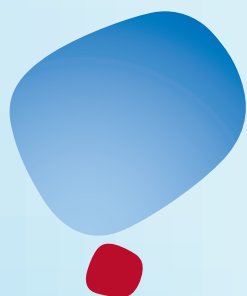


# INTEGRATED REPORT 2017

For the year ended December 31, 2017



# Otsuka

Otsuka-people creating new products  
for better health worldwide

Otsuka Holdings Co., Ltd.

## Corporate Philosophy

# Otsuka-people creating new products for better health worldwide



In keeping with this corporate philosophy and the Otsuka mottoes of Jissho (actualization) and Sozosei (creativity), the Otsuka group strives to pursue what only we can achieve. The Otsuka group supports the lives of people worldwide through a wide range of innovative and creative products including pharmaceuticals, functional beverages, and functional foods. We are dedicated to cultivating a culture and a dynamic corporate climate reflecting our vision as a healthcare company, finding ways to live in harmony with local communities and natural environment from a global perspective, and contributing to more affluent and healthier lives of people.

### Otsuka's Goal

## To become an indispensable contributor to people's health worldwide

The Otsuka group operates business with the goal of becoming an indispensable contributor to people's health worldwide, fulfilling on our corporate philosophy in every activity. Our operations encompass two core businesses: the pharmaceutical business, which provides comprehensive health support from diagnosis to treatment of diseases, and the nutraceutical business\*, which helps people maintain and improve day-to-day health. We endeavor to create the unchanging value of improving people's health worldwide and continue to provide the value to society.

\*Nutraceuticals=nutrition + pharmaceuticals



# The DNA of Otsuka Generates Innovative Products

## From Tokushima to the World

The Otsuka group will soon celebrate the 100th anniversary. The DNA of our group, cultivated ceaselessly over the years, is connected to the challenges that the group undertakes in all of our businesses. We share our unwavering corporate philosophy of “Otsuka-people creating new products for better health worldwide” with all our employees around the world and are continuing to create and provide new values to the world to this day.

## Chemical Raw Materials from Bittern, the Salt Pan Residues

### A Global Company Started in Tokushima

The origin of the Otsuka group goes back to 1921, when Busaburo Otsuka, the founder of the Otsuka group, established Otsuka Seiyaku Kogyo-bu in Naruto, Tokushima Prefecture. The Company had just ten employees, when it started as a chemical raw material manufacturer, making magnesium carbonate from the residues (called “bittern”) left over after taking the salt out of seawater by the salt-production industry that was widespread in Tokushima back then.

In the Meiji period (1868-1912), Tokushima was one of Japan’s ten largest cities. In addition to Japan’s largest indigo dye industry, the city boasted secondary industries such as pharmaceutical and salt productions. It also had prosperous agriculture, forestry, and fishing industries that reaped the bounty of nature.

With the modernization of Japan at that time, entrepreneurial businesses began to spring up all over the country. In the Seto Inland Sea Coast area, an industry that made effective use of bittern from the area’s natural salt pans emerged, and many companies in Tokushima participated in the industry. Our group was also founded on that trend, which marked the beginning of a global company today operating in 28 countries and regions with 46,000 employees worldwide.





## Creation through Paradigm Shifts

### The Giant Tomato Tree in Our Birthplace

The Human Resource Development Institute, the training center for employees located in Tokushima, Japan, has several monuments depicting Sozosei (creativity), a concept that lies at the root of our group's corporate philosophy.

One of them is the Giant Tomato Tree. Whereas a normal tomato plant yields only about 50 to 60 fruits, our tomato tree puts forth around 10,000. The secret behind this lies in a paradigm shift. We abandoned the preconception that, "since tomato plants grow in soil, soil is essential." This enabled us to set the tomato plant's roots free from soil, using hydroponic cultivation instead. By drawing out the fecundity of the tomato tree, it yielded an amount of fruit that no one had considered possible.

Our Giant Tomato Tree and other monuments break through preconceptions and speak to the importance of paradigm shifts, while also communicating the message that we need to remain as a company brimming with creativity.



## Never-give-up R&D

# A Drug developed Over 26 years of Effort Brings Hope to Renal Disease Treatment

For us, the DNA of our group is found not only in displaying the creativity to do what others do not, but also in our stance of challenging what we believe correct over a long period of time with never-give-up spirit.

A demonstration of this is *Samsca/JINARC\*/JYNARQUE\*\**, a  $V_2$ -receptor antagonist that has grown into a core product of the Otsuka group. This drug discovery project began in 1983 with a physician's request: "I want a diuretic that excretes only water." Following 26 years of persistent research, the project came to fruition in 2009 with the launch of an aquaretic agent *Samsca*. For a typical company, closing down a drug discovery project extending to 26 years midway would be no great surprise. But the Otsuka group's commitment to actualize our corporate philosophy—"Otsuka-people creating new products for better health worldwide"—led to continuation of the research and development, and eventually the development of the product.

Following the launch, we have expanded the indications of *Samsca/JINARC/JYNARQUE* to the treatment of autosomal dominant polycystic kidney disease (ADPKD), a disease that did not have any curative medicines. Our never-give-up R&D has opened a new path to the treatment of an intractable kidney disease.

\*Brand name for ADPKD treatment in multiple regions outside Japan

\*\*Brand name for ADPKD treatment in the U.S.



Supporting people's health through treatment of diseases and maintaining health with innovative products developed out of our DNA

## From diagnosis to treatment Pharmaceutical Business

### Psychiatry and Neurology Area



Antipsychotic  
*ABILIFY*



Antipsychotic  
(Long-acting injectable)  
*ABILIFY MAINTENA*



Antipsychotic  
*REXULTI*



Pseudobulbar Affect  
(PBA) agent  
*NUEDEXTA*

### Oncology Area



Anti-cancer agent  
*TS-1*



Anti-cancer agent  
*LONSURF*



Aquaretic/ADPKD  
treatment  
*Samsca/JINARC/  
JYNARQUE*

### Cardiovascular and Renal System Area



<sup>13</sup>C-Urea breath agent for  
diagnosis of  
*H. pylori* infection  
*UBIT Tablet*

### Other Areas

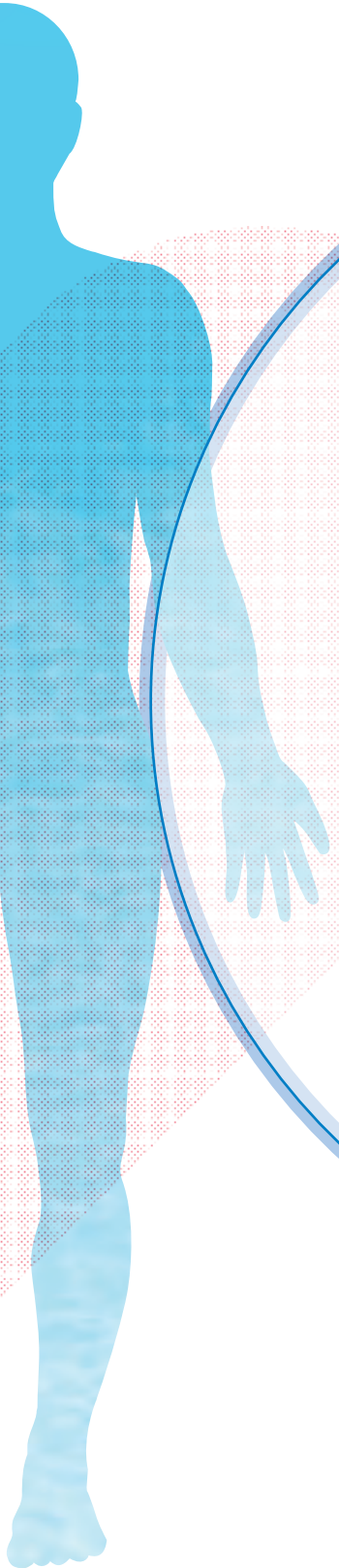


High-calorie infusion  
solution  
*ELNEOPA-NF*

Unmet  
medical  
needs



The Otsuka group contributes to the health of people worldwide by creating innovative products, encompassing the Pharmaceutical Business that addresses unmet medical needs, and the Nutraceutical Business that fulfills yet-to-be imagined consumer needs.



## Maintenance and improvement of day-to-day health Nutraceutical Business

### Functional Beverages



*POCARI SWEAT*



*ORONAMIN C DRINK*



*OS-1*



*Tiovita Drink*

### Functional Foods and Nutritional Supplements



*Calorie Mate*



*Gerblé*



*Nature Made*

### Other



*Daiya Foods Products*



*InnerSignal*



*Oronine H Ointment*

**Yet-to-be-  
imagined  
needs**



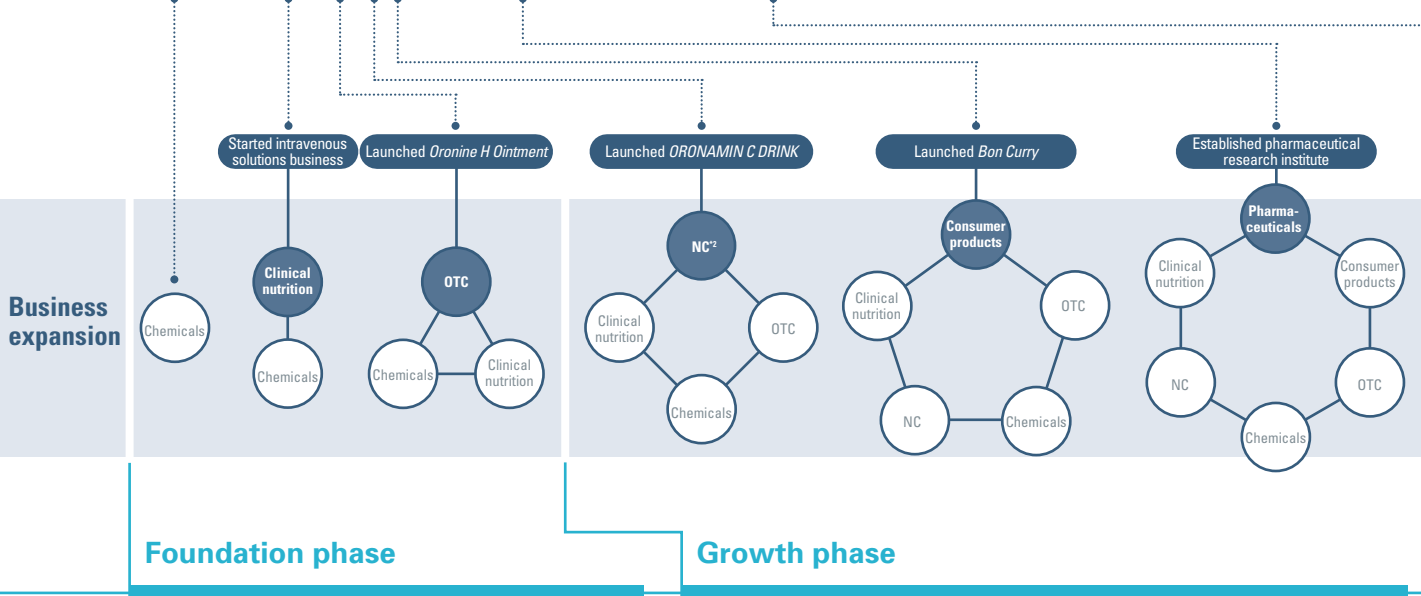
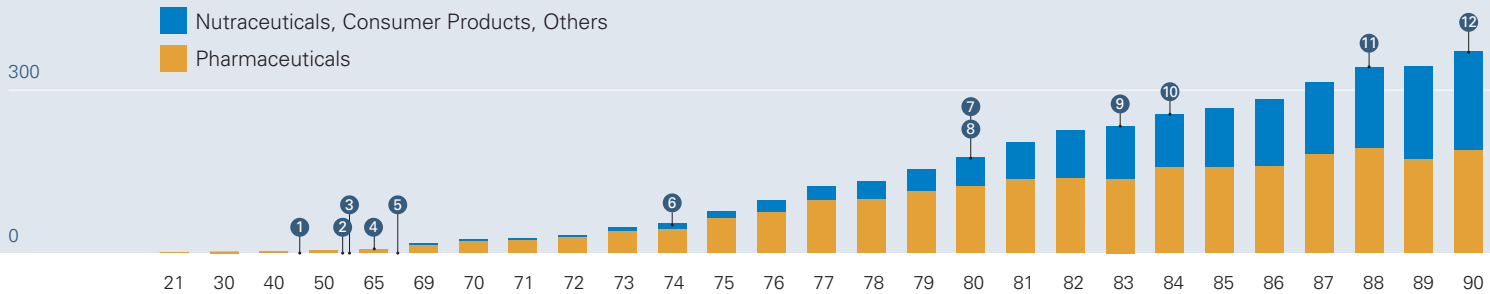
# Trajectory of Otsuka's Growth

## From chemical raw materials to beverages and pharmaceuticals

### History of product development



### Sales Trend

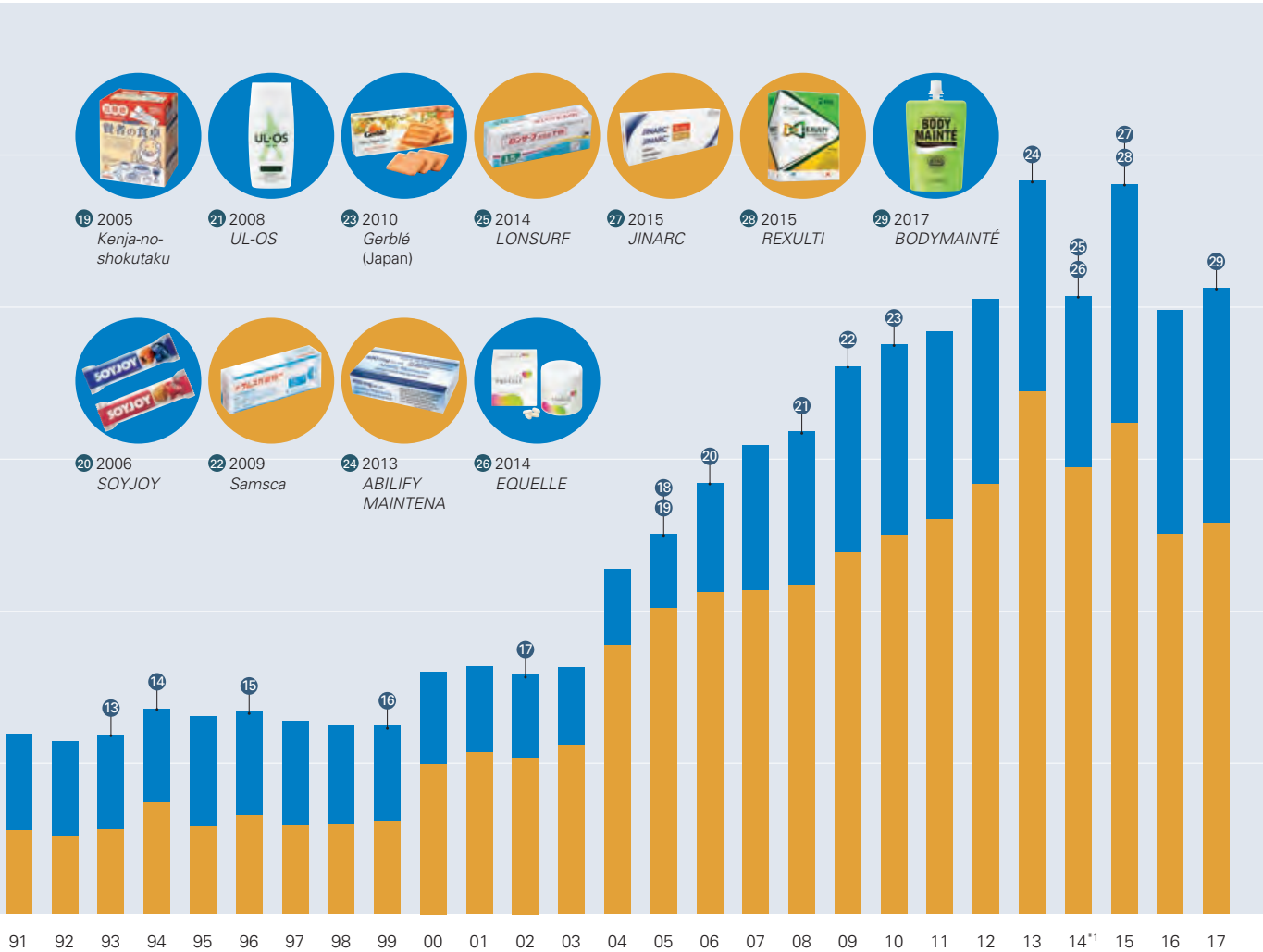


Started as a chemical raw material manufacturer in Naruto, Tokushima Prefecture, Japan

Opened the Tokushima Research Institute with the aim of in-house drug development. Numerous nutraceutical products opened up new markets, broadening the group's business



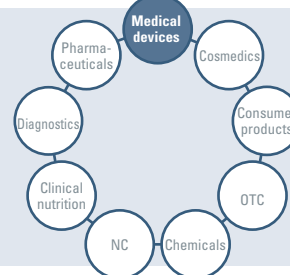
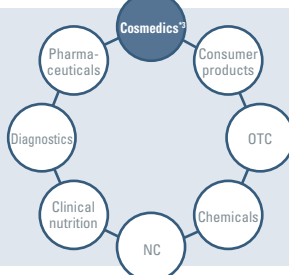
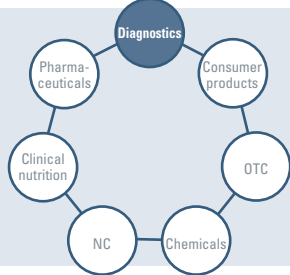
Since our foundation in 1921 as a chemical raw material manufacturer in what is now Naruto, Tokushima Prefecture, the Otsuka group has built on the intravenous solutions business that spurred the group's growth, and brought to market a succession of familiar products for consumers, including *Oronine H Ointment*, *Bon Curry*, *POCARI SWEAT*, and *Calorie Mate*, as well as pharmaceuticals such as the antipsychotic agent *ABILIFY*, a drug with a first-in-the-world mechanism of action. The Otsuka group has diversified its business as it continues to grow steadily.



Started diagnostics business

Launched InnerSignal

Established Otsuka Medical Devices



**International business development phase**

**Expansion phase**

Started aggressive global expansion

Pursuing further global growth

\*1 Due to a change in the consolidated fiscal year, fiscal 2014 (ended December 31, 2014) was a transitional period covering the nine months from April 1 to December 31, 2014.

\*2 Nutraceuticals

\*3 Cosmetics: cosmetics + medicine



# Otsuka's Value Creation Model

Promoting the creation of value called "health," with a focus on two core businesses

## Our Capitals

### Human capital

- Number of employees: 46,000\*
- Diversity and inclusion

Creation of value by diverse human resources  
▶ P.29

### Financial capital

Total assets: ¥2,480.3 billion

### Manufactured capital

- Manufacturing bases: 177\*

### Intellectual capital

- R&D expenses (pharmaceutical business):  
¥165.5 billion
- Late-phase development projects  
40 projects

Projects in Phase II and later stages ▶ P.35

- Brand

### Social and relationship capital\*

- 183 companies
- 28 Countries and regions

### Natural capital

- Climate change
- Water resources
- Resource symbiosis

Environmental initiatives ▶ P.59

## Our Strengths

Unwavering corporate philosophy and Otsuka's DNA of *Jissho* (actualization) and *Sozosei* (creativity)

Message from the President  
▶ P.17

Total healthcare through diverse businesses

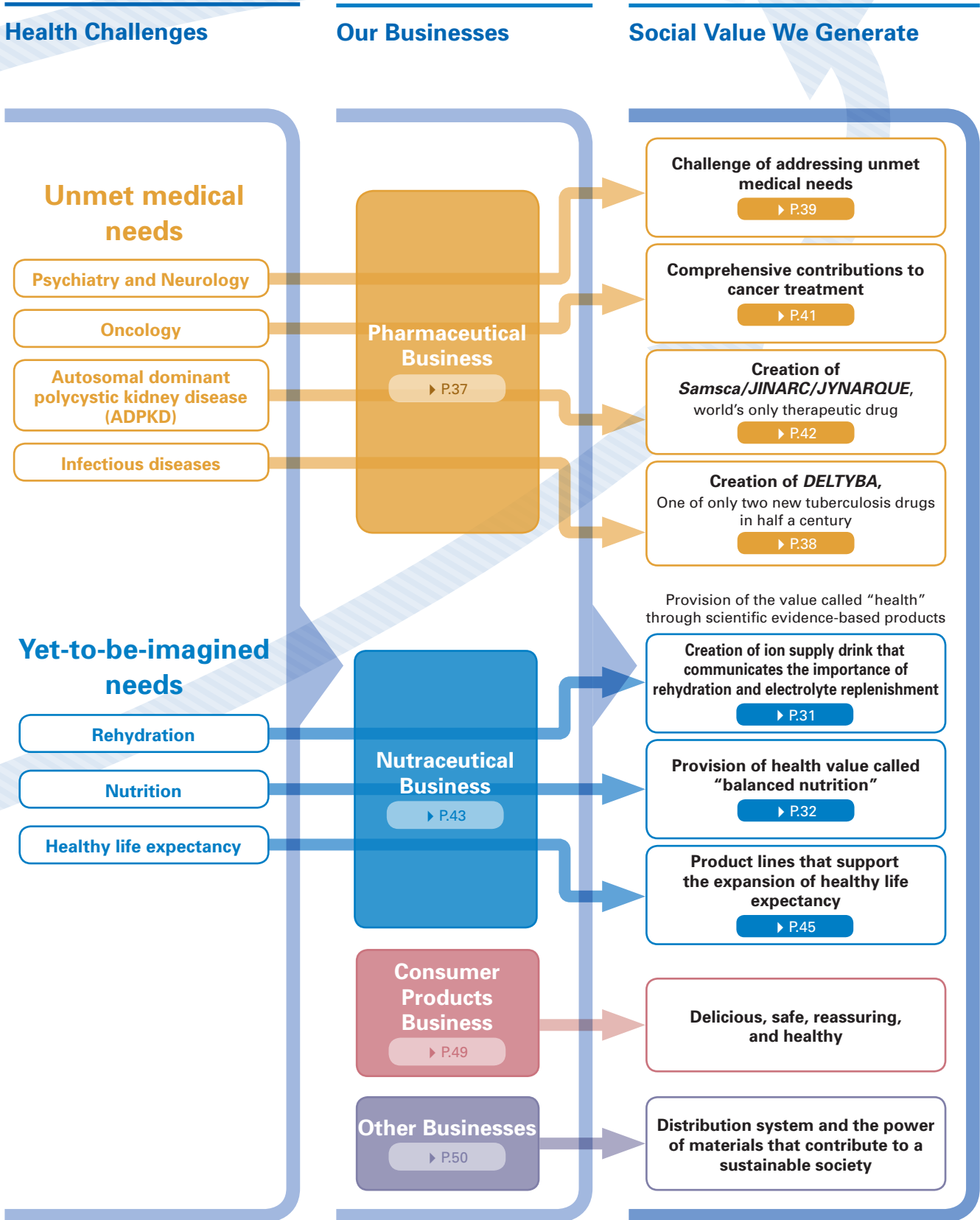
Brand strength established through value creation

Otsuka's original marketing ▶ P.31

\* Scope: Otsuka Holdings and its 152 subsidiaries and 30 affiliated companies (as of December 31, 2017).

# Putting into practice what only Otsuka can achieve, to become an indispensable contributor to people's health worldwide.

Otsuka-people creating new products for better health worldwide





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### About the Integrated Report

Beginning with its report for fiscal 2017, Otsuka Holdings has integrated its Annual Report and CSR Report, issuing as an Integrated Report that brings together financial information and non-financial information. Through this report, we hope to deepen stakeholders' understanding of our group, which aims "to become an indispensable contributor to people's health worldwide."

#### ■ Reporting period

Fiscal 2017 (January 1, 2017 to December 31, 2017), with some information after January 2018 included.

#### ■ Scope of Reporting

In principle, this report covers Otsuka Holdings Co., Ltd. and its subsidiaries. Activities and data of more restricted scope are noted in the report.

#### ■ Reference guidelines

- International Integrated Reporting Framework, IIRC
- Sustainability Reporting Guidelines (G4), GRI
- ISO26000
- Environmental Reporting Guidelines (2012 edition), Ministry of the Environment

#### Precautions Regarding Forward-Looking Statements

This integrated report summarizes the operating and financial results of Otsuka Holdings Co., Ltd. and its subsidiaries for fiscal 2017 (January 1, 2017 to December 31, 2017). It also includes information regarding selected material events which occurred between January 1, 2018 and the date of publication. The report contains forward-looking statements pertaining to plans, projections, strategies, and prospects for the Otsuka group of companies. These statements are based upon current analysis and belief in light of the information available on the issuing date of the report. Actual results may therefore differ due to the risks and uncertainties that may affect Otsuka group operations.

#### Medical information

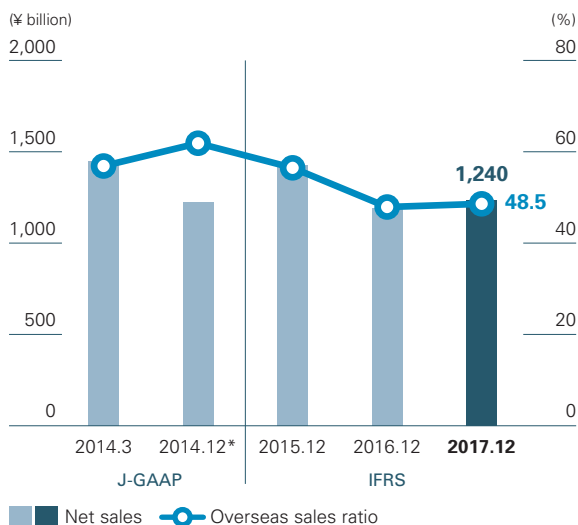
In this integrated report, a unified brand name is used when a product has different brand names in different countries or regions for the sake of readability. Therefore, these products may not be available in all countries, or may be available under different brand names, for different indications, in different dosages and strengths.

Please note that the information regarding pharmaceutical products (including products under development) is not intended as any kind of advertising, promotion or medical advice.



## Financial Highlights

### Net sales



Net sales

**¥1,240** billion

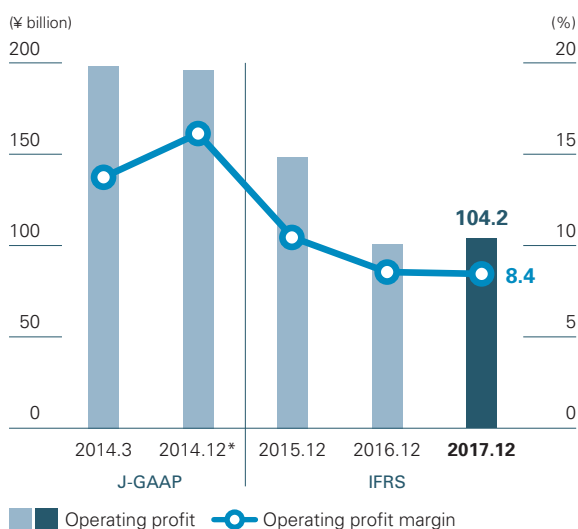


Overseas sales ratio

**48.5%**

Consolidated net sales grew 3.7% from the previous year. This was due to growth in sales of the three global products, *ABILIFY MAINTENA*, *Samsca/JINARC*, and *REXULTI* that are the growth drivers, and new drugs in Japan in the pharmaceutical business, as well as growth of the nutraceutical business in overseas, particularly in the functional foods business in Europe and the U.S. nutritional supplements business.

### Operating profit



Operating profit

**¥104.2** billion

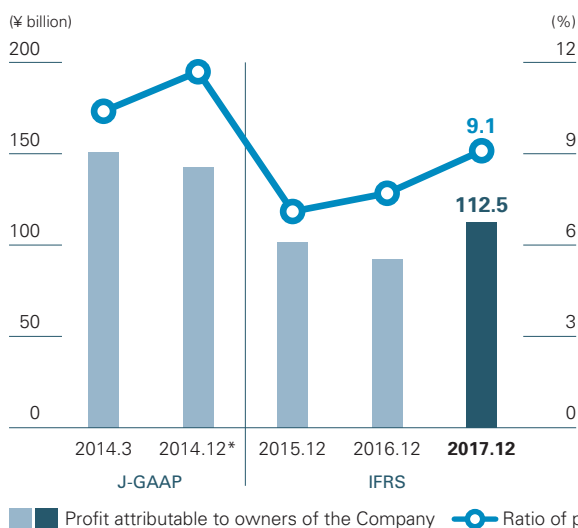


Operating profit margin

**8.4%**

Consolidated operating profit increased by 3.0% from the previous year due to an improvement in profitability and an increase in investment gains under the equity method in the nutraceutical business, despite a decline of operating profit in the pharmaceutical business, due to active R&D investments and the impairment loss.

### Profit attributable to owners of the Company



Profit attributable to owners of the Company

**¥112.5** billion

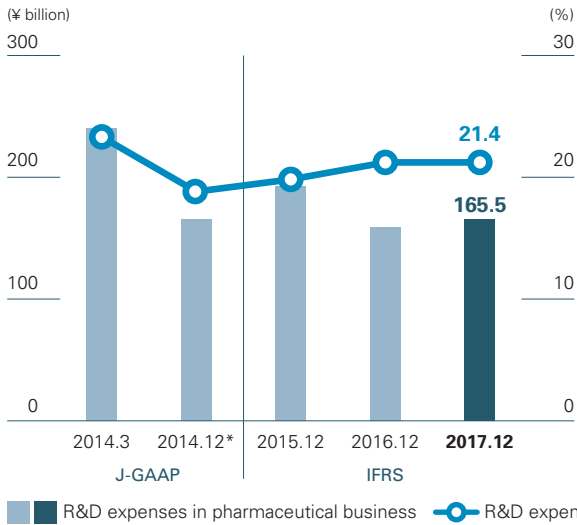


Ratio of profit attributable to owners of the Company

**9.1%**

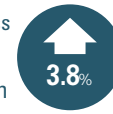
Consolidated profit increased by 21.5% from the previous year mainly due to the reversals of deferred tax liability recorded in the U.S. over the U.S. tax reform.

## R&D expenses in pharmaceutical business



R&D expenses in pharmaceutical business

**¥165.5** billion

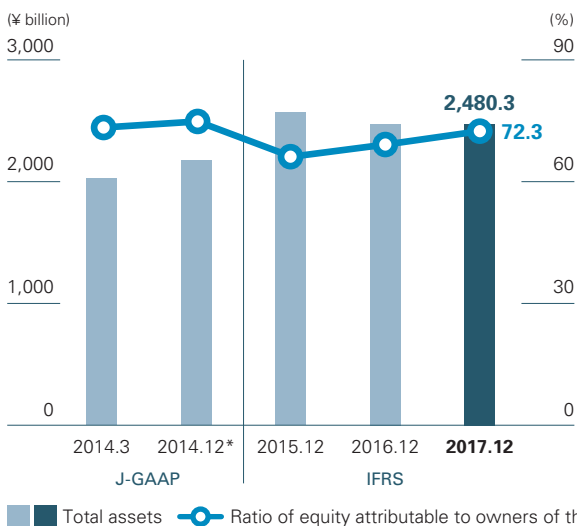


R&D expenses ratio in pharmaceutical business

**21.4%**

R&D expenses in pharmaceutical business increased by 3.8% from the previous year, as a result of active R&D investments to maximize the product value in the core therapeutic areas of psychiatry and neurology, oncology and cardiovascular and renal system.

## Total assets



Total assets

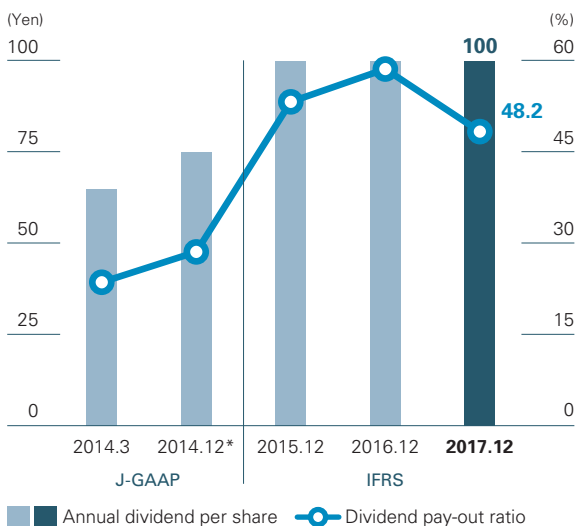
**¥2,480.3** billion

Ratio of equity attributable to owners of the Company to total assets

**72.3%**

High ratio of equity attributable to owners of parent to total assets maintained. While strengthening the competitiveness and actively pursuing investments that will lead to growth, we will engage in efficient management.

## Annual dividend per share



Annual dividend per share

**¥100**

Dividend pay-out ratio

**48.2%**

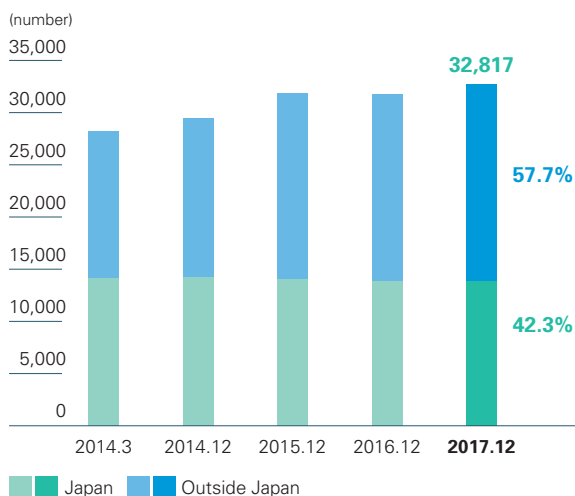
The Otsuka group views the distribution of profits to shareholders as a key management policy. We will continue to execute a balanced return of profits in line with our profit growth.

\*Due to a change in the consolidated fiscal year, fiscal 2014 (ended December 31, 2014) was a transitional period covering the nine months from April 1 to December 31, 2014.



## Non-Financial Highlights (Environmental data is limited to the past three years due to a change in collation criteria from 2016.)

### Number of employees



\*Scope: Otsuka Holdings and its 153 subsidiaries

Number of employees

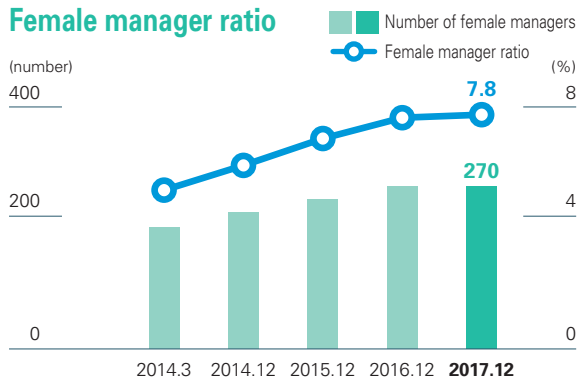
**32,817**

Ratio of employees outside Japan

**57.7%**

We strive to utilize diversified human resources in order to adapt to the acceleration of the global business expansion and the varied social needs. Our employee ratio outside Japan increased from 50% in 2014 to approximately 58% in 2017.

### Female manager ratio



	2014.3	2014.12	2015.12	2016.12	2017.12
Otsuka Pharmaceutical	7.11%	7.75%	8.56%	9.04%	<b>9.25%</b>
Otsuka Pharmaceutical Factory	3.01%	3.54%	4.10%	4.64%	<b>4.68%</b>
Taiho Pharmaceutical	3.16%	3.94%	5.23%	6.15%	<b>6.25%</b>
Otsuka Chemical	6.87%	7.19%	8.15%	8.63%	<b>9.15%</b>
Otsuka Warehouse	4.94%	7.59%	9.38%	10.39%	<b>7.06%</b>
Otsuka Foods	3.16%	4.76%	5.14%	6.95%	<b>7.26%</b>

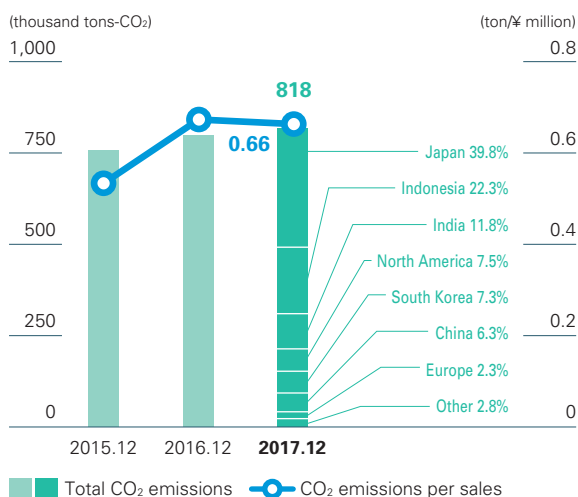
\*Scope: 6 companies (non-consolidated): Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, Otsuka Warehouse, and Otsuka Foods

Female manager ratio

**7.8%**

The Otsuka group believes that the active involvement of diverse human resources is a vital element in the growth of a company, including the strengthening of systems to invoke creativity and respond to the demands of society. Accordingly, we make efforts to promote active participation of female employees.

### Total CO<sub>2</sub> emissions



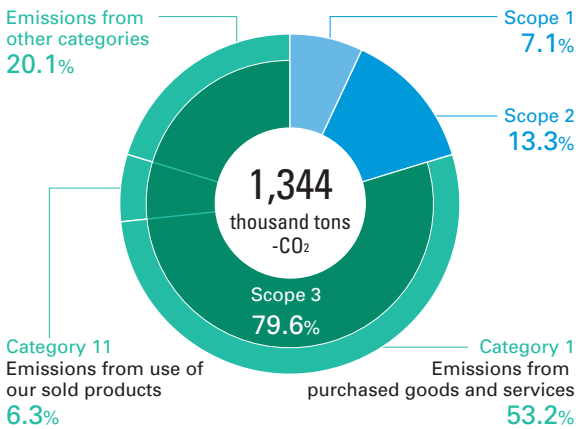
\*Scope: Calculated for the consolidated subsidiaries of the Otsuka group, and the companies that constitute the top 95% or more of CO<sub>2</sub> emissions originating from energy.

Total CO<sub>2</sub> emissions

**818** thousand tons-CO<sub>2</sub>

The Otsuka group is working to reduce total CO<sub>2</sub> emissions by using renewable energy such as biomass fuel and making use of energy more efficient. In fiscal 2017, total CO<sub>2</sub> emissions increased from the previous year, mainly due to the acceleration of our global expansion and resulting expansion of business activities overseas.

## GHG emissions throughout the value chain in fiscal 2017



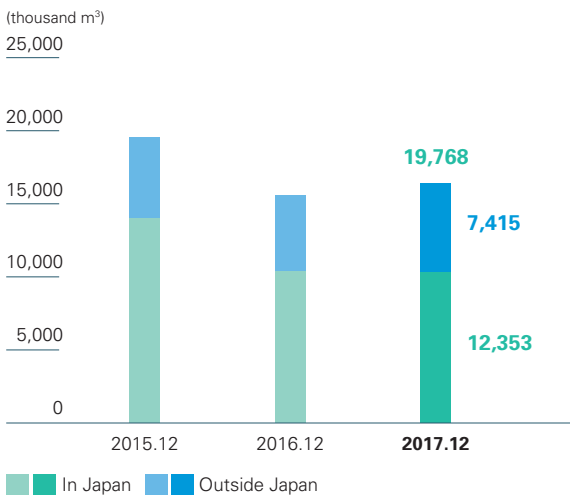
\*Scope: 5 companies (non-consolidated): Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, and Otsuka Foods

### GHG emissions

**1,344** thousand tons-CO<sub>2</sub>

The Otsuka group assesses environmental impacts throughout the value chain for its five major companies in Japan with large environmental impacts. In addition to emissions from corporate activities (Scope 1, 2), we calculate the emissions stemming from the activities of suppliers, customers, and other parties (Scope 3). We will continue our efforts to calculate Scope 3 emissions, with the aim of further reducing our CO<sub>2</sub> emissions throughout the value chain.

## Water usage



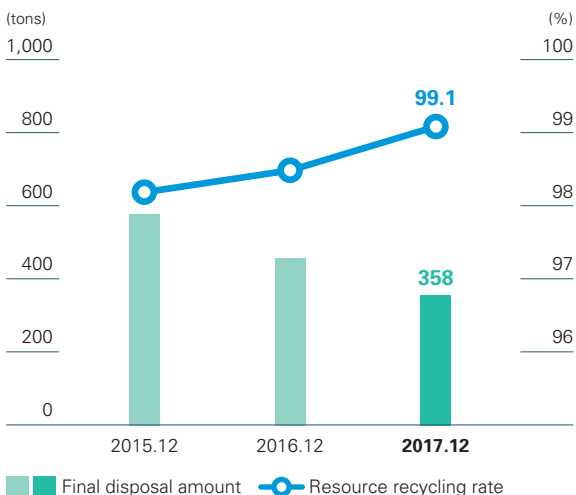
\*Scope: Calculated for the consolidated subsidiaries of the Otsuka group, and the companies that constitute the top 95% or more of CO<sub>2</sub> emissions originating from energy.

### Water usage

**19,768** thousand m<sup>3</sup>

We assess the state of water risk and the amount of water used at our main manufacturing sites around the world, as we work to achieve community-based management and effective use of water resources to achieve a sustainable society.

## Resource recycling rate and final disposal amount



\*Scope: 13 major consolidated subsidiaries in Japan

### Resource recycling rate

**99.1** %

The 13 Otsuka group companies in Japan have been promoting recycling and reuse of resources and achieved 99.1% recycling rate and zero emissions (based on our internal standard of a 99% or higher recycling rate) in fiscal 2017.

We will continue striving for zero emissions and undertaking the 3Rs (Reduce, Reuse, and Recycle).



## Message from the President

# Delivering Next-generation Total Healthcare to the World

## An Enduring Corporate Philosophy and Value Creation for Further Leaps Forward

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### The Business Environment and Our Goal

#### **Contributing to People's Health Worldwide**

In the healthcare field changes are occurring constantly. Due to factors such as the ageing of populations, changing patterns of disease prevalence, and earlier diagnoses, and the accompanying increase in demand for medicines, the global pharmaceutical market has continued to grow and is now valued at more than one trillion U.S. dollars. Competition for scale and growth is also intensifying, reflected by the frequency of mergers and acquisitions and the often-related industry restructurings. Also, escalating research and development costs necessitate huge investment, encouraging risk-sharing alliances. Simultaneously, measures to control and optimize medical costs are expanding in the U.S. and many other countries, with the aim of curbing increasing drug costs.

A big wave of technological innovation has extended to the healthcare sector. Companies are utilizing the latest technologies, including big data analysis and artificial intelligence, for drug discovery and development. This has led to rising expectations of medical breakthroughs, such as development of new drugs for previously untreatable conditions. As a result, we are seeing improving healthcare outcomes in

**Tatsuo Higuchi**

President and Representative Director, CEO

A white, cursive handwritten signature of Tatsuo Higuchi is overlaid on the bottom left of the portrait.

different diseases and geographies around the world. As the health-care sector approaches these major inflection points, we constantly ask ourselves what we need to do to contribute and to thrive in this environment. And the answer is simple—unwavering goals and continued innovations.

Since its foundation, the group has maintained an unwavering commitment to its corporate philosophy—“Otsuka-people creating new products for better health worldwide.” Guided by this philosophy, we have constantly pursued what only we can achieve, ideally pre-anticipating changes in the business environment, and when that is not possible, responding flexibly and swiftly to the changes.

Seeking to meet the universal aspiration of people around the world to be healthy, we regard healthcare as a whole-body domain, and our activities are based on two pillars: the pharmaceutical business, which extends from the diagnosis of diseases through to treatment, and the nutraceutical business, which helps people maintain and improve day-to-day health. Walking alongside customers to identify and meet their healthcare needs, we have introduced innovative products and services that have created markets that previously did not exist.

## Message from the President

### Otsuka's Business Model



#### **Contributing to people's health through pharmaceuticals and nutraceuticals**

In recent years many pharmaceutical companies, based on a business review and concentration strategy, increasingly have focused on areas that require deep and specific expertise. For example, some emphasize new drug development in areas such as oncology while others are dedicated to generic drugs in emerging economies. Amid such trends, why did the Otsuka group boldly choose a business portfolio encompassing both pharmaceuticals and nutraceuticals?

It is not that these two areas of health are unrelated to each other; in fact, they are as closely related as the two sides of a coin. Through these two businesses, we can contribute to the health of "all" people, and this is the most compelling reason why we have built a portfolio covering both. Second, we apply the exacting scientific standards that apply in our prescription drug business to our development of new nutraceutical products and to our evaluation of their health benefits. This assures our customers that the standards underpinning our products are highly credible.

The creation of products for the treatment and prevention of diseases, as well as for the maintenance and improvement of health, is precisely the role of the Otsuka group of companies. Once we have fulfilled it, we will be far advanced toward our ultimate goal, which is to become an indispensable contributor to people's health worldwide.

Furthermore, there is a positive momentum to spur to our strategy. Healthcare increasingly is about not only curing diseases but also about maintaining and improving everyday health. This trend is anticipated to eventually improve quality of life and extend healthy life expectancy. Accordingly, products and services with the themes of maintaining and improving health are showing excellent growth.

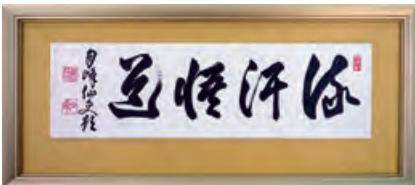
By developing our pharmaceutical and nutraceutical businesses, we can build a resilient portfolio and a business structure conducive to sustainable growth. Pharmaceuticals is a higher-risk, higher-return business. If our R&D succeeds, we can look forward to commensurate returns once products are launched. On the other hand, multiple factors can adversely affect our earnings. These include expiration of drug patents and government measures to reduce and optimize medical costs, exemplified by the lowering of drug prices in Japan.

In contrast, nutraceuticals is a medium-risk, medium-return business. Although we cannot expect profits margins akin to the pharmaceutical business, we can build a stable, long-term earnings foundation if we are able to provide added value through innovative products while continuing to invest in a solid brand image. In order to achieve sustainable growth, a company must lay the foundation for it and we believe that having a diversified business portfolio gives us strength to do so.



The Otsuka group has a long and proud history and will soon celebrate the 100<sup>th</sup> anniversary of our founding. At this point in time, the pharmaceutical business is our main growth driver. In the 1990s, however, our nutraceutical business was larger in scale. Without the nutraceutical business, our R&D efforts, resulting in multiple drugs that are current growth drivers, would not have succeeded.

## DNA and Core Competency



*Ryukan godo*  
A calligraphic work by Otsuka founder, Busaburo Otsuka



POCARI SWEAT created the market for ion drinks

### Beliefs inherited since our foundation

From our foundation in 1921 to the present, based on enduring principles, Otsuka has always been committed to manufacturing innovative and creative products that contribute to the health of the people around the world. In our quest to create and deliver new value, we ask ourselves the key questions: What are the things that only we can achieve? Are we pursuing an innovative approach without being captive to existing concepts and notions? Do our products appeal to consumers, patients and healthcare providers around the world? Are we contributing to an improvement in people's health?

Whenever we encounter difficulties, we return to the enduring principles implicit in our corporate philosophy and pursue our business without wavering from our goals. This is how we have succeeded.

Take *POCARI SWEAT* as an example. Here, we have consistently conveyed the concept of a "rehydration drink" that enables people to easily replenish fluids and electrolytes lost through perspiration. Over a period of time, this led to the creation of a new market for ion drinks and the establishment of our brand. The growth of *POCARI SWEAT* is not the result of short-term factors and trends but proof of the correctness of decisions and actions based on our corporate philosophy.

We have inherited the three elements of Otsuka's DNA passed down by three past generations of Otsuka family leaders—*Ryukan godo* (by sweat we recognize the way), *Jissho* (actualization), and *Sozosei* (creativity). *Ryukan godo* means the core substance of something that can be discovered only through hard work and practice. *Jissho* is self-actualization through achievement, completion, and the discovery of truth. *Sozosei*, or "creativity," epitomizes Otsuka's corporate culture.

Today, we are a corporate group with consolidated net sales of nearly USD 11 billion. The aforementioned three terms that have been passed down by Otsuka's family leaders, together with our venture spirit implicit in our corporate philosophy, are shared with each and every employee, and deeply penetrate our organization and systems as unchanging values that govern our daily business activities.

## Message from the President

### Becoming an Indispensable Company



The Human Resource Development Institute supports the deployment of diverse human resources

### Diversified Human Resources Drive Business Growth

What else is required for the Osaka group to become an indispensable contributor to people's health worldwide? The answers lie in "human resources" and "innovation." Using these two elements as a driving force, while applying knowledge and technologies accumulated to date, fosters a harmonious environment for product creation. When this happens, innovative products are born—products help us address health issues and achieve sustainability.

The Otsuka group comprises employees with diverse backgrounds. We encourage them to learn our corporate culture and share Otsuka values, which emphasize creativity, then we foster and promote them as appropriate.

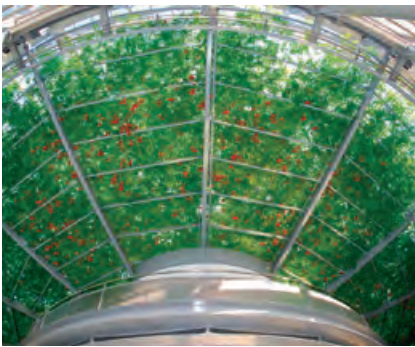
At present, the Otsuka group has around 46,000 employees across 28 countries and regions, with employees outside of Japan representing approximately 60% of our workforce. By accepting and sharing different languages, cultures, backgrounds, experiences, and perspectives, we create a flexible and open-minded corporate culture that can respond appropriately to the diversification of social needs and the globalization of our business.

Among various initiatives, at the end of 2017 Otsuka became a signatory to the Women's Empowerment Principles (WEPs)\*, a set of action principles to guide companies seeking to foster the advancement of women. We will continue strengthening our organization by promoting the advancement of women.

Developing human resources as next-generation leaders is an important management priority for sustaining the group's growth and increasing its value as an innovative organization. The Otsuka group undertakes a wide range of human resource development programs. These include opportunities for employees to learn corporate culture, to share values that emphasize creativity together with management, and to study abroad.

The mental and physical health of each employee is also essential to achieve sustainable growth, and providing a healthy and supportive work environment is key to this endeavor. In April 2017, we issued the Otsuka Group Declaration on Health. In line with this, we strive to create a work environment where employees can exercise their full abilities and display their originality, promote health of employees, and enhance our organizational strength.

\* Women's Empowerment Principles (WEPs) is a set of action principles prepared jointly by the United Nations Global Compact and the United Nations Entity for Gender Equality and the Empowerment of Women. There are 1,854 corporate signatories as of April, 2018.



Our Giant Tomato Tree symbolizes the importance of paradigm shifts, necessitating the abandonment of preconceptions

## Pursuing value for customers and timely innovations

The group has been creating new markets by creating pharmaceuticals that address unmet medical needs, as well as nutraceuticals that address yet-to-be imagined needs of consumers. In the pharmaceutical business, we developed a drug tablet embedded with microchip—the world's first digital medicine which integrates a pharmaceutical and a medical device. By recording ingestion of the medication, the aim is to advance the care that can be offered to patients with schizophrenia. We also developed one of only two new therapeutic agents in the past 50 years for the treatment of multi-drug resistant tuberculosis (MDR-TB), which has become a serious health problem in some countries.

In the nutraceutical business, meanwhile, we utilize both our new and in-line assets, cultivated through experience and achievements to date, to create various new innovations. These include a food product containing soybean-derived equol, resulting from R&D on women's health, and nutritious foods that aim to help extend healthy life expectancy.

Through a diversified workforce and the valuable perspectives they contribute, the company can create sustainable value together with local communities, accumulate assets, and repeat a cycle of virtuous innovation that also returns a portion of profits to society. Consideration of CSR in our business activities is also an important part of becoming an indispensable contributor to people's health worldwide.

## Progress of Medium-Term Management Plan

Feature 1: Second Medium-Term Management Plan ▶ P.25

### Extending Fiscal 2017 Results to the Plan's Final Year

The Otsuka group is forging ahead with its Second Medium-Term Management Plan, covering the five-year period from fiscal 2014 to 2018. The plan's emphasis is on investment for sustainable growth, structural reforms aimed at revenue diversification, and reinforcement of core therapeutic franchises in the pharmaceutical business and the pursuit of transformation and structural reform in the nutraceutical business.

In fiscal 2017, the fourth year of the plan, according to schedule, we posted healthy increases in sales of new pharmaceutical products and invested aggressively in R&D with a view to our next medium-term management plan. We also entered numerous transactions, including business acquisitions, alliances, and licensing agreements, as set out in the current plan. We achieved year-on-year increases in revenue and profit and continued on a solid growth path.

In the pharmaceutical business, we posted steady increases in sales of three products marketed in many countries. *ABILIFY*



## Message from the President



*MAINTENA*, a long-acting injectable antipsychotic of *ABILIFY*; the new antipsychotic agent *REXULTI*; and *Samsca/JINARC*, an aquaretic agent with several indications such as cardiac edema and also as a treatment for autosomal dominant polycystic kidney disease (ADPKD)—while sales of the anti-cancer agent *LONSURF* in Europe greatly exceeded initial targets. Thanks to growth in these new products, we solidified our business foundation.

We further reinforced the group's business foundation with regulatory approvals in the U.S. for two products: *Abilify MyCite*, the first-ever digital medicine and *JYNARQUE* for the treatment of the inherited kidney disease ADPKD. With respect to product development, we obtained the rights to centanafadine, for the treatment of attention-deficit hyperactivity disorder (ADHD), through our acquisition of Neurovance. We also formed an agreement covering Japan with Teva Pharmaceutical Industries for fremanezumab, for the prevention of migraine. In addition, we expanded the geographic coverage of our collaboration with Akebia Therapeutics for the joint development and marketing of vada-dustat, a treatment for renal anemia. In these ways, we laid many cornerstones for our next stage of growth.

In the nutraceutical business, we reported solid performance, posting steady growth for existing products, while expanding our portfolio to boost synergies. Specifically, in the U.S. we posted healthy growth in the nutritional supplements businesses of Pharmavite and FoodState, while in Europe Nutrition & Santé performed steadily under difficult economic conditions. To further expedite global expansion, we acquired Daiya Foods, which develops, manufactures, and markets plant-based foods in North America, and we launched *EQUELLE* in the U.S. to support women's health. In Japan, we fostered new products that parallel our global expansion efforts. Highlights included the launch of *BODYMAINTÉ*, a new brand of conditioning food to support athletic performance. As a result, the nutraceuticals business achieved an operating margin of 12%, maintaining the 10% or higher numerical target of our medium-term management plan.

Fiscal 2018, the final year of the Second Medium-Term Management Plan, will be a year for continuing the diversification of our revenue structure. When the plan was launched, the antipsychotic agent *ABILIFY* accounted for around 40% of total net sales, and our challenge was to secure other sources of revenue. Since then, however, we steadily implemented the priority measures of the plan, and thanks to growth in each core field, we are achieving revenue diversification. However, some initiatives have been insufficient and some targets remain unattained. To address these issues, we will again formulate and execute strategies according to our corporate philosophy, in our quest to further increase corporate value.

## Governance-related Initiatives



Our research institute in Tokushima Prefecture, the birthplace of the Otsuka group, serves as a center for improving corporate value and addressing health challenges

### Targeting Sustained Growth and Increased Corporate Value

Strengthening corporate governance is a priority in our quest to achieve sustainable growth and improve corporate value over the medium and long term.

The Otsuka group established its Corporate Governance Guidelines in November 2015. In February 2017, we formed the Corporate Governance Committee to serve as an advisory body to the board of directors, with the aims of strengthening and increasing the transparency of governance. We also set up the Otsuka Group Global Code of Business Ethics as a guide for employees around the world to observe, and we established the Otsuka Group Global Anti-Corruption Policy, which lays out our firm stance against corruption. These codes and policies require that each employee works with a high standard of ethics and fulfills their responsibilities to society.

In addition, the company has appointed three outside directors, with extensive experience and insights in multiple fields, capable of promoting diversification and deepening discussions at board meetings. By incorporating a management oversight function based on fair-minded and independent perspectives, we can reaffirm whether or not decisions of the board of directors conform to our management and corporate philosophies.

In November 2016, we also became a signatory to the United Nations Global Compact, declaring some of our key obligations as a responsible corporate citizen. As a signatory, we express our support for the Global Compact's ideals while at the same time helping achieve the Sustainable Development Goals (SDGs) adopted at a United Nations summit.

Going forward, we will continue addressing health issues with innovative products and solutions, while emphasizing sustainable growth and improved corporate value as we target our ultimate goal, which is to become an indispensable contributor to people's health worldwide. We invite all of our stakeholders to count on the Otsuka group to deliver next-generation total healthcare to the world, and ask for their continued support.

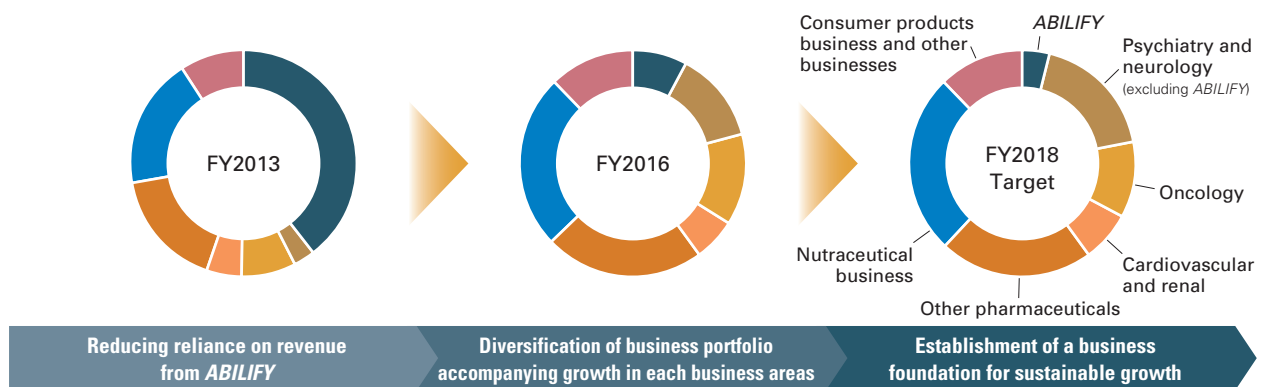
## Feature 1: Second Medium-Term Management Plan (2014-2018)

Establishing diversified revenue structure to achieve sustainable growth

—To become an indispensable contributor to people's health worldwide

In our Second Medium-Term Management Plan (hereinafter "the Plan") with fiscal 2018 as its final year, we have set forth strategic frameworks of "strengthening core therapeutic areas" in the pharmaceutical business and "pursuing transformation and structural reform for growth" in the nutraceutical business. We are working to materialize our corporate philosophy of "contributing to the health of people worldwide" through growth in these two core businesses and through realization of sustainable growth by establishing a diversified business portfolio.

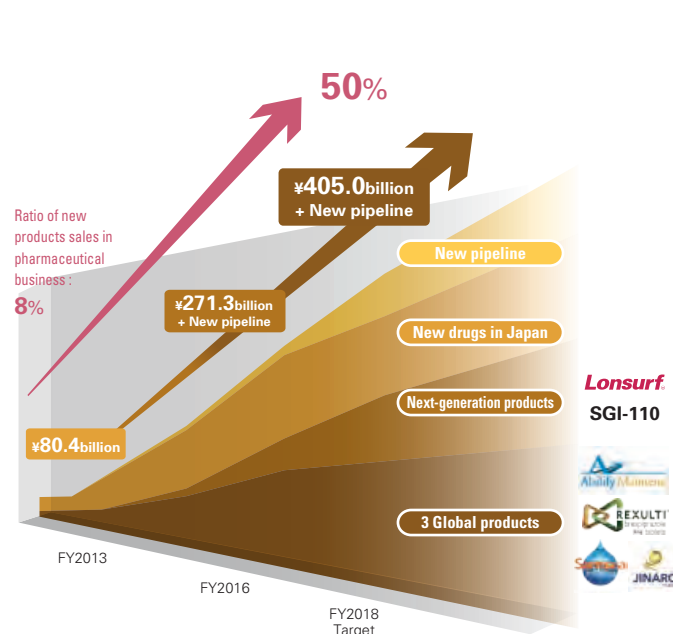
### Diversification of business portfolio



### Pharmaceutical Business | Strengthening core therapeutic areas

Our pharmaceutical business will strengthen its franchises, centered on the psychiatry and neurology, and oncology areas, in order to address unmet medical needs and achieve creation of new values.

### Early maximization of value in new products



Under the Plan, we are actively investing management resources to apply for approvals, add new indications, and expand our sales areas, with the aim of the early maximization of value in a new product lineup that is a driver of our growth. Our new products consist of three global products composed of the antipsychotic agent (long-acting injectable) *ABILIFY MAINTENA* (generic name: aripiprazole), antipsychotic agent *REXULTI* (generic name: brexpiprazole), and V<sub>2</sub>-receptor antagonist *Samsca/JINARC/JYNARQUE* (generic name: tolvaptan); and the next-generation products composed of the anti-cancer agent *LONSURF* (generic names: trifluridine/tipiracil) and *SGI-110* (generic name: guadecitabine); and new drugs in Japan. In fiscal 2018, the final year of the Plan, we will raise the percentage of these new products sales ratio to 50% (compared with 8% in fiscal 2013) in the pharmaceutical business, as we work to achieve diversification of our business portfolio.

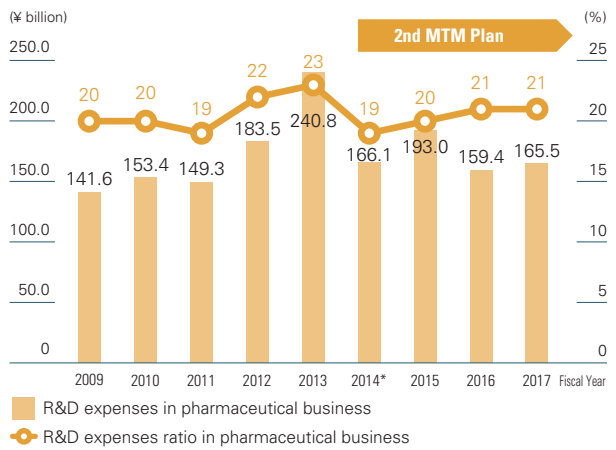




## Acceleration of R&D investments in core therapeutic areas

The Otsuka group seeks to contribute to patients around the world through new value creation, achieved by its original and innovative product lineup. Under the Plan, we continue high-level investments in R&D as we work to strengthen our drug discovery capabilities and maximize the value of our new product lineup that drives growth, with a focus on core therapeutic areas. At the same time, by investing in external assets to strengthen the development pipeline that promise synergies with the know-how and assets of our group, we are conducting R&D activities aimed at achieving sustainable growth and resolving health issues which lie beyond.

### Continuing high-level R&D investments



\* Due to a change in the consolidated fiscal year, fiscal 2014 (ended December 31, 2014) was a transitional period covering the nine months from April 1 to December 31, 2014.

## New products expansion through aggressive growth investment

At the beginning of 2nd MTM Plan			Present		
Europe	Japan	U.S.	Europe	Japan	U.S.

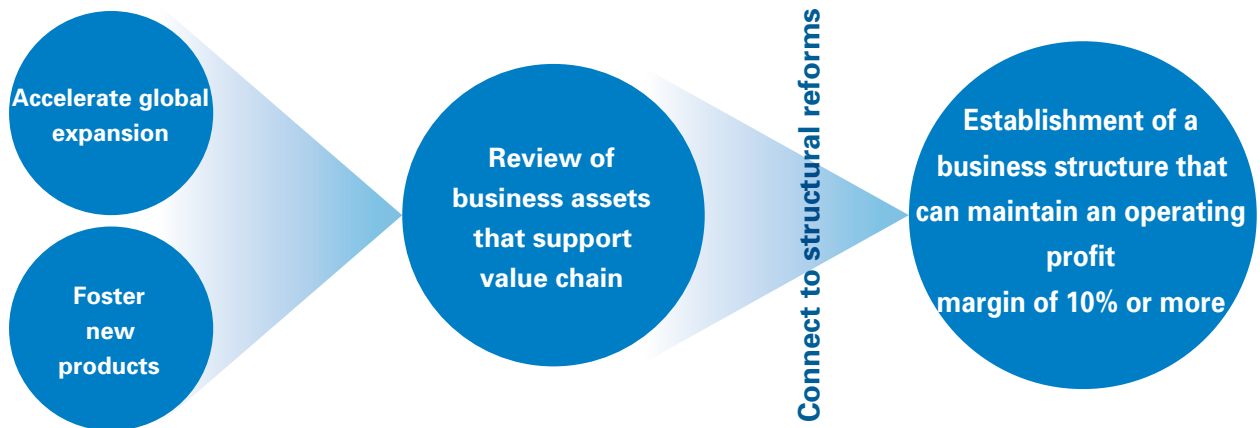
[ Filed as of Dec. 31, 2017 ]

## Feature 1: Second Medium-Term Management Plan (2014-2018)

Establishing diversified revenue structure to achieve sustainable growth  
—To become an indispensable contributor to people’s health worldwide

### Nutraceutical Business | Pursuing transformation and structural reform for growth

In the nutraceutical business, we are executing the two strategies of accelerating global expansion and fostering new products, and are undertaking structural reform of the business through the review of business assets. In doing so, we are working to establish a business structure that can maintain an operating profit margin of 10% or more.



## Accelerate global expansion

In the Plan, we position the growth of global brands, such as *POCARI SWEAT*, *Nature Made*, and the products of Nutrition & Santé, as one of the most important strategies in the nutraceutical business. The ratio of

total sales outside Japan, which was 48% in fiscal 2013, grew to 58% in fiscal 2017\*, contributing greatly to the growth and profitability in the nutraceutical business.

\* Based on JGAAP in fiscal 2013, IFRS in fiscal 2017.

### TOPICS

#### Acquisition of fast-growing, plant-based foods manufacturer Daiya Foods

Daiya Foods Inc. (Vancouver, Canada) develops cheese alternatives, yogurt alternatives, dressings, desserts made with plant-derived ingredients. Against a backdrop of growing health consciousness, the plant-based foods company is continuing to grow rapidly, primarily in North America. By adding the new product category of plant-based foods, Otsuka enhances the product portfolio of the nutraceutical business, while seeking for expanding its business in North America, creating synergies through sharing R&D, manufacturing technologies and expertise, and further growth.



## Foster new products

While accelerating our global expansion, we are responding to yet-to-be-imagined needs in Japan and actively investing management resources in the development and fostering of new products that will create new value. With these new products, we are working to grow in Japan as well as to expand our businesses outside Japan, and to further improve brand value.

**TOPICS**

### Launch of *EQUELLE* in the U.S.

*EQUELLE*, a product containing equol to support health and beauty of women, has steadily built a new market and continues to grow since its launch in Japan in 2014. In October 2017, we began sales in the U.S. Our aim is to contribute broadly to the maintenance and promotion of health of women worldwide, who wish to combat discomfort through more natural means.



### Status of fostering new products in Japan

- New solutions for yet-to-be-imagined needs
- Fostering of products through original marketing strategies

Women's health

*EQUELLE*



Lifestyle habits

*Kenja-no-kaimin*



Lifelong sports

*BODYMAINTÉ*



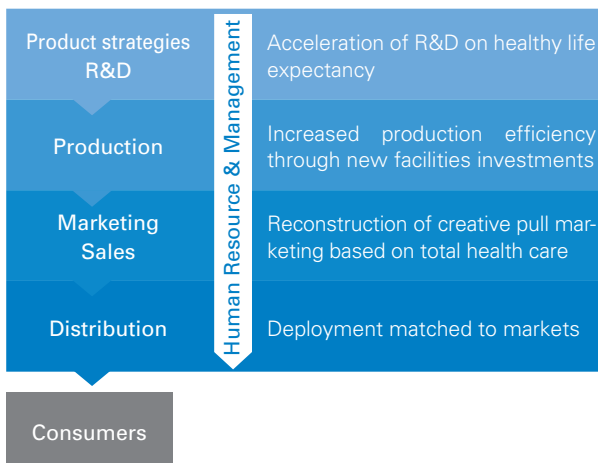
New areas

**Research on expanding healthy life expectancy**

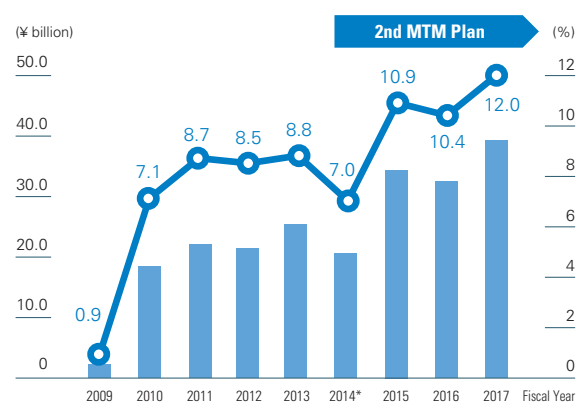
## Improve profitability by reviewing business assets which support the value chain

Under the Plan, we are working to reform our business structure and improve profitability through sweeping review of the business assets which support the value chain.

### Review of business assets which support the value chain



### Toward a highly profitable business structure that maintains an operating profit margin of 10% or more



■ Operating profit in nutraceutical business  
 ● Operating margin in nutraceutical business

\* Unaudited due to a change in the consolidated fiscal year. Business performance under J-GAAP, through fiscal 2014.



## Feature 2: A Foundation that Supports our Growth and Strengths

### 46,000 diverse employees

#### —For further organizational strength

Human resources are one of the most important business assets in order for Otsuka group to become an indispensable contributor to society. The group is working to nurture human resources aiming for sustainable growth, to improve employee health and create better work environments, and to employ a diverse range of people with the goal of furthering our organizational strength.

### Strengthening the development of executive human resources

Training and development of next-generation executive human resources is a key issue for our group, as we work to grow sustainably as a creative and innovative company and to create social values.

Otsuka Global Academy, operated by the Human Resources Planning Department of Otsuka Holdings, conducts an executive human resource development program in which 75 persons have participated so far. This program seeks to improve the aptitudes of the next-generation leaders and strengthen management capabilities, by providing opportunities for future leaders and current management to share values and corporate culture that emphasizes creativity.



### Health management and health promotion of employees

The physical and mental health of each and every employee is a driving force and an asset that support the growth of the Otsuka group. We work to promote employee health under the health management concept that efforts to understand, maintain, and promote health by employees themselves lead to the creation of innovation, contribution to society, and the enhancement of organizational strength. In April 2017, we formulated the Otsuka Group Health Declaration to further promote

the creation of work environment where employees can fully demonstrate their capabilities and individuality, and to enhance our organizational strength through improvement of employees' health.

In February 2018, each of Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, and Taiho Pharmaceutical was recognized as a Certified Excellent Health and Productivity Management Enterprise\*1.



\*1 The Excellent Health and Productivity Management Enterprise Program organized jointly by the Ministry of Economy, Trade and Industry in Japan and the Nippon Kenko Kaigi (Japan Health Council) that identifies large corporations and small- to medium-enterprises that are practicing a high level of health and productivity management. Five hundred companies expect to be certified by 2020.



8-minute workout of "POCARI fresh" exercise once a week at offices and factories



## Diversity in human resources creates new value

In order to create groundbreaking products and bring innovation that will be accepted worldwide, the Otsuka group has nurtured a corporate culture that eliminates barriers to job opportunities based on nationality, gender, age and disabilities and has strengthened its initiatives for diversity, under a recognition of the importance of employing diverse human resources and their active involvements.

Currently, about 60% of the employees of the Otsuka group are stationed outside Japan. By recognizing and sharing our mutual differences such as language and culture, we are building a corporate culture that can respond

accurately and flexibly to the diversification of social needs and the internationalization of our businesses.

Regarding the promotion of active participation by women, we hold Diversity Forums and undertake a number of initiatives including projects for active participation by women. We also demonstrated the management commitment of the group overall toward supporting women in the workplace by becoming a signatory to the Women's Empowerment Principles (WEPs)\*<sup>2</sup> in December 2017.



\*<sup>2</sup>A set of principles created jointly by the United Nations Global Compact and the United Nations Entity for Gender Equality and the Empowerment of Women. As of April 2018, it has been signed by 1,854 companies around the world.

\*<sup>3</sup>Average of six companies (non-consolidated); Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical, Otsuka Chemical, Otsuka Warehouse, and Otsuka Foods

\*<sup>4</sup>Otsuka Holdings and its 153 subsidiaries

## Feature 2: A Foundation that Supports our Growth and Strengths

### Otsuka's original marketing

#### —Brand-building through the creation of customer values

In the nutraceutical business, we go beyond existing values such as preference and convenience to create new markets and new values through original products that leverage our knowledge of drug research in the pharmaceutical business.

### Proposing original, scientific evidence-based products and creating customer values

In the nutraceutical business, we discern yet-to-be-imagined needs and pursue creativity throughout the value chain, from development to sales. By inheriting and continually communicating scientific evidence-based product concepts, the products that we develop through our expertise and know-how in the pharmaceutical business create customer values and new markets.



### POCARI SWEAT, the creator of a new market

*POCARI SWEAT* is a product developed from thoroughgoing research into how to quickly rehydrate and replenish electrolytes (ions) lost from the body through sweat. However, when the product was launched in 1980, the importance of rehydration was not as well understood as it is now, and the market's reaction to the unprecedented beverage was harsh.

Under these circumstances, we prioritized consumers to better understand the product's value and concept, based on a resolute commitment to always responding to difficulties by going back to our corporate philosophy and conducting business without wavering from our goals. We created a new market for ion beverages by having people experience the product in a variety of scenarios involving sweating and by continuing to communicate the importance of rehydration and electrolyte replenishment.

After nearly 40 years since the launch, we still continue to provide wide-ranging information that communicates the product concept. *POCARI SWEAT* has grown into a brand enjoyed in over 20 countries and regions, primarily in Asia, and has become a product that supports the foundation for sustainable growth of the group.





## Calorie Mate, a product that pursued the importance of nutrition and created the balanced nutritional foods market

The development of *Calorie Mate* goes back to 1977, when Otsuka Pharmaceutical started the development of concentrated liquid food as a nutritional food to replace intravenous nutrition. The Company then modified this concentrated liquid food into a nutritional product for general use, and in 1983 *Calorie Mate* was released, a balanced nutritional food containing the five major nutrients.

At the time, however, displaying the calorie counts on foods was not common, and it was difficult for general consumers to grasp the concept of “balanced nutritional food” with calories and nutritional components indicated. To overcome the situation, we

set our sights on sports nutrition. We thoroughly appealed the importance of balanced nutrition intake to athletes focused on performance, widened the understanding of the product concept, and established a position for *Calorie Mate* as a product widely supported among athletes.

Since then, the nutritional balance and convenience of *Calorie Mate* has gone beyond sports scenarios to become a part of people’s lives, including nutritional and calorie control when dieting, breakfast, nutrition replenishment during work and study, and emergency supplies. In this way, *Calorie Mate* has created a new market for balanced nutrition foods.



## Toward the creation of next new markets

Through product development and marketing activities that look ahead toward yet-to-be-imagined needs, the Otsuka group has been creating new markets, establishing numerous brands, and creating customer values.

In recent years, we have launched initiatives aimed at maximizing the product value of *EQUELLE*, developed under the theme of women’s health. *EQUELLE*, a food product made with equol derived from soy beans that are fermented by proprietary lactic acid bacteria, was developed by Otsuka Pharmaceutical through many years of research into soy beans. Since 2018, we have supplemented the product with *EQUELLE Gelée*, which contains collagen, calcium, and other nutrients that women seek. We now offer information and conduct learning programs specializing in women’s health

to help pharmacists and other professionals understand the *EQUELLE* product value and concept, as part of our challenge to create the next new markets.





## Research and Development

Unmet  
medical  
needs

Yet-to-be  
imagined  
needs

### R&D Activities—Pharmaceutical Business

R&D expenses

¥165.5 billion

In-house drug discovery\*1

85%

R&D expenses ratio\*2

21%

Late-phase development projects\*3

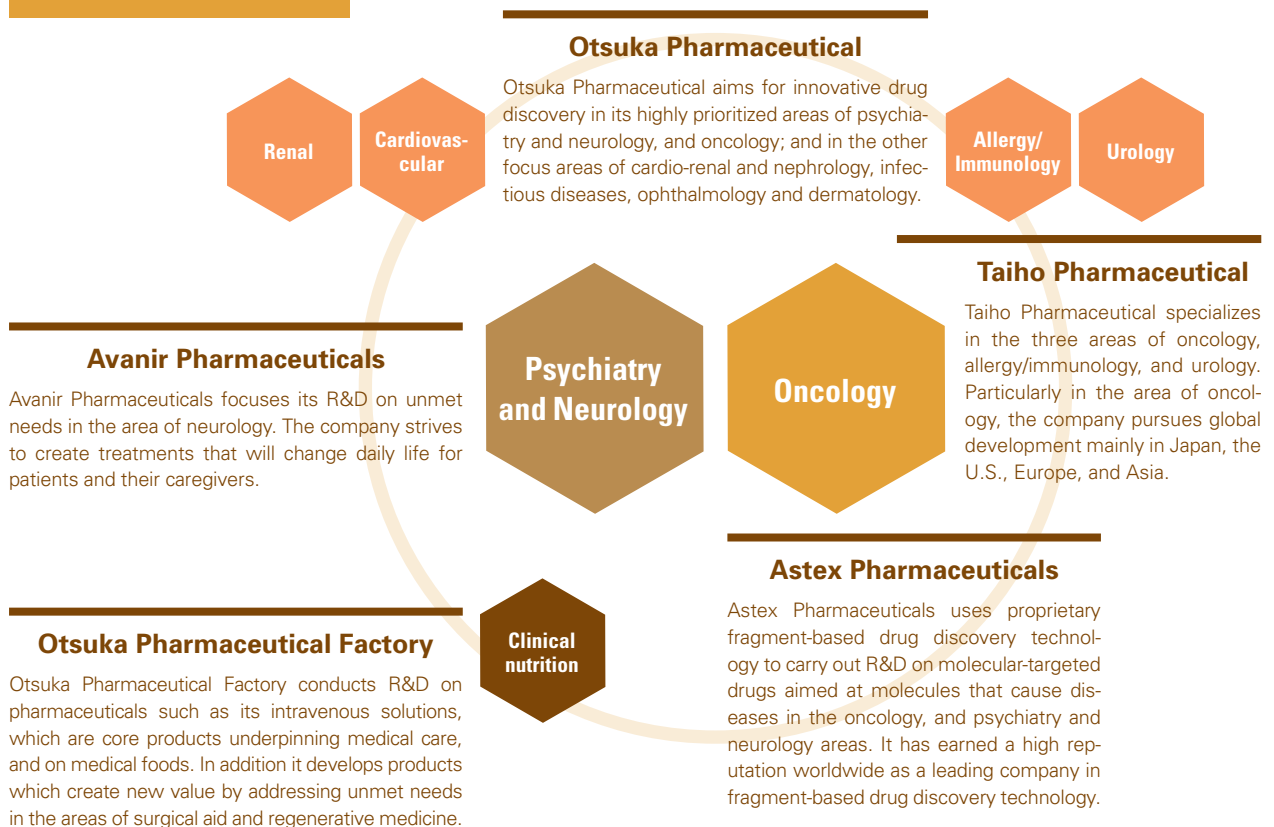
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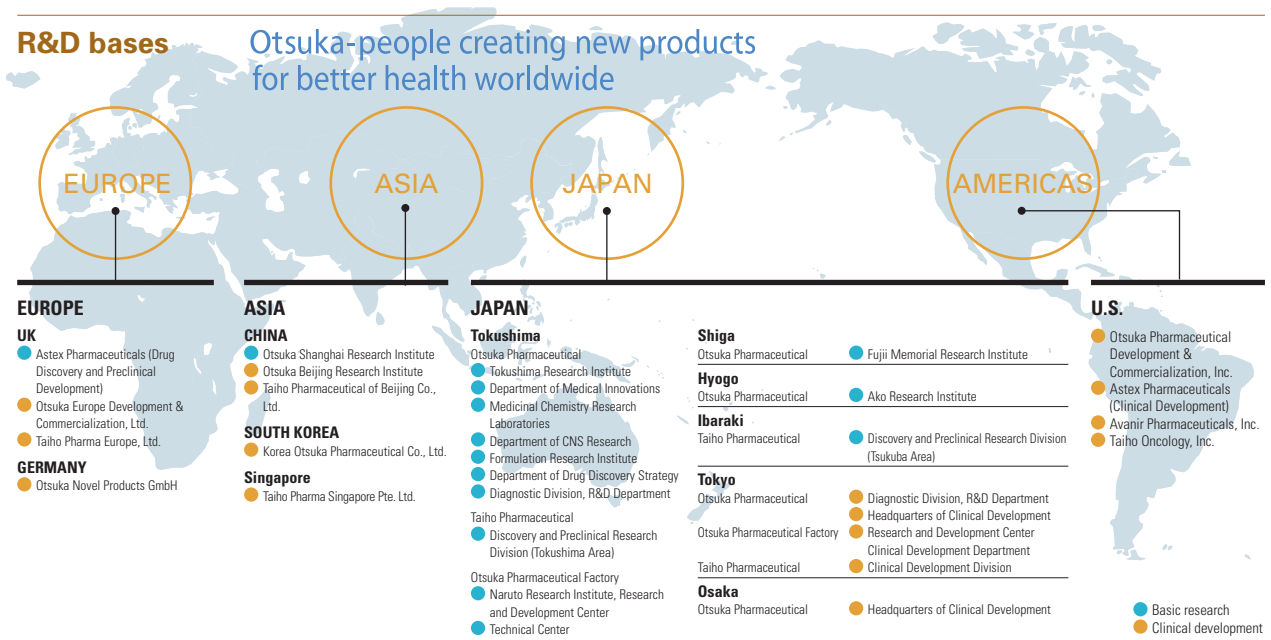
\*1: Ratio of in-house drug discovery projects in late-phase development projects  
\*2: R&D expenses in pharmaceutical business  
\*3: Phase II or later stage of development as of December 31, 2017

The Otsuka group of companies takes a global approach to R&D, making steady R&D investments and leveraging the innovative creativity of each of its operating companies. R&D powers the group's aspiration to create new markets and contribute to unmet medical needs with innovative products.

#### Evolution of the Otsuka group's R&D — R&D innovation leveraging our strengths —

The Otsuka group's drug discovery research has built a solid foundation that continues to drive originality and innovation around Otsuka Pharmaceutical, which has R&D strengths in the areas of psychiatry and neurology; Taiho Pharmaceutical, which possesses its own drug discovery technology platform prioritized in oncology; and Otsuka Pharmaceutical Factory, a leading company in clinical nutrition. Astex Pharmaceuticals, a pioneer in fragment-based drug discovery, and Avanir Pharmaceuticals, which is particularly skilled in development for neurology, have also joined the group. By mutually sharing and fusing the research platforms and ideas of these companies across the group, the Otsuka group continues to evolve its R&D into a structure that yields new strengths and innovation.

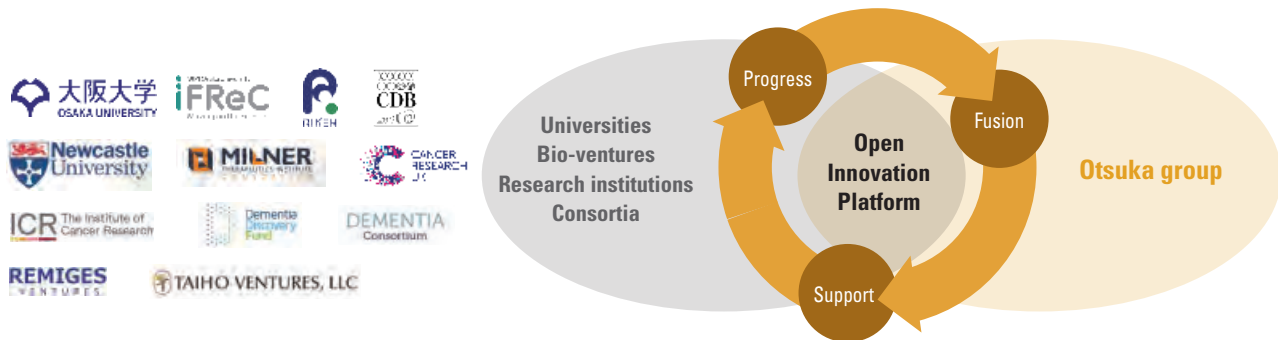




**Open innovation at the Otsuka group**

The Otsuka group engages in open innovation that fuses our strengths in in-house drug discovery research with the technologies and knowledge of bio-ventures and academia, through collaboration among companies and through industry-academia collaboration, to achieve highly innovative drug discovery.

We are working to strengthen our in-house drug discovery capabilities, including human resources development, through access to innovative technologies and ideas involving research support and network-building with bio-ventures, research institutions, and universities that hold leading-edge research technologies and drug discovery seeds.



**Focus**

**Aiming for the discovery of innovative drugs**

Otsuka Pharmaceutical has concluded a comprehensive partnership agreement on advanced research with the Osaka University Immunology Frontier Research Center (IFReC), which has been selected among world-top-level research center program by the Ministry of Education, Culture, Sports, Science and Technology. IFReC offers outstanding research equipment and an international environment where researchers can focus on research, and has



about 170 researchers, mainly world-class chief researchers in the fields of immunology, biological imaging, and bioinformatics, conducting innovative immunology researches. Otsuka Pharmaceutical aims to fuse its original drug discovery research with IFReC's advanced research to discover innovative drugs that will contribute to the health of people worldwide.

## Research and Development

## Projects in Phase II and later stages (as of March 31, 2018)

## Psychiatry &amp; Neurology

Code (Generic name) <Brand name> Features	Origin	Indication	Country/ Region	Development status			
				Phase II	Phase III	Filed	Approved
<b>OPC-34712 (brexpiprazole) &lt;REXULT&gt;</b> Dopamine partial agonist	Otsuka Pharmaceutical	Major depressive disorder	EU				
		Schizophrenia	JP				
		Agitation associated with dementia of the Alzheimer's type	EU				
		Bipolar I	US, EU				
		Posttraumatic stress disorder	US, EU				
			JP				
<b>ASC-01 (aripiprazole, sertraline)</b> Dopamine partial agonist/Selective serotonin reuptake inhibitor	Otsuka Pharmaceutical	Major depressive disorder	Asia				
<b>AVP-923 (dextromethorphan, quinidine)</b> NMDA receptor antagonist/Sigma-1 receptor agonist	Avanir	Dyskinesia associated with Parkinson's disease	US				
<b>AVP-786 (deuterium-modified dextromethorphan, quinidine)</b> NMDA receptor antagonist/Serotonin and norepinephrine reuptake inhibitor/Sigma-1 receptor agonist	Avanir	Agitation associated with dementia of the Alzheimer's type	US, EU				
		Residual schizophrenia symptoms	US				
		Traumatic brain injury	US				
		Intermittent explosive disorder	US				
<b>EB-1020 (centanafadine)</b> Norepinephrine, dopamine and serotonin reuptake inhibitor	Neurovance	Attention deficit hyperactivity disorder	US				
<b>TAS-205</b> PGD synthase inhibitor	Taiho Pharmaceutical	Duchenne muscular dystrophy	JP				
<b>Lu AA36143 (nalmefene)</b> Opioid receptor antagonist	Lundbeck	Alcohol dependence	JP				
<b>OPC-64005</b> Serotonin, norepinephrine and dopamine reuptake inhibitor	Otsuka Pharmaceutical	Attention deficit hyperactivity disorder	US				
<b>TEV-48125 (fremanezumab)</b> Anti-CGRP antibody	Teva	Migraine	JP				

\*Phase II/III

## Oncology

Code (Generic name) <Brand name> Features	Origin	Indication	Country/ Region	Development status			
				Phase II	Phase III	Filed	Approved
<b>TAS-102 (trifluridine, tipiracil) &lt;LONSURF&gt;</b> Interference with the function of DNA	Taiho Pharmaceutical	Colorectal cancer	Asia				
		Gastric cancer	JP, US, EU				
<b>TAS-118 (tegafur, gimeracil, oteracil, folinate)</b> Anti-metabolite	Taiho Pharmaceutical	Gastric cancer	JP, Asia				
<b>Pro-NETU (fosnetupitant)</b> NK1 receptor antagonist	Helsinn Healthcare	Chemotherapy-induced nausea and vomiting	JP				
<b>SGI-110 (guadecitabine)</b> DNA methyltransferase inhibitor	Astex	Ovarian cancer	US, EU				
		Acute myeloid leukemia	JP, US, EU, Asia				
		Myelodysplastic syndrome	JP, US, EU, Asia				
<b>ASTX727</b> DNA methyltransferase inhibitor	Astex	Myelodysplastic syndrome	US				
<b>ASTX660</b> IAP inhibitor	Astex	Solid tumors, Lymphomas	US				
<b>TAS-114</b> dUTPase inhibitor	Taiho Pharmaceutical	Non-small cell lung cancer	JP, US, EU				
<b>TAS-115</b> Multi-kinase inhibitor	Taiho Pharmaceutical	Prostate cancer	JP				
<b>TAS-116</b> HSP90 inhibitor	Taiho Pharmaceutical	Gastrointestinal stromal tumor	JP				
<b>OCV-501</b> WT1 targeted cancer vaccine	Otsuka Pharmaceutical	Acute myeloid leukemia	JP, Asia				
<b>HF10</b> Oncolytic Virus	Takara Bio	Melanoma	JP				





## Fiscal 2017 Business Results

Unmet  
medical  
needs

Yet-to-be-  
imagined  
needs

## Pharmaceutical Business

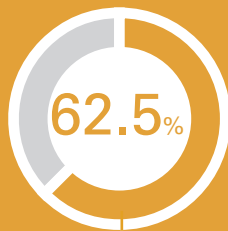
### Strategy in the 2nd Medium-Term Management Plan

#### Strengthen core therapeutic areas

- Maximize product value
- Aggressive R&D investments in core therapeutic areas

### Sales ratio\*

\* Sales to external customers

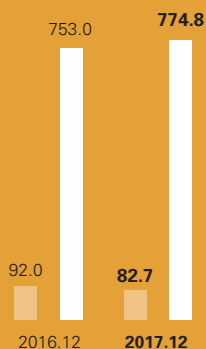


Japan	51.9%
North America	27.8%
Others	20.3%

### Business performance in fiscal 2017

■ Segment sales  
¥774.8 billion

■ Segment profit  
¥82.7 billion



Addressing unmet medical needs with total healthcare solutions, from diagnosis to treatment of disease.

### Business Overview in Fiscal 2017 and Initiatives for Fiscal 2018

In the pharmaceutical business, we established a business foundation for future growth by steadily increased sales of a new product lineup. Through this, we were able to make active investment in R&D, including a strengthening of our development pipeline with a focus on core therapeutic areas aimed at accelerated growth, and have made preparations for growth in our next medium-term management plan and beyond.

Fiscal 2018 marks the final year of our Second Medium-Term Management Plan, and is a year for completing the establishment of our diversified revenue structure. During this year, we will maximize the value of our new product lineup and will undertake a strengthening of our business foundation through active investment aimed at the next stage of growth.

### Steady Growth in New Product Lineup

	Net Sales (¥ billion) FY2017	Change from FY2016
Antipsychotic <i>ABILIFY MAINTENA</i>	70.9	+24.1%
Antipsychotic <i>REXULTI</i>	47.3	+58.8%
Aquaretic/ADPKD*1 treatment <i>Samsca/JINARC</i>	64.2	+31.4%
Anti-cancer agent <i>LONSURF</i>	32.6	+8.1%
New drugs in Japan: products launched in Japan since 2009, except the four products listed above	127.4	+20.9%

\*1 ADPKD: autosomal dominant polycystic kidney disease

### Key Topics in 2017–2018 1H

2017

3  
Mar

Attention-deficit hyperactivity disorder (ADHD) drug candidate *centanafadine* added to the pipeline by acquiring Neurovance [U.S.](#)

Antipsychotic *REXULTI*\*2 accepted for review by EMA for adult patients with schizophrenia [Europe](#)

5  
May

Licensing agreement with Teva Pharmaceutical on prophylactic migraine drug candidate

7  
Jul

*fremanezumab* [Japan](#)

Licensing agreement with R-Pharm to commercialize multidrug-resistant tuberculosis (MDR-TB) therapeutic drug *DELTYBA* in Russia and CIS countries

Antipsychotic (long-acting injectable) *ABILIFY MAINTENA* approved for bipolar I disorder [U.S.](#)

8  
Aug

Licensing agreement with Mylan to commercialize MDR-TB therapeutic drug *DELTYBA* in high-burden countries

11  
Nov

World's first digital medicine system *Abilify MyCite* approved [U.S.](#)

2018

1  
Jan

Antipsychotic *REXULTI* approved for schizophrenia [Japan](#)

4  
Apr

*JYNARQUE* approved for autosomal dominant polycystic kidney disease (ADPKD) [U.S.](#)

\*2 Brand name in Europe is *RIXULTI*



## Social Challenges

### Unmet Medical Needs

In line with the evolution of the life sciences, a number of new drugs are discovered every year. However, there are still many diseases for which the treatment satisfaction is incomplete with currently available therapeutic options, or for which no effective treatment exists. Meeting people's wish to be healthy is a universal and pressing challenge.

See pages 40, 41, and 42 for information on unmet medical needs in each core therapeutic area

## Otsuka's Strengths



The Otsuka group of companies resolutely commits itself to unmet medical needs, based on our corporate philosophy of "Otsuka-people creating new products for better health worldwide." In the areas of psychiatry, neurology, and oncology which we position as our core therapeutic areas, we are leveraging our long-held knowledge, assets, and global network to address the creation of the value "health."

### Unmet medical needs

### The unmet medical needs of "tuberculosis eradication"

Tuberculosis is one of mankind's oldest diseases that resists eradication. Although it is a treatable disease, every year 10.4 million people are infected and 1.7 million die from the disease even today.\* Multidrug-resistant tuberculosis (MDR-TB), which resists existing anti-tuberculosis agents, has become a major health issue.

After many years of efforts aimed at infectious diseases, a key theme since the launch of our drug discovery research in 1971, Otsuka pharmaceutical

released MDR-TB treatment drug *DELTYBA*, one of the world's first new treatments in 50 years, in 2014. In 2015, *DELTYBA* was placed on the WHO Model List of Essential Medicines. In 2016, we collaborated with the Global Drug Facility of the Stop TB Partnership, and constructed a framework for supplying the drug to over 100 countries. *DELTYBA* has been used in treatment of over 4,000 cases of MDR-TB in over 50 countries, and continues to contribute to global public health.

\*WHO: Global Tuberculosis Report 2017

**FY2017 Business Results Pharmaceutical Business**

**Psychiatry and Neurology**

On the business foundation in the area of psychiatry, a strength of Otsuka Pharmaceutical, we are adding the assets in neurology to accelerate our expansion strategy in our prioritized therapeutic area.

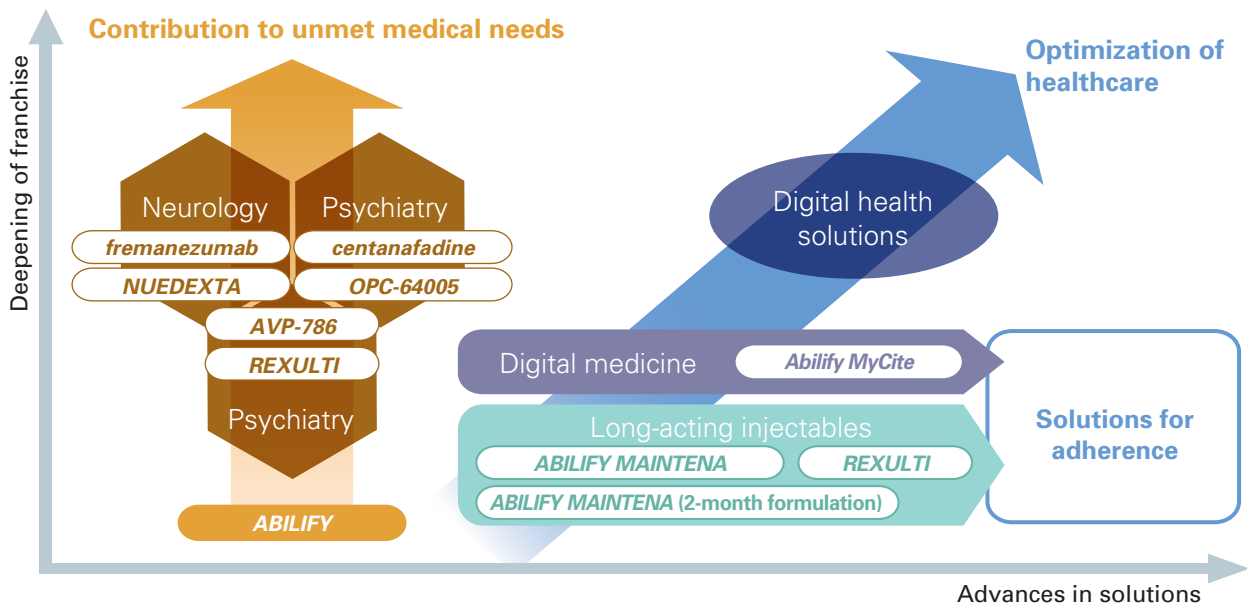
**The Challenge of Addressing Unmet Medical Needs**

The Otsuka group began its research in the area of psychiatry in the 1980s, and continues its efforts to address unmet medical needs. The next-generation antipsychotic agent *REXULTI*, a successor to the antipsychotic *ABILIFY* that was the world's first dopamine partial agonist, is contributing to patients as an adjunctive therapy for major depressive disorder and as a schizophrenia treatment. We are further expanding indications to maximize the product's value. As a new treatment option for attention-deficit hyperactivity disorder (ADHD), centanafadine (a drug candidate from Neurovance, which joined Otsuka group in 2017) is deepening our franchise in the area, together with our in-house-developed compound OPC-64005.

Since Avanir Pharmaceuticals acquisition in 2015, we have made full-scale entry to the area of neurology. In

this area, we are accelerating our development of AVP-786 to address agitation in Alzheimer's-type dementia and other unmet medical needs, and are contributing patients through *NUEDEXTA*, the world's only treatment for pseudobulbar affect (PBA). In addition, in 2017 we have secured exclusive rights in Japan of fremanezumab, a prophylactic migraine drug candidate, from Teva Pharmaceutical.

From innovation in the form of long-acting injectables to resolve medication adherence in psychiatric disorders requiring long-term adherence, to the world's first digital medicine *Abilify MyCite* and to our digital health solutions business that seeks to optimize medical treatment, we aim to contribute comprehensively to healthcare through the creation of new value.



**Otsuka's business history in the Psychiatry and Neurology**

1980's	1999	2002	2008	2010	2011	2012
Research in the Psychiatry started	Agreement for the development and commercialization of <i>ABILIFY</i> with Bristol-Myers Squibb Company	<i>ABILIFY</i> launched in the U.S. 	Acquisition of the exclusive rights from UCB for developing and marketing <i>Neupro Patch</i> in Japan	Agreement for the development and commercialization of <i>E Keppra</i> in Japan with UCB	<i>E Keppra</i> launched in Japan 	Alliance agreement with Lundbeck in the CNS area
						Agreement for the development of digital health products with Proteus Digital Health

## Main Products



Antipsychotic  
**ABILIFY**

Generic name aripiprazole  
Primary sales region Japan, U.S., Europe, Asia  
Features Dopamine partial agonist

FY2017 sales ¥**67.3** billion



Antipsychotic (Long-acting injectable)  
**ABILIFY MAINTENA**

Generic name aripiprazole  
Primary sales region Japan, U.S., Europe, Asia  
Features Dopamine partial agonist

FY2017 sales ¥**70.9** billion



Antipsychotic  
**REXULTI**

Generic name brexpiprazole  
Primary sales region Japan, U.S.  
Features Dopamine partial agonist

FY2017 sales ¥**47.3** billion



Pseudobulbar Affect (PBA) agent  
**NUDEXTA**

Generic name dextromethorphan, quinidine  
Primary sales region U.S.  
Features NMDA receptor antagonist, Sigma-1 receptor agonist

FY2017 sales ¥**25.6** billion



Antiepileptic  
**E Keppra**

Generic name levetiracetam  
Primary sales region Japan\*  
Features Adjustment of release of neurotransmitter due to binding to synaptic vesicle glycoprotein 2A

FY2017 sales ¥**33.8** billion



Dopaminergic antiparkinsonian agent, Restless legs syndrome agent  
**Neupro Patch**

Generic name rotigotine  
Primary sales region Japan  
Features Dopamine agonist

FY2017 sales ¥**12.1** billion

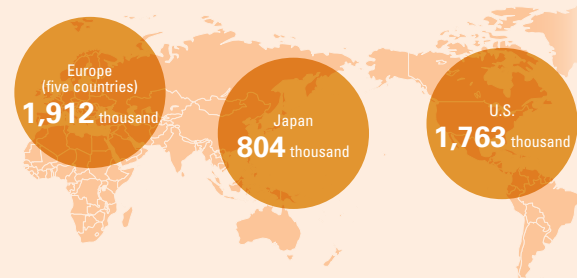
\*co-promoted with UCB Japan.

### Unmet medical needs

## Unmet medical needs in the area of psychiatry and neurology — Schizophrenia

Schizophrenia is a psychiatric disorder in which thoughts and emotions continue to be disordered. Appearing between adolescence and the age of maturity, it presents symptoms such as hallucinations, delusions, thought disorders, emotional flattening, and lack of motivation that can make employment and living in society difficult. Even today, with the advance of science, the causes of the disease have not been fully elucidated, and there is a need for long-term therapy and support aimed at a return to society, while ameliorating symptoms. Another issue is that a lack of recognition of the disease, and reduced medication adherence due to side effects, can lead to relapse in patients.

### Number of patients with schizophrenia



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## FY2017 Business Results Pharmaceutical Business

### Oncology, Cancer Supportive Care

In the area of oncology and cancer supportive care, we aim for total care from the standpoint of patients, and are expanding our business to cover the fields of solid tumors, hematological cancer, and supportive care.

#### Main Products

 <p>Anti-cancer agent <b>TS-1</b></p> <p>Generic name tegafur, gimeracil, oteracil</p> <p>Primary sales region Japan, Europe, Asia</p> <p>Features anti-metabolic agent</p> <p>FY2017 sales ¥20.6 billion</p>	 <p>Anti-cancer agent <b>LONSURF</b></p> <p>Generic name trifluridine, tipiracil</p> <p>Primary sales region Japan, U.S., Europe</p> <p>Features DNA dysfunction</p> <p>FY2017 sales ¥32.6 billion</p>
 <p>Anti-cancer agent <b>Abraxane</b></p> <p>Generic name paclitaxel protein-bound particles for injectable suspension (albumin-bound)</p> <p>Primary sales region Japan</p> <p>Features Taxane anti-cancer agent</p> <p>FY2017 sales ¥21.8 billion</p>	 <p>Anti-emetic drug <b>Aloxi</b></p> <p>Generic name palonosetron</p> <p>Primary sales region Japan</p> <p>Features 5-HT<sub>3</sub> receptor antagonist</p> <p>FY2017 sales ¥14.5 billion</p>

#### Unmet medical needs

#### Unmet medical needs in oncology



The WHO reports that 8.8 million people worldwide, or one in six people, died of cancer in 2015. According to the National Cancer Institute, the five-year survival rate for cancer patients in the U.S. improved from less than 50% up until 1980 to 66.9% (data for 2008–2014)\*, thanks to advances in diagnostic methods and medical treatment. However, this still means that approximately 30% of patients do not survive five years after diagnosis. At the same time, there are significant disparities in the survival rate

and success rate for existing treatments depending on the type of cancer and age of the patient. Despite the astonishing advances in drugs, there are still many issues to resolve in the oncology area.

The Otsuka group continues to take up the challenge of unmet medical needs and aims to make comprehensive contributions to cancer treatment.

\* SEER Cancer Stat Facts: Cancer of Any Site.  
National Cancer Institute. Bethesda, MD  
<http://seer.cancer.gov/statfacts/html/all.html>  
(<https://www.cancer.gov>)

#### Otsuka's history in the oncology field

1969	1974	1999	2004	2005	2007
License with the former Soviet Union to introduce anti-cancer agent <i>Futrafal</i> in Japan	<i>Futrafal</i> launched in Japan	<i>TS-1</i> launched in Japan	Acquisition of the exclusive rights from Helsinn Healthcare for developing and marketing <i>Aloxi</i> in Japan	Acquisition of the exclusive rights from American BioSciences* for developing and marketing <i>Abraxane</i> in Japan * Currently Celgene Corporation	Acquisition of global business rights for <i>Busulfex</i> from PDL BioPharma
					

## Cardiovascular, Renal System

The V<sub>2</sub>-receptor antagonist *Samsca/JINARC* has contributed to healthcare as the world's only oral aquaretic agent which facilitates excretion of free water only without electrolyte loss. It is also growing steadily as the world's first treatment for the rare kidney condition, autosomal dominant polycystic kidney disease (ADPKD).



Aquaretic/ADPKD treatment

### **Samsca/JINARC**

Generic name tolvaptan

Primary sales region Japan, U.S., Europe, Asia

Features V<sub>2</sub>-receptor antagonist

FY2017 sales ¥ **64.2** billion



### Unmet medical needs in the renal system—The incurable disease ADPKD

ADPKD is a genetic disorder by which large numbers of cysts (sacs containing fluid) form in both kidneys, resulting in gradual weakening of kidney function. About half of patients reach end stage renal disease by their 60s, requiring dialysis or kidney transplant. The disease, which has a high

prevalance rate among genetic kidney disorders, is said to have about 30,000 patients in Japan, 200,000 in Europe, and 140,000 in the U.S.

Currently, there is no cure for ADPKD. *Samsca/JINARC/JYNARQUE* is the only treatment in the world that controls the progress of ADPKD.

## Other Areas

### Clinical Nutrition (intravenous solutions)

FY2017 sales ¥ **111.2** billion

The Otsuka group has been working on the clinical nutrition business for over 70 years. Otsuka Pharmaceutical Factory continues to contribute to a large number of patients as a leading company in the area of intravenous solutions in Japan. Since the 1970s, we have expanded overseas as well, operating our clinical nutrition business through 15 business companies overseas. We are growing particularly fast in Indonesia and Egypt. Going forward, the group will continue to develop high-value-added products that meet market needs around the world and contribute to global healthcare.

Market share of intravenous solutions of the Otsuka group in Japan

**55.5%**

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### Diagnostics Agents

FY2017 sales ¥ **12.8** billion

Companion diagnostics\* is extremely important in identifying the individual differences in the effect of drugs and their side effects and in providing the right healthcare. The group provides diagnostics agents that meet international standards, including products that support companion diagnostics in a wide range of fields such as digestive, respiratory, infectious diseases, cancer, and cardiovascular system.

\*Companion diagnostics is a diagnostic testing used to identify patients most likely to benefit from a particular therapeutic agent and to provide healthcare using optimal dosages.



## FY2017 Business Results Nutraceutical Business

Unmet  
medical  
needsYet-to-be-  
imagined  
needs

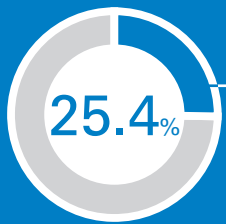
## Nutraaceutical Business

Strategy in the  
2nd Medium-Term  
Management PlanStructural reform and  
evolution to achieve  
growth

- Review of business assets that support value chain
- Acceleration of global expansion
- Improve profitability

## Sales ratio\*

\* Sales to external customers

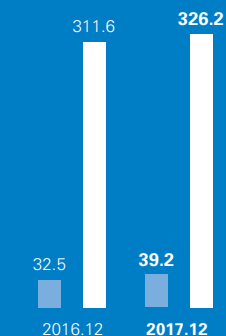


Japan	42.0%
North America	28.8%
Others	29.2%

Business performance  
in fiscal 2017

■ Segment sales  
¥326.2 billion

■ Segment profit  
¥39.2 billion











The Nutraaceutical Business supports the maintenance and promotion of everyday health through original, scientific evidence-based products that fulfill yet-to-be-imagined needs of consumers.

## Business Overview in Fiscal 2017 and Initiatives for Fiscal 2018

In the nutraaceutical business, we are advancing reforms to create stable revenue through the diversification of our sales structure. Toward our priority measure of accelerating global expansion, we are achieving steady growth in health food brands such as *Nature Made* in the United States, as well as *Gerblé*, which Nutrition & Santé is rolling out primarily in Europe. In Asia, too, *POCARI SWEAT* and other global brands from Japan are expanding to more countries. Sales outside Japan therefore are leading growth in the nutraaceutical business.

In fiscal 2018, we will maintain our stable revenue structure through product development and value proposition that leverages the strengths of the Otsuka group of companies, while we work to grow our business scale by accelerating global expansion.

## Key Topics in 2017

- 2 Feb Launched **SOYJOY Crispy White Macadamia**

- 3 Mar Launched the antiseptic **Oronine H Ointment** for the treatment of minor skin conditions and injuries, 50-g laminated tube size
 
- 4 Apr Launched **BODYMAINTÉ** conditioning food
 
- 5 May Started test marketing of **Kenja-no-kaimin Sleep Rhythm Support**

- 7 Jul Acquired a North American plant-based foods manufacturer Daiya Foods Inc.
 
- 7 Jul Established a new functional food and beverage affiliate Otsuka Nutraaceutical (Thailand) Ltd.
 
- 10 Oct Launched **EQUELLE** in the U.S.
 
- 12 Dec Acquired a French organic food product manufacturer BC BIO SAS
 

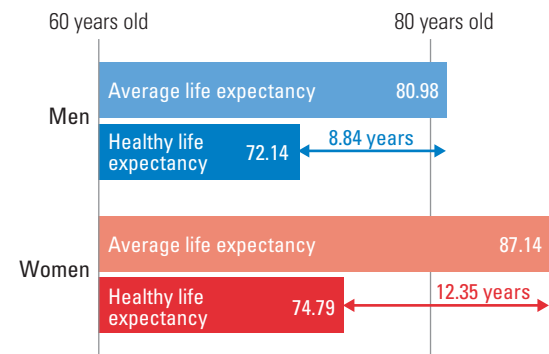


### Social Challenges

- Extension of healthy life expectancy
- Increase in medical expenses

While average life expectancy in Japan is among the world's highest for both men and women, there is a large gap of 9 years for men and 12 years for women between life expectancy and healthy life expectancy, or the period during which lifestyles are not hindered by health problems. Moreover, increasing medical expenses are becoming a serious issue worldwide, and initiatives to maintain and promote health and to prevent disease are expected to become increasingly important.

### Gap between average life expectancy and healthy life expectancy in Japan



Source: 2016 statistics, Health Labour Sciences Research Group

### Otsuka's Strengths



Leveraging the know-how that we have gained through our pharmaceutical business, the Otsuka group's nutraceutical business, under the theme of extending healthy life expectancy, provides the world with original products based on scientific evidence to support the maintenance and promotion of everyday health.

Following the launch of products, we partner with our in-house laboratories and research institutions to generate research results. Such results include the benefits of water and electrolyte replenishment during long flights, activation of the brain through intake of balanced nutrition, and the correlation between equol production capability and premenstrual syndrome (PMS). We are working to improve our brand value and create customer value with products that fulfill yet-to-be-imagined needs of consumers.



Research into the digestive tract and nutrition  
Otsu Nutraceuticals Research Institute

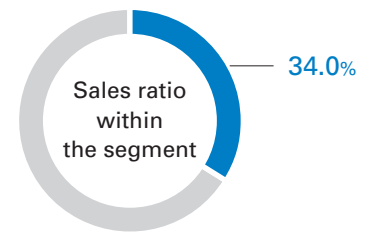


Research into exercise and nutrition  
Saga Nutraceuticals Research Institute



## FY2017 Business Results Nutraceutical Business

## Functional Beverages

**POCARI SWEAT**

Year launched: 1980

A functional drink that created a new market for ion drinks, which replenish the water and ions lost due to perspiration. Globally expanding mainly in Asia, particularly having a 65%\*1 market share in Indonesia.

**ORONAMIN C**

Year launched: 1965

A carbonated nutritional drink containing vitamins including vitamin C.

**Tiovita Drink**

Year launched: 1964

A long-selling product originally launched more than half a century ago. This nutrient drink contains taurine, vitamins and carnitine chloride.

Designated quasi-drug

**Solmack Plus**

Year launched: 1979

A gastrointestinal remedy for symptoms of nausea due to overeating and overdrinking.

Second-class OTC drugs

**Amino-Value**

Year launched: 2003

A drink developed based on knowledge acquired through research into branched-chain amino acids (BCAA) in the clinical nutrition and sports nutrition fields. Japan's first Foods with Function Claim, for alleviation of fatigue caused by physical activity attributed to functional component BCAA.

Foods with Function Claim\*2

**OS-1**

Year launched: 2001

An oral rehydration drink with a balance of electrolytes and glucose, based on the oral rehydration therapy advocated by the World Health Organization (WHO).

**Fibe-Mini**

Year launched: 1988 / Year renewed: 2017

A beverage with 6g of dietary fiber approved as Food for Specified Health Uses to regulate gastrointestinal condition. It was renewed in 2017 to mark its 30th anniversary.

Food for Specified Health Uses

**BODYMAINTÉ**

Year launched: 2017

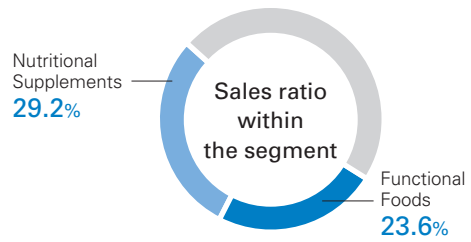
A conditioning food containing Otsuka Pharmaceutical's proprietary lactic bacteria B240\*3 launched in 2017 to contribute to the maintenance and improvement of the health of people concerned with bodily condition.

\*1 Euromonitor International, Sports Beverage Market (2017)

\*2 Amino-Value 4000 and Amino-Value Powder 8000

\*3 A strain isolated by Tokyo University of Agriculture, for which Otsuka Pharmaceutical has confirmed efficacy in enhancing biological defense mechanisms

## Functional Foods and Nutritional Supplements



### Calorie Mate

Year launched: 1983



A product that created a new market for balanced nutritional foods containing all five major nutrients. In 2016, three types of jellies were launched, tailored to preferences and settings.

### SOYJOY

Year launched: 2006



A soy bar baked with fruit and nuts in soybean dough, without using wheat flour. In 2016, SOYJOY Crispy was launched as a light and crunchy bar.

### Gerblé

Year launched: 2010 (Japan)



A health food from the south of France introduced in 1928 providing nutrients, that tend to be lacking in the modern diet, from natural ingredients like wheat germ and fruits. The brand is growing with the market expansion of gluten-free products in Europe.

### Nature Made

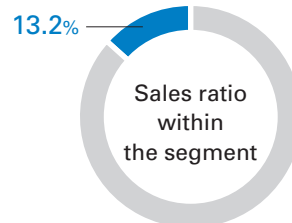
Year launched: 1993 (Japan)



A lineup of nutritional supplements that are free of fragrances, food colorings, and preservatives. First launched in the U.S. in 1972, Nature Made established its brand as high-quality, scientific evidence-based products.

Foods with Function Claim\*\*4

## Other main products



### EQUELLE

Year launched: 2014



A product containing equol, made from lactic acid fermented soy, supporting women's health and beauty. It was also launched in the U.S. in 2017.

### Oronaine H Ointment

Year launched: 1953



An ointment for the treatment of skin ailments and injuries. In 2015, the tube packaging was changed from aluminum to laminate, improving convenience.

Second-class OTC drugs

### Kenja-no-shokutaku Double Support

Year launched: 2005\*\*5



A product that uses dietary fiber (digestion-resistant dextrin) to slow down the body's absorption of sugars and lipids, thereby reducing the rise in blood glucose levels and triglycerides after a meal.

Food for Specified Health Uses

### InnerSignal

Year launched: 2005



A skincare brand for women that employs the active ingredient Energy Signal AMP\*\*6, which obtained approval as a quasi-drug with new effects and efficacy for a brighter complexion.

\*4 Super Fish Oil, Lutein, Astaxanthin, Fish Oil Pearl, Ginkgo Biloba

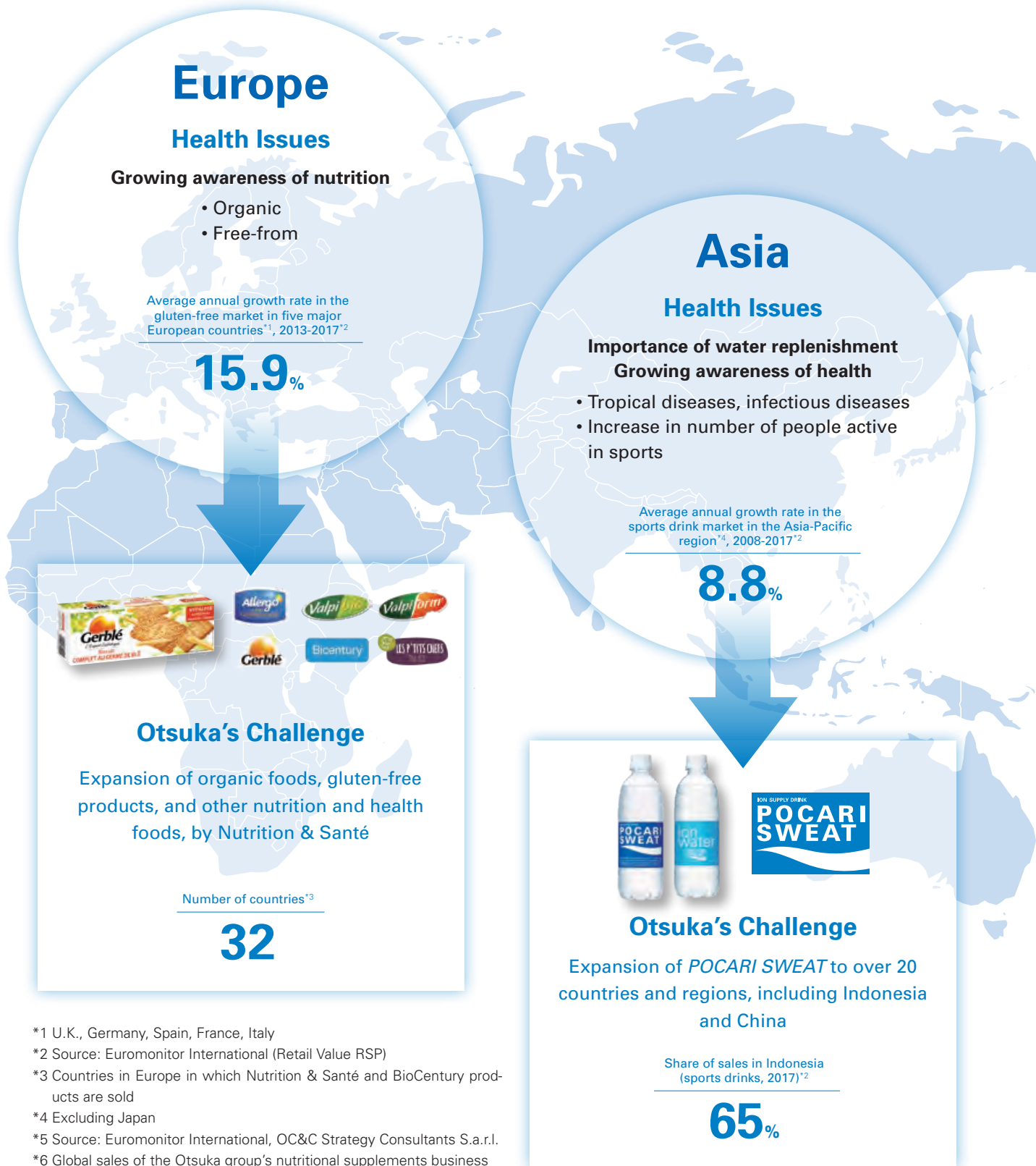
\*5 Launch year of Kenja-no-shokutaku. Kenja-no-shokutaku Double Support was launched in 2012

\*6 Adenosine monophosphate OT

FY2017 Business Results Nutraceutical Business

## Global Expansion of Nutraceutical Business

The Otsuka group of companies carries out business development that addresses health issues and needs in every area, based on our corporate philosophy of contributing to the health of people worldwide.



\*1 U.K., Germany, Spain, France, Italy  
 \*2 Source: Euromonitor International (Retail Value RSP)  
 \*3 Countries in Europe in which Nutrition & Santé and BioCentury products are sold  
 \*4 Excluding Japan  
 \*5 Source: Euromonitor International, OC&C Strategy Consultants S.a.r.l.  
 \*6 Global sales of the Otsuka group's nutritional supplements business

# Americas

## Health Issues

### Spread of self-medication

- Increase in medical costs
- Prevention of disease

Average annual growth rate of the U.S. supplement market, 2013-2017<sup>22</sup>

**4.5%**

### Growing awareness of nutrition, primarily among the millennial generation

- Allergen-free
- Natural orientation

Forecasted average annual growth rate of the U.S. cheese alternative market, 2016-2021<sup>15</sup>

**26%**



## Otsuka's Challenge

### Nutritional Supplements Business

Expansion of Pharmavite's *Nature Made* and entry into natural foods channels

Fiscal 2017 sales growth compared with the previous year<sup>16</sup>

**+8.3%**

### Health Foods Business

Expansion of plant-based foods business by Daiya Foods

▶ P.27

Daiya Foods average annual growth rate, 2014-2017

**43%**

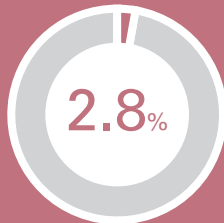


## FY2017 Business Results Consumer Products Business/Other Businesses

## Consumer Products Business

## Sales ratio\*

\* Sales to external customers



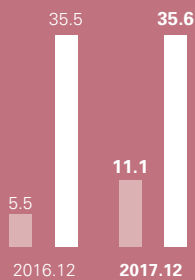
## Business performance in fiscal 2017

■ Segment sales

¥35.6 billion

■ Segment profit

¥11.1 billion



The Otsuka group's Consumer Products Business delivers familiar foods and beverages that are delicious, safe, reassuring, and healthy.

## Business Overview in Fiscal 2017 and Initiatives for Fiscal 2018

The consumer products business is expanding with a focus on the retort pouch-packed foods business, represented by *Bon Curry* and the *My Size* series, and on the beverages business, represented by *Match* carbonated vitamin drink and *CRYSTAL GEYSER* mineral water. In fiscal 2017, we worked to energize these core brands and to expand the base of new customers through active marketing.

In addition to continued strengthening of core brands, in fiscal 2018 we will work toward reforms to enhance cost efficiency and toward the expansion of the business through new products that offer added value, such as the *My Size* series.

## Main Products

**Bon Curry**

Year launched: 1968



The world's first commercially available food product in a retort pouch. "Bon Curry 50" is released in 2018 featuring its 50<sup>th</sup> anniversary

**Match**

Year launched: 1996



Carbonated vitamin drink. "Berry Match" with the flavor of mixed berries was released in 2016

**CRYSTAL GEYSER**

Year launched: 1994 (Japan)



Mineral water (soft water) bottled directly from spring water sourced at Mount Shasta in California

## First food with function claims in a retort pouch-packed curry

## 100kcal My Size: Ine! Plus European Style Curry for People Concerned about Blood Sugar Level

The *My Size* series was launched in 2010 under the concept of meals that are just the right size in a retort pouch that lets customers easily visualize the size of the meal and can be microwaved with packaging.

In 2016, we launched *My Size: Ine! Plus*, with the added value of "Plus," aimed at dispensing pharmacies. The product meets the dietary habits of contemporary society, targeting people who are watching salt and protein intake. In 2017, we launched *100kcal My Size: Ine! Plus European Style Curry for People Concerned about Blood Sugar Level*, the first food with function claims in a retort pouch-packed curry.

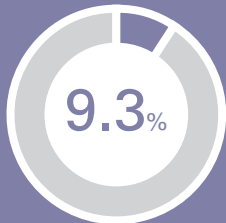
The *My Size* series contributes to everyday health management in a super-aged society.



## Other Businesses

### Sales ratio\*

\* Sales to external customers



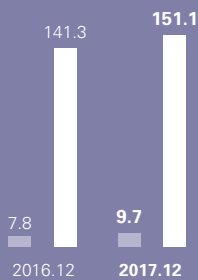
### Business performance in fiscal 2017

■ Segment sales

¥151.1 billion

■ Segment profit

¥9.7 billion



**Expanding in multiple directions, encompassing the chemical products, and warehousing and distribution businesses.**

### Business Overview in Fiscal 2017 and Initiatives for Fiscal 2018

We are developing our other businesses segment in multiple directions in the automotive, electric and electronic devices, building materials, and medical fields, including a chemical products business that performs manufacturing and sales of various materials, and a warehousing and distribution business that operates a joint logistics business encompassing our group's pharmaceuticals, foods, and beverage logistics. In fiscal 2017, we solidly expanded profits through growth of sales in the chemical products business and through steady trend of volumes handled in the warehousing and distribution business.

In fiscal 2018, we will continue to accelerate new market development overseas and domestically in the chemical products business and through logistics leveraging IT based on a shared platform\* to expand the warehousing and distribution business through productivity improvements in the supply chain overall.

\*Shared platform: A system that enables efficient operation of vehicles and warehouses through joint distribution of products that have opposite natures, such as summer and winter products, or heavy and light products. The system is expected to flatten fluctuations in logistics to achieve cost reductions, more efficient logistics, and greater quality.

### Main Products and Services

#### TERRACESS



Friction material for brake pads; scale-like titanate potassium

#### POTICON



A resin composite material used for precision components and sliding parts

#### Warehouse and distribution



Promotion of joint logistics for group products and other companies' products

### Commendation for our construction of a sustainable logistics system

#### Otsuka Warehouse received the METI Minister's Award under the Excellent Green Logistics Commendation Program



Otsuka Warehouse Co. Ltd., which handles logistics of pharmaceuticals and other products for the Otsuka group of companies, received the METI Minister's Award of the Excellent Green Logistics Commendation Program in December 2017 for the project "Reduction of standby time, productivity improvements, and carbon dioxide reduction through the establishment of a truck-berth reservation system," which we advance in partnership with SEAOS, Inc. and Seino Holdings Co., Ltd. This award recognizes the reduction in standby times for trucks (a factor in long working hours for drivers), improvement of productivity, and reduction in CO<sub>2</sub> emissions made possible through the TruckBerth system developed by SEAOS, and by the advance reservation of truck-berth times by Otsuka Warehouse and Seino Holdings.

Otsuka Warehouse will continue to partner with manufacturers in logistics to make logistics more efficient, as well as to create a platform that addresses and contributes to social issues.

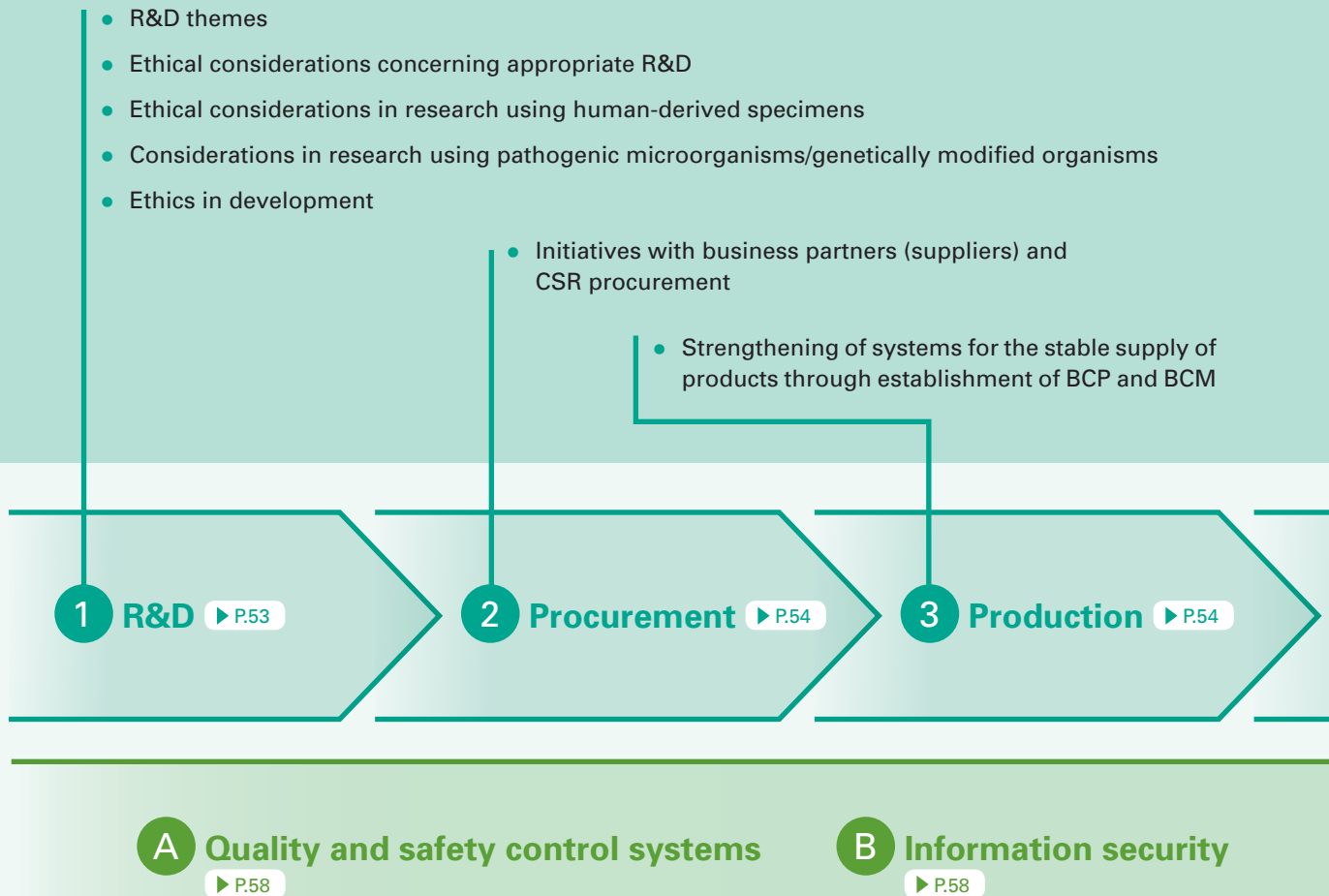
\*The Minister's Award recognizes businesses that have made remarkable contributions to the establishment of sustainable logistics systems through reductions in environmental impacts in the logistics field, productivity improvements in logistics, etc.

## CSR in our Business Activities

Aiming to become an indispensable contributor to people's health worldwide, the Otsuka group engages in CSR activities that are integrated with our businesses. Across the entire value chain in our business activities, we strive for compliance with relevant laws, the assurance of product quality, safety, and reliability, the appropriate provision of information, and consideration of the environment to co-create the sustainable value for the Company and for communities.

Otsuka engages in CSR under the five areas of Health, Environment, Quality, Culture, and Employees. For detailed information on our CSR activities, please go to the Otsuka Group Consolidated CSR Site.

▶ [https://www.otsuka.com/en/csr/hd\\_activity/](https://www.otsuka.com/en/csr/hd_activity/)



Strict quality control systems



Otsuka Pharmaceutical's Tokushima Itano Factory, built on the concept of coexistence with nature

- Code of Practice
- Information provision activities that create customers value on the theme of health

- Basic policy on measures against counterfeit drugs

- Reflecting the voices of customers
- Coexistence with communities



- The Otsuka Group Global Environmental Council
- Climate change response
- Initiatives to protect water resources
- Resource symbiosis initiatives

- Establishment of Global Code of Business Ethics and Global Anti-Corruption Policy
- Enhancing the internal whistleblowing system



## CSR in our Business Activities

### 1 R&D

#### R&D themes

The Otsuka group provides total support for people's health in terms of both treatment of diseases and maintenance/improvement of health. In order to address unmet medical needs, our pharmaceutical business engages in R&D under the theme of tackling unmet areas of treatment for which effective treatment options are not available, with a focus on psychiatry and neurology, and oncology. To meet yet-to-be-imagined needs, our nutraceutical business, which supports the maintenance and improvement of health, conducts R&D into original products grounded in scientific evidence, under the theme of expanding healthy life expectancy.

#### Ethical considerations concerning appropriate R&D

The use of experimental animals to verify efficacy and safety in R&D is at times necessary. The Otsuka group complies with all related laws, ordinances, and guidelines while striving to uphold scientifically valid methodologies and ethical considerations from the viewpoints of animal protection and welfare, including the lives of the animals; preservation of the environment; and the safety of experimenters.

As an in-house management system, we have developed and implemented rules on experiments that involve animals, have established an Animal Experiment Committee, and properly carry out animal experiments and breeding. The Animal Experiment Committee evaluates whether each proposed animal experiment plan is appropriate based on the 3Rs principles. These are Replacement/avoidance or replacement of animal use, Reduction/minimization in the number of animals used, and Refinement/minimization of animal suffering. Based on these, we conduct researcher education and internal inspections and evaluations of the implementation of experiments involving animals.

#### Ethical considerations in research using human-derived specimens

When conducting research using information or specimen collected from the human body, such as tissues and blood, the Otsuka group complies with all laws and guidelines and conducts scientifically and medically appropriate research with consideration of ethics. Each group company establishes committees that

include outside members to ensure the appropriateness and credibility of research. The committees do so by examining research plans, the significance and goals of research, personal information management system, research progress status, and research outcomes from the standpoints of ethical and scientific validity and of protection of personal information.

#### Considerations in research using pathogenic microorganisms/genetically modified organisms

In experiments using genetically modified organisms, and in the use of pathogenic microorganisms or research samples that may contain these, the Otsuka group complies with laws and ordinances, and works toward the prevention of experiment-related accidents and toward consideration of the environment. We do so through the setting of internal rules and through examination by safety committees and screening committees.

#### Ethics in development

In the development of pharmaceuticals, we confirm the safety and effectiveness of candidate compounds by conducting clinical trials with the cooperation of healthy individuals and patients. Recognizing the importance of ethical considerations toward human rights and personal information, the Otsuka group implements clinical trials in compliance with ethical principles and standards, including ICH-GCP, an international standard for the implementation of clinical trials for pharmaceutical products.



## 2 Procurement



### Initiatives with business partners (suppliers) and CSR procurement

In order to seek the sustainable development of the group and society, we believe that collaboration with business partners is important. We conduct safe, reliable business activities with consideration of society, in compliance with laws throughout the value chain.

When beginning dealings with a business partner, we perform investigations and checks to ensure the quality of raw materials and establish stable procurement, and conclude basic trade agreements in advance to avoid risks. We also aim for mutual sustainable development through fair, equitable, and transparent procurement and

building relationships of trust, and are formulating group-wide procurement policies. We share these policies with business partners and are currently working to formulate procurement guidelines.

In addition, we conduct and evaluate questionnaires concerning the CSR activities of business partners, and work to further promote CSR procurement by going beyond legal compliance to assess business partners' status with respect to human rights, labor, environment, anti-corruption measures, and more.

## 3 Production



### Strengthening of systems for the stable supply of products through establishment of BCP and BCM

The Otsuka group has business continuity plans (BCP) in place to ensure that the group continues to operate as effectively as possible and is able to maintain a stable supply of products, even when large-scale earthquakes and disasters strike. From the perspective of business continuity management (BCM), we incrementally expanded its scope since we acquired ISO22301 certification in August 2012 for production and stable supply of medicinal products, beverages, and foods. We then acquired certification for stable supply of intravenous solutions in April 2015, followed by stable supply of anticancer drugs in May 2016, as we continue to work to strengthen the business continuity capabilities of the group overall.

Furthermore, we conduct regular group-wide drills aimed at verifying the efficacy of BCP and confirming issues and problems. In 2017, we conducted a joint drill by major group companies based on the scenario of an earthquake directly below Tokyo, and worked to strengthen our response capabilities, adaptability, and flexibility in preparation for the unexpected.



BCP drill

## CSR in our Business Activities

### 4 Marketing and information provision activities

#### Code of Practice

The Otsuka group companies follow the JPMA Promotion Code for Prescription Drugs, which is a code of behavior for healthcare professionals, and have formulated their own Code of Practice. The Otsuka group works to forge relationships of mutual trust with all of its stakeholders, including medical practitioners, to foster appropriate collaboration on compliance issues. As the social responsibility to clearly specify the relationship between pharmaceutical companies and healthcare-related organizations is required, we are striving to ensure adherence to standards in order to fulfill our responsibility as a pharmaceutical company and ensure the practice of proper medical care based on ethics and a patient-oriented commitment.

#### Information provision activities that create customers value on the theme of health

Leveraging expertise and know-how gained through years of research, development, and business activities involving health, the Otsuka group works to create customers value through information provision activities that are aimed at promoting awareness and improving understanding of health.

#### Health promotion projects in partnership with prefectural and metropolitan governments

In order to make contributions to the social challenge of expanding healthy life expectancy, the Otsuka group is working in partnership with local governments on health awareness and educational activities under health-related themes. These include food education, prevention of lifestyle diseases, heat disorder countermeasures, sports promotion, women's health, and disaster countermeasures.

#### Otsuka Advanced Training for Healthy Aging Supporters (OATHAS)

As Japan transitions to a super-aged society, a variety of systemic preparations are being made to achieve "comprehensive community care systems" that integrate housing, medical care, nursing care, prevention, and lifestyle support. At the same time, increasing attention is being placed on the role of pharmacies as centers for community-based health information. In response to the voices of pharmacies, pharmacists, and other medical professionals, Otsuka Pharmaceutical launched a pharmacy support program of OATHAS (Otsuka Advanced Training for Healthy Aging Supporters), with the aim of building a framework for providing education to persons engaged in health support. Under OATHAS, Otsuka group offers proprietary programs that leverage the expertise we have gained through

our R&D and awareness activities involving health. As the first OATHAS initiative, we are conducting a program to train supporters of health for women.

#### Boosting awareness of rehydration and electrolyte replenishment

As a measure to prevent heat disorder, the Otsuka group has been delivering information on the importance of rehydration and electrolyte (ion) replenishment for over 25 years. We are now expanding our targets for the information provision to cover sports practitioners and instructors, people who work at construction sites, in factories and other hot environments, and everyone from children to the elderly. We hope to support the maintenance and improvement of health through providing correct information, raising awareness, and calling for attention concerning heat disorder.



#### Communication of health information

The Otsuka group engages in various forms of information communication to bring knowledge and correct understanding of health and diseases to more people.

#### Otsuka Health Comic Library

We launched Otsuka Health Comic Library in 1989 with the aim of promotion of children's health by deepening



their interest and understanding concerning the body's mechanisms and health. One volume is issued each year, and we donate the publications to elementary schools and libraries throughout Japan. The books are used not only as reading materials but also as educational materials in science, health, and other classes, contributing to the promotion of health studies.

**Information communication through websites**

Taiho Pharmaceutical provides useful information for

cancer survivors and their families to make improvements in their lifestyles and to overcome the challenges of life, via SURVIVORSHIP.jp, a website based on joint research with the Shizuoka Cancer Center. In addition, Otsuka Pharmaceutical and Otsuka Pharmaceutical Factory provide easy-to-understand information based on the knowledge and know-how gained through their business activities, via the online pages "Health & Illness" and "IV Solution & Nutrition," respectively.

## 5 Distribution



### Basic policy on measures against counterfeit drugs

Counterfeit pharmaceutical products are products that do not contain the indicated ingredients, contain active ingredients other than those indicated, or otherwise present false labeling of identity or origin. In recent years, harm to health due to the spread of counterfeit pharmaceuticals has become a global issue.

The Otsuka group has launched a global product security (GPS) team to ensure that pharmaceutical products reach patients through appropriate distribution channels that allow the assurance of quality, we are monitoring markets and are working in partnership with industry and government to ensure the safety of patients.

## 6 Patients, consumers, and local communities



### Reflecting the voices of customers

The Otsuka group has prepared systems to respond to inquiries, opinions, and requests concerning our products, and reflects the voices of customers in the development and improvement of products.

### Adoption of a universal design font (Otsuka Pharmaceutical)

By using a universal design font\* on the packaging materials of pharmaceutical products, we make the names of drugs easy for patients to read and understand.

\* A font that can be easily read by all, under the basic concept of enabling as many people as possible to use



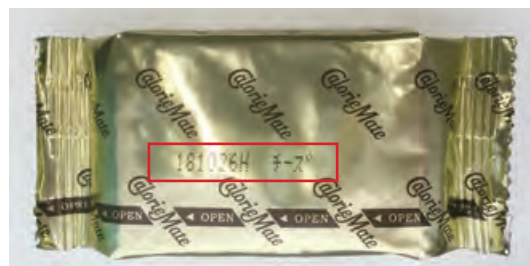
### Specifications to reduce cuts from Tiovita drink packaging (Taiho Pharmaceutical)

For the individual packaging cases and external cardboard boxes used for the Tiovita Drink series, Taiho Pharmaceutical has adopted specifications to lessen the sharpness of cut surfaces and reduce paper cuts when opening the product.



### Toward packaging that makes content clear to all (Otsuka Pharmaceutical)

The small packs (pillow packaging) used for *Calorie Mate* are printed with the flavor name to make the content clear to all even when removed from the box.





## CSR in our Business Activities

### Coexistence with communities

As a good corporate citizen active in local communities, we work to invigorate the communities through interactions.

#### Open factory

Otsuka Pharmaceutical's Tokushima Itano Factory holds a yearly walking event together with the town of Itano on the theme of the importance of health and protection of the natural environment. Within its grounds, the factory has established a natural forest allowing observation of wildlife and a biotope pond that makes use of cooling water from the factory, and makes these open to the public. Otsuka Pharmaceutical's Tokushima Wajiki Factory also holds free outdoor concerts together with the local government as it works toward the invigoration and development of the community.

The Kitajima Plant of Taiho Pharmaceutical has readied rows of cherry trees and walking paths on its grounds, and holds seasonal events for interaction with the community. These include illumination of the cherry trees



Illuminated cherry trees for night viewing at the Kitajima Plant



Outdoor concert on the open factory grounds

for night viewing. A portion of the plant grounds is also made available as a temporary refuge for local citizens in the event of a disaster, and the factory has concluded an agreement with the local government allowing use of the factory as a site for restoration activities.

#### "SATU HATI" (One Heart) in Indonesia

In Indonesia, P.T. Amerta Indah Otsuka, which manufactures and markets *POCARI SWEAT*, conducts the "SATU HATI" (One Heart) social contribution activities under the three themes of education, environment, and health. These activities are aimed at community development and coexistence with the community. In the education area, the company constructs libraries and donates books, and holds the "SATU HATI School" to teach science and math to children, with employees taking turns as a teacher. In this way, the company is active in supporting the education of the children who will lead the future.



Library built in 2011



SATU HATI School conducted by the Kejayan Factory

#### Free health clinic for Afghan refugees

In 2003, the Otsuka group established the Otsuka Welfare Clinic in Peshawar, Pakistan. This health clinic offered free medical treatment for Afghan refugees requiring aid. It was established and operated through cooperation among 23 Otsuka group companies. As companies involved with healthcare through business activities in Asia and Arab countries, we acted on a strong wish to contribute directly to the health of local people. The clinic had contributed to over 880,000 patients during the 15 years of its activity and shut down in 2017 after fulfilling its mission.



### Inheritance of traditional culture

The Otsuka group, with its origins in Tokushima, works to pass down the region's traditional culture by four ren\* participating from our group in Awa Odori, a dance festival in Tokushima that boasts over 400 years of history.



\* Ren is a group of Awa Odori dancers. From our group, Otsuka Pharmaceutical, Otsuka Pharmaceutical Factory, Taiho Pharmaceutical each puts forth its own company ren, while Otsuka Chemical, Otsuka Foods, and Otsuka Warehouse take part jointly as one ren.



## A Quality and safety control systems

As the duty of a healthcare company, the Otsuka group thinks first of the customers and patients. We have established rigorous quality control systems suited to the characteristics of each of our businesses, including pharmaceuticals, cosmetics, and foods, in pursuit of product quality and safety. The Otsuka group's quality and safety control systems comply with legal requirements, governmental and industry standards, including Japan's Pharmaceuticals, Medical Devices and

Other Therapeutic Products Act as well as Japan's Food Sanitation Act. The group is also promoting the acquisition of international certifications such as ISO9001 for quality, ISO13485 for medical devices, and ISO22000 and FSSC22000 for food safety. Furthermore, in order to ensure thorough quality control, it has adopted traceability systems covering all processes, from raw material procurement to production, distribution, and sales.

## B Information security

We organized the Otsuka Group Information Security Committee to share up-to-date information on information security and to review specific security measures. The Otsuka group strives to enhance the level of comprehensive security throughout the entire group and continuously improve the information security.

In order to counter the risk of cyber-attack, the Otsuka group enforces a number of measures, such as arranging system security audits by an external expert body, diagnosing website vulnerabilities, conducting drills related to targeted email attacks, and monitoring posts

on social media. In addition, the group conducts regular emergency drills focusing on core systems that are vital to database management.

The Otsuka group has established a privacy protection management system to protect customers' valuable personal information and has acquired Personal Information Protection Management System (PMS) certification and/or Information Security Management System (ISMS) certification in businesses where appropriate.

## CSR in our Business Activities

Please refer to the non-financial highlights on pages 15-16 for the data of priority issues on the environment

# C Environment



## The Otsuka Group Global Environmental Council

As a group of global companies that contribute to the health of people worldwide, we work sincerely to reduce the impact we have on the global environment through our core businesses, and hope to contribute to the creation of a sustainable society that will protect the nature and the future of the earth.

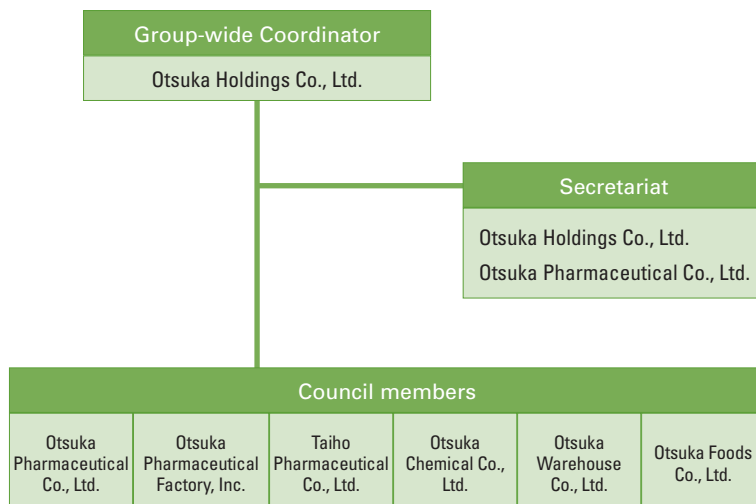
In 2015, we established the Otsuka Group Global Environmental Council, which is composed of group-wide coordinator, environmental managers from each group company, and secretariat. We also formulated the Otsuka Group Environmental Policy and Guidelines and are advancing initiatives aimed at environmental management through collaboration that goes beyond the boundaries of the Otsuka group companies.

The Otsuka group has identified Climate Change,

Water Resources, and Resource Management as priority issues in its environmental initiatives. We have begun deliberations on the establishment of a long-term environmental vision that is consistent with the principles of the United Nations Global Compact, information disclosure under global standards, and the formulation of medium-term environmental targets with specific action plans for the launch in 2019.

Looking ahead, we will strengthen and practice environmental management that meets our social responsibilities and the demands of a global society by deepening the understanding and the recognition of environmental problems through environmental education for employees and by further enhancing partnerships among our group companies.

### Council Organization



### Otsuka Group Environmental Policy

As a global healthcare company and a responsible corporate citizen, the Otsuka Group will always take account of the global environment when it pursues its business activities. The Group will work on environmental issues with its trademark qualities of independence, proactiveness, and creativity.

#### Guidelines

- 1 Provide products and services that are friendly to the environment
- 2 Contribute to a low-carbon society
- 3 Contribute to a sound material-cycle society
- 4 Conserve biodiversity
- 5 Ensure compliance
- 6 Actively engage in social initiatives
- 7 Enhance risk management

### Climate change response

We acknowledge the impacts of climate change as a major risk facing our group, which conducts businesses on a global scale. Accordingly, we are working to formulate long-term reduction targets and action plans for the achievement of the targets. At present, our group is working toward thorough energy conservation measures and the reduction of CO<sub>2</sub> emissions through the use of natural energy and renewable energy sources such as biomass fuels, all aimed at the achievement of a society freed from carbon-based fuels.

### Initiatives aimed at efficient use of energy and CO<sub>2</sub> reduction

In Tokushima Prefecture, where the production sites of our group are concentrated, Otsuka Chemical (Tokushima City) and Otsuka Pharmaceutical Factory (Itano-gun) supply electric power and steam to neighboring group companies through their cogeneration systems adopted. We are striving to promote the efficient use of energy and reduce environmental impacts throughout the group, including the effort of Otsuka Pharmaceutical India which is working to reduce 30% of CO<sub>2</sub> emissions from the previous year by making use of biomass fuels.

### Third-party verification of greenhouse gas emissions

Otsuka undergoes verification of greenhouse gas emissions (Scopes 1 and 2, and categories 1 and 2 of Scope 3) by third-party organizations, to improve the transparency and reliability of environmental data. We also conduct initiatives aimed at understanding and improving the trends in our emissions. We will continue to expand the scope of verification and to enhance the reliability of the data.

### Initiatives to protect water resources

Our group has named water resources as one of the priority issues in our environmental initiatives. We assess water usage volume at our major production sites around the world along with water risks and issues. We also promote regionally appropriate management and effective usage of water and seek to preserve and improve water resources.

### Evaluation of water risk in manufacturing site watersheds

In order to engage in appropriate water conservation activities while taking region-specific risks into account, we undertook water risk assessment and evaluation of manufacturing site watersheds at 86 locations in 14 countries using WRI Aqueduct\*1 in 2017.

\*1 A tool that provides water risk information free of charge, developed and released by the World Resources Institute (WRI).

### Resource symbiosis initiatives

Aiming to achieve a recycling-oriented society, Otsuka makes efforts to improve our resource usage efficiency, reduce the generation of wastes, promote initiatives toward 3Rs (Reduce, Reuse, and Recycle), and attain final waste disposal amount close to zero in its effort to achieve zero emission (under our internal standard for a recycling rate of at least 99%).

### Initiatives aimed at zero emissions

Our group companies perform material recycling\*2 and thermal recycling\*3 of generated wastes. This resulted in a 99.1% recycling rate for 13 domestic group companies in fiscal 2017, the first achievement of zero emissions for the group. In the reduction of final waste volume, we achieved a reduction of about 100 tons from the previous year as a result of companies working toward their goals, with Otsuka Chemical, Otsuka Packaging Industries, and EN Otsuka Pharmaceutical making major contributions by reviewing disposal methods and contractors.

\*2 The processing and reuse of wastes as raw materials and ingredients

\*3 The use of the heat energy generated from incineration of wastes

## D Compliance

### Establishment of Global Code of Business Ethics and Global Anti-Corruption Policy

In order to promote and achieve group-wide compliance, Otsuka Holdings established the Otsuka Group Global Code of Business Ethics. We widely communicate our stance on initiatives under this code through the "Message from the President" by Tatsuo Higuchi, President and Representative Director, CEO. Together with this, we have also formulated the Otsuka Group Global Anti-Corruption Policy that expresses our stance on prohibiting corruption at all of our sites worldwide, and promote engagement in business based on high sense of ethics.

In each group company, we implement compliance training that covers these standards and rules at least once per year, and report on the status of training regularly in the Board of Directors meetings of Otsuka Holdings.

### Enhancing the internal whistleblowing system

Japan's Corporate Governance Code calls for the establishment of an internal whistleblowing system independent of management, and for management oversight of the operational status of the system. This independence and oversight function is extremely important for a whistleblowing system to function in the quick detection of illegal and inappropriate conduct and/or information disclosure. Accordingly, Otsuka Holdings and major group companies have established a whistleblowing system that is independent of management to ensure that whistleblowers can use the system with peace of mind. Our rules allow for whistleblowing not only by full-time employees but also by contract and dispatched employees. Information on whistleblowers and their reports is strictly managed to prevent any negative repercussions on the whistleblowers. The operational status of each companies' internal whistleblowing systems is reported regularly in the Board of Directors meetings of Otsuka Holdings.





## Corporate Governance

### Basic Approach

Otsuka Holdings is committed to pursuing steady growth in its corporate value over the medium- to long-term by realizing its corporate philosophy: "Otsuka-people creating new products for better health worldwide." To meet this commitment, it adheres to the basic policy of making transparent, fair, and timely decisions and fulfilling its corporate social responsibility by living up to the

expectations of all stakeholders, including customers, business partners, employees, local communities, and shareholders, through ongoing dialogue. The Company articulates its basic approach to corporate governance in its Corporate Governance Guidelines.

Otsuka Holdings Corporate Governance Guidelines

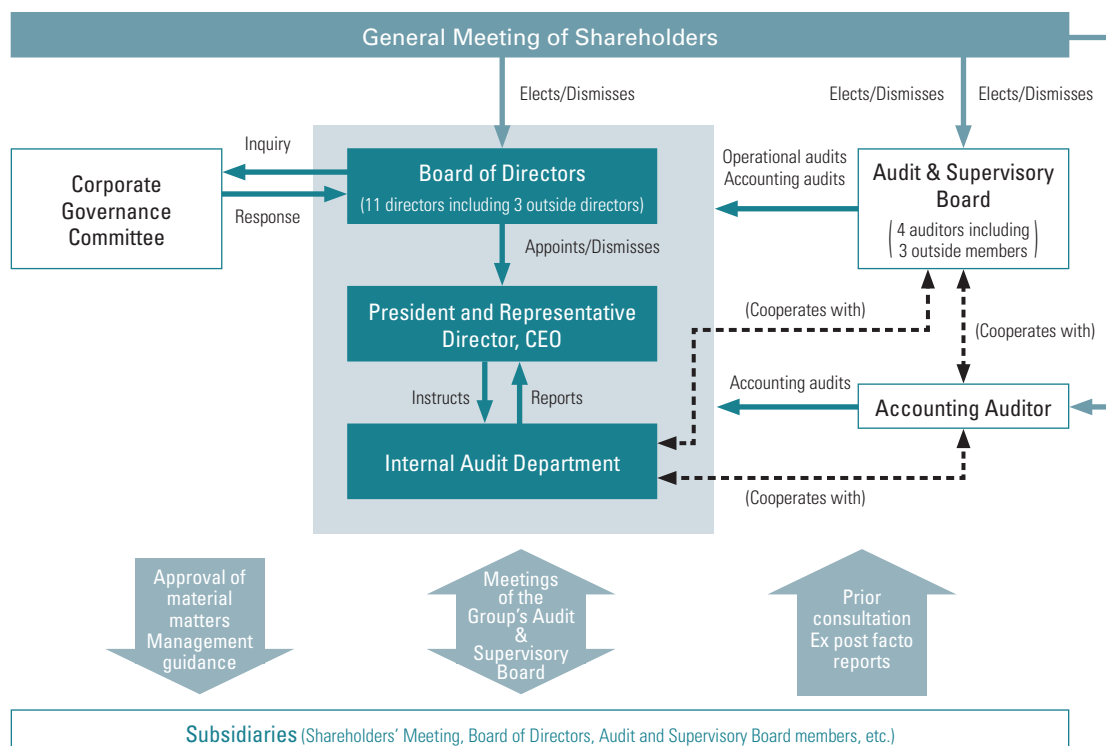
<https://www.otsuka.com/en/company/governance/pdf/guideline.pdf>

### Governance System

At Otsuka Holdings, the Board of Directors, which includes outside directors, supervises the execution of management plans to ensure sustainable growth and raise corporate value over the medium- to long-term, and fulfills its roles and responsibilities regarding improving profitability and capital efficiency. At Otsuka Holdings, a company with an Audit & Supervisory Board, the Audit & Supervisory Board and its members, which are independent of the Board of Directors, take the lead in auditing the directors' performance of their duties, while coordinating with the accounting auditor and the Internal Audit Department. This ensures the Company's health and maintains a solid corporate governance system that can deserve society's trust.

#### Quick Reference (as of March 31, 2018)

Form of organization	Company with an Audit & Supervisory Board
Board of Directors	Eleven
of which outside directors	Three (independent directors)
Term of directors	One year
Audit & Supervisory Board members	Four
of which outside Audit & Supervisory Board members	Three (independent directors)
Accounting auditor	Deloitte Touche Tohmatsu LLC



## Initiatives to Strengthen Corporate Governance

2008	<ul style="list-style-type: none"> <li>• Establishment of Otsuka Holdings Co., Ltd.</li> <li>• Term of directors set at one year</li> <li>• Decision not to adopt a directors' retirement benefits system</li> <li>• Corporate officer system adopted</li> <li>• Two outside Audit &amp; Supervisory Board members</li> </ul>
2010	<ul style="list-style-type: none"> <li>• Three outside Audit &amp; Supervisory Board members</li> <li>• Stock options as performance-linked remuneration introduced</li> <li>• Stock publicly listed in December</li> </ul>
2011	<ul style="list-style-type: none"> <li>• First Medium-Term Management Plan announced</li> </ul>
2013	<ul style="list-style-type: none"> <li>• Two outside directors; three outside Audit &amp; Supervisory Board members</li> </ul>
2014	<ul style="list-style-type: none"> <li>• Second Medium-Term Management Plan announced</li> <li>• Three outside directors; two outside Audit &amp; Supervisory Board members</li> <li>• Otsuka Group Global Code of Business Ethics established</li> </ul>
2015	<ul style="list-style-type: none"> <li>• Corporate Governance Guidelines established</li> <li>• Internal Whistleblowing System established externally (Otsuka Holdings and major group companies)</li> </ul>
2016	<ul style="list-style-type: none"> <li>• Three outside directors; three outside Audit &amp; Supervisory Board members</li> <li>• Effectiveness of Board of Directors evaluated</li> <li>• Stock options conditional on progress with the medium-term management plan introduced</li> </ul>
2017	<ul style="list-style-type: none"> <li>• Corporate Governance Guidelines revised</li> <li>• Corporate Governance Committee established</li> <li>• Effectiveness of Board of Directors evaluated based on questionnaire completed by all directors and Audit &amp; Supervisory Board members</li> <li>• Reporting meetings held for outside directors and outside Audit &amp; Supervisory Board members to improve their understanding of the group's management and business</li> </ul>
2018	<ul style="list-style-type: none"> <li>• Two female directors</li> </ul>

### a) Corporate Organization

As a company with an Audit & Supervisory Board, Otsuka Holdings has a Board of Directors and an Audit & Supervisory Board and also engages an independent accounting auditor. The Articles of Incorporation specify that the number of directors shall not exceed eighteen, and that the number of Audit & Supervisory Board members shall not exceed five.

### b) The Board of Directors

In accordance with 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.

### c) Director Selection Criteria

Otsuka Holdings aims to become "an indispensable contributor to people's health worldwide" by targeting sustainable growth and improvements in corporate value over the medium- to long-terms. To help achieve this goal, and also ensure diversity of directors as a whole, the Company appoints certain people as directors. These are people with knowledge, advanced expertise, and extensive experience conducive to realizing and maintaining appropriate and effective corporate governance. For internal directors, in particular, the Company comprehensively evaluates the experience, expertise, insights, and other attributes of candidates to ensure that they have the qualities required for implementing the group's corporate philosophy, the Otsuka Group Global Code of Business Ethics, and corporate strategies.

### d) Corporate Governance Committee

Seeking to increase the transparency and objectivity of management, Otsuka Holdings established a Corporate Governance Committee in February 2017. As an advisory body to the Board of Directors, the Committee discusses and deliberates the nomination of directors and Audit & Supervisory Board members, director remuneration structure and levels, and other corporate governance issues, and then reports to the Board of Directors. The Committee

consists of the president, the director who is in charge of administration, and all outside directors. The president serves as chair of the Committee.

### e) Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board members attend and express opinions at meetings of the Board of Directors and monitor the legality and soundness of management as shown in the directors' performance of their duties. Audits by the Audit & Supervisory Board are at the core of this process. Striving to improve audit effectiveness, the Audit & Supervisory Board members also share information and exchange opinions as appropriate with relevant departments, such as the Internal Audit Department, Internal Control Department, Administration Department, and Finance and Accounting Department, as well as the accounting auditor.

### f) Evaluation of Effectiveness of the Board of Directors

From January through February every year, Otsuka Holdings conducts a questionnaire survey of all the directors and Audit & Supervisory Board members. Based on the outcomes of the survey, the Company considers and evaluates the effectiveness of the entire Board of Directors. The outcomes are also reviewed by a company attorney. The evaluation conducted in the previous fiscal year (fiscal 2016) revealed issues regarding the adequacy of understanding and knowledge about the Otsuka group's operations and business among outside directors and outside Audit & Supervisory Board members. To address the issues, the Company strengthened the support system to ensure the effective functioning of the Board of Directors, by conducting regular reporting meetings for outside directors and outside audit & supervisory board members.

An evaluation of the effectiveness of the Board of Directors was conducted for the Board of Directors held in March 2018, and the effectiveness and appropriateness of the Board of Directors was recognized for each of the evaluation items. With respect to issues identified through this evaluation—such as ensuring the diversity of officers and the operations of the Board of Directors—the Company will work diligently to enhance the effectiveness of the Board of Directors and further entrench corporate governance.

#### Effectiveness Evaluation Questionnaire for fiscal 2017

1. Appropriateness of the composition of the Board of Directors
2. Adequacy of understanding and knowledge among individual directors of the Company's business fields and specific corporate strategies and plans
3. Adequacy of collaboration with outside directors
4. Adequacy of collaboration with the Audit & Supervisory Board
5. Operation of the Board of Directors
6. Relationship with governance
  - i Appropriateness of functions of the Board of Directors in determining the direction of corporate strategies
  - ii Adequacy of monitoring of each business with respect to implementing corporate strategies
  - iii Adequacy of embracing the perspectives of key investors and stakeholders
  - iv Appropriateness of risk management
  - v Adequacy of collaboration and information-sharing with each group company
7. Adequacy of support system for outside directors and outside Audit & Supervisory Board members
8. Summary

## Corporate Governance

### g) Independent Directors/Audit & Supervisory Board members

When selecting outside directors and outside Audit & Supervisory Board members, Otsuka Holdings looks for individuals with a great deal of knowledge and extensive experience in various fields. The Company requires that candidates have the ability to exercise an adequate management oversight function in respect of the directors through fair and objective monitoring, supervision, and audit of management from a neutral and objective viewpoint. In addition to requiring that outside directors have not been involved in business execution at a group

company in the past, Otsuka Holdings has established independence standards for outside directors in order to ensure their independence. These standards are set out in the Company's Corporate Governance Guidelines. They also apply to outside Audit & Supervisory Board members.

In addition, the Company registers its outside directors and outside Audit & Supervisory Board members as independent directors/audit & supervisory board members with the Tokyo Stock Exchange, since they meet the criteria for independent directors/audit & supervisory board members established by the exchange.

#### Rationale for Selection of Outside Directors and Outside Audit & Supervisory Board Members

	Name	Rationale for selection	No. of times attended in FY2017	
			Board of Directors meeting	Audit & Supervisory Board meeting
Outside directors	Tadaaki Kounose	Mr. Kounose has been giving effective advice to the Company's managers from a neutral and expert perspective as an outside director, with his abundant experience and extensive knowledge as a corporate manager, as well as his expertise in the food industry. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company believes Mr. Kounose to be suitable as an independent director.	14/14	—
	Yukio Matsutani	Mr. Matsutani has been giving effective advice to the Company's managers from a neutral and expert perspective as an outside director, with his abundant experience and extensive knowledge in the medical welfare field, as well as his expertise in the healthcare industry. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company believes Mr. Matsutani to be suitable as an independent director.	14/14	—
	Ko Sekiguchi*	The Company anticipates that, given his abundant experience and extensive knowledge as a corporate manager, as well as his expertise in the pharmaceutical industry, Mr. Sekiguchi will be able to give effective advice to the Company's managers from a neutral and expert perspective as an outside director. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company believes Mr. Sekiguchi to be suitable as an independent director.	—	—
Outside Audit & Supervisory Board members	Hiroshi Sugawara	Mr. Sugawara has specialized knowledge as a certified public accountant, as well as abundant business experience, and the Company has determined that he will be able to use such experience and expertise in audits of the Company. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company has designated Mr. Sugawara as an independent audit & supervisory board member.	14/14	14/14
	Yoko Wachi	As an attorney, Ms. Wachi is well-versed in corporate legal affairs, and the Company has determined that she will be able to use such experience and expertise in audits of the Company. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company has designated Ms. Wachi as an independent audit & supervisory board member.	14/14	14/14
	Kazuo Takahashi*	Mr. Takahashi has held major positions in the IT and internal control departments for many years and has abundant experience in corporate management, and the Company has determined that he will be able to use such experience and expertise in audits of the Company. Since there is no risk of conflict of interest vis-à-vis general shareholders, moreover, the Company has designated Mr. Takahashi as an independent audit & supervisory board member.	—	—

Note: The number of Board of Directors meetings and Audit & Supervisory Board meetings attended by outside director Ko Sekiguchi and outside Audit & Supervisory Board member Kazuo Takahashi is not listed because they were newly appointed at the 10th General Meeting of Shareholders held on March 29, 2018.

#### Independence Standards for Outside Directors (Corporate Governance Guideline 8. (3))

The Company determines that an outside director is independent if none of the following applies:

1. A person who is a relative within the second degree of kinship of an outside director is currently or has been in the past three fiscal years a managing director, executive officer, executive operating officer, or important employee (each an "Executive") of the Company or one or more of the Company's subsidiaries.
2. A company to which an outside director belongs as an Executive has had one or more transactions with the Otsuka group, and the amount of such transaction(s) in any fiscal year within the past three fiscal years exceeds 2% of consolidated net sales of either company.
3. The outside director, as a legal, accounting, or tax expert or as a consultant, has received remuneration exceeding ¥5 million per fiscal year directly from the Otsuka group (excluding remuneration as the Company's outside director) in any fiscal year within the past three years.
4. The amount of donation to a non-profit organization to which an outside director belongs as an Executive from the Otsuka group has exceeded ¥10 million in total for the past three fiscal years and such amount exceeds 2% of the income of such non-profit organization.

### h) Internal Audit Department

The Company's Internal Audit Department reports directly to the president. The department regularly conducts audits based on the Internal Audit Rules to verify that operations are being executed appropriately and efficiently. These audits consider operations with regard to the assets and overall affairs of the Company and its affiliated companies. The department submits audit reports to the president, directors, and Audit & Supervisory Board members. When a need for improvement is indicated, the department recommends actions to be taken and afterward confirms the status of their implementation in order to optimize the performance of the Company's duties. The department also shares information with Audit & Supervisory Board members and the accounting auditor and in other ways cooperates with them.

### i) Internal Control Department

The Company's Internal Control Department handles 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 that employees thoroughly understand operational rules. The department works in cooperation with the Internal Audit Department to continuously monitor the status of operations, thus establishing a system ensuring that executives reliably assess internal controls.

The Company's basic approach to internal control and the status of establishment of that system are described in the corporate governance report submitted to the Tokyo Stock Exchange.

### j) 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.

### k) Status of Accounting Audit

Otsuka Holdings has signed an auditing agreement with the auditing firm Deloitte Touche Tohmatsu LLC to audit the Company's accounts from a fair and impartial stance. The certified public accountants who audited the Company's accounts were Mitsuru Hirano, Tsutomu Hirose, and Koichi Niki. They were assisted by ten other certified public accountants and four other people. All of the certified public accountants who audited the Company's accounts have done so continuously for less than seven years.

## 3. Remuneration for Directors/Audit & Supervisory Board members

The remuneration system for directors/audit & supervisory board members is designed to ensure that the Company attracts and retains talented leaders and motivates them to deliver superior performance, thereby supporting steady growth in the group's earnings and corporate value.

### a) Amount of Director Remuneration at the Company as a Holding Company

Director remuneration consists of fixed remuneration set depending on position, bonuses linked to performance that provide short-term incentives, and stock options that provide medium- to long-term incentives.

#### Total Remuneration by Officer Category, Total Remuneration by Type, and Number of Applicable Officers

Officer category	Total remuneration etc. (¥ million)	Total remuneration, by type (¥ million)			Number of officers who receive basic remuneration
		Basic remuneration	Amount charged as cost of stock options	Bonus	
Directors (excluding outside directors)	580	259	197	123	7
Audit & Supervisory Board members (excluding outside Audit & Supervisory Board members)	30	30	—	—	1
Outside directors	54	54	—	—	6

### b) Amount of Director Remuneration at Subsidiaries as Operating Companies

Remuneration for directors at subsidiaries, which are operating companies, is determined based on the duties and responsibilities (executing the business of each operating company based on the group strategies devised by the Company, as well as duties and responsibilities involving devising and deciding on the strategy of each operating company, and strengthening corporate governance) of the directors of the operating company, and is not to exceed the cap on director remuneration resolved at the General Meeting of Shareholders.

### c) Amount of Remuneration for Company's Audit & Supervisory Board Members

Audit & Supervisory Board members are essentially paid only basic remuneration; there are no variable components based on earnings.



## Directors, Audit & Supervisory Board Members

(as of March 29, 2018)



Front row, from left: Masayuki Kobayashi, Sadanobu Tobe, Yoshiro Matsuo, Ichiro Otsuka, Tatsuo Higuchi, Yuko Makino, Atsumasa Makise, Noriko Tojo  
Back row, from left: Ko Sekiguchi, Yukio Matsutani, Tadaaki Konose, Yoza Toba, Hiroshi Sugawara, Yoko Wachi, Kazuo Takahashi

### Directors

#### Chairman and Representative Director Ichiro Otsuka

Apr. 1987 Joined Otsuka Pharmaceutical Factory, Inc.  
Jun. 1997 Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.  
Jun. 1998 Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.  
Dec. 2001 Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.  
May 2002 Representative Director, Otsuka Pharmaceutical Factory, Inc.  
Dec. 2003 Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.  
Dec. 2004 President and Representative Director, Otsuka Pharmaceutical Factory, Inc.  
Jul. 2008 Executive Director, Otsuka Holdings Co., Ltd.  
Jun. 2010 Vice President and Executive Director, Otsuka Holdings Co., Ltd.  
Jun. 2014 Representative Director, Otsuka Pharmaceutical Factory, Inc.  
Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.  
Mar. 2015 Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)  
Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)  
Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)

#### Executive Director

##### Sadanobu Tobe

Apr. 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)  
Jul. 1993 Vice President and Representative Director, Otsuka Foods Co., Ltd.  
Nov. 2004 Vice President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)  
May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.  
Jul. 2008 Executive Director, Otsuka Holdings Co., Ltd.  
Jun. 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.  
Jun. 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.  
Jun. 2012 Vice Chairman, Otsuka Foods Co., Ltd.  
Jun. 2013 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd.  
Nov. 2013 President and Representative Director, Otsuka Foods Co., Ltd.  
Jun. 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)  
Mar. 2018 Chairman, Otsuka Foods Co., Ltd. (Current Position)

#### President and Representative Director Tatsuo Higuchi

Mar. 1977 Joined Otsuka Pharmaceutical Co., Ltd.  
Jun. 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)  
Nov. 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.  
Jun. 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.  
Jun. 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.  
Jun. 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.  
Jul. 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)  
Dec. 2011 Executive Director, Otsuka Chemical Co., Ltd.  
Feb. 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)

#### Executive Director

##### Atsumasa Makise

Dec. 1987 Joined Otsuka Pharmaceutical Co., Ltd.  
Jun. 2002 Operating Officer, Director of ODP Division, Otsuka Pharmaceutical Co., Ltd.  
Jun. 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.  
Jun. 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd.  
Jul. 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd.  
May 2009 Chairman and CEO, Otsuka America Inc.  
Apr. 2010 Chairman, Otsuka America Inc.  
Mar. 2017 Executive Director, Otsuka Foods Co., Ltd. (Current Position)  
Mar. 2018 President and Representative Director, Otsuka Foods Co., Ltd. (Current Position)  
Executive Director, Otsuka Holdings Co., Ltd. (Current Position)

#### Senior Managing Director, Corporate Administration Yoshiro Matsuo

Apr. 1985 Joined Otsuka Pharmaceutical Co., Ltd.  
Jan. 2003 Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.  
Jun. 2006 Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.  
Nov. 2007 Senior Operating Officer, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.  
July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd.  
Mar. 2016 Senior Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)  
Jan. 2017 Executive Director, Otsuka Medical Devices Co., Ltd. (Current Position)

#### Executive Director

##### Masayuki Kobayashi

Oct. 1993 Joined Taiho Pharmaceutical Co., Ltd.  
Aug. 2002 President, Taiho Pharma USA, Inc. (present day TAIHO ONCOLOGY, INC.)  
Sep. 2003 Executive Director, Taiho Pharmaceutical Co., Ltd.  
Apr. 2010 President and CEO, Otsuka America, Inc.  
Apr. 2012 President and Representative Director, Taiho Pharmaceutical Co., Ltd. (Current Position)  
Apr. 2014 Executive Director, Taiho Pharma USA, Inc. Chairman, TAIHO ONCOLOGY, INC. (Current Position)  
Mar. 2017 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)

#### Executive Director, Finance Yuko Makino

Apr. 1982 Joined Otsuka Pharmaceutical Co., Ltd.  
Apr. 1996 Joined Baxter Limited  
Apr. 2000 Joined Otsuka Pharmaceutical Co., Ltd.  
Mar. 2015 Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.  
Sep. 2016 Operating Officer, Director of the Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.  
Apr. 2017 Operating Officer, Director of Accounting Department, Otsuka Pharmaceutical Co., Ltd.  
Operating Officer, Director of the Tax Department, Otsuka Holdings Co., Ltd.  
Operating Officer, Director of the Finance & Accounting Department, Otsuka Pharmaceutical Co., Ltd.  
Mar. 2018 Executive Director, Finance, Otsuka Holdings Co., Ltd. (Current Position)

#### Executive Director

##### Noriko Tojo

Apr. 1987 Joined Goldman Sachs (Japan) Corporation  
Aug. 1991 Joined Shearson Lehman Brothers Holdings Inc.  
Jul. 2002 Engagement Manager, McKinsey & Company, Japan Office  
Jun. 2006 Director, Intel Capital Japan, Intel Corporation  
Aug. 2008 Managing Director, Corporate Development, Otsuka Holdings Co., Ltd.  
Feb. 2011 Executive Director, Otsuka Medical Devices Co., Ltd.  
Apr. 2012 President and CEO, Otsuka America, Inc.  
Aug. 2015 Executive Director and CEO, Pharmavite LLC  
Jan. 2017 President and Representative Director, Otsuka Medical Devices Co., Ltd. (Current Position)  
May 2017 Executive Director, Otsuka America, Inc. (Current Position)  
Aug. 2017 Chairman, Pharmavite LLC (Current Position)  
Mar. 2018 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)

**Outside Director****Tadaaki Konose**

- Apr. 1970 Joined Snow Brand Milk Products Co., Ltd. (present day MEGMILK SNOW BRAND Co., Ltd.)
- Jun. 2002 President and Representative Director, Snow Brand Milk Products Co., Ltd.
- Oct. 2009 President and Representative Director, MEGMILK SNOW BRAND Co., Ltd.
- Apr. 2011 Director and Advisor, MEGMILK SNOW BRAND Co., Ltd.
- Jun. 2011 Special Advisor, MEGMILK SNOW BRAND Co., Ltd.
- Sep. 2011 Administrative Council member, University of Miyazaki, a National University Corporation (Current Position)
- Jun. 2014 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)

**Outside Director****Yukio Matsutani**

- Apr. 1975 Intern, Pediatric Department, St. Luke's International Hospital
- Oct. 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)
- Aug. 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare
- Aug. 2007 Director, National Sanatorium Tama Zenshoen
- April 2012 President, National Institute of Public Health
- Dec. 2015 Vice President, International University of Health and Welfare (Current Position)
- Mar. 2016 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)

**Outside Director****Ko Sekiguchi**

- Apr. 1973 Joined Mitsubishi Corporation
- May 1990 Joined The Boston Consulting Group
- Jan. 1996 General Manager of Sterrad Business Division, Johnson & Johnson Medical K. K. (present day Johnson & Johnson K. K. Medical Company)
- Nov. 1998 President and Representative Director, Janssen Kyowa Co., Ltd. (present day Janssen Pharmaceutical K. K.)
- Jul. 2009 Chairman and Director, Janssen Kyowa Co., Ltd.
- Oct. 2009 Supreme Advisor, Janssen Kyowa Co., Ltd.
- Jan. 2011 Representative Director, DIA Japan (present day SH DIA Japan) (Current Position)
- Apr. 2012 Outside Director, N.I.C. Corporation (present day Solasto Corporation) (Current Position)
- Mar. 2014 Outside Director, Kenedix, Inc. (Current Position)
- Mar. 2018 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)

**Audit & Supervisory Board Members****Standing Audit & Supervisory Board Member****Yoza Toba**

- Apr. 1979 Joined Otsuka Chemical Co., Ltd.
- Jan. 1995 Director, Information Center, Otsuka Chemical Co., Ltd.
- Jan. 2006 CFO, Trocellen GmbH
- May 2009 Operating Officer, Information System Department, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)
- Jun. 2009 Corporate Officer, Director of IT, Corporate Finance & Accounting Department, Otsuka Holdings Co., Ltd.
- Dec. 2011 Executive Director, Corporate Administration, Accounting and IT, Otsuka Chemical Co., Ltd.
- Mar. 2015 Executive Vice President, Corporate Finance & Accounting & Corporate Service Department, Otsuka Holdings Co., Ltd.
- Mar. 2018 Standing Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)

**Outside Audit & Supervisory Board Member****Hiroshi Sugawara**

- Oct. 1997 Joined Chuo Audit Corporation
- Oct. 2000 Joined Deloitte Touche Tohmatsu (present day Deloitte Touche Tohmatsu LLC)
- Feb. 2006 Vice President, Will Capital Management Co., Ltd. (Current Position)
- Jun. 2010 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)
- Jun. 2012 Outside Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd.
- Oct. 2013 Outside Director, NIPPON PARKING DEVELOPMENT Co., Ltd.
- Mar. 2016 Audit & Supervisory Board Member, Otsuka Pharmaceutical Co., Ltd. (Current Position)

**Outside Audit & Supervisory Board Member****Yoko Wachi**

- Apr. 1989 Registered as an attorney at law (Dai-ichi Tokyo Bar Association)
- Joined KAJITANI LAW OFFICES (Current Position)
- Jun. 2015 Corporate Auditor, NICHIAS Corporation (Current Position)
- Mar. 2016 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)

**Outside Audit & Supervisory Board Member****Kazuo Takahashi**

- Apr. 1975 Joined EBARA-UDYLITE CO., LTD. (present day JCI CORPORATION)
- Mar. 1986 Executive Director, Strategic Planning, RA Institute Co., Ltd.
- Nov. 1992 Executive Director, General Manager of the System Division, Sunkus & Associates, Inc.
- Oct. 2004 Executive Director, Head of the Information System Division, Circle K Sunkus Co., Ltd.
- May 2006 Executive Director, Chief of the Management Strategy Office, the Customer & Franchisee Relations Office, and the Internal Control & Environmental Management Office, Circle K Sunkus Co., Ltd.
- May 2008 Executive Director, Head of Area Franchise, Circle K Sunkus Co., Ltd.
- May 2010 Executive Director, Head of Information Systems Division, Circle K Sunkus Co., Ltd.
- Mar. 2018 Outside Audit & Supervisory Board Member, Otsuka Holdings Co., Ltd. (Current Position)

## Main Data

With effect from fiscal 2016 (ended December 31, 2016), Otsuka adopted the International Financial Reporting Standards (IFRS). Information for fiscal 2015 (ended December 31, 2015) is also presented in line with IFRS.

Item *1	J-GAAP		
	2010.3	2011.3	2012.3
<b>Results of Operations</b>			
Net sales	¥ 1,084.3	¥ 1,127.6	¥ 1,154.6
Selling, general and administrative expenses *2	477.4	457.6	457.4
Research and development expenses	151.8	164.7	159.2
R&D ratio (%)	14.0	14.6	13.8
Operating profit	98.5	126.3	148.7
Operating profit margin (%)	9.1	11.2	12.9
Profit attributable to owners the Company	67.4	82.4	92.2
<b>Financial Position</b>			
Total assets	¥ 1,458.4	¥ 1,589.7	¥ 1,666.8
Total equity	948.5	1,163.3	1,222.8
Ratio of equity attributable to owners of the Company to total assets (%)	64.2	72.4	72.5
ROE (%)	7.7	7.9	7.8
<b>Cash Flows</b>			
Net cash flows from operating activities	¥ 173.5	¥ 87.7	¥ 147.6
Net cash flows from investing activities	(59.0)	(131.5)	(107.6)
Free cash flows	114.5	(43.8)	40.0
<b>Dividends</b>			
Annual dividend per share (Yen)	¥ 12.5	¥ 28	¥ 45
Dividend pay-out ratio (%)	8.7	17.0	27.2
<b>Common Stock/ Stock Price</b>			
Number of shares outstanding at year-end (thousand shares)	519,157	557,836	557,836
Stock price at year-end (Yen)	—	¥ 2,055	¥ 2,450
<b>Number of Employees *5</b>			
Total (persons)	24,589	25,188	24,595
Japan (persons)	14,174	14,030	13,808
Outside Japan (persons)	10,415	11,158	10,787
<b>Female Manager Ratio *6</b>			
Number of female managers (persons)			
Female manager ratio (%)			
<b>Environmental Data *7</b>			
Total CO <sub>2</sub> emissions *8 (thousand tons-CO <sub>2</sub> )			
Japan (%)			
Outside Japan (%)			
CO <sub>2</sub> emissions per sales (ton/¥ million)			
Water usage *8 (thousand m <sup>3</sup> )			
Resource recycling rate *9 (%)			

\*1 Item names according to IFRS. Names in J-GAAP correspond to names in IFRS as follows: •Net income/Profit attributable to owners of the Company •Net assets/Total equity

\*2 SG&A expense under J-GAAP is presented as total expense less R&D expenses. The Company believes that this is useful to investors in comparing the Company's financial results under J-GAAP with those of IFRS.

\*3 Due to a change in the consolidated fiscal year, fiscal 2014 (ended December 31, 2014) was a transitional period covering the nine months from April 1 to December 31, 2014.

\*4 The U.S. dollar amounts in this report represent translations of Japanese yen, solely for the reader's convenience, at the rate of 113.00=US\$1, the approximate exchange rate on December 31, 2017.

Billions of Yen						Millions of U.S. Dollars *4
J-GAAP			IFRS			IFRS
2013.3	2014.3	2014.12*3	2015.12	2016.12	2017.12	2017.12
¥ 1,218.1	¥ 1,452.8	¥ 1,224.3	¥ 1,427.4	¥ 1,195.5	<b>¥ 1,240.0</b>	<b>\$ 10,973</b>
462.2	563.4	508.6	636.4	535.9	<b>558.7</b>	<b>4,944</b>
192.4	249.0	172.9	202.7	168.8	<b>175.6</b>	<b>1,554</b>
15.8	17.1	14.1	14.2	14.1	<b>14.2</b>	—
169.7	198.7	196.5	148.9	101.1	<b>104.2</b>	<b>922</b>
13.9	13.7	16.1	10.4	8.5	<b>8.4</b>	—
122.4	151.0	143.1	102.0	92.6	<b>112.5</b>	<b>996</b>
¥ 1,779.2	¥ 2,028.4	¥ 2,178.2	¥ 2,575.3	¥ 2,478.3	<b>¥ 2,480.3</b>	<b>\$ 21,949</b>
1,325.1	1,510.8	1,658.6	1,727.4	1,738.4	<b>1,822.0</b>	<b>16,123</b>
73.7	73.2	74.7	66.0	69.0	<b>72.3</b>	—
9.7	10.8	9.2	6.1	5.4	<b>6.4</b>	—
¥ 119.3	¥ 226.5	¥ 88.5	¥ 257.9	¥ 142.0	<b>¥ 102.8</b>	<b>\$ 910</b>
(91.2)	(108.5)	(28.7)	(422.6)	(135.1)	<b>(40.1)</b>	<b>(355)</b>
28.1	117.9	59.9	(164.7)	6.9	<b>62.8</b>	<b>555</b>
¥ 58	¥ 65	¥ 75	¥ 100	¥ 100	<b>¥ 100</b>	<b>\$ 0.88</b>
26.1	23.4	28.4	53.1	58.5	<b>48.2</b>	—
557,836	557,836	557,836	557,836	557,836	<b>557,836</b>	—
¥ 3,300	¥ 3,087	¥ 3,617	¥ 4,317	¥ 5,093	<b>¥ 4,948</b>	<b>\$ 43.79</b>
25,330	28,288	29,482	31,940	31,787	<b>32,817</b>	—
13,732	14,116	14,285	14,082	13,909	<b>13,880</b>	—
11,598	14,172	15,197	17,858	17,878	<b>18,937</b>	—
187	202	226	248	269	<b>270</b>	—
4.8	5.3	6.1	7.0	7.7	<b>7.8</b>	—
			758	801	<b>818</b>	—
			46.3	42.8	<b>39.8</b>	—
			53.7	57.2	<b>60.2</b>	—
			0.53	0.67	<b>0.66</b>	—
			23,487	18,721	<b>19,768</b>	—
			98.2	98.5	<b>99.1</b>	—

\*5 Number of employees at Otsuka Holdings and its 153 subsidiaries.

\*6 Figures of 6 operating companies in Japan.

\*7 Environmental data is limited to the past three years due to a change in collation criteria from 2016.

\*8 Calculated for the consolidated subsidiaries of the Otsuka group, and the companies that constitute the top 95% or more of CO<sub>2</sub> emissions originating from energy.

\*9 Figures of 13 major consolidated subsidiaries in Japan.



# Consolidated Financial Statements

Otsuka Holdings and its Subsidiaries for the year ended December 31, 2017

## Consolidated Statement of Financial Position

Assets	Billions of Yen		Millions of U.S. Dollars*
	2016.12	2017.12	2017.12
<b>Current assets</b>			
Cash and cash equivalents	¥ 369.9	¥ 336.6	\$ 2,979
Trade and other receivables	353.2	363.9	3,221
Inventories	133.8	144.5	1,279
Income taxes receivable	14.4	11.5	101
Other financial assets	209.3	116.4	1,030
Other current assets	33.0	37.5	332
Subtotal	1,113.5	1,010.5	8,942
Assets held for sale	0.3	0.5	4
<b>Total current assets</b>	1,113.9	1,010.9	8,946
<b>Non-current assets</b>			
Property, plant and equipment	358.8	382.5	3,385
Goodwill	231.8	249.5	2,208
Intangible assets	447.0	455.9	4,034
Investments in associates	166.6	188.2	1,666
Other financial assets	143.3	176.1	1,558
Deferred tax assets	6.9	7.0	62
Other non-current assets	10.0	10.2	90
<b>Total non-current assets</b>	1,364.4	1,469.3	13,003
<b>Total assets</b>	¥ 2,478.3	¥ 2,480.3	\$ 21,949

\* The U.S. dollar amounts in this report represent translations of Japanese yen, solely for the reader's convenience, at the rate of 113.00=US\$1, the approximate exchange rate on December 31, 2017.

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Liabilities and equity	Billions of Yen		Millions of U.S. Dollars*
	2016.12	2017.12	2017.12
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	¥ 162.3	¥ 159.9	\$ 1,415
Bonds and borrowings	79.3	64.5	571
Other financial liabilities	3.9	2.3	21
Income taxes payable	21.5	8.0	71
Provisions	0.6	—	—
Other current liabilities	169.1	151.7	1,343
Subtotal	436.6	386.5	3,420
Liabilities directly associated with assets held for sale	0	0	0
<b>Total current liabilities</b>	436.6	386.5	3,420
<b>Non-current liabilities</b>			
Bonds and borrowings	194.0	177.0	1,566
Other financial liabilities	11.9	19.0	168
Net defined benefit liabilities	15.3	14.7	130
Provisions	0.5	3.7	33
Deferred tax liabilities	70.3	44.7	395
Other non-current liabilities	11.2	12.8	113
<b>Total non-current liabilities</b>	303.2	271.8	2,406
<b>Total liabilities</b>	739.8	658.3	5,826
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	81.7	81.7	723
Capital surplus	504.0	505.6	4,475
Treasury shares	(47.3)	(47.3)	(418)
Retained earnings	1,209.1	1,266.4	11,207
Other components of equity	(37.0)	(13.2)	(117)
<b>Total equity attributable to owners of the Company</b>	1,710.5	1,793.3	15,870
<b>Non-controlling interests</b>	27.9	28.7	254
<b>Total equity</b>	1,738.4	1,822.0	16,123
<b>Total liabilities and equity</b>	¥ 2,478.3	¥ 2,480.3	\$ 21,949

## Consolidated Financial Statements

Otsuka Holdings and its Subsidiaries for the year ended December 31, 2017

### Consolidated Statement of Income

	Billions of Yen		Millions of U.S. Dollars*
	2016.12	2017.12	2017.12
<b>Net sales</b>	¥ 1,195.5	<b>¥ 1,240.0</b>	<b>\$ 10,973</b>
Cost of sales	(406.3)	<b>(422.5)</b>	<b>(3,739)</b>
<b>Gross profit</b>	789.2	<b>817.5</b>	<b>7,234</b>
Selling, general and administrative expenses	(535.9)	<b>(558.7)</b>	<b>(4,944)</b>
Research and development expenses	(168.8)	<b>(175.6)</b>	<b>(1,554)</b>
Share of profit of associates	16.0	<b>19.3</b>	<b>171</b>
Other income	4.6	<b>6.1</b>	<b>54</b>
Other expenses	(3.9)	<b>(4.4)</b>	<b>(39)</b>
<b>Operating profit</b>	101.1	<b>104.2</b>	<b>922</b>
Finance income	3.8	<b>4.3</b>	<b>38</b>
Finance costs	(13.1)	<b>(5.1)</b>	<b>(45)</b>
Other non-operating income (expenses)	24.8	<b>0.3</b>	<b>3</b>
<b>Profit before taxes</b>	116.7	<b>103.7</b>	<b>918</b>
Income tax expenses	(23.3)	<b>10.7</b>	<b>94</b>
<b>Profit for the year</b>	¥ 93.3	<b>¥ 114.4</b>	<b>\$ 1,012</b>
<b>Attributable to:</b>			
Owners of the Company	92.6	<b>112.5</b>	<b>996</b>
Non-controlling interests	0.8	<b>1.9</b>	<b>17</b>
<b>Earnings per share:</b>			
	Yen		U.S. Dollars*
Basic earnings per share	¥ 170.82	<b>¥ 207.60</b>	<b>\$ 1.84</b>
Diluted earnings per share	170.70	<b>206.99</b>	<b>1.83</b>

### Consolidated Statement of Comprehensive Income

	Billions of Yen		Millions of U.S. Dollars*
	2016.12	2017.12	2017.12
<b>Profit for the year</b>	¥ 93.3	<b>¥ 114.4</b>	<b>\$ 1,012</b>
<b>Other comprehensive income</b>			
<b>Components that will not be reclassified to profit or loss</b>			
Remeasurements of defined benefit plans	113	<b>1.9</b>	<b>17</b>
Financial assets measured at fair value through other comprehensive income	(0.9)	<b>17.0</b>	<b>151</b>
Share of other comprehensive income of associates	(0.3)	<b>0.5</b>	<b>5</b>
Subtotal	10.2	<b>19.5</b>	<b>172</b>
<b>Components that may be reclassified to profit or loss</b>			
Foreign currency translation reserve	(29.6)	<b>(4.5)</b>	<b>(39)</b>
Cash flow hedges	(0.1)	<b>(0)</b>	<b>(0)</b>
Share of other comprehensive income of associates	(9.2)	<b>8.4</b>	<b>75</b>
Subtotal	(38.9)	<b>4.0</b>	<b>35</b>
<b>Total other comprehensive income</b>	(28.7)	<b>23.4</b>	<b>208</b>
<b>Comprehensive income</b>	¥ 64.6	<b>¥ 137.8</b>	<b>\$ 1,220</b>
<b>Attributable to:</b>			
Owners of the Company	65.7	<b>135.3</b>	<b>1,197</b>
Non-controlling interests	(1.0)	<b>2.6</b>	<b>23</b>

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## Consolidated Statement of Changes in Equity

Billions of Yen

	Equity attributable to owners of the Company						Other components of equity				Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Foreign currency translation reserve	Cash flow hedges	Total				
<b>Balance as of January 1, 2016</b>	¥ 81.7	¥ 503.4	¥ (47.3)	¥ 1,159.5	¥ —	¥ 23.1	¥ (22.1)	¥ 0.1	¥ 1.1	¥ 1,698.5	¥ 28.9	¥ 1,727.4	
Profit for the year	—	—	—	92.6	—	—	—	—	—	92.6	0.8	93.3	
Other comprehensive income	—	—	—	—	11.2	(0.7)	(37.3)	(0.1)	(26.9)	(26.9)	(1.8)	(28.7)	
<b>Comprehensive income</b>	—	—	—	92.6	11.2	(0.7)	(37.3)	(0.1)	(26.9)	65.7	(1.0)	64.6	
Purchase of treasury shares	—	—	(0)	—	—	—	—	—	—	(0)	—	(0)	
Dividends	—	—	—	(54.2)	—	—	—	—	—	(54.2)	(0.5)	(54.7)	
Share-based payment transactions	—	0.1	—	—	—	—	—	—	—	0.1	—	0.1	
Changes in ownership interests in subsidiaries that do not result in loss of control	—	0.4	—	—	—	—	—	—	—	0.4	0.5	1.0	
Transfer from other components of equity to retained earnings	—	—	—	11.2	(11.2)	(0.1)	—	—	(11.2)	—	—	—	
<b>Total transactions with owners, etc.</b>	—	0.6	(0)	(43.0)	(11.2)	(0.1)	—	—	(11.2)	(53.6)	0	(53.6)	
<b>Balance as of December 31, 2016</b>	81.7	504.0	(47.3)	1,209.1	—	22.4	(59.4)	0	(37.0)	1,710.5	27.9	1,738.4	
<b>Balance as of January 1, 2017</b>	¥ 81.7	¥ 504.0	¥ (47.3)	¥ 1,209.1	¥ —	¥ 22.4	¥ (59.4)	¥ 0	¥ (37.0)	¥ 1,710.5	¥ 27.9	¥ 1,738.4	
Profit for the year	—	—	—	112.5	—	—	—	—	—	112.5	1.9	114.4	
Other comprehensive income	—	—	—	—	2.1	17.4	3.3	(0)	22.8	22.8	0.7	23.4	
<b>Comprehensive income</b>	—	—	—	112.5	2.1	17.4	3.3	(0)	22.8	135.3	2.6	137.8	
Purchase of treasury shares	—	—	(0)	—	—	—	—	—	—	(0)	—	(0)	
Dividends	—	—	—	(54.2)	—	—	—	—	—	(54.2)	(0.6)	(54.8)	
Share-based payment transactions	—	0.2	—	—	—	—	—	—	—	0.2	—	0.2	
Changes in ownership interests in subsidiaries that do not result in loss of control	—	1.4	—	—	—	—	0	—	0	1.4	(1.2)	0.3	
Transfer from other components of equity to retained earnings	—	—	—	(1.0)	(2.1)	3.2	—	—	1.0	—	—	—	
<b>Total transactions with owners, etc.</b>	—	1.6	(0)	(55.2)	(2.1)	3.2	0	—	1.1	(52.5)	(1.8)	(54.3)	
<b>Balance as of December 31, 2017</b>	¥ 81.7	¥ 505.6	¥ (47.3)	¥ 1,266.4	¥ —	¥ 42.9	¥ (56.1)	¥ (0)	¥ (13.2)	¥ 1,793.3	¥ 28.7	¥ 1,822.0	

Millions of U.S. Dollars\*

	Equity attributable to owners of the Company						Other components of equity				Total	Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income	Foreign currency translation reserve	Cash flow hedges	Total				
<b>Balance as of January 1, 2017</b>	\$ 723	\$ 4,460	\$ (418)	\$ 10,700	\$ —	\$ 198	\$ (525)	\$ 0	\$ (328)	\$ 15,137	\$ 247	\$ 15,384	
Profit for the year	—	—	—	996	—	—	—	—	—	996	17	1,012	
Other comprehensive income	—	—	—	—	19	154	29	(0)	202	202	6	208	
<b>Comprehensive income</b>	—	—	—	996	19	154	29	(0)	202	1,197	23	1,220	
Purchase of treasury shares	—	—	(0)	—	—	—	—	—	—	(0)	—	(0)	
Dividends	—	—	—	(480)	—	—	—	—	—	(480)	(6)	(485)	
Share-based payment transactions	—	2	—	—	—	—	—	—	—	2	—	2	
Changes in ownership interests in subsidiaries that do not result in loss of control	—	12	—	—	—	—	0	—	0	13	(10)	2	
Transfer from other components of equity to retained earnings	—	—	—	(9)	(19)	28	—	—	9	—	—	—	
<b>Total transactions with owners, etc.</b>	—	15	(0)	(489)	(19)	28	0	—	9	(465)	(16)	(481)	
<b>Balance as of December 31, 2017</b>	\$ 723	\$ 4,475	\$ (418)	\$ 11,207	\$ —	\$ 380	\$ (496)	\$ (0)	\$ (117)	\$ 15,870	\$ 254	\$ 16,123	

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## Consolidated Financial Statements

Otsuka Holdings and its Subsidiaries for the year ended December 31, 2017

### Consolidated Statement of Cash Flows

	Billions of Yen		Millions of U.S. Dollars*
	2016.12	2017.12	2017.12
<b>Cash flows from operating activities</b>			
Profit before taxes	¥ 116.7	¥ 103.7	\$ 918
Depreciation and amortization expenses	59.6	62.2	551
Impairment loss and reversal of impairment loss	32.1	28.8	255
Share of loss (profit) of associates	(16.0)	(19.3)	(171)
Finance income	(3.8)	(4.3)	(38)
Finance costs	13.1	5.1	45
Other non-operating (income) expenses	(24.8)	(0.3)	(3)
Decrease (increase) in inventories	(0.6)	(8.4)	(75)
Decrease (increase) in trade and other receivables	22.8	(9.9)	(88)
Increase (decrease) in trade and other payables	11.6	(5.8)	(51)
Other	(30.4)	(12.3)	(109)
Subtotal	180.3	139.5	1,234
Interest and dividends received	9.2	10.2	90
Interest paid	(3.5)	(3.6)	(32)
Income taxes paid	(43.9)	(43.2)	(382)
<b>Net cash flows from (used in) operating activities</b>	142.0	102.8	910
<b>Cash flows from investing activities</b>			
Proceeds from sales of property, plant and equipment	1.7	0.5	5
Payments for acquisition of property, plant and equipment	(44.4)	(54.2)	(479)
Payments for acquisition of intangible assets	(27.2)	(23.4)	(207)
Proceeds from sales and redemption of investments	100.1	74.4	658
Payments for acquisition of investments	(72.1)	(48.4)	(428)
Payments for acquisition of subsidiaries	—	(47.1)	(417)
Decrease (increase) in time deposits	(111.1)	59.7	528
Other	17.9	(1.6)	(15)
<b>Net cash flows from (used in) investing activities</b>	(135.1)	(40.1)	(355)
<b>Cash flows from financing activities</b>			
Purchase of treasury shares	(0)	(0)	(0)
Increase (decrease) in current borrowings	(2.6)	(18.0)	(159)
Proceeds from non-current borrowings	1.9	25.5	226
Repayments of non-current borrowings	(35.8)	(40.0)	(354)
Dividends paid	(54.7)	(54.9)	(486)
Other	(1.8)	(7.2)	(63)
<b>Net cash flows from (used in) financing activities</b>	(93.1)	(94.5)	(837)
<b>Increase (decrease) in cash and cash equivalents</b>	(86.2)	(31.8)	(281)
<b>Cash and cash equivalents at beginning of period</b>	460.6	369.9	3,273
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(4.6)	(1.5)	(13)
<b>Cash and cash equivalents at end of period</b>	¥ 369.9	¥ 336.6	\$ 2,979

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# Group Structure & Overview of Main Operating Companies

## Otsuka Group Corporate Philosophy

Otsuka-people creating new products  
for better health worldwide



## Overview

The Otsuka group of companies, whose origins date back to 1921, aims to contribute to the health of people around the world. It aims to do so through two main pillars: the pharmaceutical business for the diagnosis and treatment of diseases and the nutraceutical\*<sup>1</sup> business to support the maintenance and promotion of everyday health.

The company's culture, summarized in a few words as, "Ryukan-godo" (by sweat we recognize the way), "Jissho" (actualization) and "Sozosei" (creativity), have been fostered by successive Otsuka leaders. These are emphasized by our 46,000\*<sup>2</sup> employees across 183 group companies in 28 countries and regions who strive to create and market unique products and services.

\*1. Nutraceuticals: nutrition + pharmaceuticals \*2. As of end of December, 2017

## Organizational Structure



## Otsuka Pharmaceutical Co., Ltd.

**A holistic healthcare company supporting whole-body health from helping to cure disease, to the promotion of everyday health**

In keeping with its corporate philosophy, the company is expanding its businesses along two core businesses: the pharmaceutical business that provides breakthrough treatments for patients around the world, and the nutraceutical business that helps healthy people get even healthier.

## Otsuka Pharmaceutical Factory, Inc.

**Original company of the Otsuka group, a leader in infusion developing intravenous solutions business over 70 years in Japan**

With "The Best Partner in Clinical Nutrition" as its management vision, the company creates innovative products that meet a variety of needs: pharmaceuticals and medical devices, oral rehydration solutions and other medical foods, OTC drugs, and more. The company is expanding its businesses globally, mainly in Japan and Asia.

## Taiho Pharmaceutical Co., Ltd.

**A pioneer of oral anti-cancer agents in Japan**

Taiho Pharmaceutical aspires to be an agile specialty pharmaceutical company trusted by the world, true to its corporate philosophy, "We strive to improve human health and contribute to a society enriched by smiles." It is also taking on the challenge of developing original pharmaceuticals that can contribute to society. In the consumer healthcare business, Taiho Pharmaceutical also strives to create and develop a unique brand that consumers will be loyal to for years to come.

## Otsuka Warehouse Co., Ltd.

**Contributing to people's health worldwide in the field of logistics**

Since its founding, Otsuka Warehouse has been consistently engaging in logistics for pharmaceuticals and food products. It 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, the company has grown to offer logistics services outside the group.

## Otsuka Chemical Co., Ltd.

**Developing organic and inorganic chemicals, fine chemicals, specialty chemicals for a new age**

Otsuka Chemical aims to improve the lives and health of people as well as the environment through its business activities. It offers products and materials that meet a wide range of needs in society. As a manufacturer that develops original technologies, Otsuka Chemical supports customers and aims to continue to grow as a trusted company that provides value for society.

## Otsuka Foods Co., Ltd.

**Creating high value-added products that offer new dietary lifestyles since its founding in 1955**

Taking "the company begins with people and food begins with spirit" as its motto, Otsuka Foods conducts businesses in the areas of foods and beverages, with "deliciousness, safety, peace of mind, and better health" as the spirit of foods among all employees. It will continue to develop as a company which delivers products that allow customers to live healthy lives and create new dreams through foods.

## Otsuka Medical Devices Co., Ltd.

**Overseeing the medical devices business of the Otsuka group**

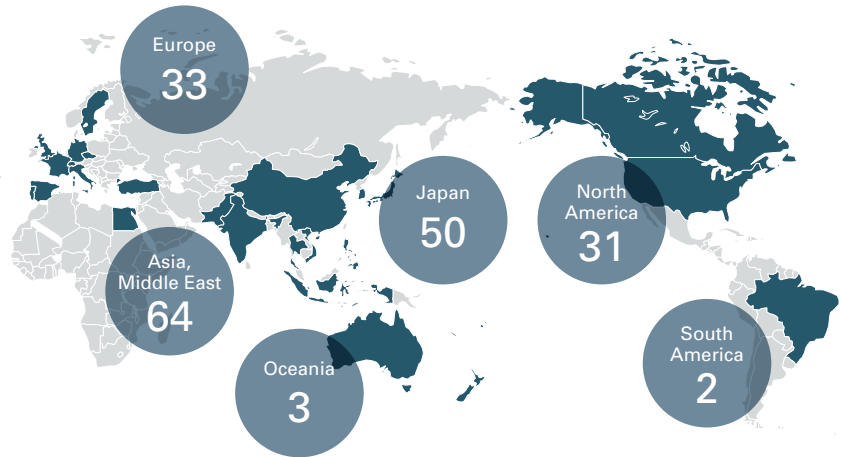
Otsuka Medical Devices seeks to grow its medical devices business, which operates mainly in Asia, including Japan and China, into one of the group's core businesses. The company is striving to spur further growth of the group by bringing together the group's medical device experience and expertise to meet new healthcare needs.

# Global Network

The Otsuka group consists of 183\* companies worldwide operating with the common theme of "health."

Otsuka operates in

**28** Countries and regions



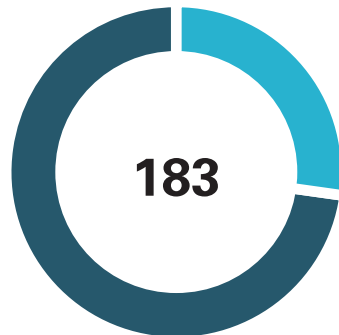
Countries and regions	Japan	Japan
	Americas	U.S., Canada, Brazil
	Europe	U.K., Sweden, Germany, Switzerland, Belgium, France, Italy, Spain, Czech Republic, Portugal
	Asia, Middle East	China, South Korea, Taiwan, Philippines, Vietnam, Thailand, Indonesia, India, Singapore, Turkey, Pakistan, Egypt
	Oceania	Australia, New Zealand

## Number of operations and employees

### Companies

■ Japan  
**50**

■ Outside Japan  
**133**



### Employees

■ Japan  
Approx. **18,000**

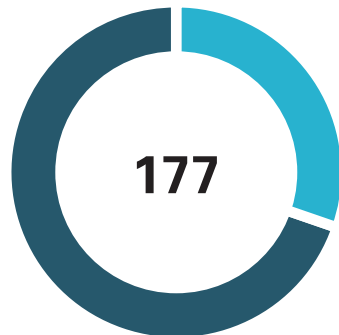
■ Outside Japan  
Approx. **28,000**



### Factories

■ Japan  
**54**

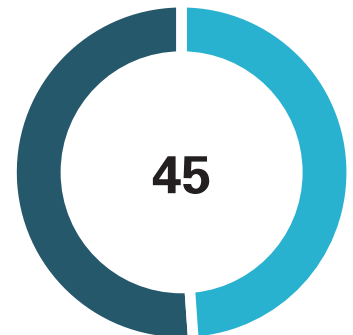
■ Outside Japan  
**123**



### Research Institutes

■ Japan  
**22**

■ Outside Japan  
**23**



## History of global business expansion



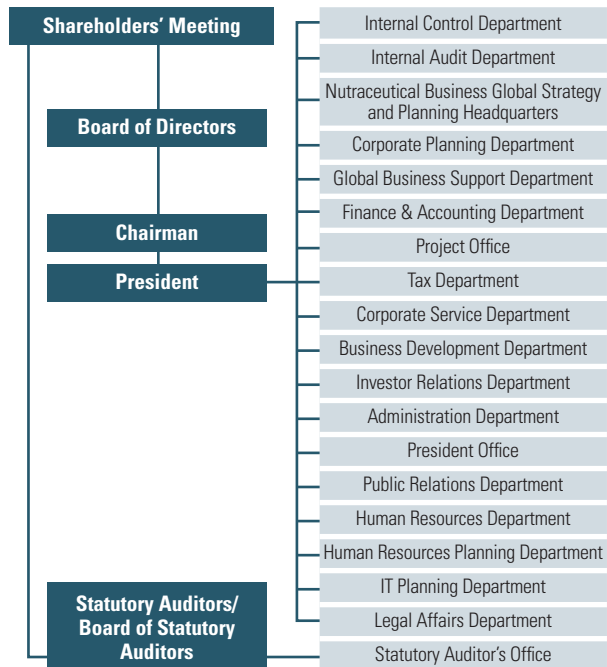
\* As of December 31, 2017. Otsuka Holdings and subsidiaries and affiliates: 183 companies

## Corporate Information / Shareholder Information

### Corporate Profile (as of December 31, 2017)

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
Number of Employees	86 (consolidated: 32,817)
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.
URL	<a href="https://www.otsuka.com/en/">https://www.otsuka.com/en/</a>

### Company organization (as of April 1, 2018)



### Shares (as of December 31, 2017)

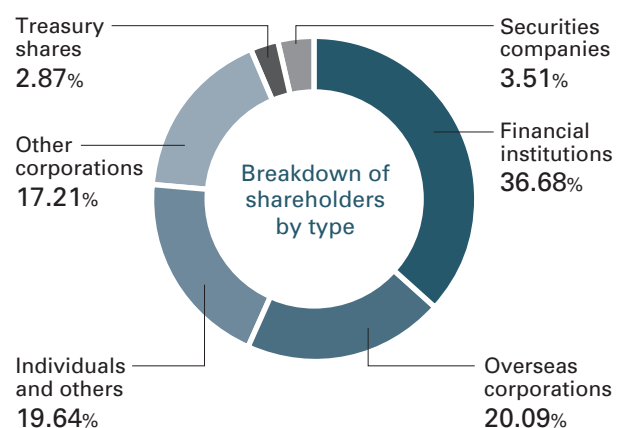
Number of shares authorized	1,600,000,000 shares
Number of shares issued	557,835,617 shares
Number of shareholders	59,367

### Principal shareholders (top 10 shareholders)

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	61,955	11.43
The Master Trust Bank of Japan, Ltd. (trust account)	36,257	6.69
Japan Trustee Services Bank, Ltd. (trust account)	26,954	4.97
Otsuka Estate Co., Ltd.	23,296	4.29
Otsuka Group Employee Shareholding Fund	13,661	2.52
The Awa Bank, Ltd.	10,970	2.02
STATE STREET BANK WEST CLIENT - TREATY 505234	7,993	1.47
Japan Trustee Services Bank, Ltd. (trust account 5)	7,925	1.46
Otsuka Asset Co., Ltd.	7,380	1.36
Japan Trustee Services Bank, Ltd. (trust account 9)	6,931	1.27

- Number of shares held is rounded down to the nearest thousand.
- Although the Company holds 15,986,878 of its own shares, treasury shares are excluded from the above list.
- Shareholding ratio is calculated after treasury shares are deducted.

### Stock distribution



### Website information

Visit our website at: [Otsuka Holdings Website  
https://www.otsuka.com/en/](https://www.otsuka.com/en/)





#### Significance of the Corporate Symbol

A symbolic representation of Otsuka group's corporate philosophy, the corporate symbol adopts the initial 'O' of the corporate name as its motif. Representing the sky above, the large 'O' is rendered in gradations of Otsuka BLUE and the small 'O' in Otsuka RED represents the focused energy of Otsuka, the wellspring of these tenets. Offsetting the two forms poised in balance, the Otsuka name is spelled out in an open and friendly typeface. The corporate symbol conveys Otsuka group's energetic commitment to human happiness through good health.