,775 million.
5. Of non-current liabilities, deferred tax liabilities recognized in the business combination are ¥1,059 million.
6. Measurement of fair values of assets acquired and liabilities assumed and allocation of the acquisition price were completed in the current fiscal year. Major adjustments from the initial provisional amount were increases in in-process research and development, other intangible assets and deferred tax liabilities of ¥17,658 million, ¥4,775 million and ¥1,059 million, respectively, and a decrease in contract liabilities of ¥1,260 million. As a result, goodwill decreased by ¥22,635 million.

(3) Effect on Operating Results of the Group
The amounts of revenue and profit or loss of Visterra, Inc. since the acquisition date that are included in the Group's consolidated statement of income are insignificant.
Furthermore, the information about revenue and profit and loss on the assumption that the acquisition date had been January 1, 2018 (so-called "pro-forma" information) is not disclosed because the effect is insignificant.

(Finalization of the provisional accounting treatment for Daiya Foods Inc.)
On August 31, 2017, local time, the Group acquired 100% voting equity interests of Daiya Foods Inc. in exchange for cash. This company conducts research and development, manufactures and sales plant-derived foods and dairy-free foods.

In the previous fiscal year, the Group was still verifying basic assumptions used to estimate fair values of assets acquired and liabilities assumed for purchase price allocation. The Group finalized its purchase price allocation in the current fiscal year, and no change was made to the fair values of assets acquired and liabilities assumed from that of the provisional price allocation.

(Contingent considerations arising from business combination)
Contingent considerations arising from the business combination are included in other financial liabilities in the consolidated statement of financial position. Contingent considerations that were recorded as of the fiscal year end arose from the business combination of Neurovance, Inc. ("Neurovance") and ReCor Medical Inc.
The contingent considerations from the acquisition of Neurovance consist of the milestones to be paid based on the progress of the development of centanafadine, which is a compound under development as a treatment of ADHD, obtained when the Group acquired Neurovance in March 2017, and the ones to be paid based on the revenue after the launch of centanafadine. The maximum potential amounts of the milestones will be USD 125 million and USD 750 million, respectively.
The contingent considerations from the acquisition of ReCor Medical Inc. are the milestones to be paid based on the progress of the development of the ultrasound renal denervation device obtained by the Group at its acquisition in June 2018. The maximum potential amount of the milestones will be USD 125 million.
The fair value of the contingent considerations is estimated based on the probability-weighted present value of the potential amount to be paid to the counterparty.
Among the gains and losses from the changes in the fair value of the contingent considerations, the portion based on changes of time value is recognized in finance costs, and the one based on changes of non-time-value is recognized in either other income or other expenses.
Changes in the fair value of the contingent considerations for the current fiscal year are as follows:

(Millions of yen)

	Amount
Balance as of January 1, 2018	10,509
Business combination	7,931
Changes in fair value	(1,749)
Foreign currency translation adjustment	(163)
Balance as of December 31, 2018	16,526

Balance Sheet

(As of December 31, 2018)

(Millions of yen)

Item	Amount	Item	Amount
Assets		**Liabilities**	
Current assets	**283,178**	**Current liabilities**	**76,245**
Cash and bank deposits	29,088	Lease obligations	41
Supplies	54	Accounts payable - other	2,863
Prepaid expenses	667	Accrued expenses	435
Short-term loans receivable from subsidiaries and affiliates	223,757	Income taxes payable	786
Income taxes receivable	6,883	Deposits received from subsidiaries and affiliates	72,054
Other current assets	22,726	Provision for bonuses	26
Non-current assets	**764,665**	Provision for directors' bonuses	17
Property, plant and equipment	**283**	Other current liabilities	20
Buildings	43	**Long-term liabilities**	**784**
Structures	42	Lease obligations	24
Furniture and fixtures	127	Deferred tax liabilities	759
Leased assets	68	**Total Liabilities**	**77,030**
Construction in progress	2	**Net Assets**	
Intangible assets	**3,401**	**Shareholders' equity**	**968,329**
Software	3,386	**Share capital**	**81,690**
Trademark rights	14	**Capital surplus**	**810,216**
Investments and other assets	**760,980**	Additional paid-in capital	731,816
Investment securities	15,429	Other capital surplus	78,400
Shares of subsidiaries and affiliates	745,473	**Retained earnings**	**123,690**
Other assets	77	Other retained earnings	123,690
		Retained earnings brought forward	123,690
		Treasury shares	**(47,268)**
		Valuation and translation adjustments	**2,123**
		Unrealized gain on available-for-sale securities	2,123
		Share acquisition rights	**359**
		Total Net Assets	**970,812**
Total Assets	**1,047,843**	**Total Liabilities and Net Assets**	**1,047,843**

Statement of Income

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

Item	Amount	
Operating revenues		**86,112**
Operating expenses		**8,171**
Operating income		**77,941**
Non-operating income		
Interest and dividend income	717	
Business consignment fees	1,213	
Other	108	**2,040**
Non-operating expenses		
Interest expenses	6	
Commission fees	12	
Foreign exchange losses	315	**334**
Ordinary income		**79,646**
Extraordinary loss		
Loss on retirement of non-current assets	29	**29**
Income before income taxes		**79,617**
Income taxes - current		**(658)**
Income taxes - deferred		**243**
Net income		**80,032**

Statement of Changes in Net Assets

(From January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
	Share capital	Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
Beginning balance as of January 1, 2018	**81,690**	**731,816**	**78,400**	**810,216**	**97,843**	**97,843**	**(47,267)**	**942,483**
Changes in the year								
Dividends					(54,184)	(54,184)		(54,184)
Purchase of treasury shares							(1)	(1)
Net income					80,032	80,032		80,032
Net changes other than shareholders' equity								
Total changes in the year	–	–	–	–	**25,847**	**25,847**	**(1)**	**25,845**
Ending balance as of December 31, 2018	**81,690**	**731,816**	**78,400**	**810,216**	**123,690**	**123,690**	**(47,268)**	**968,329**

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments		
Beginning balance as of January 1, 2018	**3,447**	**3,447**	**382**	**946,314**
Changes in the year				
Dividends				(54,184)
Purchase of treasury shares				(1)
Net income				80,032
Net changes other than shareholders' equity	(1,323)	(1,323)	(22)	(1,346)
Total changes in the year	**(1,323)**	**(1,323)**	**(22)**	**24,498**
Ending balance as of December 31, 2018	**2,123**	**2,123**	**359**	**970,812**

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 Non-Current 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
The Company applies the consolidated taxation system.

2. Changes in Presentation

(Change due to early application of the "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Since the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan Statement No. 28, February 16, 2018; hereinafter the "Partial Amendments") became applicable to the financial statements from the end of the current fiscal year, the Company has applied the Partial Amendments from the current fiscal year. Accordingly, the presentation has been changed to the method where deferred tax assets are presented in the category of investments and other assets, and deferred tax liabilities are presented in the category of long-term liabilities.

3. Notes to Balance Sheet

(1) Accumulated Depreciation on Property, Plant and Equipment ¥523 million

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

i) Short-term monetary assets ¥22,631 million
ii) Short-term monetary liabilities ¥1,830 million

4. Notes to Statement of Income

Transactions with Subsidiaries and Affiliates

i) Operating revenues ¥86,112 million
ii) Operating expenses ¥1,933 million
iii) Non-operating transactions ¥1,435 million

5. Notes to Statement of Changes in Net Assets

Number of Treasury Shares

Class of shares	Number of shares as of January 1, 2018	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, 2018
Ordinary shares	15,986 thousand shares	0 thousand shares	–	15,987 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.

6. 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		26
Accrued enterprise tax		73
Accrued business office taxes		1
Share-based remuneration expenses		110
Accounts payable-other		9
Loss on valuation of shares of subsidiaries and affiliates		2,837
Loss on extinguishment of tie-in shares		176
Adjustment of tax-basis book value of shares of subsidiaries and affiliates		886
Subtotal		4,132
Valuation allowance		(3,955)
Total of deferred tax assets	¥	176

Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(936)
Total of deferred tax liabilities		(936)
Net deferred tax liabilities	¥	(759)

7. Notes to Related Party Transactions

(1) Subsidiaries

Type	Company name	Percentage owned	Relationship: Interlocking directors and audit & supervisory board members	Relationship: Business relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Subsidiary	Otsuka Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	3	Investment in stock	Salaries of seconded employees (Note 1)	1,324	Accounts payable-other	320
					Borrowing and lending of funds (Note 2)	36,637	Accrued expenses	3
					Lending of funds	30,000	Short-term loans receivable from subsidiaries and affiliates (Note 2)	213,873
					Payment of interest (Note 3)	0		
					Receipt of interest (Note 3)	211	Other current assets (Accrued interest)	2
					Business consignment fees (Note 4)	557	Other current assets (Accounts receivable-other)	89
Subsidiary	Taiho Pharma-ceutical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	1	Investment in stock	Borrowing of funds (Note 2)	22,293	Deposits received from subsidiaries and affiliates	45,414
					Payment of interest (Note 3)	4		
Subsidiary	Otsuka Chemical Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	1	Investment in stock	Borrowing of funds (Note 2)	7,416	Deposits received from subsidiaries and affiliates	22,365
					Payment of interest (Note 3)	2		
Subsidiary	Otsuka Medical Devices Co., Ltd.	(Held by the Company) 100.0% direct (Held by the subsidiary) None	3	Investment in stock	Absorption-type company split (Note 5)		–	–
					Total assets split	30,194		
					Total liabilities split	9,224		

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 ¥95,000 million separately paid to Otsuka Pharmaceutical Co., Ltd.
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. The transaction was accounted for as a transaction under common control.

(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.

8. Notes to per Share Information

(1) Net Assets per Share ¥1,791.66

(2) Earnings per Share ¥147.70

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

February 11, 2019

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tsutomu Hirose [Seal]

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Ichiro Matsunaga [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, 2018 of Otsuka Holdings Co., Ltd. (the "Company") and its consolidated subsidiaries, and the consolidated statements of income and statements of changes in equity for the fiscal year from January 1, 2018 to December 31, 2018, 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 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, 2018, 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 11, 2019

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

Deloitte Touche Tohmatsu LLC

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Tsutomu Hirose [Seal]

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

Designated Unlimited Liability Partner,
Engagement Partner,
Certified Public Accountant:
Ichiro Matsunaga [Seal]

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2018 of Otsuka Holdings Co., Ltd. (the "Company") and the related statements of income and changes in net assets for the 11th fiscal year from January 1, 2018 to December 31, 2018, 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 accordance 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 entity's preparation and fair presentation of the financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's 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, 2018, and the results of its operations for the year then ended in accordance 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 11th Fiscal Year from January 1, 2018 to December 31, 2018, 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 12, 2019

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

Standing Audit & Supervisory Board Member	Yozo Toba	[Seal]
Outside Audit & Supervisory Board Member	Hiroshi Sugawara	[Seal]
Outside Audit & Supervisory Board Member	Yoko Wachi	[Seal]
Outside Audit & Supervisory Board Member	Kazuo Takahashi	[Seal]