ANNUAL REPORT 2013

For the year ended March 31, 2013

Otsuka

Otsuka-people creating new products for better health worldwide

Otsuka Holdings Co., Ltd.

Otsuka-people creating new products for better health worldwide

Floating Stone

One of the monuments in Tokushima, the birth place of the Otsuka Group. This water garden features large stones appearing to miraculously float on the water. The garden was created to capture people's interest, enrich the mind, and cultivate the ability to think. The round stones express Otsuka's love of humanity and its wish for people's health.

The Otsuka Group is a global healthcare group operating under the corporate philosophy of "Otsuka-people creating new products for better health worldwide." The Company takes an integrated approach to healthcare for the whole body, building its business on two main strategic pillars: the pharmaceutical business, which contributes to the diagnosis and treatment of disease, and the nutraceutical* business, which supports the maintenance and improvement of day-to-day well-being. Every day, Otsuka employees—in 26 countries and regions around the world—seek new solutions to health needs, with the mission of making humanity's universal wish for good health a reality for everyone.

*nutraceuticals = nutrition + pharmaceuticals

Contents

Otsuka Holdings Co., Ltd. was established on July 8, 2008 as a holding company for the Otsuka Group to improve overall Group corporate value. Otsuka Holdings will support the sustainable growth of Group companies, maximize the Group's synergies by integrating management resources, increase management efficiency, and empower employees and organizations.

Group structure

(as of March 2013)

Otsuka Holdings

- Otsuka Pharmaceutical
- Otsuka Pharmaceutical Factory
- Taiho Pharmaceutical
- Otsuka Warehouse
- Otsuka Chemical
- Otsuka Medical Devices

Otsuka Pharmaceutical Co., Ltd.

Established in 1964, Otsuka Pharmaceutical is a total healthcare company. In keeping with its corporate philosophy of "Otsuka-people creating new products for better health worldwide," the company aims to provide pharmaceuticals to treat illness as well as nutraceuticals to sustain day-to-day well-being.

Otsuka Pharmaceutical Factory, Inc.

Founded in 1921, Otsuka Pharmaceutical Factory is the oldest company in the Otsuka Group. With the aim of being the best partner of both patients and healthcare professionals in the field of clinical nutrition, the company delivers a stable supply of safe, high-quality products.

Taiho Pharmaceutical Co., Ltd.

Taiho Pharmaceutical was established in 1963. Based on its corporate philosophy "We strive to improve human health and contribute to a society enriched by smiles," it aspires to be an agile speciality pharmaceutical company trusted by the world over.

Otsuka Warehouse Co., Ltd.

Founded in 1961, Otsuka Warehouse has built a common distribution platform for the Otsuka Group in the three product areas of pharmaceuticals, food and beverages, and daily necessities. In recent years, it has grown into a logistics company that also offers distribution services outside the Group.

Otsuka Chemical Co., Ltd.

Since 1950, Otsuka Chemical has been developing and marketing next-generation chemicals in a wide variety of fields, from inorganic and organic chemicals to fine and specialty chemicals.

Otsuka Medical Devices Co., Ltd.

Otsuka Medical Devices was established in 2011 as a company to oversee the Otsuka Group's medical devices business. Its objective is to grow the business, which operates mainly in Asia, including Japan and China, into one of the Group's core businesses.

Message from the President

The Otsuka Group is a global healthcare company that aims to contribute to the well-being of people worldwide through creation of unique and innovative products. We accomplish this by taking on challenges in a wide variety of health-related fields, based on our corporate philosophy, "Otsuka-people creating new products for better health worldwide."

Taking a holistic approach to health, we operate two core businesses: the pharmaceutical business, which supports the diagnosis and treatment of disease; and the nutraceutical business, which supports the maintenance and improvement of day-to-day well-being.

The global healthcare industry is facing increasingly difficult conditions as stronger measures to control medical costs and stricter review processes for new drug approval go into effect and generic drugs gain ground. In fiscal 2012 (the year ended March 31, 2013), the second year of our First Medium-Term Management Plan (FY2011–FY2013), the Otsuka Group steadily implemented the priority measures of the plan and worked to develop a world-class corporate structure. That hard work is now bearing fruit.

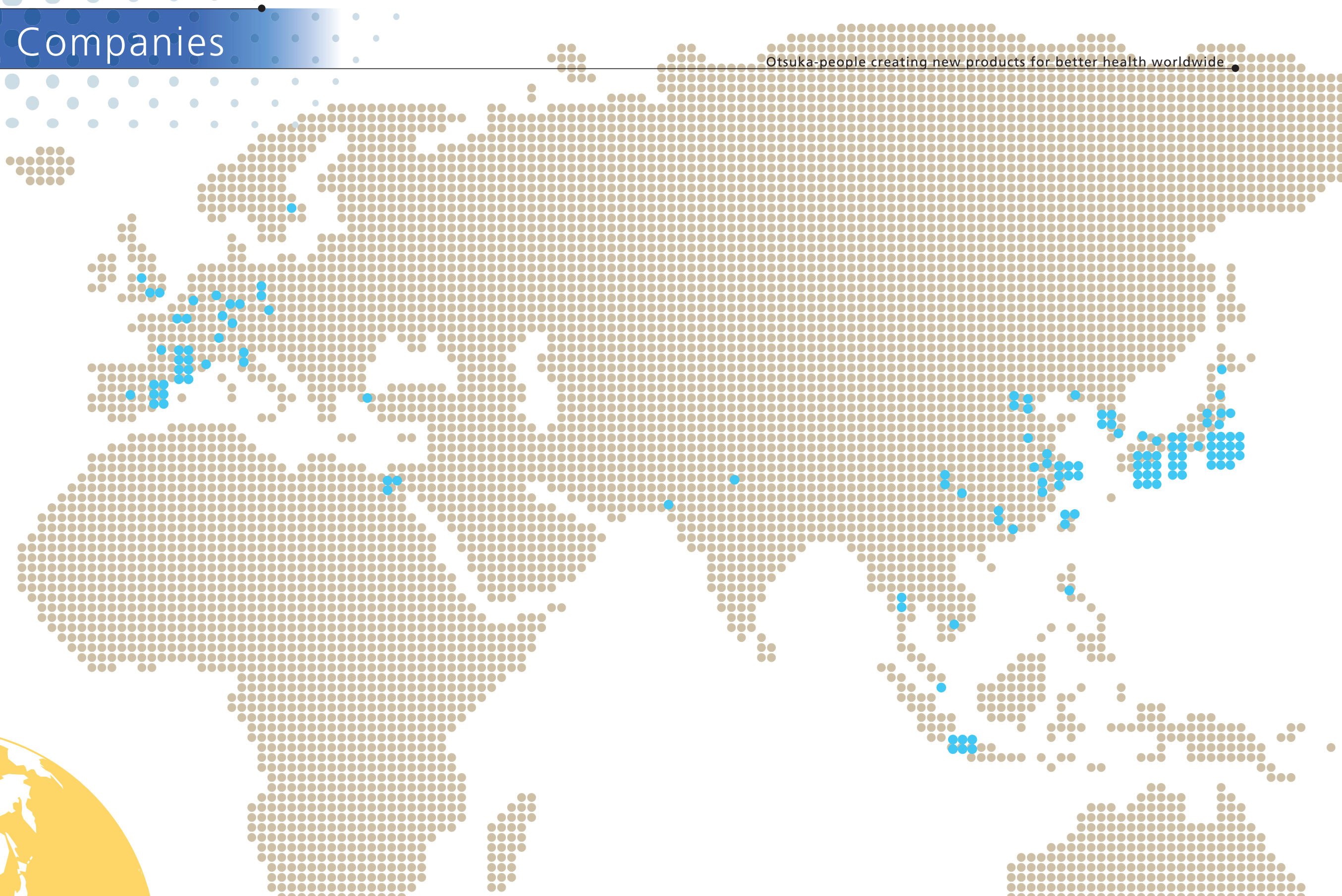
We will continue to pursue sustainable growth by developing innovative products and creating and expanding new market categories, true to our mottos of *Jissho* (Proof through Execution), which describes how we tenaciously convert original ideas into successful products, and *Sozosei* (Creativity), which we practice by questioning preconceived ideas and thinking outside the box.

We appreciate and look forward to your ongoing support as the Otsuka Group takes on a range of challenges in order to help people achieve the universal wish for good health.

Tatsuo Higuchi
President and Representative Director, CEO
Otsuka Holdings Co., Ltd.

Group Companies

Otsuka-people creating new products for better health worldwide



Worldwide Network (as of March 31, 2013)

The Otsuka Group consists of 158 companies worldwide operating with the common theme of "health."
The Group comprises 71 consolidated subsidiaries and 14 affiliates accounted for by the equity method.

●: consolidated subsidiaries and affiliates accounted for by the equity method

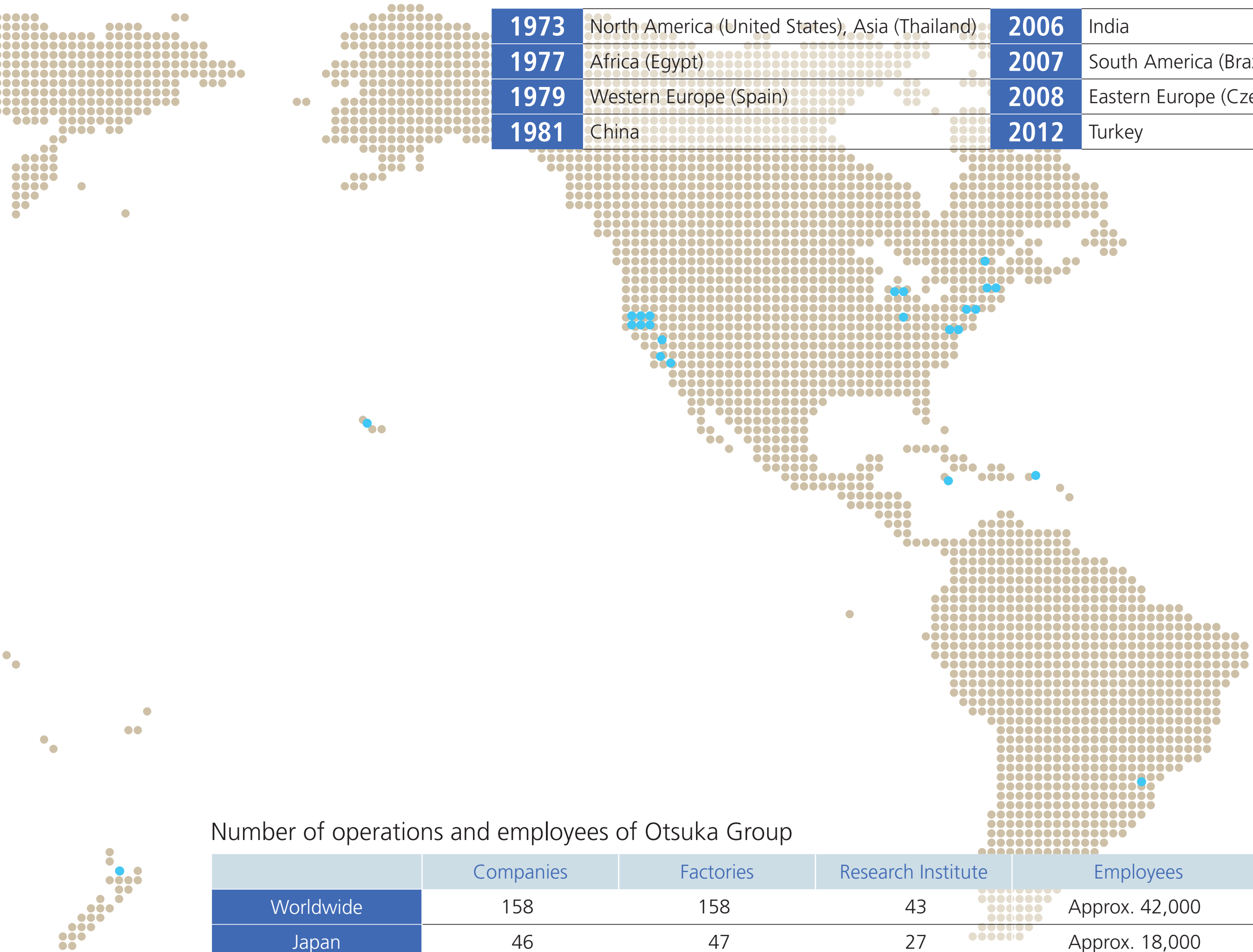
[Japan]
- ●Otsuka Holdings Co., Ltd.
- ●Otsuka Pharmaceutical Co., Ltd.
- ●Taiho Pharmaceutical Co., Ltd.
- ●Otsuka Pharmaceutical Factory, Inc.
- ●Otsuka Chemical Co., Ltd.
- ●Otsuka Warehouse Co., Ltd.
- ●Otsuka Medical Devices Co., Ltd.
- ●EN Otsuka Pharmaceutical Co., Ltd.
- ●J.O.Pharma Co., Ltd.
- ●JIMRO Co., Ltd.
- ●KiSCO Co., Ltd.
- ●Okayama Taiho Pharmaceutical Co., Ltd.
- ●Otsuka Chilled Foods Co., Ltd.
- ●Otsuka Electronics Co., Ltd.
- ●Otsuka Foods Co., Ltd.
- ●Otsuka Furniture Manufacturing and Sales Co., Ltd.
- ●Otsuka Packaging Industries Co., Ltd.
- ●Otsuka Techno Corporation
- ●Otsuka-MGC Chemical Company, Inc.
- ●Earth Chemical Co., Ltd.
- ●Earth Environmental Service Co., Ltd.
- ●Agri Best Co., Ltd.
- ●Chuo Electronic Measurement Co., Ltd.
- ●Dairin Integrated Transportation Co., Ltd.
- ●HAIESU Service Co., Ltd.
- ●Heartful Kawauchi Co., Ltd.
- ●ILS, Inc. (Formerly, Ito Life Sciences Inc.)
- ●Naruto Cruise Service Co., Ltd.
- ●Nippon Pharmaceutical Chemicals Co., Ltd.
- ●Otsuka Naruto Development, Inc.
- ●Otsuka Ohmi Ceramics Co., Ltd.
- ●Otsuka Ridge Co., Ltd.
- ●Otsuka Turftech Co., Ltd.
- ●Awa Union Transportation Co., Ltd.
- ●Bean Stalk Snow Co., Ltd.
- ●Big Bell Co., Ltd.
- ●Earth Biochemical Co., Ltd.
- ●Kitasato-Otsuka Biomedical Assay Laboratories Co., Ltd.
- ●Marukita Furniture Center
- ●Naruto Salt Mfg. Co., Ltd.
- ●NEOS Corporation
- ●Nichiban Co., Ltd.
- ●Ribomic, Inc.
- ●Tokushima Air Terminal Building Co., Ltd.
- ●Tokushima Vortis Co., Ltd.
- ●Yoshino Farm

[Americas]
- ●Otsuka America, Inc.
- ●Cambridge Isotope Laboratories, Inc.
- ●CIL Isotope Separations, LLC
- ●Crystal Geyser Water Company
- ●Membrane Receptor Technologies, LLC
- ●Otsuka America Manufacturing, LLC
- ●Otsuka America Pharmaceutical, Inc.
- ●Otsuka Maryland Medicinal Laboratories, Inc.
- ●Otsuka Pharmaceutical Development & Commercialization, Inc.
- ●Pharmavite, LLC
- ●Ridge Vineyards, Inc.
- ●Soma Beverage Company, LLC
- ●Otsuka Canada Pharmaceutical, Inc.
- ●2768691 Canada, Inc.
- ●CG Roxane, LLC
- ●Crystal Geyser Brand Holdings, LLC
- ●American Peptide Company, Inc.
- ●Oncomembrane, Inc.
- ●Otsuka America Foods, Inc.
- ●Otsuka Global Insurance, Inc.
- ●Taiho Pharma U.S.A., Inc.
- ●Otsuka Chemical do Brasil Ltda.
- ●Galenea Corp.
- ●Graceland Fruit, Inc.

[Asia, others]
- ●Korea Otsuka Pharmaceutical Co., Ltd.
- ●Taiwan Otsuka Pharmaceutical Co., Ltd.
- ●Chongqing Otsuka Huayi Chemical Co., Ltd.
- ●Otsuka (China) Investment Co., Ltd.
- ●Shanghai Otsuka Foods Co., Ltd.
- ●Sichuan Otsuka Pharmaceutical Co., Ltd.
- ●Suzhou Otsuka Pharmaceutical Co., Ltd.
- ●Tianjin Otsuka Beverage Co., Ltd.

History of Otsuka's global business expansion

1973	North America (United States), Asia (Thailand)	2006	India
1977	Africa (Egypt)	2007	South America (Brazil)
1979	Western Europe (Spain)	2008	Eastern Europe (Czech Republic)
1981	China	2012	Turkey



Number of operations and employees of Otsuka Group

	Companies	Factories	Research Institute	Employees
Worldwide	158	158	43	Approx. 42,000
Japan	46	47	27	Approx. 18,000
Overseas	112	111	16	Approx. 24,000

- Zhejiang Otsuka Pharmaceutical Co., Ltd.
- P.T. Amerta Indah Otsuka
- P.T. Merapi Utama Pharma
- P.T. Otsuka Indonesia
- P.T. Otsuka Jaya Indah
- P.T. Widatra Bhakti
- P.T. Lautan Otsuka Chemical
- Otsuka Chemical (India) Private Limited
- Egypt Otsuka Pharmaceutical Co., S.A.E.
- Giant Harvest, Ltd.
- Otsuka Pakistan Ltd.
- Dong-A Otsuka Co., Ltd.
- King Car Otsuka Co., Ltd.
- China Otsuka Pharmaceutical Co., Ltd.
- Guangdong Otsuka Pharmaceutical Co., Ltd.
- Shanghai MicroPort Medical (Group) Co., Ltd.
- VV Food & Beverage Co., Ltd.
- Thai Otsuka Pharmaceutical Co., Ltd.
- Microport Scientific Corporation
- KOC Co., Ltd.
- Korea OIAA Co., Ltd.
- Otsuka Electronics Korea Co., Ltd.
- Otsuka Tech Electronics Co., Ltd.
- Dalian Otsuka Furniture Co., Ltd.
- Hangzhou Linan Kangle Pharmaceutical Co., Ltd.
- Leshan Otsuka Techno Co., Ltd.
- MOC Chemicals Trading (Shanghai) Co., Ltd.
- Nanjing Otsuka Techbond Techno Co., Ltd.
- Otsuka (Shanghai) Foods Safety Research & Development Co., Ltd.
- Otsuka Beijing Research Institute
- Otsuka Electronics (Suzhou) Co., Ltd.
- Otsuka Electronics Shanghai Co., Ltd.
- Otsuka Material Science & Technology (Shanghai) Co., Ltd.
- Otsuka Pharmaceutical (H.K.) Ltd.
- Otsuka Shanghai Research Institute
- Otsuka Sims (Guangdong) Beverage Co., Ltd.
- Taiho Pharmaceutical of Beijing Co., Ltd.
- Xiamen United Medical Instruments Co., Ltd.
- Zhangjiagang Otsuka Chemical Co., Ltd.
- Taiho Pharma Singapore Pte. Ltd.
- Otsuka Saha Asia Research Co., Ltd.
- Otsuka Import Export, LLC
- Otsuka Trading Africa Co., S.A.E.
- Otsuka OPV Joint Stock Company
- Otsuka Thang Nutrition Co., Ltd.
- Otsuka (Philippines) Pharmaceutical, Inc.
- Diatranz Otsuka Limited
- Achieva Medical Limited

[Europe]

- Otsuka Pharmaceutical Europe Ltd.
- Otsuka Pharmaceuticals (U.K.) Ltd.
- Euriso-Top SAS
- Laboratoires Diététique et Santé SAS
- Nardobel SAS
- Nutrition & Nature SAS
- Nutrition & Santé SAS
- Otsuka Pharmaceutical France SAS
- Valpiform Compiegne SNC
- Valpiform SAS
- Advanced Biochemical Compounds GmbH
- Cambridge Isotope Laboratories (Europe) GmbH
- Euriso-Top GmbH
- Otsuka Pharma GmbH
- Hebron S.A.
- Otsuka Pharmaceutical, S.A.
- Nutrition & Santé Iberia SL
- Nutrition & Santé Benelux S.A.
- Otsuka Pharma Scandinavia AB
- Nutrinat AG
- Nutrition & Santé Italia SpA
- ALMA S.A.
- Taiho Pharma Europe, Limited
- Kisco International SAS
- Abdi Ibrahim Otsuka Ilac San. Ve Tic. A.S. / Abdi Ibrahim Otsuka Pharmaceutical Company
- Otsuka Frankfurt Research Institute GmbH
- Otsuka Novel Products GmbH
- Interpharma Praha, a.s.
- Trocellen Iberica S.A.
- Otsuka S.A.
- Otsuka Pharmaceutical Italy S.r.l.
- Era Endoscopy S.r.l.

Otsuka

Otsuka-people creating new products for better health worldwide

Corporate Data

4 segments

The Otsuka Group conducts business in four main areas of activity: pharmaceuticals, nutraceuticals, consumer products and other businesses.

Pharmaceutical business ¥850.9 billion*1

Central nervous system

Abilify Maintena: Antipsychotic

ABILIFY: Antipsychotic

E Keppra: Antiepileptic

Oncology

Abraxane: Antineoplastic

SPRYCEL: Anti-cancer

TS-1: Anti-cancer (Antimetabolite)

Aloxi: 5-HT_3 receptor antagonist

Busulfex: Conditioning regimen prior to hematopoietic progenitor cell transplantation

Nutraceutical business ¥251.8 billion*1

Functional foods and beverages

Pocari Sweat: Electrolyte supplement drink

Oronamin C Drink: Carbonated nutritional drink

OS-1: Oral rehydration solution

SOYSH: Soy soda beverage

SOYJOY: Soy bar

Calorie Mate: Nutritionally balanced food

Nature Made: Supplement

Gerblé: Nutritional biscuits

OTC, Quasi-drugs

Tiovita Drink: Multi-vitamin nutrient tonic

Oronine H Ointment: Ointment for skin conditioning

Cosmedics*2

UL-OS: Men's skincare

26 countries & regions

The Otsuka Group conducts business in 26 countries and regions with 112 international subsidiaries and affiliates.

¥1,218.1 billion

Consolidated net sales in FY2012

Other areas

Mucosta: Antigastritis and antigastric ulcer agent

SAMSCA: V_2-receptor antagonist

Clinical nutrition

ELNEOPA: High-calorie TPN solution

Pletal: Antiplatelet agent

Mucosta ophthalmic suspension: Therapeutic agent for dry eye

Diagnostics, Medical devices

Quick Navi-Flu: Influenza virus test kit

Adacolumn: Apheresis device for leukocyte adsorption

Amino-Value: Amino acid supplement drink

SoyCarat: Soy snack

InnerSignal: Women's skincare

Consumer products business ¥46.9 billion*1

Crystal Geyser: Mineral water

MATCH: Carbonated vitamin drink

Sinvino JAVA TEA Straight: Straight tea

Bon Curry: Instant curry in plastic pouch

Other business ¥111.7 billion*1

Specialty chemicals

Fine chemicals

Distribution

Packaging

Electronic equipment

*1: FY2012 sales. Intersegment sales are included. *2: Cosmetics + medicide

History of the Otsuka Group

Otsuka-people creating new products for better health worldwide

Foundation phase

Started as a chemical raw material manufacturer in Naruto, Tokushima Prefecture, Japan

Growth phase

Opened the Tokushima Research Institute with the aim of in-house drug development. Numerous products in the nutraceutical segment, such as *Oronamin C*, *Pocari Sweat*, and *Calorie Mate*, opened up new markets, diversifying the Group's business

1921 Commenced chemical raw material business at Otsuka Pharmaceutical Factory, Inc.

1950 Established Otsuka Chemical Co., Ltd.

1955 Established Otsuka Foods Co., Ltd.

1961 Established Otsuka Warehouse Co., Ltd.

1963 Established Taiho Pharmaceutical Co., Ltd.

1964 Established Otsuka Pharmaceutical Co., Ltd.

1973 Undertook overseas business development in the U.S. and Thailand

1974 Established P.T. Otsuka Indonesia and Taiwan Otsuka Pharmaceutical Co., Ltd.

1964
Launched
Tiovita Drink

1968
Launched
Bon Curry

1983
Launched
Calorie Mate

1990
Launched
Mucosta

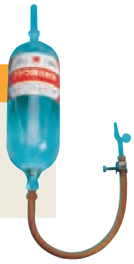
1953
Launched
Oronine H Ointment

1965
Launched
Oronamin C Drink

1980
Launched
Pocari Sweat

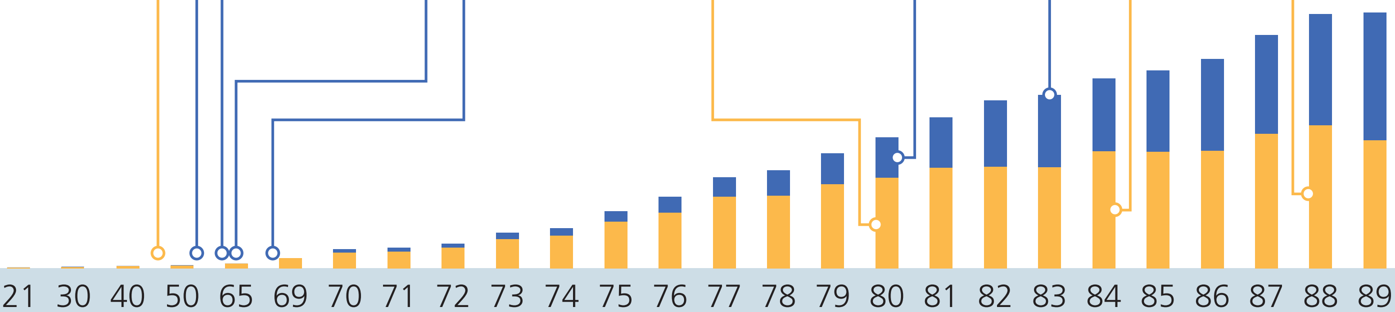
1988
Launched
Pletal

1946
Entered pharmaceutical business
(intravenous solutions)



1980
Launched
Mikelan and *Meptin*

1984
Launched *UFT*



History of M&A and alliances

1900–

1989 Acquired Pharmavite

1990 Acquired Crystal Geyser*1

1999 Signed a co-development and co-commercialization agreement for *ABILIFY* with BMS*2 (U.S. and EU)

2000–

2004
- Signed a licensing agreement for *Aloxi* with Helsinn Healthcare (Japan)
- Acquired a stake in MicroPort Medical

2005
- Acquired a stake in VV Food & Beverage and expanded *SOYJOY* business in China
- Signed a licensing agreement for *Abraxane* with ABI*3 (Japan)

*1: Crystal Geyser Water Company
*2: Bristol-Myers Squibb Company
*3: American Biosciences (now Celgene)
*4: PDL BioPharma
*5: Nutrition & Santé

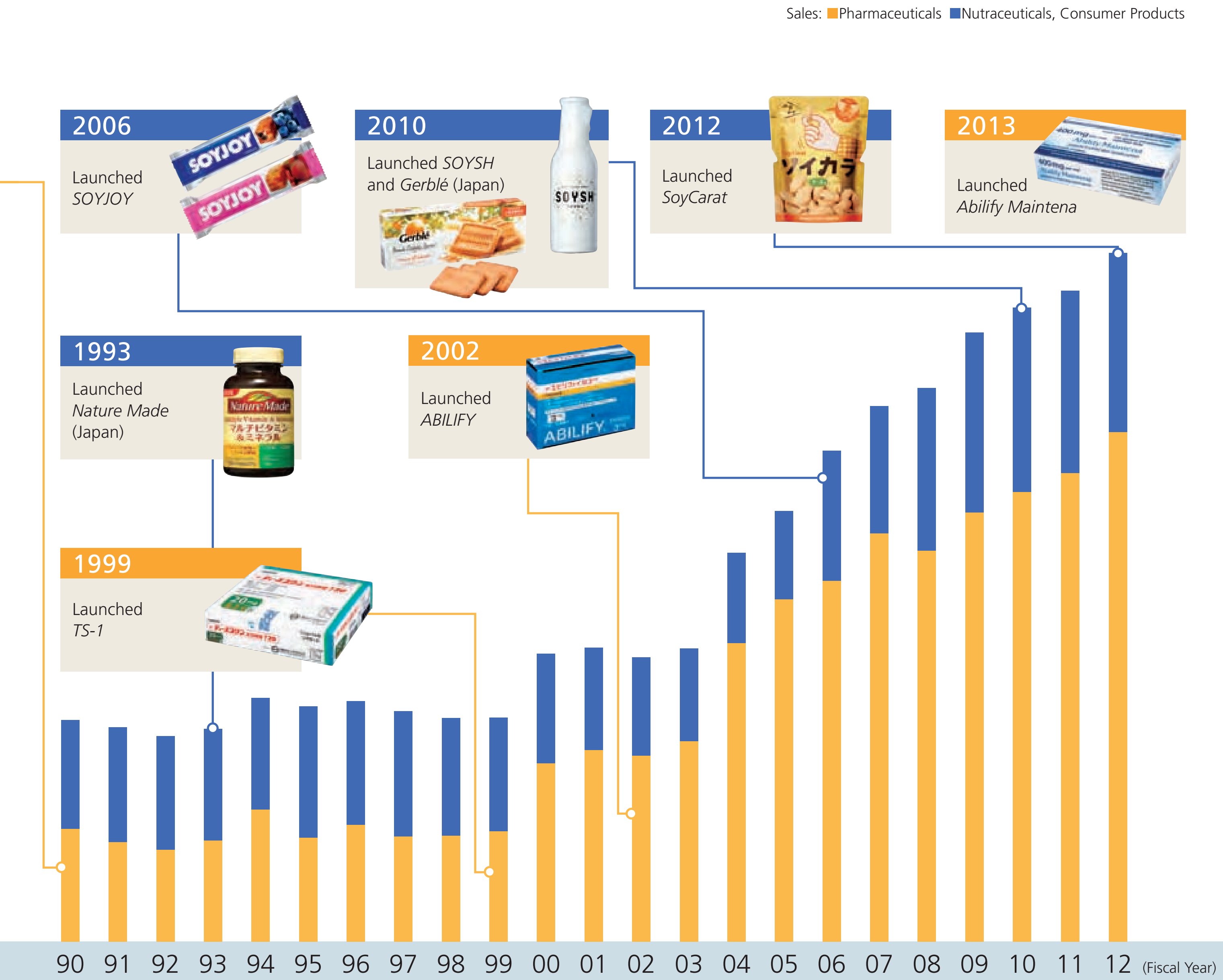
International business development phase

Started aggressive global expansion

Expansion phase

Pursuing further global growth

- **1977** Established Arab Otsuka Pharmaceutical SAE
- **1981** Established China Otsuka Pharmaceutical Co., Ltd.
- **1982** Established Korea Otsuka Pharmaceutical Co., Ltd.
- **1988** Established Otsuka Pakistan Ltd.
- **1993** Established Guangdong Otsuka Pharmaceutical Co., Ltd.
- **1998** Established Otsuka Pharmaceutical Europe Ltd.
- **2008** Established Otsuka Holdings Co., Ltd.
- **2010** Publicly listed the Company's shares



2010–

2007
- Acquired all business rights to *IV Busulfex* from PDL*[4]

2008
- Acquired a stake in major mineral water company, ALMA
- Signed a co-development and co-commercialization agreement for *E Keppra* with UCB (Japan)

2009
- Signed a co-development and co-commercialization agreement for *Sprycel* and *Ixempra* with BMS (Global)
- Extended the co-development and co-commercialization agreement for *ABILIFY* with BMS (U.S.)
- Acquired N&S*[5]

2011
- Acquired KiSCO group, thereby entering the orthopedic field
- Signed an alliance agreement with Lundbeck in the CNS field (Global)
- Acquired a stake in Era Endoscopy, entering the endoscopic business

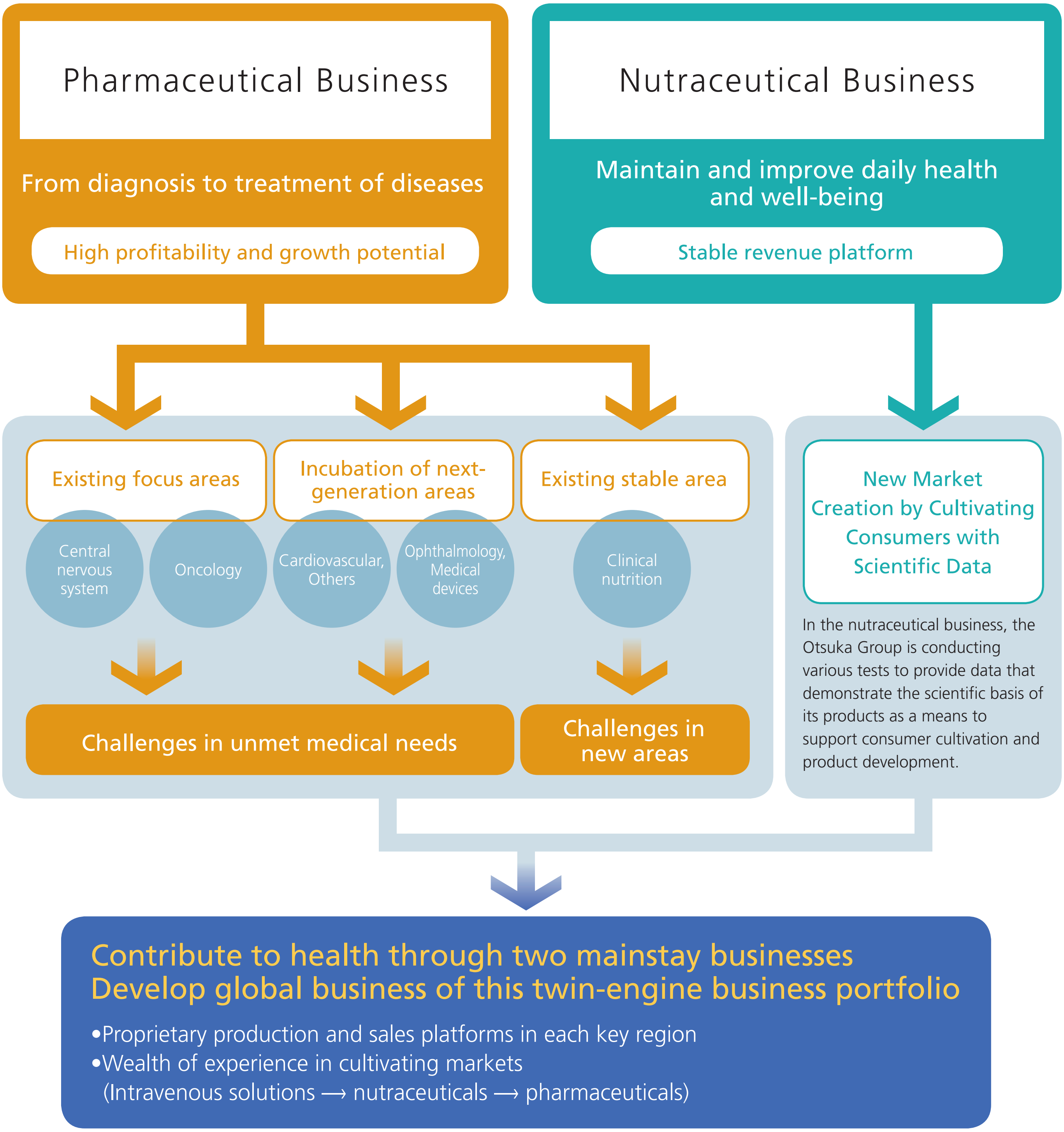
2012
- Entered into business alliance for medical endoscope business with Pioneer
- Acquired Valpiform

The Otsuka Group's Business Model

The Otsuka Group has two core businesses: the pharmaceutical business and the nutraceutical business.

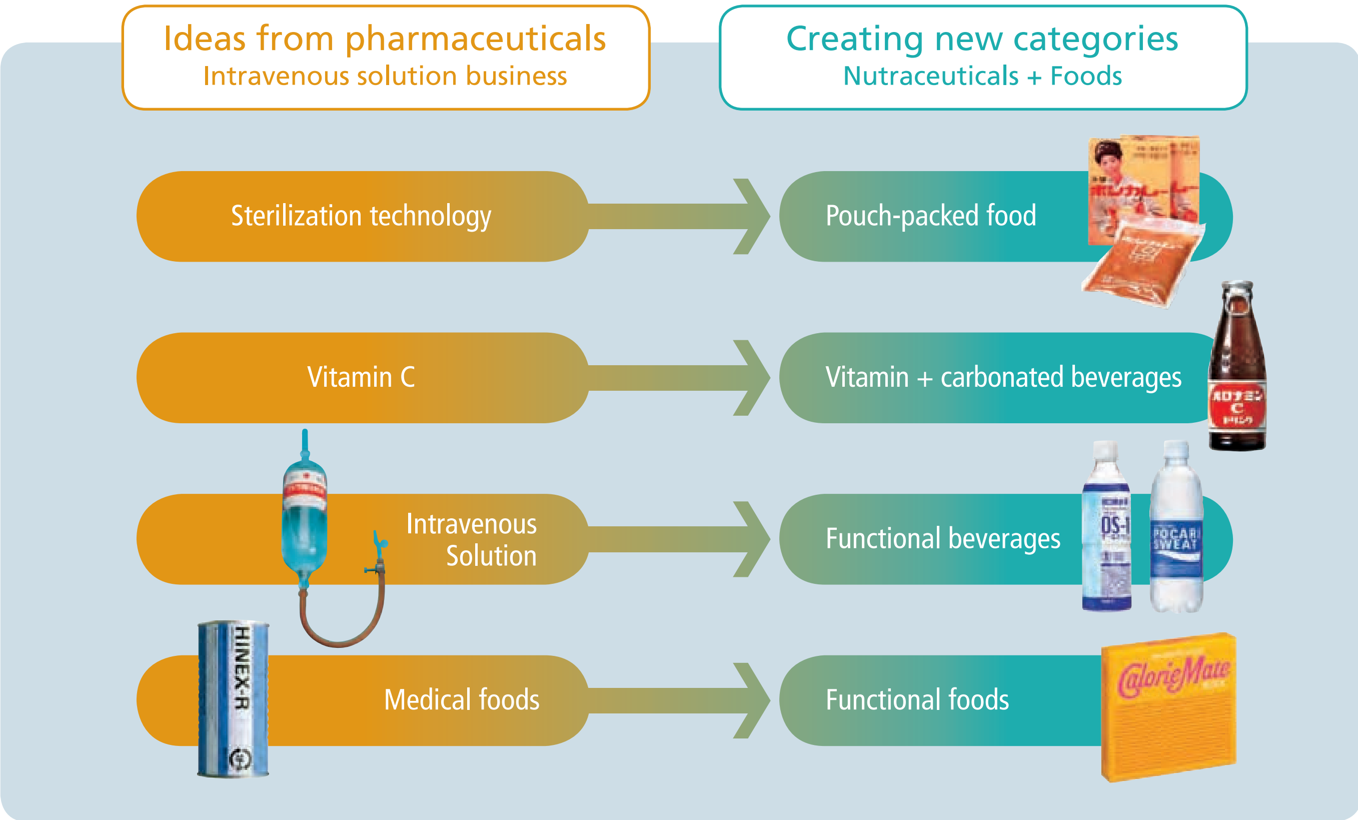
The pharmaceutical business provides comprehensive support for human health, to meet the entire range of medical needs, from diagnosis to treatment of disease. The nutraceutical business helps people to maintain and improve their daily health and well-being.

By carrying out its operations in these two core businesses, the Otsuka Group contributes to the health of people worldwide.

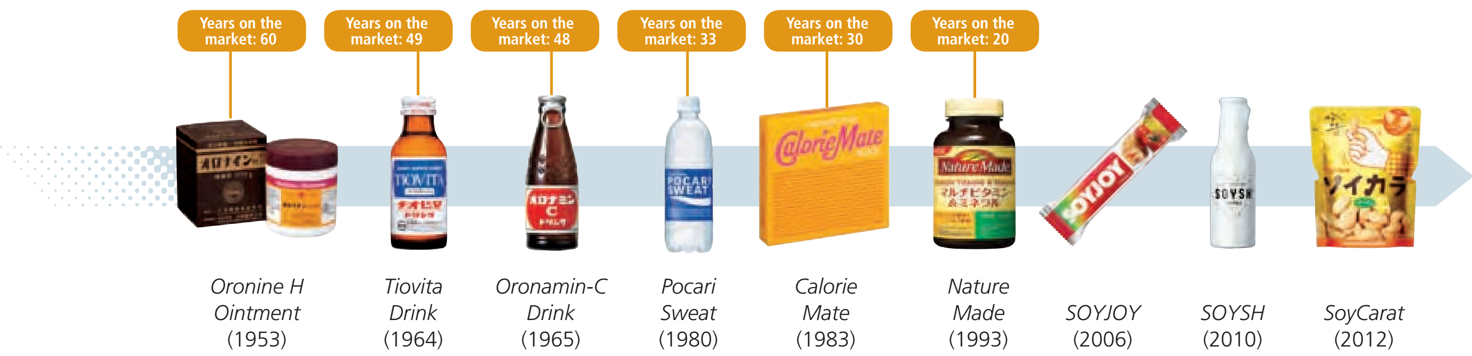


Synergy of Pharmaceuticals and Nutraceuticals

Otsuka's products are developed by leveraging the Company's experience and knowhow in the intravenous solutions business and in clinical nutrition, which have been the Group's main business areas since its foundation. Our products have created new markets thanks to their originality, and many of them have retained their brand strength as long-selling products.



Powerful brand equities



Financial Highlights

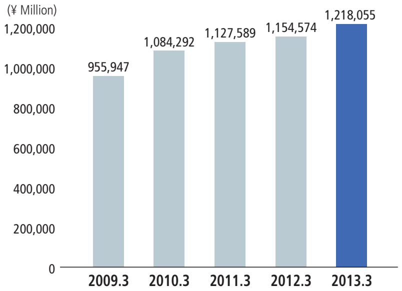
	Millions of yen					Millions of U.S. dollars (Note 1)
	2009.3 (FY2008)	2010.3 (FY2009)	2011.3 (FY2010) (Notes 3 and 4)	2012.3 (FY2011)	2013.3 (FY2012)	2013.3 (FY2012)
Net sales	¥955,947	¥1,084,292	¥1,127,589	¥1,154,574	¥1,218,055	$12,951
Operating income	91,520	98,481	126,292	148,662	169,660	1,804
Net income	47,084	67,443	82,370	92,174	122,429	1,302
Per share of common stock—basic (Yen and U.S. dollars)	2,727	143.51	164.52	165.20	221.90	2.36
Dividends per share (Yen and U.S. dollars)	250	12.50	28.00	45.00	58.00	0.62
Capital expenditures	35,438	62,456	44,793	43,302	63,256	673
Depreciation and amortization	40,296	46,626	48,097	48,062	45,463	483
R&D expenses	135,900	151,849	164,671	159,230	192,364	2,045
Total assets	1,298,790	1,458,376	1,589,717	1,666,767	1,779,208	18,918
Net assets (Note 2)	863,816	948,457	1,163,326	1,222,765	1,325,071	14,089
Return on equity	7.2%	7.7%	7.9%	7.8%	9.7%	9.7%
Equity ratio	62.3%	64.2%	72.4%	72.5%	73.7%	73.7%
Number of shares issued	23,518,869	519,156,817	557,835,617	557,835,617	557,835,617	557,835,617
Number of employees	22,928	24,589	25,188	24,595	25,330	25,330

Notes:

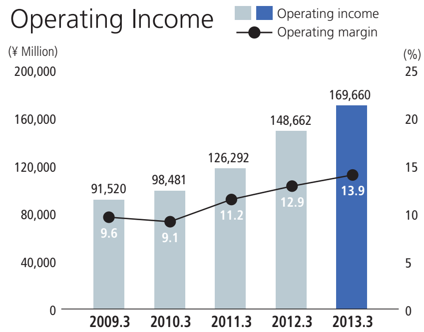
1. Financial information in U.S. dollars has been converted at US$1=¥94.05, the rate of March 31, 2013.
2. Minority interests have been included in net assets.
3. Effective from FY2010, the Company applied "Accounting Standard for Earnings Per Share" (ASBJ Statement No.2 revised on June 30, 2010), "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4 revised on June 30, 2010), and "Practical Solution on Accounting for Earnings Per Share" (ASBJ PITF No.9 revised on June 30, 2010). Basic and diluted net incomes per share (EPS) for FY2010 have been adjusted retrospectively.
4. From FY2011, the Company changed its method of accounting for translating revenue and expense accounts of foreign subsidiaries and affiliated companies and its method of presentation for up-front licensing payments received. The FY2010 figures have been adjusted retrospectively to apply the changes in accounting policy and method of presentation described above. The cumulative effect of these changes up to FY2009 is reflected in the FY2010 beginning equity balances.

* On June 30, 2009, Otsuka Holdings Co., Ltd conducted a one-for-twenty stock split.

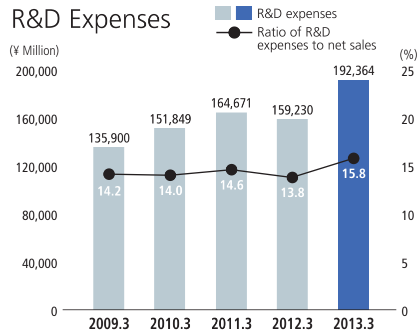
Net Sales



Operating Income

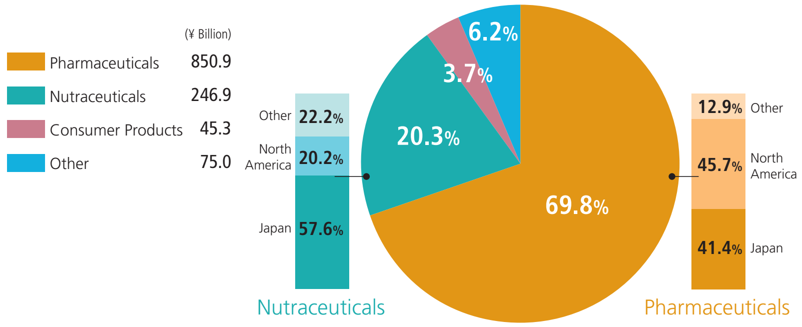


R&D Expenses



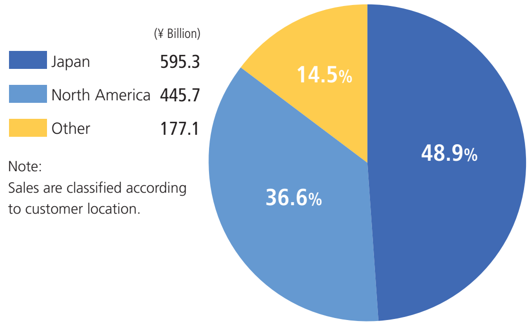
Sales by Business Segment

(External sales)



Sales by Geographical Area

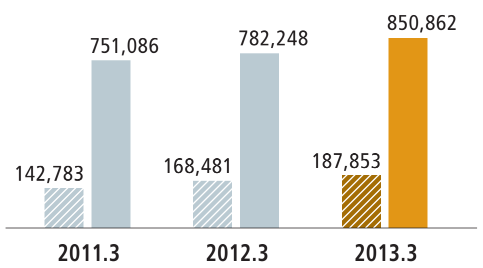
(External sales)



The Otsuka Group conducts business in four main areas of activity: pharmaceuticals, nutraceuticals, consumer products, and other businesses.

Pharmaceuticals

Performance (¥ Million) Net sales / Operating income

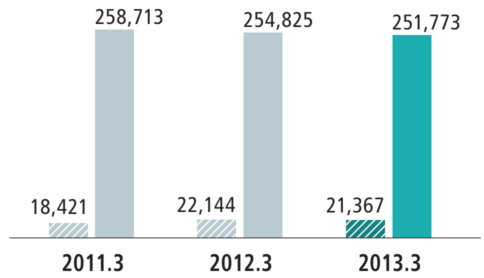


Our comprehensive approach to pharmaceutical research and development ranges from diagnosis to treatment of diseases targeted at unmet medical needs.

Pharmaceuticals / Clinical nutrition / Diagnostics / Medical devices

Nutraceuticals

Performance (¥ Million) Net sales / Operating income



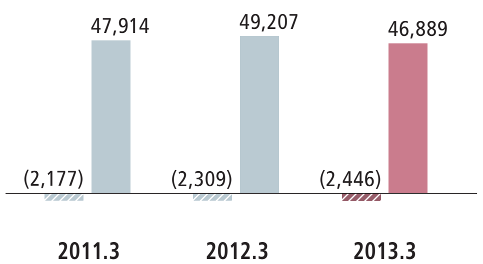
Expertise developed through our pharmaceuticals business is applied to the research and development of products that aid in the maintenance and improvement of day-to-day well-being.

Functional foods and beverages / Cosmedics* / OTC products, Quasi-drugs

* Cosmetics + medicine

Consumer Products

Performance (¥ Million) Net sales / Operating income

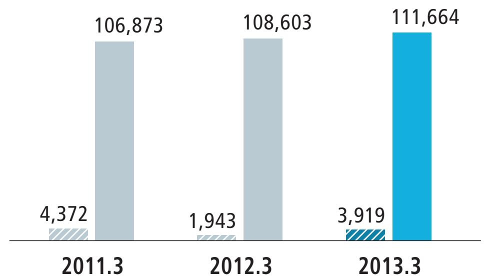


The Otsuka Group is engaged in the research and development of original and unique products in the food and beverage field.

Beverages / Foods / Alcoholic beverages

Other

Performance (¥ Million) Net sales / Operating income



This segment covers a wide range of businesses from chemical products to electronic equipment.

Specialty chemicals / Fine chemicals / Distribution / Packaging / Electronic equipment

Note: Intersegment sales are included.

First Medium-Term Management Plan: Important Goals Achieved and Progress Made

Having established its First Medium-Term Management Plan, Otsuka Holdings regards the three years covered by the plan—fiscal 2011 to fiscal 2013—as the time to develop a world-class structure as a global healthcare company.

The management plan was launched with the aim of improving corporate value by steadily executing the principal measures shown below. With the completion of the plan's second year, the progress made is outlined below.

Importance of the First Medium-Term Management Plan

As a global healthcare company with the two mainstay business areas of pharmaceuticals and nutraceuticals, Otsuka is in the third year of a plan to build a world-class corporate structure.

Principal Measures

- Development of innovative proprietary pharmaceuticals
- Profit structure improvement aimed at securing profit growth in the nutraceutical business
- Next-generation business incubation through strategic alliances and other measures

Progress on Principal Measures

Development of Innovative Proprietary Pharmaceuticals

Along with the growth of our principal pharmaceuticals in line with the management plan, good progress has been made with major products under development.

- In the United Sates, *ABILIFY* was ranked number one* among all prescription drugs in the central nervous system (CNS) field based on fourth-quarter sales in fiscal 2012 (October to December).
- In the central nervous system field, on March 18, 2013, *Abilify Maintena*, a proprietary Otsuka product, was launched jointly in the U.S. with global alliance partner Lundbeck.
- In the oncology field, an application for manufacture and marketing approval of the novel anti-cancer agent TAS-102—with the indication of advanced/recurrent colorectal cancer that is unresectable—was made to the Japanese Ministry of Health, Labour and Welfare.

* Prepared based on copyrighted 2013 IMS Health MIDAS Quantum 4Q/2012 sales data. Unauthorized reproduction prohibited.

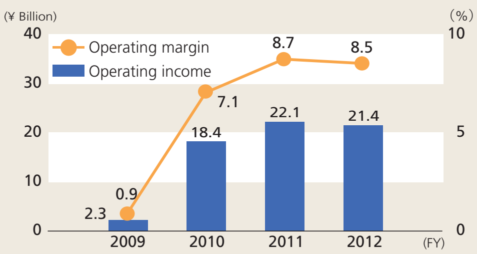
Profit Structure Improvement Aimed at Securing Profit Growth in the Nutraceutical Business

The Medium-Term Management Plan calls for profit growth in the nutraceutical business. As indicated in the table on the right, Otsuka made aggressive efforts to expand the market by opening up new areas with *Pocari Sweat* and other global products, and to increase sales by creating new markets with new product launches. Meanwhile, revenue was improved by pushing the reduction of production costs and the optimization of expenses and through the balanced allocation of resources for creating new markets.

The operating profit margin reached 8.5 percent in fiscal 2012 and has been progressing smoothly.

Sales Increase through Market Expansion and Profit Growth by Cost Structure Review

Improved profitability (Operating margin) 0.9% ▸ 7.1% ▸ 8.7% ▸ 8.5%



Sales growth
Outside Japan
Sales growth for *Pocari Sweat* and other global products
In Japan
Sales growth centering around new products

Customer development
Created new markets through pull marketing

Reduced manufacturing costs

Optimization of expenses

Next-generation Business Incubation through Strategic Alliances and Other Measures

As part of the effort to fulfill these measures in the Medium-Term Management Plan, Otsuka Pharmaceutical signed a global alliance agreement in the CNS field in November 2011 with the Danish company Lundbeck, a global leader in the field. Lundbeck has a proven record in treatments for anxiety and depression, while Otsuka has produced results with antipsychotics. Based on the cooperation enabled by this agreement, the two companies will be able to promote a more advanced CNS business. The following progress has been made since the signing of the agreement.

Progress since the alliance agreement start

- March 2013: Signed development and marketing rights agreement for Lu AE58054, a serotonin 5-HT_6 receptor antagonist
- February 28, 2013: Approval of *Abilify Maintena* by the U.S. FDA, and release in March 2013
- December 2012: Approval of the aripiprazole (once-monthly) depot formulation of *ABILIFY* in Europe
- Began joint promotion of *ABILIFY* in Europe
- Started Phase 3 clinical trial for brexpiprazole
- Began two Phase 3 clinical trials for *Abilify Maintena*
- Announced results of the Phase 3 clinical trial of *Abilify Maintena* at the American Psychiatric Association (APA) Annual Meeting in May 2012

Outlook for FY2013 (Third Year of the First Medium-Term Management Plan)

In the pharmaceuticals area, combined with solid sales of *ABILIFY*, Otsuka expects the growth of a number of new products to boost sales. These products include, *Abilify Maintena*, *Aloxi*, *Abraxane*, *E Keppra*, *SAMSCA*, *Mucosta ophthalmic suspension*, and *Neupro Patch*. R&D costs are expected to rise due to the development situation for the next-generation antipsychotic drug brexpiprazole (OPC-34712) in the CNS field. However, the investment will be necessary for future growth.

Meanwhile, in the nutraceutical business, the Company will continue its focus on promoting the value of its main products, *Pocari Sweat* and *Nature Made*. It will also promote *SoyCarat*, and the new products *Pocari Sweat Ion Water* and *SOYJOY Peanuts*. Otsuka will maintain these efforts to expand sales and improve the profit structure.

Fiscal 2013 performance forecast

(¥100 Million)	FY2012 (actual)	FY2013 (forecast)	Year-on-year change (forecast)		FY2013 target Medium-Term Management Plan
			Amount change	Percentage change	
Net sales	12,181	13,700	1,519	12.5%	13,300
Operating income	1,697	2,050	353	20.8%	2,000
Net income	1,224	1,380	156	12.7%	1,300
R&D expenses	1,924	2,000	76	4.0%	2,000
EPS (yen)	221.90	250.79			230.00
Dividend per share (yen)	58	65			—

Actual rates for fiscal 2012: US$1 = ¥79.80; Euro 1 = ¥102.55
Estimated rate for fiscal 2013: US$1 = ¥90.00; Euro 1 = ¥120.00

Feature No. 1

Delivering Innovation to Patients in the Central Nervous System Field

Once-monthly *Abilify Maintena* Launched in the U.S. in 2013

In the CNS field, Otsuka Pharmaceutical developed *ABILIFY*, now sold in over 60 countries and regions. It is the world's first antipsychotic to exert partial agonist action on dopamine D_2 receptors. Since its launch in the U.S. in 2002, sales have continued to grow steadily.

In March 2013, *Abilify Maintena* (aripiprazole) was launched in the U.S. It is an extended-release, once monthly injectable suspension, and a new treatment choice for schizophrenia, after *ABILIFY*. In December 2012, an application was also filed with the European Medicines Agency (EMA) for this new product. *Abilify Maintena* was the result of the Company's first joint development project with alliance partner Lundbeck. It is designed for patients who struggle to take medications regularly, making them prone to relapse. *Abilify Maintena* offers a new treatment choice by providing a full month of treatment benefits with just one injection.

Abilify Maintena
400MG
(aripiprazole) for extended release injectable suspension

Taking on the Challenge of Innovation in the CNS Field and Helping to Secure Better Care for Patients

In July 2012, Otsuka Pharmaceutical signed a global licensing agreement with Proteus Digital Health, Inc. of the United States. The aim is to develop and commercialize a new category of pharmaceuticals called "smart tablets." Using the technology of Proteus Digital Health, these pill-embedded devices will enable medical practitioners to get accurate patient information such as medication adherence and quantity of sleep, enabling better treatment.

Even for a company that has produced innovative medicines in the past, it is difficult to continually develop new products in the CNS field. In order to generate new value, it is important to work with alliance partners in addition to taking independent initiatives.

In January 2013, an agreement with Bristol-Myers Squibb Company for joint sales of *ABILIFY* in the U.S. was revised, and Otsuka Pharmaceutical started its own sales system for the drug. Then in April, the Company began joint promotion of *ABILIFY* in Europe with Lundbeck.

In March 2013, Otsuka Pharmaceutical also signed a global agreement with Lundbeck for co-development and co-promotion of Lu AE58054, a selective 5-HT_6 receptor antagonist currently under development for the treatment of Alzheimer's disease.

E Keppra is an anti-epileptic drug being co-promoted in Japan with UCB Japan. Due to its different action mechanism, it can be readily combined with other drugs. The safety of *E Keppra* has also been recognized, and prescriptions of the drug are increasing.

In February 2013, Otsuka began sales of *Neupro Patch* indicated for both Parkinson's disease and Restless Legs Syndrome. The patch was developed by Schwarz Pharma Deutschland GmbH (now UCB, Inc.) and provides stable drug delivery for 24 hours. The new product is designed to reduce Parkinson's symptoms at night and early in the morning.

Feature No. 2

Growth Strategy for Oncology: Further Strides for Taiho Pharmaceutical's Oncology Business

Oncology Vision

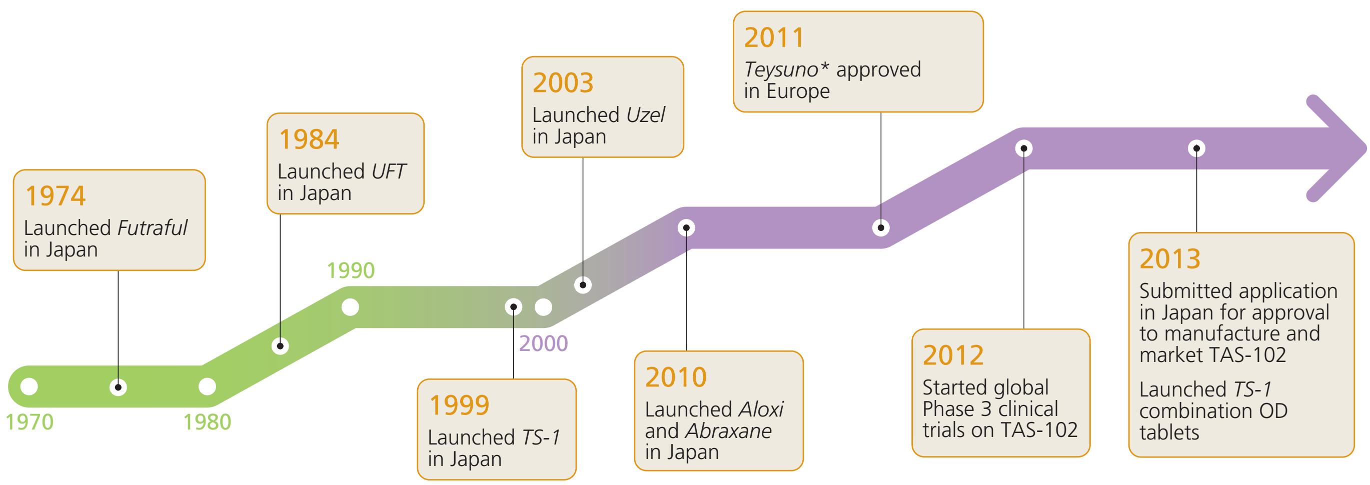
"We contribute to cancer therapy worldwide by providing innovative drugs that lead to life extension, potential cures and improvements in quality of life, along with trusted cancer care information."

1 The oncology field has been a mainstay for Taiho Pharmaceutical during the fifty years since its founding. The company has produced the leading Japanese anti-cancer drugs—drugs that are widely known in Japan—and has established itself as a leader in Japan.

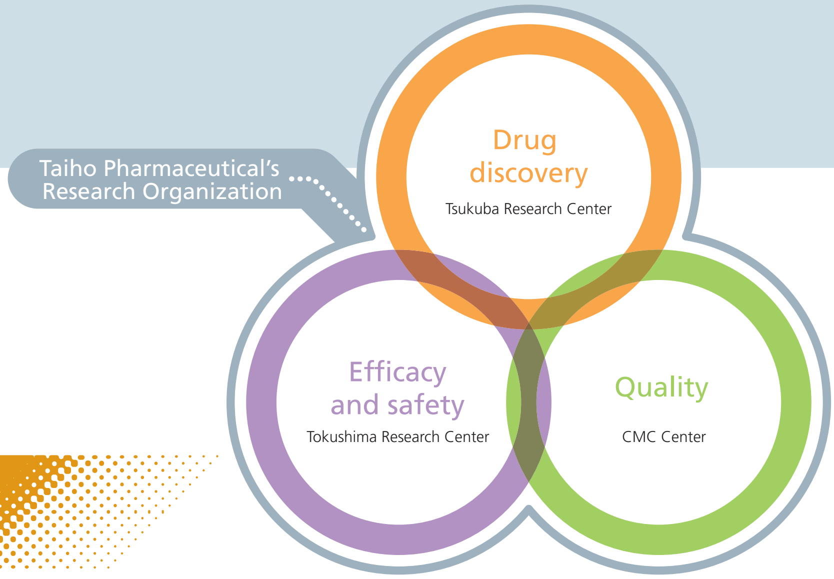
2 Taiho Pharmaceutical has expanded its product lineup to include supportive care products to cover the entire range of cancer therapies, along with its anti-cancer drugs. This has contributed to better quality of life for patients undergoing cancer treatment.

3 Taiho Pharmaceutical strives to keep providing patients worldwide with innovative drugs and will accelerate the globalization of its oncology business.

The History of Taiho Pharmaceutical's Anti-cancer Drugs



* Brand name of S-1 in Europe



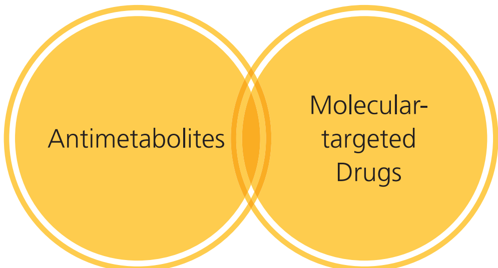
Taiho Pharmaceutical Research Framework

Taiho Pharmaceutical conducts research at its three main research sites: Tsukuba Research Center, Tokushima Research Center, and CMC Center. Tsukuba Research Center is taking on the challenge of creating novel compounds that are safe and show superior efficacy in order to meet unmet medical needs. In the oncology field, the center has a division that specializes in antimetabolites and molecular-targeted drugs. To play a role as one of the leading companies in the field of oncology, it has increasingly focused its efforts on basic research.

Tokushima Research Center investigates the pharmacologic effects of new drug candidates from Tsukuba Research Center by determining the risk of their toxicity in pre-clinical studies. Furthermore, the center also evaluates the efficacy of the candidates to provide highly effective and safe therapy to patients.

The three essential components for pharmaceuticals are efficacy, safety, and quality. CMC Center is responsible for ensuring the quality of Taiho Pharmaceutical products. Quality consists of both the tangible, in the form of drug substances and drug products, and the intangible, in terms of dealing with information and regulations related to quality, and both aspects must be addressed. Working with numerous internal departments and external partners, CMC Center strives to deliver quality pharmaceuticals and information that meet global standards.

Focus Areas in Oncology Research and Development



In addition to its antimetabolites business, which has been its main focus since its founding, the company has expanded its drug discovery research in recent years to include molecular-targeted drugs as a broader approach to the challenges. In the field of antimetabolites, the company is carrying out initiatives from new perspectives in order to discover new, highly effective and safe drugs that target molecules involved specifically in the metabolism of cancer. In the field of molecular-targeted drugs, the company is always aiming to leverage the development and improvement of its basic technologies, and create novel and unique drugs that are unlike any other produced by its competitors.

TOPICS

Anti-cancer Agent TS-1 Combination OD Tablets T20, T25 Launched in Japan

An additional formulation of TS-1 in the form of the combination OD tablets T20, T25 was launched in Japan in June 2013.

This drug is the world's first anti-cancer agent in orally disintegrating tablet form that can be ingested without water since it quickly disintegrates upon contact with saliva in the mouth. The drug was developed in order to meet the needs of the many patients who have difficulty swallowing capsules or whose water intake is being restricted.

It is a dry-coated tablet that contains the active ingredients of the anti-cancer agent in the inner core. The coating has the dual purpose of preventing the active ingredients from leaking out before administration, while at the same time allowing quick disintegration in the mouth.

Together with the existing capsules and granulated formulation, the addition of these OD tablets provides patients with three options that can be chosen in accordance with each patient's needs.

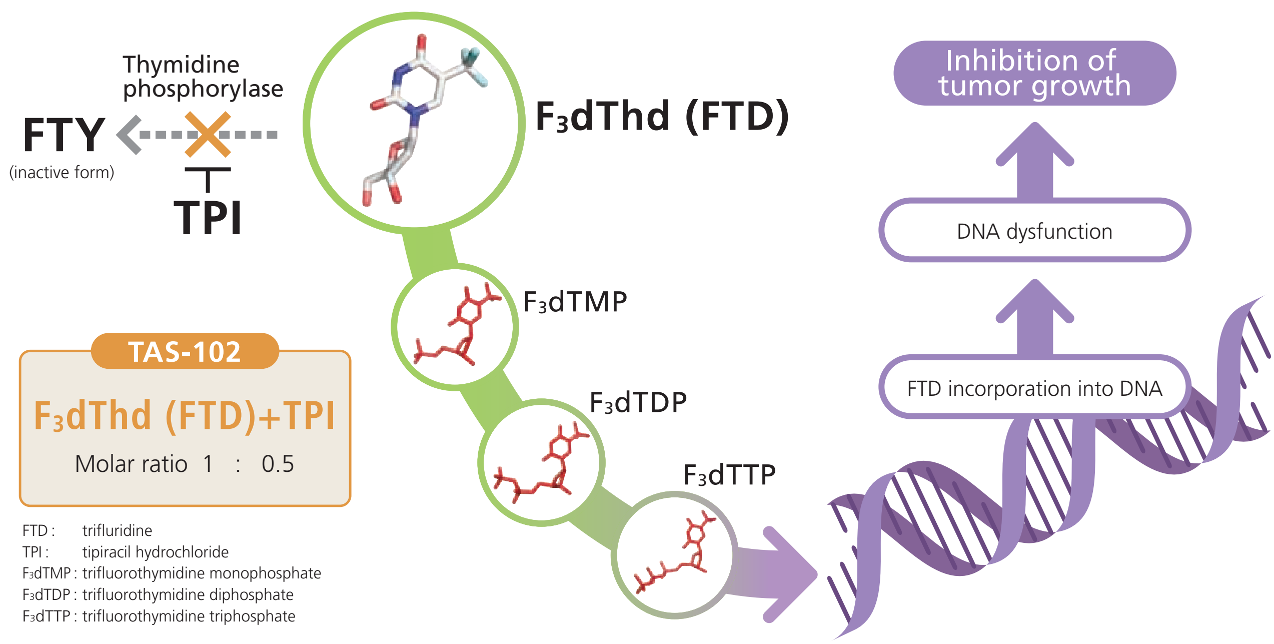
Major Novel Compounds Currently Under Development

TAS-102

In February 2013, Taiho Pharmaceutical submitted an application for approval to manufacture and market TAS-102 in Japan for the indication of unresectable, advanced, recurrent colorectal cancer. Global Phase III clinical trials are currently underway in Japan, the United States, and Europe.

Mechanism of Action

◎ A novel oral anti-cancer drug that consists of trifluridine (FTD) and tipiracil hydrochloride (TPI)
◎ FTD is efficiently incorporated into cancer cells' DNA, where it induces DNA dysfunction, inhibiting cell proliferation.
◎ TPI inhibits the degradation of FTD, which effectively enhances the anti-cancer action



FTD : trifluridine
TPI : tipiracil hydrochloride
F_3dTMP : trifluorothymidine monophosphate
F_3dTDP : trifluorothymidine diphosphate
F_3dTTP : trifluorothymidine triphosphate

Features

Potential to become a new "drug of first choice" for the treatment of colorectal cancer

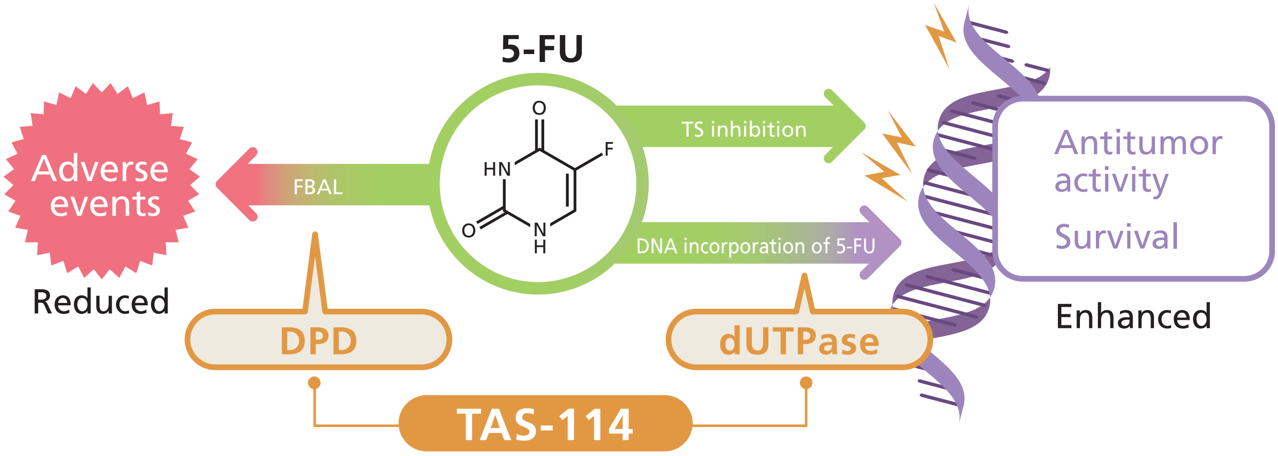
- First-in-class fluorothymidine anti-cancer drug
- Increases survival when used as a third-line or further treatment for unresectable, advanced, recurrent colorectal cancer, for which there is no standard therapy
- Indications that it is effective regardless of KRAS genotype
- Fewer gastrointestinal and dermatological adverse effects
- Oral drug taken twice per day

TAS-114

A first-in-class dUTPase inhibitor with modest inhibition of DPD
Phase I clinical trials on solid cancers are currently under way in Japan, the United States, and Europe

Mechanism of Action

◎ Inhibits deoxyuridine triphosphatase (dUTPase), which is an enzyme that suppresses the uptake of 5-fluorouracil (5-FU) and uracil into DNA
◎ Inhibits dihydropyrimidine dehydrogenase (DPD), which is an enzyme that limits the rate of decomposition of 5-FU



Features

- A first-in-class drug that enhances the action of 5-FU by suppressing dUTPase.
- In addition to its powerful dUTPase-inhibiting action, it also has a mild DPD-inhibiting action.
- When used with S-1 or capecitabine, it is expected to greatly inprove their antitumor effects.

Initial Stage of Compounds

TAS-115	Dual inhibitor of hepatocyte and vascular endothelial growth factor receptors (MET and VEGFR) with increused safty	Phase 1 in Japan
TAS-116	Highly potent, 3rd-generation oral HSP90 inhibitor with unique tissue distribution properties	Preclinical
TAS-117	Highly potent and selective allosteric AKT inhibitor which inhibits kinase activity	Preclinical
TAS-2104	Selective Aurora A inhibitor	Preclinical
TAS-2913	Mutant-selective EGFR Inhibitor	Preclinical
TAS-2985	Highly potent and selective irreversible FGFR inhibitor	Preclinical

TOPICS

Construction of the Kitajima Plant completed

In May 2013, construction of the new anti-cancer drug plant in Tokushima Prefecture was completed. Scheduled to begin operating in May 2014, the plant will become the company's new manufacturing base for novel drugs that will support Taiho's future oncology business expansion.

Pharmaceutical Segment Overview

The Otsuka Group's Pharmaceutical Business focuses on the priority areas of the central nervous system and oncology in order to address unmet medical needs. Furthermore, the Group is engaged in a wide range of fields and businesses, including the cardiovascular system, gastroenterology, ophthalmology, diagnostics, and the clinical nutrition and medical device businesses in order to provide comprehensive healthcare solutions ranging from diagnosis to the treatment of disease.

Therapentic drugs	Central nervous system, Oncology, Cardiovascular system, Gastroenterology, Respiratory system, Infectious disease, Ophthalmology, Dermatology, Allergies, Urology, Other areas
Clinical nutrition	Intravenous solutions, Enteral nutrition, Contract manufacturing
Diagnostics	Influenza diagnostic agents, *Helicobacter pylori* test kit, other products
Medical devices	Apheresis device for leukocyte adsorption, Drug-eluting stents, other products

- Otsuka Pharmaceutical, Taiho Pharmaceutical, and Otsuka Pharmaceutical Factory operate globally, primarily in the pharmaceutical business.

Core products

Brand name (generic name)	Therapeutic category	Major indications	Company
ABILIFY (aripiprazole)	Antipsychotic	Schizophrenia, bipolar disorder (mania), major depression (adjunctive)	Otsuka Pharmaceutical
Pletaal/Pletal (cilostazol)	Antiplatelet agent	Improvement of ischemic symptoms including ulcers, pain, and coldness associated with chronic arterial obstruction, prevention of recurrent cerebral infarction	Otsuka Pharmaceutical
Mucosta (rebamipide)	Antigastritis and antigastric ulcer agent	Gastritis, gastric ulcers	Otsuka Pharmaceutical
SAMSCA (tolvaptan)	Vasopressin V_2-receptor antagonist	Cardiac edema, hyponatremia	Otsuka Pharmaceutical
TS-1 (tegafur, gimeracil, oteracil potassium)	Antimetabolite	Gastric cancer, head and neck cancer, colorectal cancer, non-small cell lung cancer, pancreatic cancer, bile duct cancer, inoperable or recurrent breast cancer	Taiho Pharmaceutical
Aloxi (palonosetron)	5-HT_3 receptor antagonist antiemetic agent	Prevention of chemotherapy-induced nausea and vomiting (CINV) (including delayed phase) in patients with cancer	Taiho Pharmaceutical
Uzel (calcium folinate)	Reduced folic acid formulation	Folinate and tegafur/uracil combination therapy enhances efficacy of tegafur-uracil in treating colorectal cancer	Taiho Pharmaceutical

Therapeutic Drug Business

Central Nervous System

In the area of the central nervous system, the atypical antipsychotic agent *ABILIFY* was ranked seventh*[1] in global drug sales between January and December 2012. In the U.S., prescriptions of *ABILIFY* increased for adjunctive therapy in major depressive disorder and for bipolar disorder, leading to higher sales year on year. The drug was also ranked first*[2] in U.S. drugs sales between October and December 2012. In Europe, although drug price reductions, enforced by government fiscal austerity measures, contributed to a slump in the market for atypical antipsychotic agents, sales of *ABILIFY* grew on the back of an increase in prescriptions for the treatment of manic episodes of bipolar disorder. However, sales in Europe on a yen basis declined year on year due to the impact of yen appreciation. Sales of *ABILIFY* expanded steadily in Asia, growing at a double-digit pace due to rising sales in China, where the drug was included in the national medical insurance system, and additional indications in South Korea, where it was approved for chronic tic disorder and Tourette syndrome. In Japan, *ABILIFY* sales grew at a double-digit pace due to approval of the additional indication of manic episodes in bipolar disorder received in 2012, in addition to the existing indication of schizophrenia. The launch of a new orally disintegrating tablet also supported sales growth. Also, the additional indication of adjunctive therapy in major depressive disorder was approved in June 2013.

Under the alliance with H. Lundbeck A/S ("Lundbeck"), Otsuka Pharmaceutical and Lundbeck began sales of *Abilify Maintena*, aripiprazole intramuscular depot formulation (once-monthly injection), in the U.S. in March 2013. The companies also submitted a new drug application for the same drug to the European Medicines Agency (EMA) in December 2012.

In addition, Otsuka Pharmaceutical and Lundbeck further expanded their global alliance in the field of the central nervous system with the conclusion of a co-development and co-commercialization agreement for Lu AE58054 in March 2013, which is currently under development for Alzheimer's disease treatment.

In Japan, the antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered substantial sales growth. In addition, *Neupro Patch*, the world's first transdermal dopamine agonist, introduced by UCB, was launched in February 2013 for the treatment of both Parkinson's disease and restless legs syndrome.

*1: © 2013 IMS Health. All rights reserved. Estimated based on "World Review Preview 2013 (Year 2012 Sales Data)." Reprinted with permission.
*2: © 2013 IMS Health. All rights reserved. Estimated based on "MIDAS Quantum 4Q/2012 Sales data." Reprinted with permission.

Cardiovascular System

In the area of the cardiovascular system, the first-in-class vasopressin V_2-receptor antagonist *SAMSCA* is now sold in 14 markets worldwide, and the new value it brings and its method of use as an oral aquaretic agent are leading to wider use by medical specialists. As a result, sales in the U.S. continued to grow at a double-digit pace compared with the previous fiscal year. In Japan, prescriptions of *SAMSCA* increased considerably amid growing awareness of the drug as a new treatment option for edema in heart failure, supporting sales growth in excess of double digits compared with the previous fiscal year. Sales volume was stable for the antiplatelet agent *Pletaal/Pletal* due to promotion of the drug as a convenient orally disintegrating tablet for patients who have had cerebral infarction. However, sales declined year on year owing to the impact of drug price reductions and generics.

Anti-cancer and Cancer-supportive Care

In the area of anti-cancer and cancer-supportive care, sales in Japan of the anti-cancer agent *TS-1* were solid on the back of increased awareness of the drug through the use of evidence-based medicine (EBM) approaches. Overseas, *TS-1* is gradually being rolled out in European markets and is sold in 22 markets worldwide as of June 2013. Sales of the anti-cancer agent *UFT* declined as a result of competition, while sales of the reduced folic acid formulation *Uzel* grew on the back of increased awareness of the drug through the use of EBM approaches. Sales of *Aloxi*, a 5-HT_3 receptor antagonist antiemetic agent, and the anti-cancer agent *Abraxane* both continued to grow at a double-digit pace. The anti-cancer agent *SPRYCEL*, which is being co-promoted in Japan, the U.S. and Europe with Bristol-Myers Squibb Company, showed solid sales growth as a first-line treatment for chronic myeloid leukemia in markets worldwide. This sales growth, along with a substantial increase from January 2013 in the ratio used to calculate distributions received by the Company based on sales, contributed to a large rise in distributions compared with the previous fiscal year. *Busulfex*, which is the only allogeneic hematopoietic stem cell pre-transplanting regimen approved by the U.S. FDA, has now become established as the standard drug for use as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation. The rights to develop and market *Busulfex* in Japan and Asia were returned to Otsuka Pharmaceutical under an agreement with Kyowa Hakko Kirin Co., Ltd., with Otsuka Pharmaceutical taking over sole responsibility for the business in those markets from April 1, 2013. This complements the exclusive marketing rights the Group already owns for *Busulfex* in the U.S.

Other Areas

In other areas, the antigastritis and antigastric ulcer agent *Mucosta* remained the fourth*[3] most prescribed drug in Japan. However, sales declined compared with the previous fiscal year due to the impact of drug price reductions and generics. In the area of ophthalmology, *Mucosta ophthalmic suspension UD 2%*, a treatment for dry eyes, showed a significant increase in sales following its approval for long-term prescriptions in December 2012. In addition, *L-Cartin FF oral solution 10%* and *L-Cartin FF injection 1000 mg* were launched in February 2013.

*3: © 2013 IMS Japan K.K. Estimated based on 2011 Japan Medical Data Index. Reprinted with permission.

Clinical Nutrition Business

The clinical nutrition business is carried out primarily by Otsuka Pharmaceutical Factory, whose business creed is to be the "best partner of patients and healthcare professionals in the field of clinical nutrition." This business includes Japan's first plastic bottles utilizing advanced sterilization technology, dual-chamber bags for the administration of high-calorie infusion solutions, and kits for aseptic delivery of antibiotic solutions. The Company has contributed to parenteral management of patients by developing a full lineup of products with outstanding quality to meet the needs of physicians based on its advanced sterilization technology. The Company also operates an intravenous solutions business in international markets as well as in Japan, with production bases in eight*[4] other countries, mainly in Asia.

In fiscal 2012, the high-calorie TPN solution *ELNEOPA* was well received by hospital pharmacies. It was rated highly for its convenience and for reducing instantaneous one-push sterile compound preparation. Since a medical fee is charged when inpatient pharmaceutical services are performed, more and more hospitals began stocking and using *ELNEOPA*, and sales grew steadily.

*4: Including affiliates accounted for by the equity method and unconsolidated companies

Diagnostics Business

Core products

Brand name	Category	Company
UBIT	Diagnostic agent for *H. pylori*	Otsuka Pharmaceutical
WT1 mRNA Assay Kit II "Otsuka"	Wilms tumor-1 gene (WT1) mRNA measurement KIT	Otsuka Pharmaceutical
Quick Navi-Flu	Influenza virus test kit	Otsuka Pharmaceutical

The diagnostics business focuses on the development and sale of intracorporeal and extracorporeal diagnostic agents for clinical use and research-use reagents. There was a significant growth in demand for *in vitro* diagnostic agent in the field of infectious diseases, and for the *WT1 mRNA Assay Kit II "Otsuka"* in the blood oncology field, while *Quick Navi-Flu* influenza virus test kits also saw increased demand. This contributed to the growth of the business as a whole.

Medical Devices Business

Core products

Brand name	Category	Company
Adacolumn	Apheresis device for leukocyte adsorption	JIMRO
L-Varlock	Spine cage	KiSCO

Otsuka Medical Devices was established in 2011 to oversee the Otsuka Group's medical equipment business. Its purpose is to develop total healthcare in the Group's core business outside of pharmaceuticals. JIMRO is one such company. It manufactures and markets *Adacolumn*, an apheresis device for leukocyte adsorption in inflammatory bowel disease and intractable skin disease. In the field of orthopedics, KiSCO manufactures and sells orthopedic implant devices for spinal injuries and disease. Other major affiliates include Microport Scientific Corporation (cardiovascular field), and Achieva Medical (Shanghai) Co., Ltd. (cerebral vascular field), both in Shanghai, China, and Era Endoscopy S.r.l. (self-propelling robotic colonoscopy) in Pisa, Italy.

Adacolumn®

L-Varlock®

Pipeline Information (as of June 30, 2013)

Code / Brand name	Generic name	Origin	Category	Indication / Dosage form	Country/Region	Development status
Central nervous system						Phase 1 Phase 2 Phase 3 Filed Approved
OPC-14597 (ABILIFY, *Abilify Maintena*)	aripiprazole	Otsuka Pharmaceutical	Dopamine partial agonist	Schizophrenia / Depot injection	EU	
					JP	
				Adjunctive therapy for major depressive disorder / Oral	JP	
				Autism / Oral	JP	
				Tourette's disorder / Once-weekly · Tablet	US	
				Bipolar I / Depot injection	US	
L059 (E Keppra)	levetiracetam	UCB	Antiepileptic drug	Epilepsy (partial onset seizures for pediatric patients) / Oral	JP	
				Epilepsy (generalized onset seizures) / Oral	JP	
				Epilepsy (partial onset seizures) / Injection	JP	
				Epilepsy (partial onset seizures/ monotherapy) / Oral	JP	
OPC-34712	brexpiprazole	Otsuka Pharmaceutical	Dopamine partial agonist	Adjunctive therapy for major depressive disorder / Oral	US, EU	
				Schizophrenia / Oral	JP, US, EU	
				ADHD (Adults) / Oral	US	
Anti-cancer and cancer-supportive care						Phase 1 Phase 2 Phase 3 Filed Approved
ABI-007 (Abraxane)	paclitaxel protein-bound particle for injectable suspension	Celgene	Anti-cancer (nanoparticle)	NSCLC / Injection	JP	
				Gastric cancer / Injection	JP	
				Pancreatic cancer / Injection	JP	Phase 1 / 2
S-1 TS-1(Japan, Korea) TEYSUNO(EU) TS-ONE(Singapore) 愛斯万(China) 愛斯萬(Taiwan)	tegafur, gimeracil, oteracil potassium	Taiho Pharmaceutical	Anti-cancer (anti-metabolite)	Gastric cancer / Oral	US	
				Uterocervical cancer / Oral	JP, Asia	
				Hepatocellular carcinoma / Oral	JP	
				Renal cell cancer / Oral	JP	
OVF	fentanyl citrate	Teva Pharmaceutical	Narcotic analgesic	Cancer pain / Buccal	JP	
TSU-68	orantinib	(Sugen)	Anti-cancer (molecular targeted drug)	Hepatocellular carcinoma / Oral	JP, Asia	
TAS-102		Taiho Pharmaceutical	Anti-cancer	Colorectal cancer / Oral	JP	
					JP, US, EU	
Sativex	nabiximols	GW Pharmaceuticals	Cannabinoid (THC, CBD)	Cancer pain / Oral spray	US	
OTS102	elpamotide	OncoTherapy Science	Therapeutic cancer vaccine	Biliary tract cancer / Injection	JP	
OCV-101		OncoTherapy Science	Therapeutic cancer vaccine	Pancreatic cancer / Injection	JP	
SPRYCEL	dasatinib	BMS	Anti-cancer	Pancreatic cancer / Oral	US, EU	
ET-743	trabectedin	PharmaMar	Anti-cancer	Malignant soft tissue sarcoma / Injection	JP	
TAS-106		Taiho Pharmaceutical	Anti-cancer (anti-metabolite)	Solid tumors / Injection	US	Phase 1 / 2
OPB-31121		Otsuka Pharmaceutical	Anti-cancer	Anti-cancer / Oral	JP, Asia	
OPB-51602		Otsuka Pharmaceutical	Anti-cancer	Anti-cancer / Oral	US, JP, Asia	
OPB-111077		Otsuka Pharmaceutical	Anti-cancer	Solid tumors / Oral	US, Asia	

Code / Brand name	Generic name	Origin	Category	Indication / Dosage form	Country/Region	Development status
TAS-114		Taiho Pharmaceutical	Anti-cancer (Anti-tumor enhancer)	Solid tumors / Oral	JP, US, EU	
TAS-115		Taiho Pharmaceutical	Anti-cancer (Molecular targeted drug)	Solid tumors / Oral	JP	
OCV-501		Otsuka Pharmaceutical	WT1 targeted cancer vaccine	Secondary prevention of elderly acute myeloid leukemia / Injection	JP	
OCV-C02		OncoTherapy Science	Therapeutic cancer vaccine	Colorectal cancer / Injection	JP	
Cardiovascular						Phase 1 Phase 2 Phase 3 Filed Approved
OPC-41061 (SAMSCA)	tolvaptan	Otsuka Pharmaceutical	Vasopressin V_2-receptor antagonist	Hepatic edema / Oral	JP, Asia	
				Autosomal dominant polycystic kidney disease / Oral	US, JP	*
					EU	Phase 2 - 3
				Cardiac edema / Oral	Asia	
				Carcinomatous edema / Oral	JP	
OPC-108459		Otsuka Pharmaceutical		Paroxysmal and persistent atrial fibrillation / Injection	JP, US	
Other areas						Phase 1 Phase 2 Phase 3 Filed Approved
YP-18 (ZOSYN)	tazobactam sodium·piperacillin sodium	Taiho Pharmaceutical	*β*-lactamase inhibitor-antibiotic agent	Febrile neutropenia / Injection	JP	
OPC-67683	delamanid	Otsuka Pharmaceutical	Anti-tuberculosis agent	Multidrug-resistant tuberculosis / Oral	EU ,JP	
					JP, US, EU	
OPC-12759E (*Mucosta* ophthalmic suspension)	rebamipide	Otsuka Pharmaceutical	Mucin-production enhancing agent	Dry eyes / Eye drops UD (Unit Dose)	US	
				Dry eyes / Eye drops MD (Multi Dose)	JP	
				Keratoconjunctival epithelial disorder / Eye drops UD (Unit Dose)	JP	
OPB-2045G	gluconate olanexidin	Otsuka Pharmaceutical Factory	Antiseptics	Patient preoperative preparation / Topical	JP	
OPC-6535	tetomilast	Otsuka Pharmaceutical	Anti-inflammatory agent	COPD / Oral	JP, US, Asia	
ACU-4429	emixustat hydrochloride	Acucela	Visual cycle modulator	Dry AMD / Oral	US	Phase 2b / 3
OPA-6566		Otsuka Pharmaceutical	Adenosine A2a receptor agonist	Glaucoma / Eye Drops	US	Phase 1 / 2
OPA-15406		Otsuka Pharmaceutical	PDE4 inhibitor	Atopic Dermatitis / Ointment	US	
Diagnostics						Phase 1 Phase 2 Phase 3 Filed Approved
ODK-1003 (WT1 mRNA Assay Kit II"Otsuka")	Wilms tumor-1 gene (WT1) mRNA measurement KIT	Otsuka Pharmaceutical	Diagnostic aid for AML (acute myeloid leukemia), MDS (myelodysplastic syndrome)	*in vitro* diagnostic agent	JP	

Note 1: In general, Otsuka discloses compounds that are in Phase 2 or later stage of development, although some compounds in Phase 1 are disclosed in the above table.
Note 2: * Accepted by FDA in April 2013

Research and Development Activities

Otsuka Group R&D Facilities

10th Research Center, Tokushima Research Institute (Otsuka Pharmaceutical)

Otsuka Shanghai Research Institute

Hi-Z Tower, Tokushima Research Institute (Otsuka Pharmaceutical)

Tsukuba Research Center (Taiho Pharmaceutical)

●…Otsuka Pharmaceutical ★…Otsuka Pharmaceutical Factory ▲…Taiho Pharmaceutical

Basic Research Clinical Development

JAPAN

Tokushima
- ● First Institute of New Drug Discovery
- ● Tokushima Research Institute
- ● R&D department of Diagnostic Division
- ● Third Institute of New Drug Discovery
- ● Formulation Research Institute
- ★ Research and Development Center
- ● Microbiological Research Institute
- ● Qs' Research Institute
- ★ Technical Center
- ● Medical Chemistry Research Institute
- ● Institute of Biomedical Innovation
- ▲ Tokushima Research Center

Shiga
- ● Fujii Memorial Research Institute

Hyogo
- ● Ako Research Institute

Saitama
- ▲ Chemical Technology Laboratory

Ibaraki
- ▲ Tsukuba Research Center

Tokyo
- ● R&D department of Diagnostic Division
- ★ Research and Development Center Clinical Development Department
- ▲ Clinical Development Division

Osaka
- ● Headquarters of New Product Evaluation

U.S.A.
- ● Otsuka Maryland Medicinal Laboratories, Inc.
- ● Otsuka Pharmaceutical Development & Commercialization Inc.
- ★ US Business Development Division
- ▲ Taiho Pharma U.S.A., Inc.

UK
- ● Otsuka Europe Development and Commercialisation Ltd.

GERMANY
- ● Otsuka Frankfurt Research Institute GmbH
- ● Otsuka Novel Products GmbH

CHINA
- ● Otsuka Shanghai Research Institute
- ▲ Taiho Pharmaceutical of Beijing Co., Ltd.
- ● Otsuka Beijing Research Institute

KOREA
- ● Korea Otsuka Pharmaceutical Co., Ltd.

SINGAPORE
- ▲ Taiho Pharma Singapore Pte. Ltd.

Fujii Memorial Research Institute (Otsuka Pharmaceutical)

Otsuka Maryland Medicinal Laboratories, Inc.

Overview of Nutraceutical Segment

The Otsuka Group's Nutraceutical Business focuses on functional beverages and foods that help maintain and promote day-to-day well-being.

Main Nutraceutical Products

Pocari Sweat
(1980)

A health drink containing a balance of ions (electrolytes) approximating that of the human body. It enables the body to easily absorb the water and ions that it needs, for total rehydration. With a light sweetness and refreshing taste, low-calorie *Pocari Sweat Ion Water* was launched in 2013.

Oronamin C Drink
(1965)

A handy and delicious carbonated nutritional drink containing amino acids, vitamin C, and other vitamins.

Calorie Mate (1983)

Balanced nutritional bar containing all five major nutrients (protein, fat, carbohydrates, vitamins and minerals). Ideal as a nutritional supplement when under time pressure or when it is not possible to have a meal.

SOYJOY (2006)

A new type of nutrition bar made using only soybean dough (wheat-free) and various other ingredients. It was the first product to be released under the "Soylution" concept.

SOYSH (2010)

A refreshing and clean-tasting carbonated soy beverage made from whole soybeans including the solids. It is a great choice for young people and those who might care for the distinctive aftertaste of soy.

SoyCarat (2012)

A healthy soy snack baked with whole soy flour. This plump, bite-sized, pod-shaped snack makes an enjoyable sound, like beans rattling inside the shell. One bag contains the equivalent of about 50 soybeans.

Nature Made (1993*)

This broad lineup of supplements with no artificial colors or preservatives allows customers to choose just the ones they need.

UL-OS (2008)

A face and body skincare brand targeting middle-aged men based on the cosmedics concept of healthy skin support.

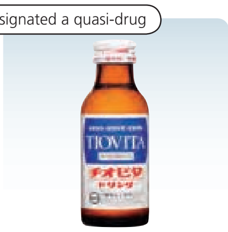
InnerSignal (2005)

A skincare brand for women that employs the active ingredient, Energy Signal AMP. This ingredient has received new indication approval for complexion whitening as a quasi-drug.

Gerblé (2010*)

Health food products originating from the South of France with a focus on nutrition and natural ingredients such as wheat germ. Since its launch in 1928, *Gerblé* has been a much-loved brand in France.

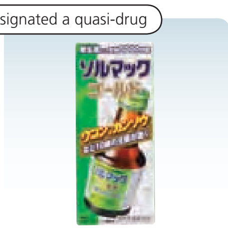
Designated a quasi-drug



Tiovita Drink (1964)

A long-selling product that will celebrate its 50th anniversary in 2014. This vitamin health drink contains vitamin B1 and other B-group vitamins to help relieve physical exhaustion, as well as the active ingredient taurine and the digestive aid carnitine chloride.

Designated a quasi-drug



Solmack (1979)

A crude drug gastrointestinal remedy that alleviates symptoms associated with hangover, overeating, and upset stomach. It contains selected natural ingredients with bitter and aromatic properties to improve stomach function.

Second-class OTC drug

Oronine H Ointment (1953)

An ointment for the treatment of skin ailments and injuries that is formulated with chlorhexidine gluconate, which has excellent antiseptic properties.

OS-1 (2001)

An oral rehydration supplement formulated with an optimal balance of glucose and electrolytes. A medical food to supply and maintain water and electrolyte levels in patients suffering from mild to moderate dehydration.

*launched in Japan

Sales Activities

Pocari Sweat, an electrolyte supplement drink, is now sold in 17 markets worldwide following its launch in Vietnam in August 2012. Overseas, sales volume continued to grow at a strong pace, supported by continued efforts in both Indonesia and China to cultivate consumers and promote the product's benefits. In Japan, sales volume in the second half of the fiscal year 2012 grew at a stronger pace than in the same period of previous year, thanks to successful sales promotions that focused on the benefits of drinking *Pocari Sweat*, particularly after taking a bath and in the dry season. However, sales volume for the full year declined year on year. In April 2013, low-calorie *Pocari Sweat Ion Water* was launched.

The Otsuka Group is focusing on the development of its soy-related business, based on the concept of "Soylution," which aims to make full use of the nutrition in soy as a solution to various health and environmental issues faced by people today. The Group added the healthy soy snack *SoyCarat* to its lineup of soy products in April 2012. Steps were taken to attract new customers to this product, as well as the soy bar *SOYJOY*, which is sold in 11 markets around the world, and the soy soda beverage *SOYSH*. In Japan, the Group is working for dietary education to help consumers understand the nutritional function of soy in addition to the seminars run by soy specialists.

For the carbonated nutritional drink *Oronamin C*, the market environment surrounding the brand remained difficult due to intensifying competition. However, sales volume declined only slightly from fiscal year 2011, thanks to successful sales promotions that clearly communicated the product's features.

Sales volume of the balanced nutrition food *Calorie Mate* declined slightly from previous fiscal year, despite sales promotions focused on brand value and marketing activities showing how *Calorie Mate* can be a useful food for people who have difficulty getting home from work during natural disasters.

In December 2012, Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, acquired Valpiform company, a gluten-free food company, from Lactalis Group which is the world's largest dairy products company. This acquisition gives Nutrition & Santé the ability to seamlessly develop, produce and sell gluten-free foods, providing the base to support faster growth in the company's expanding gluten-free food product business. In Japan, the number of stores that sell *Gerblé* and *Gerlinea*, the leading*[1] calorie control brand in France's diet food market, continued to increase steadily across the country.

In the U.S., *Nature Made* supplements are supplied by subsidiary Pharmavite LLC. *Nature Made* has been the leading U.S. vitamin and supplement retail brand for each of the five years since 2007*[2] and has been selected as the number-one, pharmacist-recommended brand in seven categories*[3]. During fiscal year 2012, sales of the brand in the U.S. grew at a steady pace.

In the cosmedics area, where the focus is on the concept of "healthy skin," the Group ran a marketing campaign for the *UL-OS* men's skincare brand, targeting middle-aged men and focusing on the brand's scalp shampoo. The campaign supported strong double-digit sales growth for the brand. In February 2013, the Group added an SPF 50 sun block product to the range, as part of efforts to steadily expand *UL-OS* as a skincare brand for daily use that contains a comprehensive lineup of products for all areas of men's skincare.

In the *InnerSignal* brand for women, the Group continued to make steady progress in acquiring customers through the mail-order sales channel, supporting a doubling in sales.

Sales of the nutrient tonic *Tiovita* declined from the previous fiscal year. This reflected a drop in sales volume due to stockpiling demand in the aftermath of the earthquake and poor weather in early summer.

*1: IRI Value Share of Market–Total 2011
*2: Pharmavite calculation based on data reported by Nielsen through its Scantrack Service for the vitamins category for the 52-week period ending 12/22/2012, for the xAOC and FDM Markets. Copyright (c) 2013, The Nielsen Company.
*3: Pharmacy Times 2012 Ed.

Nutraceutical Business Global Operation

(* regions with offices and operational activities)

Europe

2009
Entered market through acquisition of Nutrition & Santé SAS (N&S)
2011
Launched *SOYJOY*

N&S share in
French functional food market*1

China

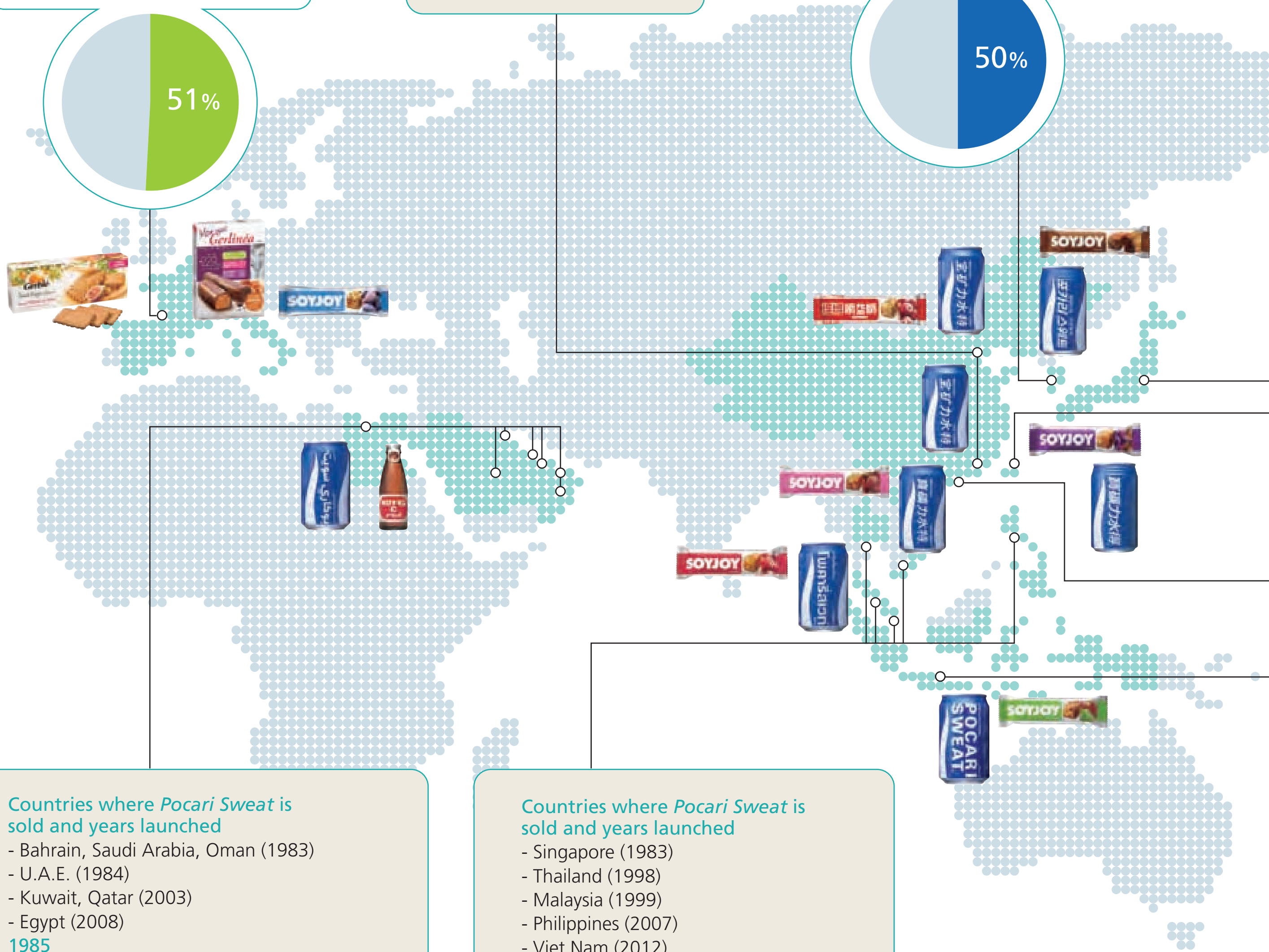
2003
Launched *Pocari Sweat*
2006
Launched *SOYJOY*

Manufacturing *Pocari Sweat* at two sites: Tianjin and Guangdong

South Korea

1987
Pocari Sweat launched
2007
SOYJOY launched

Sports drink market share*1



Countries where *Pocari Sweat* is sold and years launched
- Bahrain, Saudi Arabia, Oman (1983)
- U.A.E. (1984)
- Kuwait, Qatar (2003)
- Egypt (2008)

1985
Launched *Oronamin C Drink*

Middle East

Countries where *Pocari Sweat* is sold and years launched
- Singapore (1983)
- Thailand (1998)
- Malaysia (1999)
- Philippines (2007)
- Viet Nam (2012)

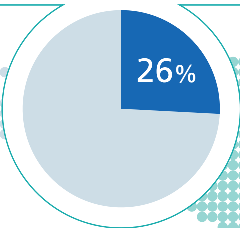
2008
Launched *SOYJOY* in Singapore

ASEAN

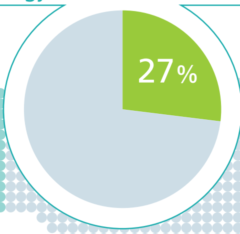
*1: © Euromonitor International (Health and Wellness: Euromonitor from trade sources/national statistics)
*2: Nutritional balanced foods market 2011 (Fuji Keizai "H B Foods Marketing Handbook 2013 No.1")

Japan

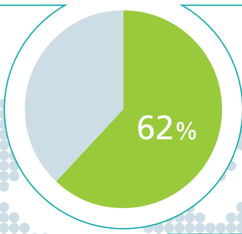
Sports drink market share*1



Energy drink market share*1

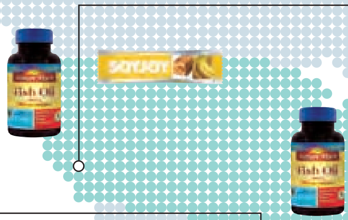


Balanced nutritional food market share*2



Supplement (MultiVitamins) market share No. 1*3

U.S.

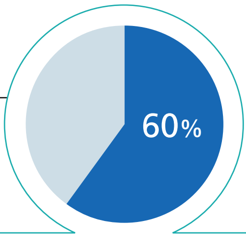


U.S. No.1 vitamin and supplement retail brand*4

1989
Acquired Pharmavite LLC
2007
Launched *SOYJOY*

2013
Built a new supplement factory in Alabama to complement the factory in California, realizing two production sites for *Nature Made*

Indonesia

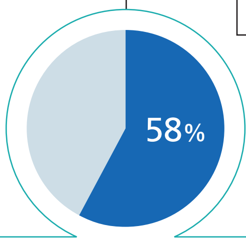


Sports drink market share*1

1989
Launched *Pocari Sweat*
2007
Launched *SOYJOY*

Manufacturing *Pocari Sweat* at two sites: Surabaya and Jakarta

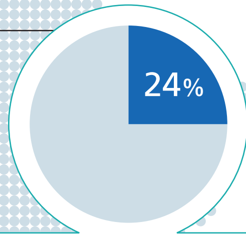
Hong Kong



Sports drink market share*1

1982
Launched *Pocari Sweat*
2007
Launched *SOYJOY*

Taiwan



Sports drink market share*1

1982
Launched *Pocari Sweat*
2007
Launched *SOYJOY*

*3: Intage SRI, MultiVitamins (Health Food) Market Jan 2011– Apr 2013, Retail value share by brand
*4: Pharmavite calculation based on data reported by Nielsen through its Scantrack Service for the vitamins category for the 52-week period ending 12/22/2012, for the xAOC and FDM Markets. Copyright (c) 2013, The Nielsen Company

Nutraceutical Segment Topics

A New Type of *Pocari Sweat* "*Pocari Sweat Ion Water*" Launched

Otsuka Pharmaceutical launched *Pocari Sweat Ion Water* on April 8, 2013. The new product is a daily hydration beverage for a more enjoyable lifestyle. While enabling the smooth replenishment of ions (electrolytes), the beverage also offers a light sweetness with reduced calories. In addition to the original 250 mil size, there are also 500 and 900 mil sizes to suit various daily situations.

Tastes and lifestyles have changed in the 33 years since *Pocari Sweat* was first launched. People today need an ion beverage with a taste that better fits their daily lives. While still maintaining the rapid hydration and electrolyte replenishment offered by the original, *Pocari Sweat Ion Water* offers reduced sweetness and a clean aftertaste. Developed over 6 years, it is a new way to quench your thirst while enjoying the benefits of *Pocari Sweat*.

Healthy Whole Soybeans and Big Peanut Chunks New Product Release: *SOYJOY Peanuts*

SOYJOY Peanuts was released on April 24, 2013. It is a new type of *SOYJOY* bar made with a combination of whole soybeans and big chunks of peanut.

Made from dried fruit and about 35 whole soybeans per bar, the number of *SOYJOY* varieties has been increasing. The new product however, is the first *SOYJOY* bar without any dried fruit. With a combination of big peanut chunks in a moist and chewy bar, the new *SOYJOY* variety offers a new way to enjoy the goodness of soybeans. Otsuka Pharmaceutical is working to promote the value of soybeans by developing products based on the "Soylution" concept. This means promoting soybean products as a solution to the various health and food problems that people are faced with worldwide.

Product Features

◎ Whole soybeans and big chunks of peanuts for a satisfying snack
◎ Convenient soy bar that can be eaten anywhere (each bar contains about 35 soybeans)
◎ New item without dried fruit
◎ Refreshing taste from 100% plant-based sweeteners

Launched in 1980 based on the concept of a beverage designed for situations where people perspire, *Pocari Sweat* is now sold in 17 countries and regions worldwide. With the aim of making *Pocari Sweat Ion Water* also available worldwide, Otsuka is promoting it as a global product.

Product Features	
	◎ Health drink that enables smooth absorption of water and electrolytes ◎ Calorie reduced with just 11 kcal per 100 ml ◎ Light sweetness and clean aftertaste ◎ Three sizes to meet a variety of individual needs

Skincare for Men *"UL-OS Sunscreen"* New Formulations with SPF 50 and 25

On February 20, 2013, Otsuka Pharmaceutical launched two new additions to the *UL-OS* line of skincare products for men in the middle-aged segment: *Sunscreen 50* (for outdoor activities) and *Sunscreen 25* (for daily use).

While offering the basic function of UV protection, these products were also created with thorough attention to convenience for men not accustomed to skincare. Two separate products were designed to meet different UV protection requirements—hours of recreational activities under the scorching sun, or more limited daily sun exposure when shopping or walking around town. These useful products help protect men's health by shielding skin from ultraviolet rays.

With the addition of these two new products, the *UL-OS* lineup now has a total of 15 items and 7 product types.

Product Features	
	◎ Leaves no white residue on clothing during application ◎ Absorbed easily by the skin, and spreads evenly ◎ Can be washed away with regular soap or cleanser, and no special cleansing agents are required ◎ Designed to moisturize the skin as well

Consumer Products Segment

Overview of Consumer Products Segment

The Otsuka Group's consumer products segment provides a wide range of foods and beverages that are an integral part of consumers' lives, including: *Bon Curry*, which was the world's first commercially available food in a plastic pouch bag; *Mannan Hikari*, a food product that resembles rice but enables calorie control; *CRYSTAL GEYSER*, a brand of soft mineral water from California; and *Sinvino JAVA TEA Straight*, which has no added sugar.

Under the motto of "delicious, safe, reassuring, and healthy," Otsuka Foods has introduced a number of industry-leading products, including *Bon Curry*, *My Size*, and *Mannan Hikari*. *Bon Curry* was launched in 1968 as the world's first commercially available pouch-packed food product. Since then, *Bon Curry* has become a familiar and long-selling product. Marking its 45th anniversary in 2013, *Bon Curry* has undergone further advancement and is now available as *Bon Curry Gold*, a pouch-packed product that is microwaveable in its box.

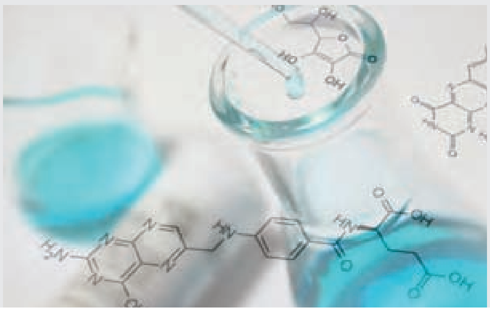
In the beverages business, Otsuka Foods offers a lineup of products that match consumers' various lifestyles and tastes, including: *Sinvino JAVA TEA Straight*, which has become a longtime best-seller; *CRYSTAL GEYSER*, which is a soft mineral water bottled directly from a spring at the base of Mount Shasta; and *MATCH*, a carbonated vitamin drink.

Other Segment

Otsuka-people creating new products for better health worldwide

Overview of Other Segment

The Otsuka Group's "other segment" operates multiple businesses such as chemicals, transportation, warehousing, and electronic equipment.



Chemicals

In the specialty chemical business, thanks to camera component demand for smartphones and tablets, and a recovery in the North American automotive industry, sales remained strong for composite materials, the flame retardant *Phosphazene*, and the friction materials *TISMO* and *TERRACESS*. However, due to the prolonged impact of the European economic crisis, there was a decline in sales volume and revenues of raw materials for tires. In the fine chemical business, Otsuka Chemical increased production of *GCLE* in India and recorded higher sales volume and revenues. Otsuka Chemical continuously provides measures for improvement of profitability, such as betterment of productivity for the pharmaceutical intermediate *DACTA*.

CRYSTAL GEYSER

MATCH

Sinvino
Java Tea Straight

Ridge Wine

Bon Curry Neo

My Size

Mannan Hikari

TOPICS

Bon Curry Gold

In 2013, *Bon Curry Gold* was launched as a further evolution of *Bon Curry*. Unlike traditional retort pouches that are heated in boiling water, all you have to do is open the box top and put the entire package in the microwave for 2 minutes*[1]. Now everyone can easily make and enjoy delicious piping-hot curry. This innovation has also shortened the cooking time by approximately 6 minutes, while eliminating the need to wash any pots. And since no boiling water is required, anyone can safely prepare the curry.

As the pioneer in this field, Otsuka Foods will continue to develop next-generation pouch-packed products, with the aim of even greater market expansion.

*1 When cooked in in 500-watt oven

Transportation and Warehousing

Since its inception, Otsuka Warehouse has continued to develop logistics operations for the Otsuka Group. Utilizing its expertise in pharmaceutical logistics developed from the outset, the company performs strict inventory management every day. It carries out strict inventory control and quality control based on 6S checking,*[2] and strives to implement accurate operations. The company is streamlining operations by combining shipments according to product characteristics and seasonal variations, thus reducing logistics costs. It is also actively undertaking business continuity planning in order to fulfill its role of ensuring stable product supply.

*2 In addition to performing the 3S activities of *seiri*, *seiton*, and *seiso* (sorting, set in order, and systematic cleaning) for the purpose of safety and quality improvement, Otsuka Warehouse carries out loading/unloading, storage, and management using the three additional points of *seiketsu* (standardizing), *shitsuke* (sustaining), and safety.

Electronic Equipment

Otsuka Electronics develops, manufactures, and markets optical evaluation/inspection equipment for LED light-source luminance and liquid crystal display panel materials and finished products, as well as medical equipment and clinical diagnostic equipment. With the recent expansion in the application of electronic and lighting equipment fitted with LEDs, the company's LED evaluation/inspection equipment is widely used.

Americas

In the U.S. pharmaceutical business, sales of the antipsychotic drug *ABILIFY* remained strong, generating about US$4.2 billion in fiscal 2012, up 6.3% year on year. Moreover, *Abilify Maintena* (aripiprazole) for extended-release injectable suspension was launched in March 2013.

In the nutraceutical segment, sales of *Nature Made*, manufactured and marketed by Pharmavite LLC, are driving the business.

Main Operating Companies

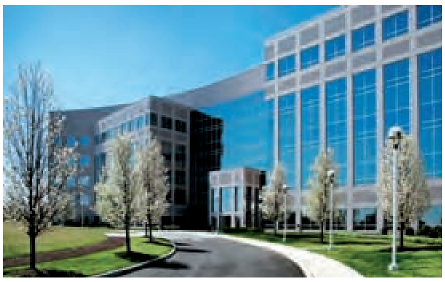
Otsuka America Pharmaceutical Inc.
(Rockville, Maryland)

Founded in 1989, Otsuka America Pharmaceutical performs marketing and sales of pharmaceuticals and medical devices in the U.S. The company currently sells the antipsychotic drugs *ABILIFY* and *Abilify Maintena*, the aquaretic *SAMSCA*, the hematopoietic stem-cell pre-transplant regimen *Busulfex*, the *BreathTek kit* for diagnosing *Helicobacter pylori* infection, and the antiplatelet agent *Pletal*.

Pharmavite LLC
(Northridge, California)

Pharmavite manufactures and sells *Nature Made* supplements and the *SOYJOY* soy bar. *Nature Made* is recognized as the No. 1* over-the-counter supplement in the U.S. In June 2013, the company newly established supplements manufacturing plant in Opelika, Alabama, as the second production facility after California.

* Pharmavite calculation based on data reported by Nielsen through its Scantrack Service for the vitamins category for the 52-week period ending 3/16/2013, for the xAOC Market. Copyright (c) 2013, The Nielsen Company.

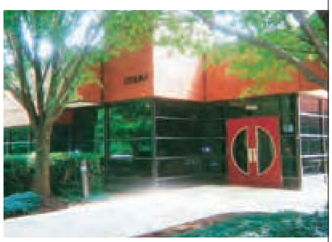


Otsuka Pharmaceutical Development & Commercialization, Inc. (OPDC)
(Princeton, New Jersey)

OPDC conducts clinical development covering a range of disorders in areas including the central nervous system, cardiovascular, oncology, ophthalmology and infectious diseases as a global development center for the pharmaceutical products of Otsuka Pharmaceutical.

Otsuka Maryland Medicinal Laboratories, Inc. (OMML) (Rockville, Maryland)

A basic research facility established in 1985 as the Otsuka Group's first research facility in the U.S., OMML conducts basic research to support clinical trials and drug discovery research in conjunction with Otsuka Pharmaceutical.



CG Roxane, LLC
(Olancha, California)

Sources, bottles, sells, and exports to Japan *CRYSTAL GEYSER ALPINE SPRING WATER*.

(Affiliated company)

Europe

The antipsychotic *ABILIFY*, antiplatelet agent *Pletal*, bronchodilator *Meptin*, and aquaretic *SAMSCA*, which was launched in Europe in 2009, all posted strong growth for the pharmaceutical segment in Europe. In July 2013, Otsuka Europe Development and Commercialisation Ltd. was established in London with the aim of strengthening the clinical development of pharmaceuticals in this region.

Nutrition & Santé SAS, a Group company since 2009, contributed to the expansion of the nutraceutical business.

Main Operating Companies

Otsuka Pharmaceutical Europe Ltd.
(Middlesex, United Kingdom)

Central office for European marketing and sales of Pharmaceuticals and medical devices, with offices in the U.K., France, Germany, Italy, Sweden and Spain. Otsuka Europe's products are: *SAMSCA*, *ABILIFY*, *Pletal*, *Adacolumn*, *Mikelan*, and *Sprycel*.

Nutrition & Santé SAS
(Revel, France)

Develops, manufactures, markets and sells health food, functional food, and sports nutrition food, primarily in Europe. Major brands include *Gerblé*, *Gerlinéa*, and *Isostar*.

ALMA S.A. (Orne, France)

(Affiliated company)

With bottling plants at natural springs across Europe, handles many brands including *CRISTALINE* and *COURMAYEUR* mineral water.

Hebron S.A. (Barcelona, Spain)

Manufactures and sells foaming agents, plastic additives, and pharmaceutical intermediates within Europe, and exports to the Middle East and Africa.

Asia and the Middle East

The pharmaceutical segment in Asia and the Middle East was built upon a foundation in the intravenous solution business that the Group began cultivating in the 1970s. The segment has expanded mainly around subsidiaries in South Korea, China, and Indonesia. Otsuka Medical Devices Co., Ltd., which was established in 2011 as a holding company to oversee the Group's medical devices business, is leading the expansion of this business segment in Asia, especially China.

In the nutraceutical segment, sales of *Pocari Sweat* significantly increased, especially in Indonesia and China due to efforts to meet local needs. This contributed to the growth of the business.

Main Operating Companies

P.T. Amerta Indah Otsuka
(Jakarta, Indonesia)

Manufactures and sells *Pocari Sweat* and sells *SOYJOY* in Indonesia. Sales of *Pocari Sweat* continue to grow in the ASEAN market and the second *Pocari Sweat* factory in Indonesia was completed in 2010.

PT Widatra Bhakti
(Jakarta, Indonesia)

Established in 1973, Widatra Bhakti joined the Otsuka Group in 1995. The company produces and sells basic intravenous solution products in Indonesia, and it began exporting to other countries in the region in 2009. A new plant was completed in 2013, in anticipation of future market expansion.

China Otsuka Pharmaceutical Co., Ltd. (Tianjin, China)
(Affiliated company)

The Otsuka Group has a long history in China, beginning with the establishment of China Otsuka in 1981 as China's first pharmaceutical joint venture with a foreign company. China Otsuka currently has more than 1,000 employees and handles basic intravenous solutions, preparations in ampoule, and ophthalmic solutions.

Shanghai Otsuka Foods Co., Ltd.
(Shanghai, China)

With the aim of popularizing Japanese-style curry dishes in China, Shanghai Otsuka Foods sells products such as *Bon Curry Sauce*, *Bon Curry Five* (curry sauce mix), and retort-pouch curry. In 2013, the company began selling *Bon Curry Five Star*, a premium retort-pouch curry, in the Shanghai region, followed by other parts of China. Futhermore, the ingredients inspection system of its sister company, Otsuka (Shanghai) Foods Safety Research & Development Co., Ltd., enables more safe and reassuring merchandise provision.

Otsuka Shanghai Research Institute (Shanghai, China)
(Un-consolidated subsidiary)

A basic research institution and one of three centers of the basic research network (Japan, the U.S., and China) working to create innovative drugs, with research focusing on infectious diseases and the central nervous system.

Otsuka Chemical India Ltd.
(Delhi, India)

Manufactures and sells the pharmaceutical intermediate *GCLE* as a raw material for cephalosporin antibiotics, which are gaining a growing share of the Indian market.

Basic Approach

The Otsuka Group engages in the challenge of conducting research and development into innovative, creative pharmaceutical and nutritional products with the objective of contributing to medical care and the health of people worldwide. The Group strives to live together harmoniously with local communities and the natural environment while aiming to live up to the trust of stakeholders.

Corporate Governance Framework

Below is a diagram of Otsuka Holdings' corporate governance framework.

The current framework was adopted to ensure the continuous progression of enterprise value and preservation of the governance structure with high transparency. This was achieved through the close cooperation of the Board of Directors, which includes several outside directors, and the Audit and Supervisory Board, including several outside audit and supervisory board members, which enables effective utilization of the function of the Audit and Supervisory Board and strengthens the management oversight function.

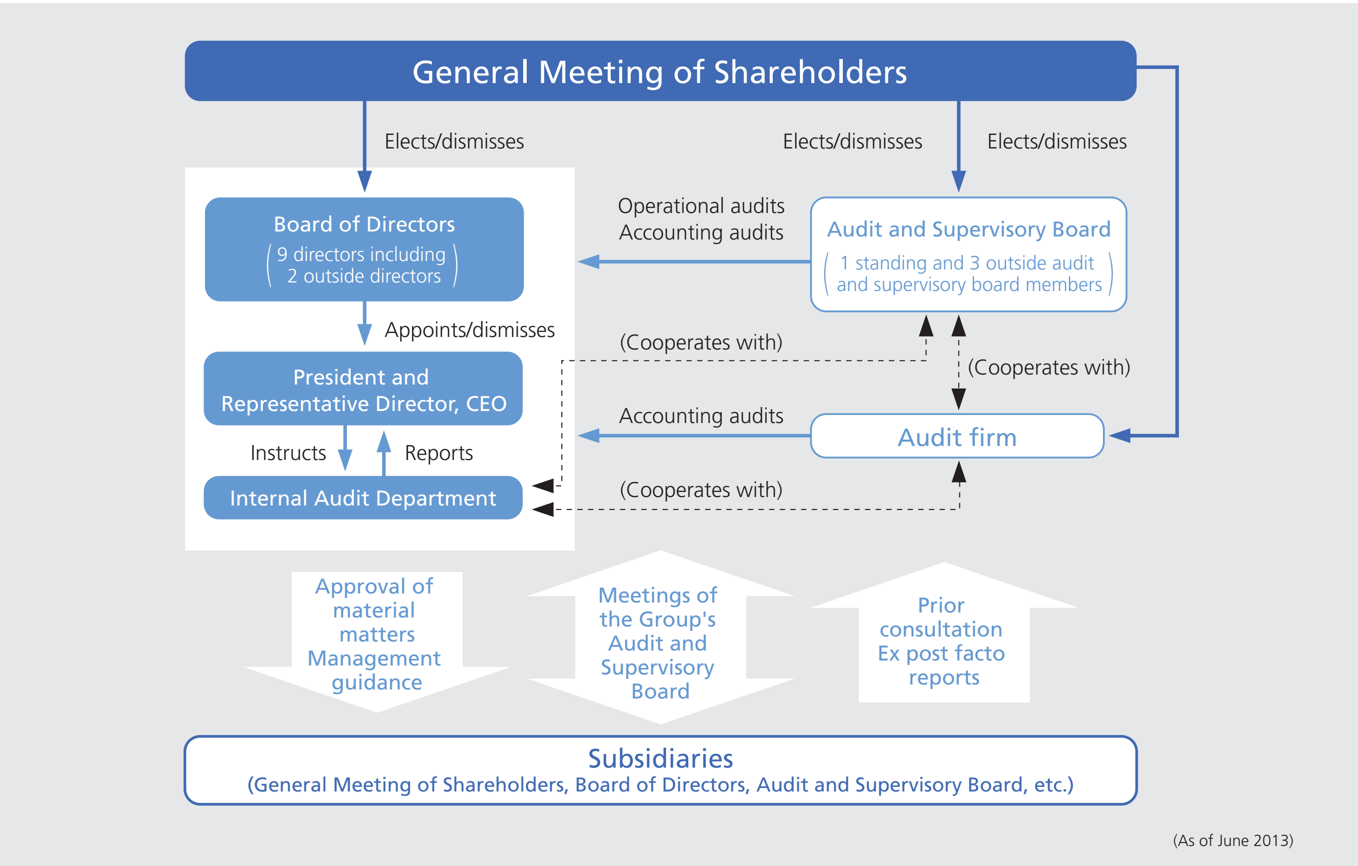
•Corporate Organization

As a company with a board of corporate auditors, Otsuka Holdings has established a Board of Directors and an Audit and Supervisory Board, and engages an audit firm. The Company pursues sound business management by filling more than half the seats on its Audit and Supervisory Board with outside audit and supervisory board members and by increasing the Audit and Supervisory Board monitoring capabilities.

The articles of incorporation specify that the number of directors shall not exceed 18 in order to enable substantive discussion during Board meetings. The articles of incorporation also specify that the number of audit and supervisory members shall not exceed five.

•Directors & the Board of Directors

In accordance with the Board regulations, the Board of Directors convenes once a month and holds extraordinary meetings as necessary to make important business decisions and supervise the execution of operations. As of June 2013, there are nine directors. Information related to directors' performance of duties is stored and managed appropriately and reliably and maintained in an accessible format where needed, in accordance with the Company Documents Management Rules.



•Audit and Supervisory Members and the Audit and Supervisory Board

Otsuka Holdings has adopted a statutory auditor system. Each audit and supervisory members attends and expresses opinions in meetings of the Board of Directors and monitors the legality and soundness of management as represented by the directors' performance of their duties, with audits by the Audit and Supervisory Board at the core of this process.

Systems have been put in place for audit and supervisory members to interview directors and employees about the status of business execution, to review internal consultation documents and other important documents pertaining to business execution, and to promptly make reports on the execution of operations when asked to do so in order to ensure that audits by audit and supervisory members are conducted effectively. An Audit and Supervisory Member's Office has been established to assist the duties of audit and supervisory members. It conducts the work of convening meetings of the audit and supervisory members and assisting in the duties of audit and supervisory members independent of the chain of command of Board directors.

Furthermore, audit and supervisory members share information and exchange opinions as appropriate with relevant departments such as the Internal Audit Department, Internal Control Department, Administration Department, and Corporate Finance and Accounting Department, as well as the audit firm, in an effort to improve the effectiveness of their audits.

Otsuka Holdings does not establish committees. An audit and supervisory member Hiroshi Sugawara holds qualifications as a certified public accountant and has considerable expertise in financial affairs and accounting.

•Outside Directors and Outside Audit and Supervisory Board Members

Otsuka Holdings has two outside directors and three outside audit and supervisory board members.

The role of the outside directors is to enhance the governance function of the Board of Directors. This involves overseeing business execution and ensuring appropriate decision making through the provision of effective advice from a neutral and objective viewpoint, based on broad insight and a wealth of experience. When necessary, the outside directors also ascertain conditions at the Internal Control Department, while strengthening and enhancing the management oversight function through the various activities of the Board of Directors.

The outside audit and supervisory board members conduct audit work from a neutral and objective viewpoint, based on a wealth of experience relating to corporate management and deep insight into finance, accounting and management. Their role is to strengthen the oversight function while improving management transparency through appropriate advice to the Board of Directors. Outside audit and supervisory board members share information and exchange opinions as appropriate with relevant departments such as the Internal Audit Department, Internal Control Department, Administration Department, and Corporate Finance and Accounting Department, as well as the audit firm, in an effort to improve the effectiveness of their audits.

In addition to maintaining their independence, Otsuka's outside directors and outside audit and supervisory board members have deep insight and a wealth of experience in corporate management.

Until March 2013, outside director Yasuyuki Hirotomi was Vice President and Representative Director of Resona Bank, Ltd., one of Otsuka's principal lenders. Outside director Toshikazu Kawaguchi has no prior relationship with Otsuka Holdings, and has no personal or capital interests in the Company, nor any business relationships with it.

As of June 2013, outside audit and supervisory board members Yasuhisa Katsuta, Norikazu Yahagi, and Hiroshi Sugawara held 12,000, 12,000, and 2,000 shares respectively, of common stock in Otsuka Holdings. Yasuhisa Katsuta is also an outside audit and supervisory board member for Otsuka Pharmaceutical Co., Ltd. Otsuka Pharmaceutical is a wholly owned subsidiary of Otsuka Holdings. Norikazu Yahagi is also an outside audit and supervisory board member for Square Enix Holdings Co., Ltd. and T.D.I Co., Ltd. Otsuka Holdings has no business relationships with these companies. Hiroshi Sugawara is also an outside audit and supervisory board member for Otsuka Pharmaceutical and a vice president at Will Capital Management Co., Ltd. Otsuka Holdings has no business relationship with Will Capital Management.

Otsuka Holdings has designated outside director Toshikazu Kawaguchi, and outside audit and supervisory board members Norikazu Yahagi and Hiroshi Sugawara as independent officers, as regulated by the Tokyo Stock Exchange, and notified the Tokyo Stock Exchange thereof.

The following criteria are used for appointing outside directors and outside audit and supervisory board members.

Outside directors and outside audit and supervisory board members must be capable persons with abundant knowledge and experience in various fields. They must be able to demonstrate adequate oversight of the directors by performing fair and objective management supervision and monitoring, or auditing, from a neutral and objective viewpoint. One criterion for ensuring neutrality and objectivity is independence from the management team, and the Company demands that there be no risk of a conflict of interest with general shareholders developing between the Company and a candidate. The Company has not established formal criteria pertaining to past duties and career history, other than having not engaged in the administration of business matters in a Group company, as criteria for independence. However, bearing in mind the Criteria for Judgment of Independence specified by the Tokyo Stock Exchange,* the Company does stress that candidates must be able to make judgments substantially independent from managers, which it uses as an appointment criterion for outside directors and outside audit and supervisory board members.

* If a person designated as an independent officer falls under any of the following items "a." to "e.," the Company must disclose the reason the person is designated as an independent officer and deemed as having no risk of a conflict of interest with general shareholders even given this fact.

a. An operating officer, etc. (referring to a person who is or was an operating officer; the same hereinafter) of the parent company or fellow subsidiaries of the company concerned
b. A person who has the company concerned as his/her main business partner or is an operating officer, etc. or is a main business partner of the company concerned or an operating officer, etc. of that business partner
c. A consultant, accounting professional, or legal professional who has gained a substantial amount of money or other assets besides officer's compensation or remuneration from the company concerned; or a person who belongs or used to belong to an entity, such as a corporation or association, that has gained said assets
d. A principal shareholder in the company concerned
e. A close relative of a person indicated in either (a) or (b) below (excluding persons who are not principal figures):
   (a) A person indicated in "a." to "d." above
   (b) An operating officer, etc. of the company concerned or its subsidiary (including, if an outside audit and supervisory board member is to be designated an independent officer: a director who is not an operating officer; or a person who was a director who was not an operating officer, an accounting advisor, or a person who was an accounting advisor)

•Internal Audit Department

The Company operates an Internal Audit Department (three auditors as of June 2013) under the direct control of the president. The department regularly conducts audits based on the Internal Audit Rules to verify that operations are being executed appropriately and efficiently regarding the assets and overall affairs of the Company and its affiliated companies, and submits audit reports to the president, directors, and audit and supervisory members. When the need for improvements is indicated, the department issues recommendations for improvement and afterward confirms the status of implementation in an effort to optimize the performance of duties. The department also shares information with audit and supervisory members and the audit firm and in other ways cooperates with them.

•Internal Control Department

The Company operates an Internal Control Department to handle internal controls relating to financial reporting by the Company and its affiliated companies. The department formulates rules and manuals pertaining to internal controls, provides training and ensures thorough familiarity with operational rules, continuously monitors the status of operation in cooperation with the Internal Audit Department, and has established a system in which the assessment of internal controls covering executives is conducted reliably.

•Corporate Officer System

Otsuka Holdings has adopted a corporate officer system that clearly divides the role of corporate officer, which is to execute business operations, from that of the Board of Directors, which is to make business decisions and exercise a supervisory function. This system ensures management transparency and the efficiency of business operations.

•Status of Account Auditing

Otsuka Holdings has signed an auditing agreement with Deloitte Touche Tohmatsu LLC as its auditing firm, which audits the Company's accounts from a fair and impartial stance. The certified public accountants who audited the Company's accounts were Tatsuaki Kitachi, Yukitaka Maruchi, and Kenichi Kimura. They were assisted by ten certified public accountants and five other people. All of the certified public accountants who audited the Company's accounts have done so continuously for less than seven years.

System for Ensuring Appropriateness of Operations in Otsuka Holdings and the Corporate Group Consisting of Its Subsidiaries

As a holding company responsible for maximizing the corporate value of the Otsuka Group, Otsuka Holdings has established a system to ensure the appropriateness of operations from a Group-wide perspective.

Affiliated companies report matters prescribed in the Affiliated Companies Management Rules to Otsuka Holdings as needed, and the approval of Otsuka Holdings is needed for important matters in these reports. In this way, we have established a system for coordination within the Otsuka Group.

Otsuka Holdings and its main subsidiaries have adopted a statutory auditor system. An Audit and Supervisory Board has been established so that several audit and supervisery members can audit the directors' performance of duties and thereby increase their effectiveness. Audit and supervisory members attend meetings of the Board of Directors as well as other important meetings. In accordance with the auditing guidelines and auditing plan established at the meetings of the Audit and Supervisery Board, the audit and supervisory members audit the execution of operations by the directors. Also, as a general rule, a meeting of the Group's audit and supervisory members is convened twice a year.

Audit and supervisory members from each company share information and strengthen links and are requested to report on each company's business conditions.

Additionally, Otsuka Holdings' Internal Audit Department, pursuant to the Internal Audit Rules, supervises or conducts audits that also include affiliated companies. In this way, the Company has established a cross-divisional risk management system and compliance system that ensure the appropriateness of operations throughout the Group.

Risk Management System

To defend against latent risks relating to the performance of duties, Otsuka Holdings has established rules regarding risk management, provides thorough risk management training to all employees, and has established a risk management system. In the event of an unforeseen incident, the Company will respond promptly, set up risk management committees as needed, and establish a system to minimize the spread of damage.

Based on its corporate philosophy, "Otsuka-people creating new products for better health worldwide," the Otsuka Group is deeply committed to the natural environment and the local communities it operates in. Its social and cultural activities are part of its mission to contribute to the health and well-being of people worldwide.

Coexisting with Communities in Indonesia

Initiatives for Children

The Otsuka Group started manufacturing and marketing pharmaceuticals in Indonesia in 1974 and presently operates six Group companies in the country covering both the pharmaceutical and nutraceutical businesses.

With a population of more than 240 million, Indonesia continues to grow through modernization as a developing nation. Otsuka Group companies that operate in Indonesia are supporting the nation's development by focusing on initiatives that are linked with communities.

Satu Hati charity concert

Growth of the *Satu Hati* (One Heart) Project

Nutraceutical company P.T. Amerta Indah Otsuka works in concert with communities to pursue initiatives focusing on children's education. At the center of these activities are *Satu Hati* (One Heart) charity events that the company has been conducting since 2007. With considerable support from the private sector, government, and non-profit organizations, *Satu Hati* has grown to encompass community assistance in addition to children's education.

Otsuka Health Comic Library

The Otsuka Health Comic Library is a collection of comics about health topics. The collection is expanded every year with the release of one new title and copies are donated to grade schools across Japan. The comics deal with topics that are interesting for students, such as secrets for growing taller and treating influenza symptoms. The content is reviewed by health professionals from the Japan Medical Association and Japanese Society of School Health, and the comics are illustrated by well-known comic artists. Since 1989, some 50 titles have been published featuring the work of over 10 comic artists, including 16 series for elementary school students and six series for junior high school students.

The comics are placed in school libraries and nurse's offices for students to read at their leisure. In addition to being read and enjoyed by individual students, the comics are also used for school health committee activities and student research reports, and used in nutritional classes. The collection has been praised for using comics as a platform to reach children, noting that students enjoy reading the comics and have shown a greater interest in health after reading them.

The comics are also available online for children and parents to read outside of school settings. Starting in 2013, the Otsuka Group is asking students to submit ideas for health-related topics to be covered in future titles, getting students to help shape the direction of the comics.

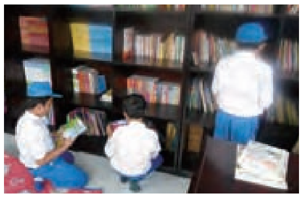
Building Libraries and Donating Books


Collecting donations at a *Satu Hati* charity event

Satu Hati initially made efforts to rebuild schools that were damaged in the 2006 Java earthquake through corporate donations from Amerta Indah Otsuka and by organizing a charity concert to raise funds and draw on the generosity of the wider community. In 2007, the initiative was christened *Satu Hati Cerdaskan Bangsa* (One Heart for Education) and set out on a new fundraising campaign to purchase books for elementary schools across Indonesia, with the support of a television station and the government. Even more funds were raised in 2008, enabling *Satu Hati* to build libraries in elementary schools. Since 2011, *Satu Hati* has enlisted the support of local non-profits and the Indonesian Ministry of Women Empowerment and Children Protection to further extend the scope of its activities.

Satu Hati donates libraries and books to schools and villages that would otherwise lack the necessary resources and gives out books to individuals. In certain communities, any or individual volunteers give their time to lend out books to children in order to encourage literacy.


Library built in 2011


Children read in a library built by *Satu Hati*

Satu Hati built four libraries in 2012 including two libraries for children in communities close to the Sukabumi Plant and the Kejayan Plant. Otsuka Group also visited libraries that had previously been built, bringing new books. To date, *Satu Hati* has built 24 libraries and donated more than 100,000 books.

Satu Hati School at the Kejayan Plant


Children studying at the *Satu Hati* School

Initiatives at Otsuka Group Plants

The mission of *Satu Hati Cerdaskan Bangsa* to support children's education and improve communities also extends to initiatives we conduct at our plants.

Amerta Indah Otsuka gives plant tours to schools and other organizations, showing children how products are made and distributed.

The Kejayan Plant features a soccer pitch, mosque, and community learning center that can be accessed by members of the community and children. The learning center features a *Satu Hati School* that is held once a week, where employees take turns providing after-school tutoring in grammar, math, and English.

Otsuka Welfare Clinic

In 2003, Otsuka Pharmaceutical, Otsuka Pakistan and 24 other Group companies in Asia and the Middle East established the Otsuka Welfare Clinic in Peshawar, Pakistan, to provide free medical care for needy persons. The clinic was established out of a desire to ease the plight of Afghan refugees living in refugee camps in Peshawar, who lacked basic food, clothing, and shelter, by leveraging the capabilities of the Otsuka Group, which operates in Asia and the Middle East and is committed to the betterment of life. The clinic currently sees some 150 patients every day and has received more than 700,000 people (as of March 2013) since it opened. During heavy floods in July 2010, the clinic mobilized to set up a temporary relief center in a nearby area that was severely impacted by flooding, reaching out to the community in a time of need. In 2011, the Japanese Ambassador to Pakistan bestowed a letter of appreciation to the Otsuka Group in recognition of the clinic's eight years of medical service.

Fourth Season of Sistine Kabuki
A Japanese and Western Collaboration
Shiro Amakusa

The Otsuka Museum of Art (Naruto, Tokushima Prefecture) features a Sistine Hall containing full-sized reproductions of the murals and ceiling paintings of the Sistine Chapel in the Vatican. Utilizing this unique setting, the museum has hosted a Sistine Kabuki performance that blends Japanese and Western culture every year since 2009. From November 13 to 15, 2012, the Group sponsored a performance of *Shutendoji*, an original kabuki performance piece based on the historical samurai figure Amakusa Shiro Tokisada. With the Sistine Chapel celebrating the 500th anniversary of its renowned murals and ceiling paintings in the fall of 2012, the Otsuka Museum of Art's mock-up Sistine Chapel was the perfect setting for the performance of *Shutendoji*. It was absolutely magical.

The Otsuka Museum of Art, a Ceramic Board Masterpiece Art Museum which is unlike any other in the world, was created in 1998 to mark the 75th anniversary of the Group's founding. Otsuka Ohmi Ceramics Co., Ltd., a subsidiary of the Otsuka Group, developed special techniques to recreate more than 1,000 full-sized Western masterpieces on ceramic boards that convey the full wonder of these masterpieces. The ceramic boards do not fade over time, and visitors are able to experience an "international museum" while never leaving Japan.

This year, the fifteenth anniversary of its founding, the museum will hold a wide range of events offering plenty of variety to express its gratitude for the support received over the past 15 years.

Website:
http://www.o-museum.or.jp/english/

Photo courtesy of Shochiku Co., Ltd.

Support for Pink Ribbon Campaign

Every year in October, the Pink Ribbon Campaign is held to convey the importance of early detection, diagnosis and treatment of breast cancer around the world. Taiho Pharmaceutical also supports the Pink Ribbon Campaign, and since 2006, the company has been involved in annual Pink Ribbon Festivals sponsored by the Japan Cancer Society. In 2012, the company distributed educational pamphlets on breast cancer and gave out promotional goods to encourage women to get screened for breast cancer.

Biotope at Okayama Factory of Taiho Pharmaceutical

An Eco-Friendly Plant Integrated with the Community

The Okayama Factory of Taiho Pharmaceutical uses eco-friendly wastewater treatment methods to purify cooling water and cleaning water generated from manufacturing, enabling the plant to discharge the treated water in a condition that is closer to its natural state. The plant features a biotope stream that is fed with the treated water and which is home to a rich ecosystem that includes Japanese pupfish and water striders, replicating their natural ecosystem. The biotope provides a soothing oasis for visitors to the plant, while raising awareness of environmental conservation.

Otsuka Pharmaceutical's Tokushima Itano Factory was designed to be an eco-friendly and community-friendly plant, with greenery covering some 70% of the grounds. The site features a biotope that offers a natural environment for diverse wildlife and also encompasses a section of untouched forest with evergreen oak trees and other vegetation that is home to different species of birds depending on the time of year. To promote further greening, employees at the plant raise acorn seedlings and plant them in open lawn areas to increase the number of trees.

The Tokushima Wajiki Factory of Otsuka Pharmaceutical was designed to fulfill a "factory-park" concept of a plant that is integrated with the natural environment and community. The plant pursues various environmental conservation initiatives under this concept, such as raising acorn seedlings on site as part of a community project to increase the number of native acorn trees. The acorn seedlings are distributed free of charge to the community.

Heat Stroke Prevention Education

Otsuka Pharmaceutical proactively promotes activities to provide information about the importance of rehydration to prevent heat stroke. Information is provided primarily through lectures given by employees who travel to various sites, and also through seminars, academic meetings and websites. Over the past 12 years, the Otsuka Academy Open School Seminars (seminars on countermeasures for heat stroke) have been given at approximately 2,600 elementary, middle and high schools with about 500,000 participants. The Company has also held information sessions outside Japan, primarily in Asian countries such as South Korea, China and the Philippines, in order to raise awareness of heat stroke.

Financial Highlights (Graphs 1, 3 and 4)

During the fiscal year ended March 31, 2013, the Japanese economy saw a moderate improvement in the corporate operating environment amid expectations for the new government and a correction to the persistently strong yen. Overseas, the economic outlook remained uncertain due to the economic crisis in Europe and slowing growth in emerging economies.

Against this backdrop, the Otsuka Group reported consolidated net sales of ¥1,218,055 million (5.5% increase from previous year) for the fiscal year ended March 31, 2013, with operating income of ¥169,660 million (14.1% increase) and net income of ¥122,429 million (32.8% increase).

Operating Results by Business Segment (Graphs 2, 3, 4 and 5)

1) Pharmaceuticals

Net sales of the pharmaceutical segment were ¥850,862 million (8.8% increase from the previous year), consisting mainly of global sales of *ABILIFY*, *TS-1*, *Pletaal* and *Mucosta*.

2) Nutraceuticals

Net sales of the nutraceutical segment were ¥251,773 million (1.2% decrease from the previous year), consisting mainly sales of *Pocari Sweat*, *Oronamin C*, *SOYJOY* and *Nature Made* brand supplements as well as functional foods in the European market.

3) Consumer Products

Net sales of the consumer products segment were ¥46,889 million (4.7% decrease from the previous year), consisting mainly of sales of *CRYSTAL GEYSER*, *MATCH* and *Bon Curry*.

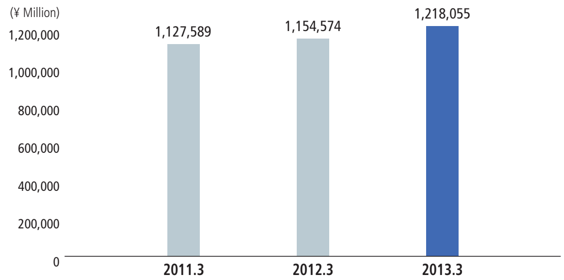
4) Others

Net sales of the other segment were ¥111,664 million (2.8% increase from the previous year), consisting of sales of fine chemical and specialty chemical products, as well as revenues from the transportation and warehousing business.

Selling, general and administrative expenses was ¥654,564 million (6.1% increase from the previous year), resulting in an operating income of ¥169,660 million (14.1% increase from the previous year).

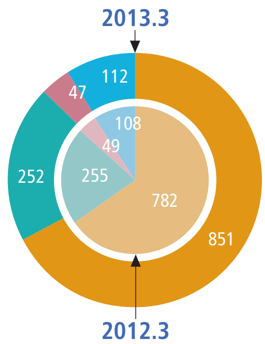
Graph 1

Net Sales



Graph 2

Sales by Business Segment

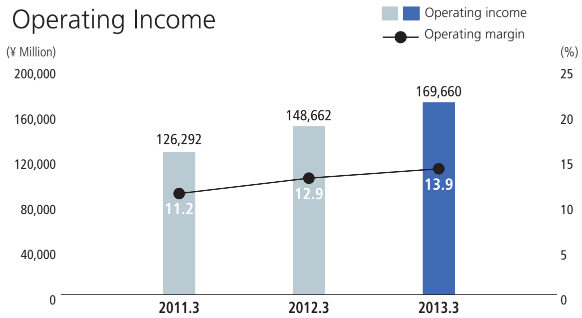


	2012.3 (¥ Billion)	2013.3 (¥ Billion)
Pharmaceuticals	782	851
Nutraceuticals	255	252
Consumer Products	49	47
Others	108	112

Note: Intersegment sales are included.

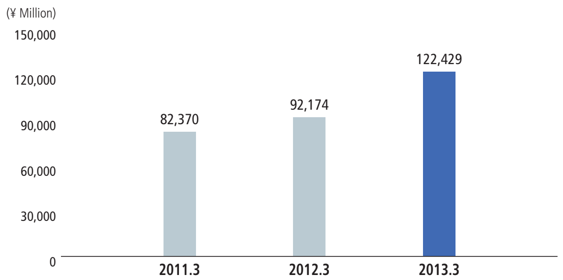
Graph 3

Operating Income



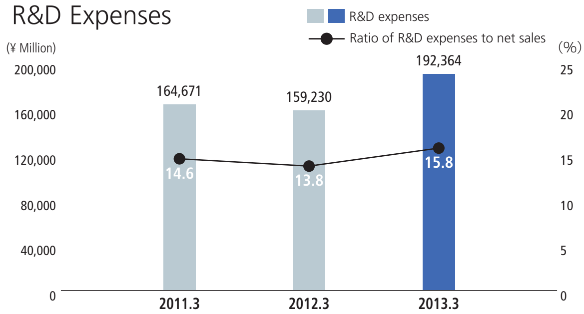
Graph 4

Net Income



Graph 5

R&D Expenses



Major components of selling, general and administrative expenses included personnel expenses (¥103,691 million), sales promotion expenses (¥156,214 million) and research and development expenses (¥192,364 million).

Other income, totaling ¥7,279 million, included equity in earnings of unconsolidated subsidiaries and affiliated companies (¥3,140 million), foreign exchange gain (¥6,204 million), and loss on impairment of long-lived assets (¥2,571 million).

As a result, net income was ¥122,429 million (32.8% increase from the previous year).

Financial Position (Graph 6)

Assets

Total assets as of March 31, 2013 were ¥1,779,208 million, an increase of ¥112,441 million compared to ¥1,666,767 million at the end of the previous fiscal year. The increase was due to a ¥68,344 million increase in current assets and a ¥44,097 million increase in fixed assets.

(Current Assets)

Total current assets as of March 31, 2013 were ¥1,080,643 million, an increase of ¥68,344 million compared to ¥1,012,299 million at the end of the previous fiscal year. The increase was due mainly to a ¥29,504 million increase in short-term investments, a ¥53,083 million increase in receivables, and a ¥12,985 million increase in inventories.

(Fixed Assets)

Total fixed assets as of March 31, 2013 were ¥698,565 million, an increase of ¥44,097 million compared to ¥654,468 million at the end of the previous fiscal year. The increase was due mainly to a ¥20,452 million increase in property, plant, and equipment as a result of the initial investment in manufacturing facility at the Kitajima Factory of Taiho Pharmaceutical Co., Ltd., a ¥10,431 million increase in investment securities, and a ¥6,649 million increase in investments in capital.

Liabilities

(Current Liabilities)

Total current liabilities as of March 31, 2013 were ¥346,472 million, an increase of ¥35,113 million compared to ¥311,359 million at the end of the previous fiscal year. The increase was due mainly to a ¥4,378 million increase in short-term borrowings and a ¥7,486 million increase in the current portion of long-term debt, reclassified from long-term debt.

(Long-term Liabilities)

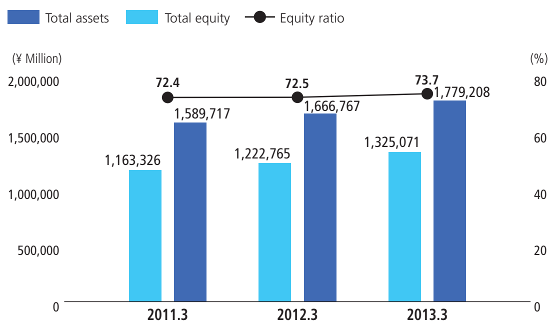
Total long-term liabilities as of March 31, 2013 were ¥107,665 million, a decrease of ¥24,978 million compared to ¥132,643 million at the end of the previous fiscal year. The decrease was due mainly to a ¥19,403 million decrease in long-term debt as a result of repayment and reclassification to short-term borrowings, a ¥4,138 million decrease in liability for employees' retirement benefits, and a ¥2,464 million decrease in negative goodwill as a result of amortization.

Equity

Total equity as of March 31, 2013 was ¥1,325,071 million, an increase of ¥102,306 million compared to ¥1,222,765 million at the end of the previous fiscal year. The increase was due mainly to a ¥20,081 million decrease in foreign currency translation adjustments (a decrease in equity) as a result of the depreciation of the yen and a ¥92,904 million increase in retained earnings as a result of the positive net income, which outweighted a ¥18,384 million increase in treasury stock as a net result of purchases of treasury stock and disposal of treasury stock by exercising stock options.

Graph 6

Total Assets, Total Equity and Equity Ratio



Cash Flows (Graph 7)

Cash and cash equivalents decreased by ¥36,623 million during the fiscal year ended March 31, 2013 to ¥347,571 million. Net cash provided by operating activities was ¥119,340 million, while net cash used in investing activities and financing activities were ¥91,229 million and ¥71,889 million, respectively.

(Cash Flows from Operating Activities)

Net cash provided by operating activities was ¥119,340 million in the fiscal year ended March 31, 2013, a decrease of ¥28,279 million compared to ¥147,619 million in the previous fiscal year. Although there were ¥176,939 million in income before income taxes and minority interest (an increase of ¥34,534 million compared to ¥142,405 million at the end of the previous fiscal year) and the development milestone payment received from Lundbeck for OPC-34712, the increase of ¥47,240 million (¥25,658 million for previous fiscal year) in notes and account receivables, and payment of ¥66,829 million (¥34,422 million for previous fiscal year) in income taxes are factors of this decrease in operating activities.

(Cash Flows from Investing Activities)

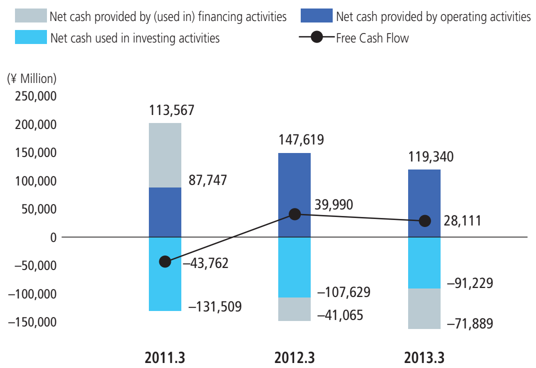
Net cash used in investing activities was ¥91,229 million in the fiscal year ended March 31, 2013, a decrease of ¥16,400 million compared to ¥107,629 million in the previous fiscal year. This included ¥50,541 million in purchases of property, plant and equipment, a ¥29,091 million increase in short-term investments and ¥11,232 million in purchases of investment securities. Purchases of property, plant and equipment included acquisition of tangible fixed assets in the form of a new manufacturing facility at the Kitajima Factory of Taiho Pharmaceutical Co., Ltd. and replacement of existing other facilities.

(Cash Flows from Financing Activities)

Net cash used in financing activities was ¥71,889 million in the fiscal year ended March 31, 2013, an increase of ¥30,824 million compared to ¥41,065 million in the previous fiscal year. This included ¥29,334 million in payment of dividends, ¥20,002 million in purchase of treasury stock and ¥16,121 million in repayments of long-term debt.

Graph 7

Cash Flows



Operational Risks

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

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

This explanation is not intended to be complete and there may be other risks affecting the Group's performance not listed below. Forward-looking information reflects our judgment on the basis of information available as of March 31, 2013.

(1) Our ability to pay dividends is substantially dependent on our subsidiaries and affiliated companies.

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

(2) Our pharmaceutical products could have previously unknown side effects

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

(3) Research and development for pharmaceutical products are subject to uncertainties

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

(4) We are subject to risks related to our reliance on a specific product for a significant portion of our total net sales

Sales of our top-selling pharmaceutical product *ABILIFY* constitute more than 30% of our total consolidated net sales.

If the sales of this product decrease due to competition from other products, including generic versions of the product becoming available upon the expiration of related patents, or otherwise, our financial condition and results of operations will be materially and adversely affected.

We maintain a commercialization agreement with Bristol-Myers Squibb Company ("BMS"), to co-develop and co-promote *ABILIFY* in the U.S. Under the terms of the agreement, BMS retains the right to terminate the contract before the expiration date upon the advent of a generic competitor to *ABILIFY*. We will be required to make a payment to BMS based on a pre-determined schedule upon such termination, and this would have an adverse effect on our financial position and results of operations.

Note: Protection period for the substance patent of *ABILIFY* will expire in January 2016 in Japan (including the two-year pediatric exclusivity), in April 2015 in the U.S. (including the six-month pediatric exclusivity) and in October 2014 in Europe.

(5) We are subject to risks related to government policies to reduce medical costs

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

(6) Some of our products are subject to risks related to consumer sentiment

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

(7) We are subject to risks related to food safety

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

(8) We depend on outside sources for the materials for our products

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

(9) We are subject to risks related to laws and regulations

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

(10) Our pharmaceutical products are subject to significant competition

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

(11) We are subject to risks related to the infringement of intellectual property rights

If our patent and other intellectual property rights are infringed by third parties, we may not be able to take full advantage of existing demand for our products. We are also subject to the risk of infringement claims directed to us by third parties. If we are found to have infringed the intellectual property rights of others, or if we agree to settle under such terms, we may be required to recall the relevant products, terminate manufacturing and sales of such products, pay significant damages or pay significant royalties.

In the U.S., the Group filed patent infringement actions against a number of generic drug companies which had sought FDA approval to commercialize generic versions of *ABILIFY*. Judgments in favor of the Group were finalized for these actions in February 2013.

(12) We are subject to litigation risk

We are subject to the risk of litigation from third parties with respect to the operation of our business, including claims related to product liability, labor issues, infringement of intellectual property rights, contract disputes and environmental issues. In the event of an adverse decision or settlement, our business, financial position and results of operations could be materially and adversely affected.

(13) We are subject to the risk of natural disasters and accidents

While our facilities, including our manufacturing facilities, are broadly dispersed geographically, a significant portion of such facilities are concentrated in Japan. We thus continue to be subject to stoppage, damage and other risks related to natural disasters such as earthquakes and typhoons as well as accidents. If our facilities are damaged or destroyed due to such incidents, the manufacture or distribution of materials and products could be significantly disrupted, consumer confidence in us could decrease, and we may incur significant expenses to repair, reconstruct or replace such facilities.

(14) Our results of operations and reputation could be harmed if we are found or perceived to have violated environmental regulations

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

(15) We are subject to market risk

In the fiscal year ended March 31, 2013, 51.1% of our net sales were from customers outside of Japan, and we believe that a significant portion of our net sales will continue to be based on foreign currencies from sources outside of Japan. As a result, fluctuations in foreign exchange rates, particularly of the U.S. dollar, beyond levels anticipated by us could have a material effect on our results of operations. In addition, because the financial statements of our foreign subsidiaries are denominated in foreign currencies, fluctuations in foreign currencies and their effects on the yen-equivalent amounts could have an impact on our financial condition and results of operations.

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

(16) We face risks related to strategic alliances

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

Currently, a patent infringement action has been filed against a number of generic companies for the product *SPRYCEL*, whose patent is held by BMS and is being co-developed and co-marketed by us. Any unfavorable ruling, decision or settlement resulting in the launch of generic versions of *SPRYCEL* in the U.S. could have a material adverse effect on our financial condition and results of operations.

(17) We are subject to risks related to the operation of businesses in foreign countries

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

(18) We may be subject to liability and regulatory action if we are unable to protect personal and other confidential information

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

Consolidated Balance Sheet

ASSETS	Notes	Millions of Yen 2013.3	Millions of Yen 2012.3	Thousands of U.S. Dollars (Note 1) 2013.3
Current assets:				
Cash and cash equivalents	11, 22	¥ 347,571	¥ 384,194	$ 3,695,598
Short-term investments	4, 7, 22	172,074	142,570	1,829,601
Marketable securities	8, 22	32,504	36,597	345,603
Receivables:	11, 22			
Trade notes		9,464	12,226	100,627
Trade accounts		306,425	249,325	3,258,107
Unconsolidated subsidiaries and affiliated companies		2,927	3,445	31,122
Other		14,663	15,247	155,906
Allowance for doubtful receivables		(543)	(390)	(5,774)
Inventories	9, 11	132,352	119,367	1,407,251
Deferred tax assets	15	40,837	34,342	434,205
Other current assets		22,369	15,376	237,844
Total current assets		1,080,643	1,012,299	11,490,090
Property, plant, and equipment:	10, 11			
Land		76,497	74,926	813,365
Buildings and structures		293,665	284,169	3,122,435
Machinery and equipment		301,419	283,583	3,204,881
Furniture and fixtures		75,073	72,269	798,224
Lease assets		16,858	17,610	179,245
Construction in progress		26,487	11,389	281,627
Total property, plant, and equipment		789,999	743,946	8,399,777
Accumulated depreciation		(514,032)	(488,431)	(5,465,518)
Net property, plant, and equipment		275,967	255,515	2,934,259
Investments and other assets:				
Investment securities	8, 22	118,782	108,351	1,262,967
Investments in and advances to unconsolidated subsidiaries and affiliated companies	22	188,263	181,614	2,001,733
Goodwill		37,788	36,825	401,786
Intangible assets	10	36,062	30,297	383,434
Deferred tax assets	15	26,467	25,347	281,414
Other assets		15,236	16,519	161,999
Total investments and other assets		422,598	398,953	4,493,333
Total		¥1,779,208	¥1,666,767	$18,917,682

The accompanying notes are an integral part of these statements.

LIABILITIES AND EQUITY	Notes	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2013.3	2012.3	2013.3
Current liabilities:				
Short-term borrowings	11, 22	¥ 39,046	¥ 34,668	$ 415,162
Current portion of long-term debt	11, 22	15,484	7,998	164,636
Payables:	22			
Trade notes		8,849	8,524	94,088
Trade accounts		86,985	84,630	924,880
Construction		6,284	6,690	66,816
Unconsolidated subsidiaries and affiliated companies		3,444	3,259	36,619
Other		63,731	42,219	677,629
Income taxes payable	22	33,515	33,823	356,353
Accrued expenses		58,076	50,487	617,501
Provision for loss on business liquidation	19	1,929	2,186	20,510
Other current liabilities		29,129	36,875	309,719
Total current liabilities		346,472	311,359	3,683,913
Long-term liabilities:				
Long-term debt	11, 22	12,332	31,735	131,122
Liability for employees' retirement benefits	12	40,571	44,709	431,377
Retirement benefits for directors and audit and supervisory board members		3,108	3,091	33,046
Negative goodwill		24,005	26,469	255,237
Long-term unearned revenues	24	13,389	15,253	142,360
Deferred tax liabilities	15	11,258	7,983	119,702
Other long-term liabilities		3,002	3,403	31,919
Total long-term liabilities		107,665	132,643	1,144,763
Commitments and contingent liabilities	20, 23, 24			
Equity:	13, 14, 28			
Common stock:		81,691	81,691	868,591
Authorized — 1,600,000,000 shares in 2013 and 2012 Issued — 557,835,617 shares in 2013 and 2012				
Capital surplus		510,423	510,639	5,427,145
Stock acquisition rights		105	1,134	1,116
Retained earnings		768,315	675,411	8,169,219
Treasury stock, at cost:		(18,392)	(8)	(195,556)
7,593,160 shares in 2013 3,978 shares in 2012				
Accumulated other comprehensive income:				
Unrealized gain on available-for-sale securities		8,284	750	88,081
Deferred gain on derivatives under hedge accounting		—	11	—
Foreign currency translation adjustments		(39,824)	(59,905)	(423,434)
Total		(31,540)	(59,144)	(335,353)
Minority interests		14,469	13,042	153,844
Total equity		1,325,071	1,222,765	14,089,006
Total		¥1,779,208	¥1,666,767	$18,917,682

The accompanying notes are an integral part of these statements.

Consolidated Statement of Income

Otsuka Holdings Co., Ltd. and its Consolidated Subsidiaries
For the year ended of March 31, 2013

	Notes	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2013.3	2012.3	2013.3
Net sales	16	¥1,218,055	¥1,154,574	$12,951,143
Cost of sales		393,831	389,263	4,187,464
Gross profit		824,224	765,311	8,763,679
Selling, general, and administrative expenses	17	654,564	616,649	6,959,745
Operating income		169,660	148,662	1,803,934
Other income (expenses):				
Interest and dividend income		2,876	2,803	30,579
Interest expense		(1,211)	(1,702)	(12,876)
Foreign exchange gain (loss), net		6,204	(2,712)	65,965
Amortization of negative goodwill		2,464	2,465	26,199
Equity in earnings of unconsolidated subsidiaries and affiliated companies		3,140	1,216	33,386
Loss on impairment of long-lived assets	10	(2,571)	(2,685)	(27,337)
Loss on valuation of investment securities and investments in unconsolidated subsidiaries and affiliated companies	8	(4,408)	(3,665)	(46,869)
Gain on change in equity interest		—	322	—
Disaster-related loss	18	—	(267)	—
Gain on reversal of disaster-related loss		—	580	—
Loss on transfer of business	26	—	(684)	—
Provision for loss on business liquidation	19	—	(2,186)	—
Other, net		785	258	8,348
Other income (expenses), net		7,279	(6,257)	77,395
Income before income taxes and minority interests		176,939	142,405	1,881,329
Income taxes:	15			
Current		61,990	54,989	659,117
Deferred		(8,206)	(5,397)	(87,251)
Total income taxes		53,784	49,592	571,866
Net income before minority interests		123,155	92,813	1,309,463
Minority interests in net income		726	639	7,719
Net income		¥ 122,429	¥ 92,174	$ 1,301,744

	Notes	Yen		U.S. Dollar
		2013.3	2012.3	2013.3
Per share of common stock:	2(t), 27			
Basic net income		¥221.90	¥165.20	$2.36
Diluted net income		221.42	164.73	2.35
Cash dividends applicable to the year		58.00	45.00	0.62

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

Otsuka-people creating new products for better health worldwide

Otsuka Holdings Co., Ltd. and its Consolidated Subsidiaries
For the year ended of March 31, 2013

	Notes	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2013.3	2012.3	2013.3
Net income before minority interests		¥123,155	¥92,813	$1,309,463
Other comprehensive income (loss):	25			
Unrealized gain on available-for-sale securities		7,593	300	80,733
Deferred (loss) gain on derivatives under hedge accounting		(11)	15	(117)
Foreign currency translation adjustments		12,000	(4,891)	127,592
Share of other comprehensive income in affiliated companies		9,000	(3,024)	95,694
Total other comprehensive income (loss)		28,582	(7,600)	303,902
Comprehensive income	25	¥151,737	¥85,213	$1,613,365
Total comprehensive income attributable to:	25			
Owners of the parent		¥150,034	¥85,141	$1,595,258
Minority interests		1,703	72	18,107

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Equity

Otsuka Holdings Co., Ltd. and its Consolidated Subsidiaries
For the year ended March 31, 2013

	Thousands	Notes	Millions of Yen										
								Accumulated other comprehensive income					
	Outstanding number of shares of common stock		Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred (loss) gain on derivatives under hedge accounting	Foreign currency translation adjustments	Total	Minority interests	Total equity
Balance, April 1, 2011	557,834		¥81,691	¥ 510,639	¥ 465	¥609,967	¥ (4)	¥ 359	¥ (4)	¥ (52,446)	¥1,150,667	¥12,659	¥1,163,326
Cash dividends, ¥48 per share						(26,776)					(26,776)		(26,776)
Net income						92,174					92,174		92,174
Disposal of treasury stock											—		—
Purchase of treasury stock	(2)						(4)				(4)		(4)
Adjustment of retained earnings for newly consolidated subsidiary and affiliated company		2(a)				46					46		46
Net change in the year					669			391	15	(7,459)	(6,384)	383	(6,001)
Balance, March 31, 2012	557,832		¥81,691	¥ 510,639	¥ 1,134	¥675,411	¥ (8)	¥ 750	¥ 11	¥ (59,905)	¥1,209,723	¥13,042	¥1,222,765
Cash dividends, ¥53 per share						(29,334)					(29,334)		(29,334)
Net income						122,429					122,429		122,429
Disposal of treasury stock	668			(216)			1,618				1,402		1,402
Purchase of treasury stock	(8,258)						(20,002)				(20,002)		(20,002)
Adjustment of retained earnings for newly consolidated subsidiary and affiliated company		2(a)				(191)					(191)		(191)
Net change in the year					(1,029)			7,534	(11)	20,081	26,575	1,427	28,002
Balance, March 31, 2013	550,242		¥81,691	¥ 510,423	¥ 105	¥768,315	¥ (18,392)	¥ 8,284	¥ —	¥ (39,824)	¥1,310,602	¥14,469	¥1,325,071

The accompanying notes are an integral part of these statements.

	Notes	Thousands of U.S. Dollars (Note 1)										
							Accumulated other comprehensive income					
		Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Total	Minority Interests	Total equity
Balance, March 31, 2012		$868,591	$5,429,442	$ 12,057	$7,181,404	$ (85)	$ 7,974	$117	$(636,948)	$12,862,552	$138,671	$13,001,223
Cash dividends, $0.56 per share					(311,898)					(311,898)		(311,898)
Net income					1,301,744					1,301,744		1,301,744
Disposal of treasury stock			(2,297)			17,203				14,906		14,906
Purchase of treasury stock						(212,674)				(212,674)		(212,674)
Adjustment of retained earnings for newly consolidated subsidiary and affiliated company	2(a)				(2,031)					(2,031)		(2,031)
Net change in the year				(10,941)			80,107	(117)	213,514	282,563	15,173	297,736
Balance, March 31, 2013		$868,591	$5,427,145	$ 1,116	$8,169,219	$ (195,556)	$88,081	$ —	$(423,434)	$13,935,162	$153,844	$14,089,006

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

Otsuka Holdings Co., Ltd. and its Consolidated Subsidiaries
For the year ended of March 31, 2013

	Notes	Millions of Yen		Thousands of U.S. Dollars (Note 1)
		2013.3	2012.3	2013.3
Operating activities:				
Income before income taxes and minority interests		¥ 176,939	¥ 142,405	$ 1,881,329
Adjustments for:				
Income taxes paid		(66,829)	(34,422)	(710,569)
Depreciation and amortization		45,463	48,062	483,392
Amortization of negative goodwill		(2,464)	(2,465)	(26,199)
Equity in earnings of unconsolidated subsidiaries and affiliated companies		(3,140)	(1,216)	(33,386)
Provision for loss on business liquidation		—	2,186	—
Loss on transfer of business		—	684	—
Loss on impairment of long-lived assets		2,571	2,685	27,337
Loss on valuation of investment securities and investments in unconsolidated subsidiaries and affiliated companies		4,408	3,665	46,869
Changes in assets and liabilities:				
Increase in trade receivables		(47,240)	(25,658)	(502,286)
Increase in inventories		(5,516)	(7,412)	(58,650)
(Decrease) increase in trade payables		(3,869)	8,473	(41,138)
Decrease in long-term unearned revenues		(1,864)	(7,322)	(19,819)
Other, net	4	20,881	17,954	222,020
Net cash provided by operating activities		119,340	147,619	1,268,900
Investing activities:				
Decrease (increase) in marketable securities	4	4	(6,954)	43
Proceeds from sales of property, plant, and equipment		319	681	3,392
Purchases of property, plant, and equipment		(50,541)	(36,034)	(537,384)
Proceeds from sales and redemptions of investment securities		16,166	17,435	171,887
Proceeds from transfer of business	26	—	1,382	—
Payments for transfer of business	26	—	(1,278)	—
Purchases of investment securities		(11,232)	(21,060)	(119,426)
Purchases of stock of unconsolidated subsidiaries and affiliated companies		(8,750)	(10,655)	(93,036)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	26	(1,539)	—	(16,364)
Increase in short-term investments	4, 7	(29,091)	(47,504)	(309,314)
Other, net		(6,565)	(3,642)	(69,803)
Net cash used in investing activities		(91,229)	(107,629)	(970,005)
Financing activities:				
Increase in short-term borrowings		1,095	3,194	11,643
Proceeds from long-term debt		3,394	2,295	36,087
Repayments of long-term debt		(16,121)	(23,834)	(171,409)
Purchase of treasury stock	4	(20,002)	(4)	(212,674)
Proceeds from disposal of treasury stock		248	—	2,637
Dividends paid		(29,334)	(26,776)	(311,898)
Dividends paid to minority interests in consolidated subsidiaries		(454)	(404)	(4,827)
Other, net	4	(10,715)	4,464	(113,929)
Net cash used in financing activities		(71,889)	(41,065)	(764,370)
Foreign currency translation adjustments on cash and cash equivalents		6,223	(1,362)	66,166
Net decrease in cash and cash equivalents		(37,555)	(2,437)	(399,309)
Cash and cash equivalents of newly consolidated subsidiaries		932	(695)	9,910
Cash and cash equivalents, beginning of year		384,194	387,326	4,084,997
Cash and cash equivalents, end of year		¥ 347,571	¥ 384,194	$ 3,695,598

The accompanying notes are an integral part of these statements.

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which differ in certain respects from the application and disclosure requirements of accounting principles generally accepted in the United States of America ("U.S. GAAP") and the International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and presentational changes have been made to the consolidated financial statements issued domestically in order to present them in a form, which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 consolidated financial statements to conform to the classifications used in 2013.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Otsuka Holdings Co., Ltd. (the "Company"), is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94.05 to US$1, the approximate rate of exchange at March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of significant accounting policies

(a) Consolidation

The consolidated financial statements as of March 31, 2013, include the accounts of the Company and its 71 significant (67 as of March 31, 2012) subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in one (one as of March 31, 2012) unconsolidated subsidiary and 13 (12 as of March 31, 2012) affiliated companies are accounted for by the equity method.

During the year ended March 31, 2013, Otsuka Furniture Manufacturing and Sales Co., Ltd. and KiSCO Co., Ltd. have been newly included in the scope of consolidation from the current fiscal year due to the increase in materiality.

Valpiform SAS and one company have been newly included in the scope of consolidation from the fiscal year ended March 31, 2013, as a result of acquisition of their shares. As GlyTech, Inc. was established by divestiture from Otsuka Chemical Co., Ltd., a consolidated subsidiary, it had been in the scope of consolidation from the current year. However, GlyTech, Inc. was excluded from scope of consolidation at the end of current year, as a result of sales of the shares. Crystal Geyser Brand Holdings, LLC was newly established, and has been included in the scope of affiliates accounted for by the equity method from the current fiscal year.

Investments in the remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of investments in consolidated subsidiaries over fair value of their net assets or the excess of net assets of consolidated subsidiaries over purchase cost at the date of acquisition is amortized on a straight-line basis over a period of five or 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group has also been eliminated.

(b) Unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements

In May 2006, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes:

(1) The accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements.

(2) Financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or U.S. GAAP tentatively may be used for the consolidation process.

(3) However, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material:
   1) Amortization of goodwill
   2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity
   3) Expensing capitalized development costs of R&D
   4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
   5) Exclusion of minority interests from net income, if contained

(c) Unification of accounting policies applied to foreign associated companies for the equity method

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the U.S. GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material:

(1) Amortization of goodwill
(2) Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
(3) Expensing capitalized development costs of R&D
(4) Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
(5) Exclusion of minority interests from net income, if contained

(d) Business combination

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting of interests.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development acquired in the business combination is capitalized as an intangible asset.

(3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation.

(e) Cash equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

(f) Securities

Securities other than equity securities issued by subsidiaries and affiliated companies are classified into held-to-maturity and available-for-sale securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with unrealized gains or losses, net of applicable taxes, stated in a separate component of equity.

Nonmarketable securities classified as available-for-sale securities are stated at cost as determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(g) Inventories

Inventories are stated at the lower of cost, determined mainly by the average method for finished products, work in process, and raw materials and mainly by the first-in, first-out method for merchandise and supplies, or net selling value.

(h) Property, plant, and equipment

Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998.

Consolidated foreign subsidiaries mainly compute depreciation by the straight-line method.

The range of useful lives is from two to 65 years for buildings and structures and from two to 25 years for machinery and equipment.

Lease assets are depreciated using the straight-line method over the terms of their respective leases with a zero residual value.

(i) Intangible assets

Intangible assets are amortized mainly by the straight-line method over their estimated useful lives.

(j) Long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from continued use and eventual disposition of the asset or the current net selling price at disposition.

(k) Retirement benefits

Certain domestic consolidated subsidiaries have adopted retirement benefit plans consisting of lump-sum retirement payments, defined pension plans, and defined contribution pension plans. Certain foreign consolidated subsidiaries have adopted defined benefit pension plans or defined contribution pension plans, or a combination of the two.

Provisions have been made for employees' retirement benefits, based on an estimate of the projected retirement benefit obligation and the fair value of the pension fund assets.

Retirement benefits for directors and audit and supervisory board members of certain domestic consolidated subsidiaries are recorded to state the liability at the amount that would be required if all directors and audit and supervisory board members retired at the balance sheet date. These amounts are paid only after an approval of the shareholders' meeting in accordance with the Companies Act of Japan (the "Companies Act").

(l) Asset retirement obligations

In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(m) Stock options

In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to nonemployees based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

(n) Research and development expenses

Research and development expenses are charged to income as incurred.

(o) Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were required to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as if such leased assets had been acquired at the transition date at costs measured at the obligations under the finance leases. This change had no effect on the consolidated results of the Company.

All other leases are accounted for as operating leases.

(p) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

(q) Foreign currency transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

(r) Foreign currency translation

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

(s) Derivative financial instruments

The Group uses foreign currency forward contracts, foreign currency option contracts, and interest rate swaps to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivative transactions for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows:

(1) All derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statements of income.

(2) For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until the related losses or gains on the hedged items are recognized.

If foreign currency forward contracts and foreign currency option contracts qualify for hedge accounting and meet specific matching criteria, assets and liabilities denominated in foreign currencies are translated at the contract rates and no gains or losses on derivative transactions are recognized.

Interest rate swaps, which qualify for hedge accounting and meet specific matching criteria, are not remeasured at market value, but the differential paid or received under the swap agreements is recognized as and included in interest expense or income.

(t) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if stock options were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding stock options at the beginning of the year (or at the time of issuance).

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

(u) Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections."

Accounting treatments under this standard and guidance are as follows:

(1) Changes in accounting policies
When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively, unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in presentation
When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in accounting estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of prior-period errors
When an error in prior-period financial statements is discovered, those statements are restated.

(v) New accounting pronouncements

(Accounting Standard for Retirement Benefits)

On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

(1) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(3) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013.

However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard for (1) and (2) above from the end of the annual period beginning on April 1, 2013, and for (3) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. Changes in accounting policies

(Change in depreciation method)

Effective from the first quarter of the current fiscal year, the Company and its domestic consolidated subsidiaries changed the depreciation method for the relevant tangible fixed assets newly acquired from April 1, 2012, according to the amendment of Corporation Tax Act in Japan.

This change had only minor impact on operating income and income before income taxes and minority interests for the year ended March 31, 2013.

4. Changes in method of presentation

(Change in the method of presentation for a component of the consolidated balance sheet)

Previously, "Time deposits" was stated in current assets in the consolidated balance sheet. However, from the current year, the Group has changed the method of presentation to state "Short-term investments" (see Note 7, Short-term investments).

(Change in the method of presentation for a component of cash flows)

Previously, "Gain on change in equity interest" was stated separately in operating activities in the consolidated statement of cash flows. However, as it is immaterial in the current year, the gain is included in "Other, net" of operating activities. As a result of the change, in the consolidated statement of cash flows for the prior fiscal year, ¥(322) million was reclassified into ¥17,954 million of "Other, net."

Previously, "Increase in short-term investment securities" and "Increase in time deposits" were stated in investing activities of cash flows. However, from the current year, the Group has changed the method of presentation to state "Decrease (increase) in marketable securities" instead of "Decrease (increase) in short-term investment securities" and to state "Increase in short-term investments" instead of "Increase in time deposits".

Previously, "Purchase of treasury stock" was summarized into "Other, net" in financing activities in the consolidated statement of cash flows. However, as, it is material in the current year, the payment is stated separately in financing activities. As a result of the change, in the consolidated statement of cash flows for the prior fiscal year, ¥4,460 million was separated into ¥(4) million of "Purchase of treasury stock" and ¥4,464 million of "Other, net" of financing activities.

5. Additional information

(Amendment of level of retirement benifits)

Certain domestic consolidated subsidiaries determined in January 2013 to amend their level of retirement benefits effective after April 1, 2013, in response to the introduction of continued employment systems. Due to this amendment, ¥13,134 million of an unrecognized prior service cost (reduced obligation) occurred and is being amortized by the straight-line method over a fixed number of years which is within the average remaining service period of employees. As a result, operating income and income before income taxes and minority interests increased by ¥414 million for the year ended March 31, 2013.

6. Business combination

There were no material business combinations for the years ended March 31, 2013 and 2012.

7. Short-term investments

Short-term investments as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Time deposits	¥152,074	¥142,570	$1,616,948
Other	20,000	—	212,653
Total	¥172,074	¥142,570	$1,829,601

8. Securities

Securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Current:			
Government and corporate bonds	¥ 32,504	¥ 36,596	$ 345,603
Other	—	1	—
Total current	¥ 32,504	¥ 36,597	$ 345,603
Noncurrent:			
Marketable equity securities	¥ 53,170	¥ 42,719	$ 565,338
Government and corporate bonds	51,002	54,022	542,286
Other	14,610	11,610	155,343
Total noncurrent	¥118,782	¥108,351	$1,262,967

The costs and aggregate fair values of marketable and investment securities at March 31, 2013 and 2012, were as follows:

March 31, 2013	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	¥39,878	¥14,870	¥1,578	¥53,170
Other	—	—	—	—
Held to maturity	83,506	490	80	83,916

March 31, 2012	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	¥39,721	¥8,436	¥5,438	¥42,719
Other	—	—	—	—
Held to maturity	90,618	557	103	91,072

March 31, 2013	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available for sale:				
Equity securities	$424,009	$158,107	$16,778	$565,338
Other	—	—	—	—
Held to maturity	887,889	5,210	851	892,248

Available-for-sale securities and held-to-maturity securities whose fair values are not determinable are disclosed in Note 22(4)(b).

The information of available-for-sale securities, which were sold during the years ended March 31, 2013 and 2012, were as follows:

March 31,2013	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available for sale:			
Equity securities	¥21	¥4	¥—
Total	¥21	¥4	¥—

March 31,2012	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
Available for sale:			
Equity securities	¥26	¥11	¥—
Total	¥26	¥11	¥—

March 31,2013	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
Available for sale:			
Equity securities	$223	$43	$—
Total	$223	$43	$—

The impairment losses on equity securities for the years ended March 31, 2013 and 2012, were ¥4,408 million (US$46,869 thousand) and ¥3,665 million, respectively.

9. Inventories

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Finished products and merchandise	¥ 71,243	¥ 60,778	$ 757,501
Work in process	25,842	26,932	274,769
Raw materials and supplies	35,267	31,657	374,981
Total	¥132,352	¥119,367	$1,407,251

10. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2013. As a result, the Group recognized an impairment loss of ¥2,571 million (US$27,337 thousand) due to a decline in profitability in each business segment, related to certain business properties operating at lower-than-expected rates of utilization, and for certain idle assets due to substantial decline in their fair market value. The carrying amounts of these assets were written down to the recoverable amount.

Impairment losses, which the Group recognized for the years ended March 31, 2013 and 2012, were as follows:

Pharmaceuticals:	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Buildings and structures	¥ 831	¥645	$ 8,836
Machinery and equipment	109	6	1,159
Other	191	—	2,030
Total	¥ 1,131	¥651	$ 12,025

Nutraceuticals:	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Intangible assets	¥ —	¥302	$ —
Buildings and structures	37	335	393
Machinery and equipment	889	284	9,452
Other	28	26	299
Total	¥954	¥947	$ 10,144

Consumer products:	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Machinery and equipment	¥166	¥ —	$ 1,765
Other	48	—	510
Total	¥214	¥ —	$ 2,275

Other:	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Land	¥189	¥ 12	$ 2,010
Buildings and structures	8	488	85
Machinery and equipment	4	295	43
Other	—	1	—
Total	¥201	¥796	$ 2,138

Corporate:	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Land	¥71	¥271	$755
Other	—	20	—
Total	¥71	¥291	$755

The Group bases its grouping for assessing impairment losses on its business segments. However, certain assets, such as idle assets, are evaluated on an individual basis. The recoverable amounts in each business segment were measured mainly at their value in use. Discount rate of 5.0% was used for the computation of present value of future cash flows for certain business properties in each business segment. The use of a discount rate was omitted due to the negative cash flows for other assets. The recoverable amount of the impaired idle assets was measured at net realizable value as determined based mainly on real estate appraisals.

11. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2013 and 2012, represented loans, principally from banks. The weighted-average interest rates on these borrowings were 1.1% and 2.8% at March 31, 2013 and 2012, respectively.

Long-term debt at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Secured loans from banks and financial institutions			
Due 2013 to 2022, with a weighted-average interest rate of 1.7% (2013) and due 2012 to 2015, with a weighted-average interest rate of 0.9% (2012)	¥ 629	¥ 96	$ 6,688
Unsecured loans from banks and financial institutions			
Due 2013 to 2033, with a weighted-average interest rate of 0.8% (2013) and due 2012 to 2018, with a weighted-average interest rate of 0.9% (2012)	18,367	30,876	195,290
Unsecured straight bonds by a consolidated subsidiary			
Due 2013 to 2016, with a weighted-average interest rate of 0.9% (2013)	370	—	3,934
Lease liabilities			
Secured	38	225	404
Unsecured	8,412	8,536	89,442
Total	27,816	39,733	295,758
Less-portion due within one year			
Loans	12,744	5,024	135,502
Straight bonds	150	—	1,595
Lease liabilities	2,590	2,974	27,539
Long-term debt, less current portion	¥ 12,332	¥ 31,735	$ 131,122

Annual maturities of long-term debt at March 31, 2013, were as follows:

Years ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 15,484	$ 164,636
2015	3,571	37,969
2016	3,789	40,287
2017	2,522	26,816
2018	511	5,433
2019 and thereafter	1,939	20,617
Total	¥ 27,816	$ 295,758

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2013, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 1,325	$ 14,088
Receivables-trade accounts	763	8,113
Inventories	2,466	26,220
Property, plant, and equipment — net of accumulated depreciation	3,727	39,628
Total	¥ 8,281	$ 88,049

12. Retirement benefits

Certain domestic consolidated subsidiaries have adopted retirement benefit plans consisting of lump-sum retirement payments, defined benefit pension plans, and defined contribution pension plans. Certain foreign consolidated subsidiaries have adopted defined benefit pension plans or defined contribution pension plans, or a combination of the two.

Provisions have been made for employees' retirement benefits, based on an estimate of the projected retirement benefit obligation and the fair value of the pension fund assets.

The liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Projected benefit obligation	¥ 194,330	¥ 196,331	$ 2,066,241
Fair value of plan assets	(171,107)	(139,429)	(1,819,320)
Unrecognized prior service cost	14,802	2,878	157,384
Unrecognized actuarial loss	2,485	(15,071)	26,423
Unrecognized transitional obligation	(15)	—	(159)
Prepaid pension cost	76	—	808
Net liability	¥ 40,571	¥ 44,709	$ 431,377

The components of net periodic retirement benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Service cost	¥ 7,633	¥ 7,571	$ 81,159
Interest cost	4,187	4,210	44,519
Expected return on plan assets	(3,829)	(3,678)	(40,712)
Amortization of prior service cost	(1,218)	(596)	(12,951)
Recognized actuarial loss	4,846	4,905	51,526
Amortization of transitional obligation	6	62	64
Net periodic benefit costs	11,625	12,474	123,605
Additional benefit	369	474	3,923
Contributions to defined contribution pension plan	2,408	2,140	25,603
Total	¥ 14,402	¥ 15,088	$ 153,131

Certain domestic consolidated subsidiaries determined in January 2013 to amend their level of retirement benefits effective after April 1, 2013, in response to the introduction of continued employment systems. Due to this amendment, ¥13,134 million of an unrecognized prior service cost (reduced obligation) occurred and is being amortized by the straight-line method over a fixed number of years which is within the average remaining service period of employees. As a result, operating income and income before income taxes and minority interests increased by ¥414 million for the current fiscal year.

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013.3	2012.3
Discount rate	1.10%-6.00%	2.00%-7.00%
Expected rate of return on plan assets	2.00%-8.00%	2.50%-9.00%
Amortization period of prior service cost	5-23 years	5-23 years
Recognition period of actuarial gain/loss	5-22 years	5-15 years
Amortization period of transitional obligation	5-15 years	5-10 years

13. Equity

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon a resolution at the shareholders' meeting. More specifically, companies that meet the following criteria can provide in their articles of incorporation that the board of directors can declare dividends (except for dividends in kind) at their discretion. These criteria are: (1) the company must have a board of directors, (2) the company must have an outside audit and supervisory board member, (3) the company must have an audit and supervisory board, and (4) the term of service of the directors must be one year (rather than the normal term of two years). The Company meets all the above criteria.

The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reserved without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon a resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by a resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

14. Stock options

The stock options outstanding as of March 31, 2013, are as follows:

Stock Option	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
2010 Stock Option No. 1	11 Company directors	490,000 shares	July 22, 2010	¥ 1 ($0)	From July 23, 2012 to July 31, 2015
2010 Stock Option No. 2	Four audit and supervisory board members	32,000 shares	July 22, 2010	¥2,100 ($22)	From July 23, 2012 to July 31, 2015
2010 Stock Option No. 3	Three wholly owned subsidiary directors	150,000 shares	July 22, 2010	¥ 1 ($0)	From July 23, 2012 to July 31, 2015
2010 Stock Option No. 4	Five Company corporate officers, 31 subsidiary directors, four subsidiary audit and supervisory board members, and 21 subsidiary corporate officers	620,000 shares	July 22, 2010	¥2,100 ($22)	From July 23, 2012 to July 31, 2015

The stock option activity:

For the year ended March 31, 2013	2010 Stock Option No. 1	2010 Stock Option No. 2	2010 Stock Option No. 3	2010 Stock Option No. 4
Nonvested:				
March 31, 2012 – Outstanding	490,000 shares	32,000 shares	150,000 shares	620,000 shares
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	490,000 shares	32,000 shares	150,000 shares	620,000 shares
March 31, 2013 – Outstanding	—	—	—	—
Vested:				
March 31, 2012 – Outstanding	—	—	—	—
Vested	490,000 shares	32,000 shares	150,000 shares	620,000 shares
Exercised	400,000 shares	4,600 shares	150,000 shares	113,435 shares
Canceled	40,000 shares	—	—	—
March 31, 2013 – Outstanding	50,000 shares	27,400 shares	—	506,565 shares
Exercise price	¥ 1 ($0)	¥ 2,100 ($22)	¥ 1 ($0)	¥ 2,100 ($22)
Average stock price at exercise	¥ 2,442 ($26)	¥ 2,442 ($26)	¥ 2,442 ($26)	¥ 2,442 ($26)
Fair value price at grant date	¥ 2,099 ($22)	¥ 0 ($0)	¥ 2,099 ($22)	¥ 0 ($0)

The assumptions used to measure the fair value of 2010 stock options

As the Company was a privately held company as of the grant date, the fair value of options at grant date is equal to the intrinsic value of the options at grant date.

The assumptions used to measure the number of vested stock options

The Company uses only the actual cancellations due to the difficulty in determining reasonable estimates about the number of future cancellations.

Information regarding intrinsic value:

(1)The total intrinsic value of the stock options for the years ended March 31, 2013 and 2012, was ¥806 million (US$8,570 thousand) and ¥1,796 million, respectively.

(2)The total intrinsic value of the stock option rights on the exercise date for the fiscal year ended March 31, 2013, was ¥1,383 million (US$14,705 thousand) and there was no information relevant for the fiscal year ended March 31, 2012.

15. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in aggregate, resulted in normal effective statutory tax rates of approximately 38.0% and 40.6% for the fiscal years ended March 31, 2013 and 2012, respectively.

Foreign consolidated subsidiaries are subject to income taxes in the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities, at March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Deferred tax assets:			
Liability for employees' retirement benefits	¥13,577	¥15,147	$144,359
Unrealized intercompany profits from inventories	18,946	15,180	201,446
Accrued expenses	10,685	10,385	113,610
Accrued enterprise tax	3,368	3,132	35,811
Tax loss carryforwards	15,958	14,732	169,676
Research and development expenses	14,992	6,224	159,405
Loss on devaluation of investment securities	7,792	6,013	82,850
Loss on impairment of long-lived assets	3,334	2,446	35,449
Long-term unearned revenue	9,929	11,801	105,572
Other	8,559	9,787	91,004
Less valuation allowance	(30,132)	(28,231)	(320,383)
Total deferred tax assets	77,008	66,616	818,799
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	4,576	642	48,655
Unrealized gain on full revaluation resulting from inclusion of consolidated subsidiaries	6,152	6,128	65,412
Revaluation of brands	3,656	3,432	38,873
Other	6,692	4,834	71,154
Total deferred tax liabilities	21,076	15,036	224,094
Net deferred tax assets	¥55,932	¥51,580	$594,705

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated financial statements of income for the years ended March 31, 2013 and 2012, was as follows:

	2013.3	2012.3
Normal effective statutory tax rate	38.0%	40.6%
Tax credit for research and development expenses	(10.1)	(12.1)
Reduction of ending deferred tax balance due to change in statutory tax rate	—	2.4
Expenses not deductible for income tax purposes	1.3	2.1
Valuation allowance	1.0	3.9
Difference in statutory tax rate of subsidiaries	(0.3)	(0.1)
Equity in earnings of affiliated companies	(0.3)	(0.0)
Other – net	0.8	(2.0)
Actual effective tax rate	30.4%	34.8%

At March 31, 2013, certain consolidated subsidiaries had tax loss carryforwards aggregating ¥52,997 million (US$563,498 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 5,465	$ 58,107
2015	4,281	45,518
2016	7,201	76,566
2017	4,394	46,720
2018 and thereafter	31,656	336,587
Total	¥52,997	$563,498

16. Up-front licensing payments received

Net sales recognized as revenue from the up-front licensing payments received were ¥41,512 million (US$441,382 thousand) and ¥14,872 million for the years ended March 31, 2013 and 2012, respectively.

17. Selling, general, and administrative expenses

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Sales promotion expenses	¥156,214	¥174,380	$1,660,968
Personnel expenses	103,691	99,842	1,102,509
Depreciation	14,465	14,707	153,801
Amortization of goodwill	4,848	4,667	51,547
Research and development expenses	192,364	159,230	2,045,338
Other	182,982	163,823	1,945,582
Selling, general, and administrative expenses	¥654,564	¥616,649	$6,959,745

18. Disaster-related loss

Disaster-related loss for the year ended March 31, 2012, relates to the Great East Japan Earthquake of 2011 and primarily includes disaster relief money, costs for restoring buildings damaged in the disaster, and other costs.

19. Provision for loss on business liquidation

Provision for loss on business liquidation is the result of the consolidation and reduction of the specialty chemicals businesses for the year ended March 31, 2012.

20. Leases

The Group leases certain assets, mainly machinery and equipment.

The future minimum lease payments under noncancelable operating leases at March 31, 2013, were as follows:

2013.3	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 3,198	$ 34,003
Due after one year	10,110	107,496
Total	¥13,308	$141,499

21. Related-party transactions

The material related-party transactions of March 31, 2013 are as follows:

(1) Related-party transactions between the Company and related parties

Type	Name	Relationship	Ownership (Owned) percentage	Transaction detail (Note 1)	Transaction amount	
					Millions of Yen	Thousands of U.S. Dollars
The Company director	Tatsuo Higuchi	President and Representative Director, chief executive officer of the Company	(Owned) Direct 0.0%	Exercise of stock option	¥145	$1,542
The Company director	Ichiro Otsuka	Senior Vice President of the Company	(Owned) Direct 0.2%	Exercise of stock option	121	1,287
The Company director	Atsumasa Makise	Senior Managing Director of the Company	(Owned) Direct 0.0%	Exercise of stock option	97	1,031
The Company director	Yoshiro Matsuo	Managing Director of the Company	(Owned) Direct 0.0%	Exercise of stock option	97	1,031
The Company director	Yujiro Otsuka	Executive Director of the Company	(Owned) Direct 0.0%	Exercise of stock option	97	1,031
The Company director	Yukio Kobayashi	Executive Director of the Company	(Owned) Direct 0.3%	Exercise of stock option	97	1,031
Director of significant subsidiaries	Taro Iwamoto	President, Representative Director of Otsuka Pharmaceutical Co., Ltd.	(Owned) Direct 0.0%	Exercise of stock option	121	1,287
Director of significant subsidiaries	Masayuki Umeno	Vice President , Representative Director of Otsuka Pharmaceutical Co., Ltd.	(Owned) Direct 0.0%	Exercise of stock option	121	1,287
Director of significant subsidiaries	Kyoichi Komatsu	Chairman and Representative Director of Otsuka Pharmaceutical Factory Co., Ltd.	(Owned) Direct 0.0%	Exercise of stock option	12	128
Director of significant subsidiaries	Katsuya Yamasaki	Chairman , Representative Director of Otsuka Warehouse Co., Ltd.	(Owned) Direct 0.0%	Exercise of stock option	97	1,031
Director of significant subsidiaries	Sadanobu Tobe	Vice Chairman of Otsuka Foods Co., Ltd.	(Owned) Direct 0.0%	Exercise of stock option	121	1,287
Director of significant subsidiaries	Noriko Tojo	Executive Director of Pharmavite LLC	(Owned) Direct 0.0%	Exercise of stock option	97	1,031

Type	Name	Relationship	Ownership (Owned) percentage	Transaction detail (Note 2)	Transaction amount	
					Millions of Yen	Thousands of U.S. Dollars
Director of significant subsidiaries	Masayuki Kobayashi	President of Taiho Pharmaceutical Co., Ltd.	(Owned) Direct 0.0%	Payment of consulting fee	¥ 13	$138
Director of significant subsidiaries	Katsuya Yamasaki	Chairman , Representative Director of Otsuka Warehouse Co., Ltd.	(Owned) Direct 0.0%	Payment of consulting fee	12	128
Director of significant subsidiaries	Noriko Tojo	Executive Director of Pharmavite LLC	(Owned) Direct 0.0%	Payment of consulting fee	11	117

(2) Related-party transactions between subsidiary (Otsuka Chemical Co., Ltd.) and related parties

Type	Name	Relationship	Ownership (Owned) percentage	Transaction detail (Note 2)	Transaction amount	
					Millions of Yen	Thousands of U.S. Dollars
Director of significant subsidiaries	Sadanobu Tobe	Vice Chairman of Otsuka Foods Co., Ltd.	(Owned) Direct 0.0%	Payment of consulting fee	¥ 12	$128
Officer and his/her close family member	Isao Otsuka	Special advisor of Otsuka Chemical Co., Ltd.	(Owned) Direct 0.0%	Payment of consulting fee	12	128

Notes:
1. Presented here are the exercising of rights in the current fiscal year of stock options granted by resolution at the annual shareholders meeting held on June 29, 2010. The transaction amount represents the carrying amount at the time of treasury stock disposal.
2. Payment is decided by agreement between the two parties based on the details of the consulting agreement.

There were no material related-party transactions for the year ended March 31, 2012.

22. Financial instruments and related disclosures

(1) Group policy for financial instruments

The Group limits its investments to low-risk financial assets and uses borrowings from financial institutions, mainly banks, for its financing needs.

Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Receivables in foreign currencies are also exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly held-to-maturity debt securities and available-for-sale equity securities, are exposed to the risk of market price fluctuations and credit risk.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Part of the bank loans are exposed to market risks from changes in variable interest rates. Part of the bank loans in foreign currencies are also exposed to the market risk of fluctuation in foreign currency exchange rates.

Derivatives mainly include forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and interest rate swaps, which are used to manage exposure to changes in interest rates of bank loans. Please see Note 23 for more details about derivatives.

(3) Risk management for financial instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers to identify the default risk of customers in the early stages. With respect to held-to-maturity investments, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 23 for details about derivatives.

Market risk management
(foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis. Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables. Please see Note 23 for details about derivatives.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligation in full on the maturity date. The Group manages its liquidity risk by maintaining an adequate volume of liquid assets, along with adequate financial planning by the corporate treasury department.

(4) Fair values of financial instruments

Fair values of financial instruments are based on the quoted prices in active markets. If a quoted price is not available, a theoretical value is calculated using a valuation technique that is based on internal assumptions. A change in such assumptions may result in a different value. Also, please see Note 23 for the details of fair value for derivatives.

(a) Fair value of financial instruments whose fair value can be reliably determined

March 31, 2013	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents	¥ 347,571	¥ 347,571	¥ —
Short-term investments	172,074	172,074	—
Receivables	332,936	332,936	—
Marketable and investment securities	136,676	137,086	410
Investments in and advances to unconsolidated subsidiaries and affiliated companies	30,805	89,625	58,820
Total	¥1,020,062	¥1,079,292	¥59,230
Short-term borrowings	¥ 39,046	¥ 39,046	¥ —
Payables	169,293	169,293	—
Income tax payable	33,515	33,515	—
Long-term debt (excluding straight bonds issued by a consolidated subsidiary and lease liabilities)	18,996	19,023	27
Total	¥ 260,850	¥ 260,877	¥ 27

March 31, 2012	Millions of Yen		
	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents	¥384,194	¥ 384,194	¥ —
Short-term investments	142,570	142,570	—
Receivables	279,853	279,853	—
Marketable and investment securities	133,337	133,791	454
Investments in and advances to unconsolidated subsidiaries and affiliated companies	27,625	70,829	43,204
Total	¥967,579	¥1,011,237	¥ 43,658
Short-term borrowings	¥ 34,668	¥ 34,668	¥ —
Payables	145,322	145,322	—
Income tax payable	33,823	33,823	—
Long-term debt (excluding lease liabilities)	30,972	30,994	22
Total	¥244,785	¥ 244,807	¥ 22

March 31, 2013	Thousands of U.S. Dollars		
	Carrying amount	Fair value	Unrealized gain
Cash and cash equivalents	$ 3,695,598	$ 3,695,598	$ —
Short-term investments	1,829,601	1,829,601	—
Receivables	3,539,988	3,539,988	—
Marketable and investment securities	1,453,227	1,457,586	4,359
Investments in and advances to unconsolidated subsidiaries and affiliated companies	327,539	952,951	625,412
Total	$10,845,953	$11,475,724	$629,771
Short-term borrowings	$ 415,162	$ 415,162	$ —
Payables	1,800,032	1,800,032	—
Income tax payable	356,353	356,353	—
Long-term debt (excluding straight bonds issued by a consolidated subsidiary and lease liabilities)	201,978	202,265	287
Total	$ 2,773,525	$ 2,773,812	$ 287

Cash and cash equivalents, short-term investments, and receivables

The carrying values of cash and cash equivalents, short-term investments, and receivables approximate fair value because of their short maturities.

Marketable and investment securities and investments in and advances to unconsolidated subsidiaries and affiliated companies

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. The information regarding the fair value for the marketable and investment securities by classification is included in Note 8.

Payables, short-term borrowings, and income tax payable

The carrying values of payables, short-term borrowings, and income tax payable approximate fair value because of their short maturities.

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

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

Derivatives

The information of the fair value for derivatives is included in Note 23.

(b) Financial instruments whose fair values cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	Carrying amount		
	2013.3	2012.3	2013.3
Investments in and advances to unconsolidated subsidiaries and affiliated companies	¥157,458	¥153,989	$1,674,194
Investment securities	14,610	11,611	155,343

(c) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2013	Millions of Yen			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	¥347,571	¥ —	¥ —	¥ —
Short-term investments	172,074	—	—	—
Receivables	332,952	527	—	—
Marketable and investment securities:				
Held-to-maturity securities	32,500	48,500	1,500	1,000
Total	¥885,097	¥49,027	¥1,500	¥1,000

March 31, 2013	Thousands of U.S. Dollars			
	Due in one year or less	Due after one year through five years	Due after five years through 10 years	Due after 10 years
Cash and cash equivalents	$3,695,598	$ —	$ —	$ —
Short-term investments	1,829,601	—	—	—
Receivables	3,540,159	5,603	—	—
Marketable and investment securities:				
Held-to-maturity securities	345,561	515,683	15,949	10,633
Total	$9,410,919	$521,286	$15,949	$10,633

Please see Note 11 for annual maturities of long-term debt, obligations under finance leases and straight bonds.

23. Derivatives

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into foreign currency option contracts (zero-cost options) to obtain U.S. dollars for the payment of foreign currency payables. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain debts.

All derivative transactions are entered into hedge interest and foreign currency exposures incorporated within actual demand of the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivatives transactions entered into by the Group have been made in accordance with internal policies, which regulate the authorization and credit limit amount.

Derivative transactions to which hedge accounting is not applied at March 31, 2013 and 2012, are as follows:

At March 31, 2013	Millions of Yen			
	Contract amount	Contract amount due after one year	Fair value	Unrealized loss
Foreign currency forward contracts:				
Buying U.S. $	¥ 646	¥ —	¥ (1)	¥ (1)
Buying Euro	556	—	(3)	(3)
Buying JP¥	20	—	—	—
Total	¥ 1,222	¥ —	¥ (4)	¥ (4)

At March 31, 2012	Millions of Yen			
	Contract amount	Contract amount due after one year	Fair value	Unrealized loss
Foreign currency forward contracts:				
Buying U.S. $	¥ 482	¥ —	¥ (2)	¥ (2)
Buying Euro	1,945	—	(3)	(3)
Buying JP ¥	13	—	—	—
Foreign exchange option:				
U.S. $	2,663	—	(531)	(531)
Total	¥ 5,103	¥ —	¥ (536)	¥ (536)

At March 31, 2013	Thousands of U.S. Dollars			
	Contract amount	Contract amount due after one year	Fair value	Unrealized loss
Foreign currency forward contracts:				
Buying U.S. $	$ 6,869	$ —	$ (11)	$ (11)
Buying Euro	5,912	—	(32)	(32)
Buying JP ¥	212	—	—	—
Total	$ 12,993	$ —	$ (43)	$ (43)

Derivative transactions to which hedge accounting is applied at March 31, 2013 and 2012, are as follows:

At March 31, 2013	Millions of Yen			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	¥ 1,800	¥ 1,800	¥ (18)

At March 31, 2012	Millions of Yen			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Buying U.S. $	Forecasted transactions	¥ 218	¥ —	¥ 15
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	1,800	800	(14)

At March 31, 2013	Thousands of U.S. Dollars			
	Hedged item	Contract amount	Contract amount due after one year	Fair value
Interest rate swaps:				
(fixed rate payment, floating rate receipt)	Long-term debt	$ 19,139	$ 19,139	$ (191)

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

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

24. Contingent liabilities

At March 31, 2013, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted	¥ 712	$ 7,570
Trade notes endorsed	138	1,467
Guarantees and similar items of bank loans	2,850	30,303

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

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

a. Otsuka Pharmaceutical Co., Ltd. codevelops and copromotes *SPRYCEL* with BMS in the U.S., Japan and major countries in Europe, and incurs certain expenses in the U.S. Europe and Japan.

b. From 2010 to 2020, Otsuka Pharmaceutical Co., Ltd. receives a profit share based on the total sales amount of *SPRYCEL* and *IXEMPRA*.

With regard to the aforementioned contracts, a provision went into effect on January 1, 2010, stipulating that if during the above contract period, generic products of *ABILIFY* were launched in the U.S. and BMS requests cancellation of the contract, Otsuka Pharmaceutical Co., Ltd. is obligated to pay compensation including the above up-front payment as agreed upon under the agreement. The amount of the compensation minus the unearned revenue balance represents the contingent liability at each fiscal year end. As of March 31, 2013, the contingent liability balance was ¥72,120 million. BMS also retains the right to cancel the contracts for *SPRYCEL* and *IXEMPRA* in the event generic products of *ABILIFY* are launched in the U.S. prior to February 22, 2014.

In the U.S., Otsuka Pharmaceutical Co., Ltd. filed patent infringement actions against a number of generic drug companies which had sought FDA approval to commercialize generic versions of *ABILIFY*. Judgments in favor of Otsuka Pharmaceutical Co., Ltd. were finalized for these actions in February 2013.

25. Comprehensive income

The components of other comprehensive income for the year ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013.3	2012.3	2013.3
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥10,988	¥ —	$116,831
Reclassification adjustments to profit or loss	147	100	1,563
Amount before income tax effect	11,135	100	118,394
Income tax effect	(3,542)	200	(37,661)
Total	¥ 7,593	¥ 300	$ 80,733
Deferred (loss) gain on derivatives under hedge accounting:			
Gains arising during the year	¥ (2)	¥ (4)	$ (21)
Reclassification adjustments to profit or loss	(14)	25	(149)
Amount before income tax effect	(16)	21	(170)
Income tax effect	5	(6)	53
Total	¥ (11)	¥ 15	$ (117)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥12,000	¥(4,999)	$127,592
Reclassification adjustments to profit or loss	—	108	—
Amount before income tax effect	12,000	(4,891)	127,592
Income tax effect	—	—	—
Total	¥12,000	¥(4,891)	$127,592
Share of other comprehensive income in associates:			
Gains arising during the year	¥ 8,969	¥(2,977)	$ 95,364
Reclassification	31	(47)	330
Total	¥ 9,000	¥(3,024)	$ 95,694
Total other comprehensive income	¥28,582	¥(7,600)	$303,902

26. Cash flow information

(1) Assets and liabilities of business transfers resulting in proceeds for the fiscal year ended March 31, 2012

The following are the details of assets and liabilities of the Sanutri business at the time of transfer by Nutrition & Santé Iberia SL and price and proceeds for the transfer:

March 31, 2012	Millions of Yen
Current assets	¥ 217
Noncurrent assets	1,849
Cost of transferred business	2,066
Loss on transfer of business	(684)
Price for transferred business	1,382
Proceeds from transfer of business	¥1,382

(2) Assets and liabilities of business transferred resulting in payments for the fiscal years ended March 31, 2013 and 2012

The following are the details of assets and liabilities and price and payments for the acquisition of Valpiform SAS and one company:

March 31, 2013	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ (389)	$ (4,136)
Noncurrent assets	(870)	(9,250)
Goodwill	(919)	(9,771)
Current liabilities	298	3,168
Long-term liabilities	11	117
Cost of purchase of investments in subsidiaries	(1,869)	(19,872)
Cash and cash equivalent of newly consolidated companies	148	1,574
Foreign currency translation adjustments	182	1,934
Acquisition price	(1,539)	(16,364)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(1,539)	$(16,364)

The following are the details of assets and liabilities and price and payments for the acquisition of Natursoy business by Nutrinat AG:

March 31, 2012	Millions of Yen
Current assets	¥ —
Noncurrent assets	(1,278)
Current liabilities	—
Long-term liabilities	—
Cost of transferred business	(1,278)
Price for transferred business	(1,278)
Payments for transfer of business	¥(1,278)

(3) Nonmonetary transactions

There were no material nonmonetary transactions requiring disclosure for the years ended March 31, 2013 and 2012.

27. Net income per share

The following is a reconciliation of the differences between basic and diluted net income per share (EPS) for the years ended March 31, 2013 and 2012:

For the year ended March 31, 2013	Millions of Yen	Thousands of shares	Yen	U.S.Dollars
	Net income	Weighted-average shares	EPS	
Basic EPS				
Net income available to common shareholders	¥122,411	551,639	¥221.90	$ 2.36
Effect of dilutive securities				
Warrants	(152)	—		
Stock options	—	525		
Diluted EPS				
Net income for computation	¥122,259	552,164	¥221.42	$ 2.35

For the year ended March 31, 2012	Millions of Yen	Thousands of shares	Yen
	Net income	Weighted-average shares	EPS
Basic EPS			
Net income available to common shareholders	¥92,156	557,832	¥165.20
Effect of dilutive securities			
Warrants	(173)	—	
Stock options	—	552	
Diluted EPS			
Net income for computation	¥91,983	558,384	¥164.73

28. Subsequent events

Appropriation of retained earnings

The following appropriation of retained earnings at March 31, 2013, was approved at a meeting of the Company's board of directors held on May 14, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥30.0 (US$0.32) per share	¥16,507	$175,513

Purchase of treasury stock

On May 14, 2013, the board of directors resolved to purchase up to 9 million shares of its common stock at cost up to ¥30,000 million in accordance with the Companies Act.

As a result, the Company repurchased 5,700,500 shares at a cost of ¥20,374 million from May 15 , 2013 to May 31, 2013.

Acquisition of business by an affiliated company

On June 18, 2013, Otsuka Medical Devices Co., Ltd. (OMD), a wholly owned subsidiary of the Company, has decided to provide Microport Scientific Corporation (MPS), an OMD affiliated company, with a loan of US$200 million to partially fund MPS's acquisition of the hips and knee implant business of Wright Medical Group, Inc. for US$290 million (subject to adjustment upwards or downwards.) The acquisition is subject to customary closing conditions, including MPS's shareholder approval and receipt of regulatory clearances.

29. Segment information

For the years ended March 31, 2013 and 2012

Under ASBJ Statement No. 17, "Accounting Standard for the Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Overview

The Group's reporting segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the board of directors, in order to make decisions on allocation of business resources and to evaluate the business performances of the respective segments.

The Group's core business is in healthcare and the Group categorizes the "Pharmaceuticals," "Nutraceuticals," "Consumer products," and "Other" businesses as the four reporting segments.

The Group defines the reporting segments as follows:

- Pharmaceuticals, which is composed of research and development, production and sales of prescription drugs and clinical nutrition.
- Nutraceuticals, which is composed of production and sales of functional foods, over-the-counter drugs and supplements.
- Consumer products, which is composed of mineral water, beverages, and food products.
- Other, which encompasses other operations, composed of logistics, warehousing, chemical products, and electronics.

2. Calculation methods for sales, profit (loss), assets, and other items

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."

Income for reportable segments is based on operating income. Intersegment profit or transfers are based on market prices.

3. Information about sales, profit (loss), assets, and other items

Year ended March 31, 2013	Millions of Yen						
	Reportable segment					Reconciliations	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Total		
Sales							
Sales to external customers	¥850,862	¥246,929	¥ 45,237	¥ 75,027	¥ 1,218,055	¥ —	¥1,218,055
Intersegment sales and transfers	—	4,844	1,652	36,637	43,133	(43,133)	—
Total	850,862	251,773	46,889	111,664	1,261,188	(43,133)	1,218,055
Segment profit (loss)	187,853	21,367	(2,446)	3,919	210,693	(41,033)	169,660
Segment assets	589,861	207,679	133,677	124,191	1,055,408	723,800	1,779,208
Other:							
Depreciation	18,995	10,222	1,756	4,494	35,467	5,148	40,615
Amortization of goodwill	2,807	1,851	63	127	4,848	—	4,848
Investment in equity-method affiliated companies	21,457	10,121	104,964	10,914	147,456	—	147,456
Increase in property, plant, and equipment and intangible assets	37,951	14,939	2,735	3,973	59,598	3,658	63,256

Year ended March 31, 2012	Millions of Yen						
	Reportable segment					Reconciliations	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Total		
Sales							
Sales to external customers	¥782,248	¥251,282	¥ 47,990	¥ 73,054	¥ 1,154,574	¥ —	¥ 1,154,574
Intersegment sales and transfers	—	3,543	1,217	35,549	40,309	(40,309)	—
Total	782,248	254,825	49,207	108,603	1,194,883	(40,309)	1,154,574
Segment profit (loss)	168,481	22,144	(2,309)	1,943	190,259	(41,597)	148,662
Segment assets	501,030	184,462	130,708	121,391	937,591	729,176	1,666,767
Other:							
Depreciation	19,939	11,276	1,954	4,946	38,115	5,280	43,395
Amortization of goodwill	2,749	1,703	74	141	4,667	—	4,667
Investment in equity-method affiliated companies	17,543	8,637	102,762	10,715	139,657	—	139,657
Increase in property, plant, and equipment and intangible assets	20,811	11,502	1,970	4,556	38,839	4,463	43,302

Year ended March 31, 2013	Thousands of U.S. Dollars						
	Reportable segment					Reconciliations	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Total		
Sales							
Sales to external customers	$9,046,911	$ 2,625,508	$ 480,989	$ 797,735	$ 12,951,143	$ —	$ 12,951,143
Intersegment sales and transfers	—	51,505	17,565	389,548	458,618	(458,618)	—
Total	9,046,911	2,677,013	498,554	1,187,283	13,409,761	(458,618)	12,951,143
Segment profit (loss)	1,997,374	227,187	(26,007)	41,669	2,240,223	(436,289)	1,803,934
Segment assets	6,271,781	2,208,177	1,421,340	1,320,478	11,221,776	7,695,906	18,917,682
Other:							
Depreciation	201,967	108,687	18,671	47,783	377,108	54,737	431,845
Amortization of goodwill	29,846	19,681	670	1,350	51,547	—	51,547
Investment in equity-method affiliated companies	228,144	107,613	1,116,045	116,045	1,567,847	—	1,567,847
Increase in property, plant, and equipment and intangible assets	403,519	158,841	29,080	42,244	633,684	38,894	672,578

Notes:

1) Adjustments to segment profit of ¥41,033 million (US$436,289 thousand) include intersegment eliminations of ¥639 million (US$6,794 thousand) and unallocated corporate expenses of ¥41,672 million (US$443,083 thousand) for the year ended March 31, 2013. Adjustments to segment profit of ¥41,597 million include intersegment eliminations of ¥594 million and unallocated corporate expenses of ¥42,191 million for the year ended March 31, 2012. Corporate expenses include costs associated with headquarter functions.
2) Adjustments to segment assets of ¥723,800 million (US$7,695,906 thousand) include intersegment eliminations of ¥7,370 million (US$78,363 thousand) and corporate assets of ¥731,170 million (US$7,774,269 thousand) for the year ended March 31, 2013. Adjustments to segment assets of ¥729,176 million include intersegment eliminations of ¥6,304 million and corporate assets of ¥735,480 million for the year ended March 31, 2012. Corporate assets include assets associated with headquarter and research institutes.
3) Adjustments to depreciation consist of depreciation of tangible fixed assets, intangible fixed assets, and prepaid expenses-long-term for common properties of the Company and some consolidated subsidiaries' headquarters.
4) Adjustments to increase in property, plant, and equipment and intangible assets consist of capital expenditure for common properties of the Company and some consolidated subsidiaries' headquarters and research institutes.
5) Segment profit (loss) is adjusted to the operating income in the consolidated statements of income.

4. Information about products and services

2013.3	Millions of Yen		
	ABILIFY	Other	Total
Sales to external customers	¥438,514	¥779,541	¥1,218,055

2012.3	Millions of Yen		
	ABILIFY	Other	Total
Sales to external customers	¥411,565	¥743,009	¥1,154,574

2013.3	Thousands of U.S. Dollars		
	ABILIFY	Other	Total
Sales to external customers	$ 4,662,562	$ 8,288,581	$ 12,951,143

5. Information about geographical areas

(1) Sales

Millions of Yen			
2013.3			
Japan	North America	Other	Total
¥595,308	¥445,678	¥177,069	¥1,218,055

Millions of Yen			
2012.3			
Japan	North America	Other	Total
¥574,869	¥413,509	¥166,196	¥1,154,574

Thousands of U.S. Dollars			
2013.3			
Japan	North America	Other	Total
$ 6,329,697	$ 4,738,735	$ 1,882,711	$ 12,951,143

Note: Sales are classified in countries or regions based on location of customers.

(2) Property, plant, and equipment

Millions of Yen		
2013.3		
Japan	Other	Total
¥211,888	¥64,079	¥275,967

Millions of Yen		
2012.3		
Japan	Other	Total
¥206,443	¥49,072	¥255,515

Thousands of U.S. Dollars		
2013.3		
Japan	Other	Total
$2,252,929	$681,330	$2,934,259

6. Information about major customers

2013.3	Millions of Yen	
	Net sales	Segment
McKesson Corporation	¥133,693	Pharmaceuticals
Cardinal Health Inc.	128,931	Pharmaceuticals

2012.3	Millions of Yen	
	Net sales	Segment
Cardinal Health Inc.	¥122,489	Pharmaceuticals
McKesson Corporation	117,590	Pharmaceuticals

2013.3	Thousands of U.S. Dollars	
	Net sales	Segment
McKesson Corporation	$1,421,510	Pharmaceuticals
Cardinal Health Inc.	1,370,877	Pharmaceuticals

7. Information about impairment losses on fixed assets

2013.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Impairment losses	¥ 1,131	¥954	¥214	¥201	¥ 71	¥ 2,571

2012.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Impairment losses	¥651	¥947	—	¥796	¥291	¥ 2,685

2013.3	Thousands of U.S. Dollars					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Impairment losses	$ 12,025	$ 10,144	$ 2,275	$ 2,138	$ 755	$ 27,337

8. Information about amortization of goodwill and goodwill balance

2013.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of goodwill	¥ 2,807	¥ 1,851	¥ 63	¥ 127	—	¥ 4,848
Goodwill at March 31, 2013	7,102	28,085	538	2,063	—	37,788

2012.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of goodwill	¥ 2,749	¥ 1,703	¥ 74	¥ 141	—	¥ 4,667
Goodwill at March 31, 2012	5,166	28,869	600	2,190	—	36,825

2013.3	Thousands of U.S. Dollars					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of goodwill	$ 29,846	$ 19,681	$ 670	$ 1,350	—	$ 51,547
Goodwill at March 31, 2013	75,513	298,618	5,720	21,935	—	401,786

9. Information about amortization of negative goodwill arising before April 1, 2010

2013.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of negative goodwill	¥ 2,208	—	—	¥ 256	—	¥ 2,464
Negative goodwill at March 31, 2013	21,663	—	—	2,342	—	24,005

2012.3	Millions of Yen					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of negative goodwill	¥ 2,208	—	—	¥ 257	—	¥ 2,465
Negative goodwill at March 31, 2012	23,871	—	—	2,598	—	26,469

2013.3	Thousands of U.S. Dollars					
	Pharmaceuticals	Nutraceuticals	Consumer products	Other	Elimination/Corporate	Total
Amortization of negative goodwill	$ 23,477	—	—	$ 2,722	—	$ 26,199
Negative goodwill at March 31, 2013	230,335	—	—	24,902	—	255,237

10. Information about gain on negative goodwill

In the fiscal years ended March 31, 2013 and 2012, there was no gain on negative goodwill other than the amortization of pre-2012 amounts.

Deloitte.

Deloitte Touche Tohmatsu LLC
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel:+81 (3) 3457 7321
Fax:+81 (3) 3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's 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 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

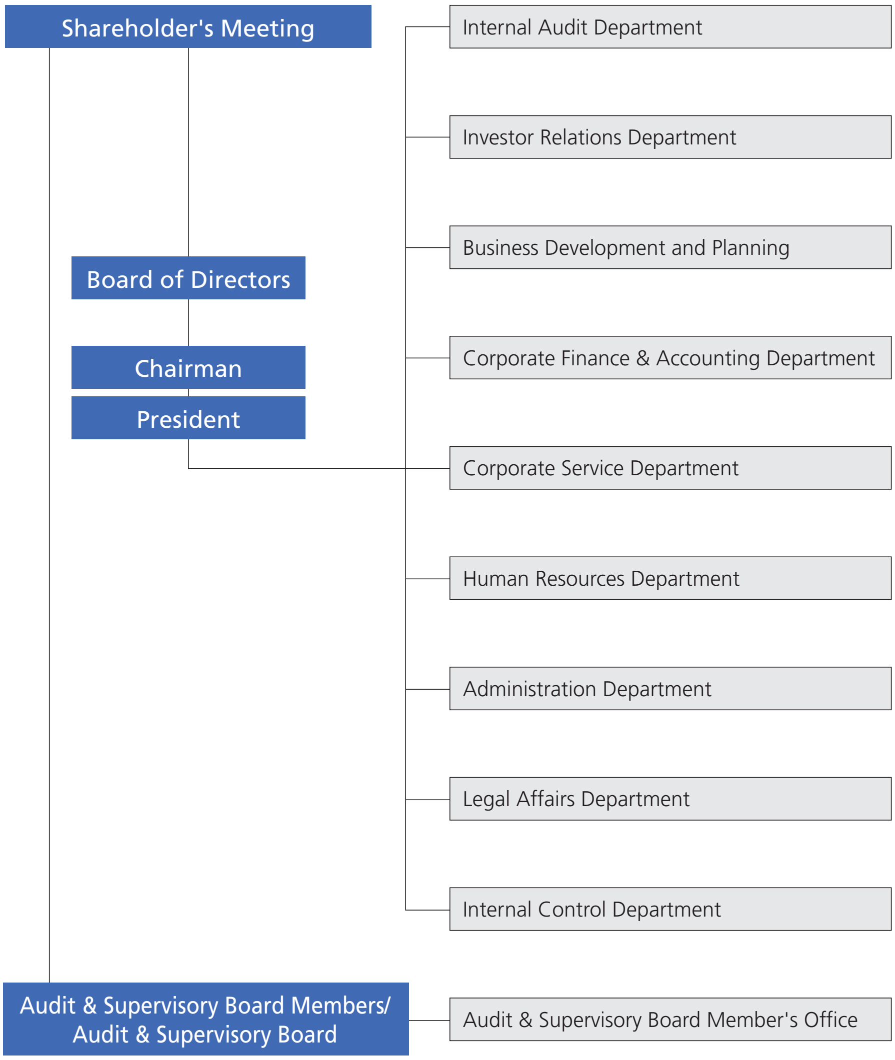
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2013

Member of
Deloitte Touche Tohmatsu Limited

Company organization



Board members

Chairman, Representative Director
Akihiko Otsuka

President and Representative Director, CEO
Tatsuo Higuchi

Senior Vice President
Ichiro Otsuka

Senior Managing Director, Finance
Atsumasa Makise

Managing Director, Administration
Yoshiro Matsuo

Executive Directors
Yujiro Otsuka
Yukio Kobayashi

Outside Directors
Yasuyuki Hirotomi
Juichi Kawaguchi

Standing Audit & Supervisory Board Member
Sadanobu Tobe

Outside Audit & Supervisory Board Members
Yasuhisa Katsuta
Norikazu Yahagi
Hiroshi Sugawara

Corporate profile (as of March 31, 2013)

Company Name	Otsuka Holdings Co., Ltd.
Established	July 8, 2008
Capital	¥81.69 billion
Head Office	2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo 101-0048, Japan
Tokyo Headquarters	Shinagawa Grand Central Tower 2-16-4 Konan, Minato-ku, Tokyo 108-8241, Japan
Telephone	+81-3-6717-1410 (switchboard)
Number of employees	70 (Consolidated：25,330)
Business description	Control, management and related activities with respect to the Company's subsidiaries and affiliates active in the pharmaceutical industry, nutraceutical industry, consumer products and other areas.
Public notices	http://www.otsuka.com/en/

As of March 31, 2013

Number of shares authorized	1,600,000,000
Number of shares issued	557,835,617
Number of shareholders	41,810

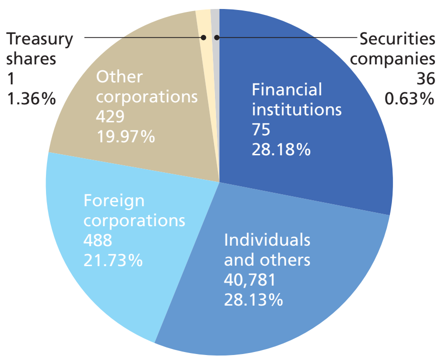
Principal shareholders

Name	Number of shares held (thousands)	Percentage of voting rights (%)
The Nomura Trust and Banking Co., Ltd. (Otsuka Founders Shareholding Fund Trust Account)	64,966	11.81
Otsuka Estate Ltd.	31,011	5.64
Otsuka Group Employee Shareholding Fund	24,776	4.50
Japan Trustee Services Bank, Ltd. (Trust account)	16,091	2.92
The Master Trust Bank of Japan, Ltd. (Trust account)	14,219	2.58
The Awa Bank, Ltd.	10,970	1.99
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	9,949	1.81
Otsuka Asset Co., Ltd.	9,190	1.67
THE CHASE MANHATTAN BANK N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	6,027	1.10
TOHO HOLDINGS CO., LTD.	5,670	1.03

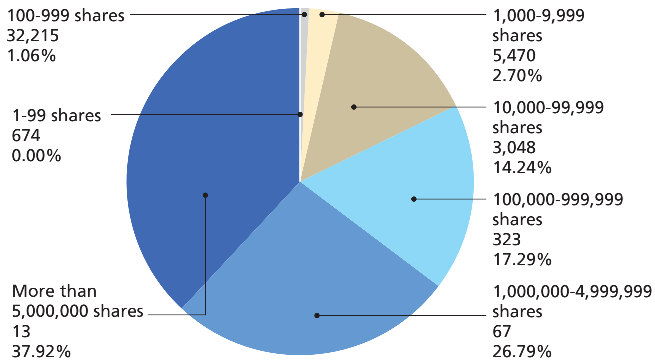
Notes
1. Holdings of less than one thousand are rounded down.
2. For the purpose of calculating the percentage of voting rights, treasury stock (7,593,160 shares) has been excluded.

Stock distribution

Distribution of Shares by Type of Shareholder



Distribution of Shares by Number of Shares Owned



Disclaimer

This annual report summarizes the operating and financial results of Otsuka Holdings Co., Ltd. and its subsidiaries and affiliates for fiscal 2012 (April 1, 2012 to March 31, 2013). It also includes information regarding selected material events which occurred between April 1, 2013 and the date of publication. This annual report contains forward-looking statements pertaining to plans, projections, strategies, and prospects for the Otsuka Group. These statements are based upon current analysis and belief in light of the information available on the issuing date of this annual report. As such, actual results may differ subject to risks and uncertainties that may affect Otsuka Group operations.
Note: The information regarding pharmaceutical products (including products under development) is not intended for any kind of advertising, promoting or medical advice.

Otsuka

Otsuka Holdings Co., Ltd.

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