

(Translation)

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March 8, 2016  
Tatsuo Higuchi  
President and Representative Director  
**Otsuka Holdings Co., Ltd.**  
2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo

**Notice for the Calling of the 8th Annual Shareholders Meeting**  
**(for FY2015)**

Dear Shareholders,

You are cordially invited to attend the 8th Annual Shareholders Meeting of Otsuka Holdings Co., Ltd. (the “Company”). The meeting will be held as described below.

**If you are unable to attend the meeting in person, you may exercise your voting rights by either of the following methods. Prior to voting, please examine the attached Reference Documents for Shareholders Meeting and exercise your voting rights so that your vote is received by 5:30 p.m. (the close of business hours) on Tuesday, March 29, 2016 (JST).**

To exercise your voting rights by post

Please indicate on the enclosed “Voting Form” whether you approve or disapprove of each proposal and return the completed form by the designated time above. → Please refer to page 3.

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

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

## Details

**1. Date and Time:**

Wednesday, March 30, 2016, at 10:00 a.m.

**2. Place:**

ANA InterContinental Tokyo, B1F, Prominence  
1-12-33 Akasaka, Minato-ku, Tokyo

**3. Purpose of the Meeting**

**Matters to be reported:**

- a. Business Report and Consolidated Financial Statements, as well as the audit reports of the Accounting Auditors and the Audit & Supervisory Board for Consolidated Financial Statements, for the 8th Fiscal Year (from January 1, 2015 to December 31, 2015)
- b. Financial Statements for the 8th Fiscal Year (from January 1, 2015 to December 31, 2015)

**Matters to be resolved:**

**Proposal 1:** Partial Amendment of Articles of Incorporation

**Proposal 2:** Election of Nine (9) Directors

**Proposal 3:** Election of One (1) Audit & Supervisory Board Member

**Proposal 4:** Amount of Remuneration, etc. as Share Remuneration-type Stock Options and Determination of the Content Thereof

Notes:

- \* You are kindly requested to present the enclosed "Voting Form" to the receptionist when you attend the meeting.
- \* You may designate one other shareholder with voting rights as your proxy to exercise your voting rights in accordance with the Articles of Incorporation. In such a case, your proxy will be required to submit documentation indicating his/her authority in advance to act as your proxy.
- \* If any changes have been made to items in the Reference Documents for Shareholders Meeting, Business Report, Financial Statements, or Consolidated Financial Statements, such changes will be posted on our website.

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

## **Guidance for Exercising Voting Rights**

Please exercise your voting rights after examining the Reference Documents for Shareholders Meeting (pages 5–16).

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

### **1. Attendance**

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

Please also bring with you “Notice for the Calling of the 8th Annual Shareholders Meeting” (this document).

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

### **2. Mail**

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

The voting forms that arrive by mail before 5:30 p.m. on Tuesday, March 29, 2016 (JST) will be valid.

### **3. Internet**

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

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

The deadline by which voting rights must be exercised is 5:30 p.m. on Tuesday, March 29, 2016 (JST).

Please refer to the following page for details.

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

### Website for exercising voting rights

- You may exercise your voting rights via the Internet only by visiting the Website for Exercising Voting Rights designated by the Company (<http://www.evotep.jp/>), using a personal computer (PC), a smartphone or a cellular phone (i-mode, EZweb, Yahoo! Keitai)\*. (However, the website is closed from 2:00 a.m. to 5:00 a.m. (JST) every day.)
- When exercising your voting rights using a PC, a smartphone or a cellular phone, please note that you might not be able to exercise your voting rights via the Internet depending on the Internet environment, services provided, or the model of the cellular phone. For details, please direct your inquiries to the Help Desk shown below.
- \* i-mode, EZweb, and Yahoo! are the trademarks or the registered trademarks of NTT DOCOMO, INC., KDDI CORPORATION and Yahoo! Inc. of the U.S., respectively.

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

- Please access the Website for Exercising Voting Rights (<http://www.evotep.jp/>) using the login ID and provisional password provided on the Voting Form, and follow the instructions that appear on the screen to input approval or disapproval to each of the agenda items.
- Shareholders who utilize the Website for Exercising Voting Rights will be asked to change the provisional password on the Website for Exercising Voting Rights in order to prevent people other than shareholders from accessing it illegally (impersonating shareholders) or falsifying the content of votes.
- Shareholders will be notified of a new login ID and provisional password each time we call for a Shareholders Meeting.

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

- Please note that your online vote will prevail should you exercise your voting rights both by post and via the Internet.
- If you exercise your voting rights more than once via the Internet, only the last vote shall be deemed effective. (In addition, if you exercise your voting rights more than once using a PC, a smartphone and a cellular phone, only the last vote shall be deemed effective.)

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

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

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

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

## Reference Documents for Shareholders Meeting

### Proposal 1: Partial Amendment of Articles of Incorporation

#### 1. Reasons for the Proposal

- In connection with the change in the scope of corporate officers with whom a company may enter into liability limitation agreements pursuant to the “Act for Partial Revision of the Companies Act (Act No. 90 of 2014)” coming into force on May 1, 2015, Paragraph 2 of Article 27 (Limitation of Liability of Directors) of the Articles of Incorporation and Paragraph 2 of Article 36 (Limitation of Liability of Audit & Supervisory Board Members) of the Articles of Incorporation will be changed so that non-executive Directors and Audit & Supervisory Board Members other than Outside Audit & Supervisory Board Members also can fully perform their expected duties. Please note that consent has been obtained from each Audit & Supervisory Board Member for the amendments to Paragraph 2 of Article 27 of the Articles of Incorporation to be submitted to the 8th Annual Shareholders Meeting.
- Additionally, a change will be made in the Articles of Incorporation in accordance with an amendment to the numbering of the provisions of the Companies Act. (Article 30 of the Articles of Incorporation)

#### 2. Details of the Amendments

The details of amendments are as follows:

(Underlined portions indicate the proposed amendments.)

Current Articles of Incorporation	Proposed Amendments
<p>Chapter IV Directors and Board of Directors</p> <p>Article 27. Limitation of Liability of Directors</p> <p>1. (Omitted)</p> <p>2. The Company may enter into an agreement with <u>Outside Directors</u>, which will limit the <u>Outside Directors’</u> liabilities for damages due to negligence in their duties pursuant to the provision of Article 427, Paragraph 1 of the Companies Act; provided, however, that the maximum amount of liabilities under such agreement shall be the minimum amounts set forth in laws and regulations.</p>	<p>Chapter IV Directors and Board of Directors</p> <p>Article 27. Limitation of Liability of Directors</p> <p>1. (Unchanged)</p> <p>2. The Company may enter into an agreement with <u>Directors (excluding Executive Directors or others)</u>, which will limit the Directors’ liabilities for damages due to negligence in their duties pursuant to the provision of Article 427, Paragraph 1 of the Companies Act; provided, however, that the maximum amount of liabilities under such agreement shall be the minimum amounts set forth in laws and regulations.</p>
<p>Chapter V Audit &amp; Supervisory Board Members and Audit &amp; Supervisory Board</p> <p>Article 30. Effect of Preliminary Election of Substitute Audit &amp; Supervisory Board Members</p> <p>1. The effectiveness of the election of substitute Audit &amp; Supervisory Board Members pursuant to Article 329, Paragraph <u>2</u> of the Companies Act shall continue until the start of the Annual Shareholders Meeting with respect to the last fiscal year ending within four years after their election.</p> <p>2. (Omitted)</p>	<p>Chapter V Audit &amp; Supervisory Board Members and Audit &amp; Supervisory Board</p> <p>Article 30. Effect of Preliminary Election of Substitute Audit &amp; Supervisory Board Members</p> <p>1. The effectiveness of the election of substitute Audit &amp; Supervisory Board Members pursuant to Article 329, Paragraph <u>3</u> of the Companies Act shall continue until the start of the Annual Shareholders Meeting with respect to the last fiscal year ending within four years after their election.</p> <p>2. (Unchanged)</p>

Current Articles of Incorporation	Proposed Amendments
<p>Article 36. Limitation of Liability of Audit &amp; Supervisory Board Members</p> <p>1. (Omitted)</p> <p>2. The Company may enter into an agreement with <u>Outside</u> Audit &amp; Supervisory Board Members, which will limit the <u>Outside</u> Audit &amp; Supervisory Board Members' liabilities for damages due to negligence in their duties pursuant to the provision of Article 427, Paragraph 1 of the Companies Act; provided, however, that the maximum amount of liabilities under such agreement shall be the minimum amounts set forth in laws and regulations.</p>	<p>Article 36. Limitation of Liability of Audit &amp; Supervisory Board Members</p> <p>1. (Unchanged)</p> <p>2. The Company may enter into an agreement with Audit &amp; Supervisory Board Members, which will limit the Audit &amp; Supervisory Board Members' liabilities for damages due to negligence in their duties pursuant to the provision of Article 427, Paragraph 1 of the Companies Act; provided, however, that the maximum amount of liabilities under such agreement shall be the minimum amounts set forth in laws and regulations.</p>

(Translation)

**Proposal 2: Election of Nine (9) Directors**

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

The candidates for Directors are as follows:

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company		Number of the Company's shares owned
1	<p><b>Reappointment</b></p> <p>Ichiro Otsuka (February 15, 1965)</p> <p>Position and areas of responsibility in the Company: Chairman and Representative Director</p>	<p>April 1987</p> <p>June 1997</p> <p>June 1998</p> <p>December 2001</p> <p>May 2002</p> <p>December 2003</p> <p>December 2004</p> <p>July 2008</p> <p>June 2010</p> <p>June 2014</p> <p>June 2014</p> <p>March 2015</p> <p>March 2015</p> <p>March 2015</p>	<p>Joined Otsuka Pharmaceutical Factory, Inc.</p> <p>Executive Director, Director of Consumer Products Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>Managing Director, responsible for Consumer Products, Publicity, Promotion and Development Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>Executive Director, Research and Development, Otsuka Pharmaceutical Factory, Inc.</p> <p>Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>Vice President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>President and Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>Executive Director, Otsuka Holdings Co., Ltd.</p> <p>Vice President and Executive Director, Otsuka Holdings Co., Ltd.</p> <p>Representative Director, Otsuka Pharmaceutical Factory, Inc.</p> <p>Vice Chairman and Representative Director, Otsuka Holdings Co., Ltd.</p> <p>Executive Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>Chairman, Otsuka Pharmaceutical Factory, Inc. (Current Position)</p> <p>Chairman and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company]</p> <p>Chairman, Otsuka Pharmaceutical Factory, Inc.</p> <p>Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>President and Representative Director, Otsuka Estate Ltd.</p> <p>President and Representative Director, Otsuka Asset Co., Ltd.</p>	6,998,104
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Ichiro Otsuka has extensive knowledge in all areas of operations of the Otsuka Group (hereinafter the "Group"), which is made up of a wide range of businesses, as well as a high level of management knowledge, utilizing that broad experience and strong track record to contribute to the increased corporate value of the overall Group. In consideration of his track record, ability, and broad experience, the Company has nominated him as a candidate for Director.</p>			

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
2	<p><b>Reappointment</b></p> <p>Tatsuo Higuchi (June 14, 1950)</p> <p>Position and areas of responsibility in the Company: President and Representative Director</p>	<p>March 1977 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1998 Senior Managing Director, Otsuka Pharmaceutical Co., Ltd. (Pharmavite)</p> <p>November 1998 Vice President and Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 1999 Executive Director, responsible for U.S. Business, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2000 President and Representative Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2008 Executive Director, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 President and Representative Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>December 2011 Executive Director, Otsuka Chemical Co., Ltd. (Current Position)</p> <p>February 2015 President and Representative Director, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Pharmaceutical Co., Ltd. Executive Director, Otsuka Chemical Co., Ltd.</p>	90,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Tatsuo Higuchi has taken management leadership of the overall Group, helped expand the Group's global presence, created and implemented a strategy toward medium-term growth, and has a track record of producing ample results. In consideration of his high level of management knowledge, track record, ability and broad experience, the Company has nominated him as a candidate for Director.</p>		
3	<p><b>Reappointment</b></p> <p>Atsumasa Makise (June 17, 1958)</p> <p>Position and areas of responsibility in the Company: Senior Managing Director, Corporate Finance</p>	<p>December 1987 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2002 Operating Officer, Director of ODPI Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2003 Operating Officer, Director, Finance Department of OIAA Division, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2007 Managing Director, Finance and Accounting, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Senior Managing Director, Corporate Finance, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>May 2009 Chairman and CEO, Otsuka America Inc.</p> <p>April 2010 Chairman, Otsuka America Inc.</p>	50,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Atsumasa Makise has experience in the finance departments and in the management of foreign subsidiaries, and has been responsible for corporate finance since 2008. In consideration of his track record, high level of expertise in finance, and management knowledge, the Company has nominated him as a candidate for Director.</p>		
4	<p><b>Reappointment</b></p> <p>Yoshiro Matsuo (November 3, 1960)</p> <p>Position and areas of responsibility in the Company: Managing Director, Corporate Administration</p>	<p>April 1985 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>January 2003 Operating Officer, Associate General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Operating Officer, General Manager of the General Affairs Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>November 2007 Senior Operating Officer, General Manager of the General Affairs Department with additional responsibility for Legal Affairs and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>July 2008 Managing Director, Corporate Administration, Otsuka Holdings Co., Ltd. (Current Position)</p>	30,760
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Yoshiro Matsuo has experience in all of the back-office departments, primarily in general affairs departments, and has been responsible for corporate administration since 2008. In consideration of his track record, expertise, and management knowledge, the Company has nominated him as a candidate for Director.</p>		



Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
5	<p><u>Reappointment</u></p> <p>Sadanobu Tobe (April 18, 1941)</p> <p>Position and areas of responsibility in the Company: Executive Director</p>	<p>April 1976 Senior Managing Director and Representative Director, Shinko Foods Co., Ltd. (present day Otsuka Foods Co., Ltd.)</p> <p>July 1993 Vice President and Representative Director, Otsuka Foods Co., Ltd.</p> <p>November 2004 Vice President and Representative Director, Otsuka Chemical Holdings Co., Ltd. (present day Otsuka Chemical Co., Ltd.)</p> <p>May 2006 President and Representative Director, Otsuka Chemical Holdings Co., Ltd.</p> <p>July 2008 Executive Director, Otsuka Holdings Co., Ltd.</p> <p>June 2009 Vice Chairman and Representative Director, Otsuka Foods Co., Ltd.</p> <p>June 2011 Chairman and Representative Director, Otsuka Chemical Co., Ltd.</p> <p>June 2012 Vice Chairman, Otsuka Foods Co., Ltd.</p> <p>June 2013 Standing Audit &amp; Supervisory Board Member, Otsuka Holdings Co., Ltd.</p> <p>November 2013 President and Representative Director, Otsuka Foods Co., Ltd. (Current Position)</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] President and Representative Director, Otsuka Foods Co., Ltd.</p>	1,591,126
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Sadanobu Tobe has a high level of knowledge and broad experience in corporate management, as well as extensive knowledge of the Company's group business. In consideration of his track record, experience, and management knowledge, the Company has nominated him as a candidate for Director.</p>		
6	<p><u>Reappointment</u></p> <p>Tatsuro Watanabe (August 10, 1954)</p> <p>Position and areas of responsibility in the Company: Executive Director</p>	<p>March 1978 Joined Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2000 Status of Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2002 Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2006 Senior Operating Officer, General Manager of Human Resources Department, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2008 Managing Director, responsible for Human Resources, General Affairs, Legal Affairs, and External Relations, Otsuka Pharmaceutical Co., Ltd.</p> <p>June 2010 Managing Director, responsible for Human Resources and Legal Affairs, Otsuka Pharmaceutical Co., Ltd. (Current Position)</p> <p>November 2013 Executive Director, Otsuka Pharmaceutical Europe Ltd.</p> <p>June 2014 Executive Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Managing Director, Otsuka Pharmaceutical Co., Ltd.</p>	40,000
	<p>[Reasons for nominating him as a candidate for Director]</p> <p>Mr. Tatsuro Watanabe has broad experience in human resources departments of the Company and its subsidiaries. In particular, he has been in charge of human resources departments of Otsuka Pharmaceutical Co., Ltd. for many years. In consideration of his track record, expertise, and management knowledge, the Company has nominated him as a candidate for Director.</p>		

(Translation)

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
7	<p>[Reappointment]</p> <p>[Candidate for Outside Director]</p> <p>Yasuyuki Hirotoomi (June 15, 1954)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1978 Joined The Daiwa Bank, Ltd. (present day Resona Bank, Limited)</p> <p>October 2003 Executive Officer, Resona Bank, Limited</p> <p>June 2005 Managing Executive Officer, Resona Bank, Limited</p> <p>April 2008 Senior Executive Officer, Resona Bank, Limited</p> <p>June 2008 Director and Senior Executive Officer, Resona Bank, Limited</p> <p>June 2009 Vice President and Representative Director and Executive Officer, Resona Bank, Limited</p> <p>June 2011 Director, The Kinki Osaka Bank, Ltd.</p> <p>June 2013 Outside Director, ELECOM CO., LTD. (Current Position)</p> <p>June 2013 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>June 2014 Board Director and Senior Vice President, KYOEI STEEL LTD. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Board Director and Senior Vice President, KYOEI STEEL LTD. Outside Director, ELECOM CO., LTD.</p>	0
	<p>[Reasons for nominating him as a candidate for Outside Director]</p> <p>The Company deems that Mr. Yasuyuki Hirotoomi can provide useful statements from an impartial and objective viewpoint based on his abundant experience and extensive knowledge of corporate management gained through many years in the finance industry. Therefore, the Company nominated him as a candidate for Outside Director. His term of office as Outside Director will be two years and nine months at the conclusion of this Shareholders Meeting.</p>		
8	<p>[Reappointment]</p> <p>[Candidate for Outside Director]</p> <p>Tadaaki Konose (July 26, 1946)</p> <p>Position and areas of responsibility in the Company: Outside Director</p>	<p>April 1970 Joined Snow Brand Milk Products Co., Ltd. (present day MEGMILK SNOW BRAND Co., Ltd.)</p> <p>June 2002 President and Representative Director, Snow Brand Milk Products Co., Ltd.</p> <p>October 2009 President and Representative Director, MEGMILK SNOW BRAND Co., Ltd.</p> <p>April 2011 Director and Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>June 2011 Special Advisor, MEGMILK SNOW BRAND Co., Ltd.</p> <p>September 2011 Administrative Council member, University of Miyazaki, a National University Corporation (Current Position)</p> <p>June 2014 Outside Director, Otsuka Holdings Co., Ltd. (Current Position)</p> <p>[Significant concurrent positions outside the Company] Administrative Council member, University of Miyazaki, a National University Corporation</p>	0
	<p>[Reasons for nominating him as a candidate for Outside Director]</p> <p>The Company deems that Mr. Tadaaki Konose can provide useful statements based on abundant experience and extensive knowledge gained through many years in corporate management in the food industry. Therefore, the Company nominated him as a candidate for Outside Director. His term of office as Outside Director will be one year and nine months at the conclusion of this Shareholders Meeting.</p>		

Candidate No.	Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
9	New appointment	April 1975 Intern, Pediatric Department, St. Luke's International Hospital	0
	Candidate for Outside Director	October 1981 Joined Ministry of Health and Welfare (present day Ministry of Health, Labour and Welfare)	
	Yukio Matsutani (October 20, 1949)	August 2005 Director-General, Health Policy Bureau, Ministry of Health, Labour and Welfare	
	Position and areas of responsibility in the Company: -	August 2007 Director, National Sanatorium Tama Zenshoen	
		April 2012 President, National Institute of Public Health	
		December 2015 Vice President, International University of Health and Welfare (Current Position)	
		[Significant concurrent positions outside the Company] Vice President, International University of Health and Welfare	
		[Reasons for nominating him as a candidate for Outside Director] The Company expects that Mr. Yukio Matsutani can provide useful statements based on abundant experience and extensive knowledge in the healthcare and welfare field. The Company deems that he can appropriately fulfil his role as Outside Director from an impartial and objective viewpoint. Therefore, the Company nominated him as a candidate for Outside Director.	

## Notes:

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

## &lt;Independence Criteria for Outside Directors&gt;

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

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

(Translation)

**Proposal 3: Election of One (1) Audit & Supervisory Board Member**

Audit & Supervisory Board Member Akihito Nakai will retire by resignation at the conclusion of this Annual Shareholders Meeting. Accordingly, the Company proposes to elect one (1) Audit & Supervisory Board Member as the substitute.

The Audit & Supervisory Board has consented to this proposal.

The candidate for Audit & Supervisory Board Member is as follows:

Name (Date of birth)	Career summary and significant concurrent positions outside the Company	Number of the Company's shares owned
<div style="border: 1px solid black; padding: 2px;">New appointment</div> <div style="border: 1px solid black; padding: 2px;">Candidate for Outside Audit &amp; Supervisory Board Member</div> Yoko Wachi (April 29, 1960)  Position in the Company: -	April 1989 Registered as an attorney at law (Dai-ichi Tokyo Bar Association) Joined KAJITANI LAW OFFICES (Current Position)  June 2015 Corporate Auditor, NICHIAS Corporation (Current Position)  [Significant concurrent positions outside the Company] Attorney at law, KAJITANI LAW OFFICES Corporate Auditor, NICHIAS Corporation	0
[Reasons for nominating her as a candidate for Outside Audit & Supervisory Board Member] The Company deems that Ms. Yoko Wachi can provide useful statements from an impartial and objective viewpoint based on her broad experience cultivated as an attorney at law and high level of overall legal knowledge. Therefore, the Company nominated her as a candidate for Outside Audit & Supervisory Board Member.		

Notes:

1. The candidate has no special interests in the Company.
2. Yoko Wachi is a candidate for Outside Audit & Supervisory Board Member. If the appointment of Yoko Wachi is approved, the Company plans to register her as Independent Officer as provided for under the rules of Tokyo Stock Exchange, Inc.
3. If the appointment of Yoko Wachi is approved, the Company plans to enter into an agreement with Yoko Wachi which limits her liabilities for damages under Article 423, Paragraph 1 of the Companies Act pursuant to the provisions of Article 427, Paragraph 1 of the same Act. The maximum amount of liabilities under the said agreement shall be the minimum amounts set forth in laws and regulations. The limitation of liability specified in the agreement shall be limited to times when the Outside Audit & Supervisory Board Member is without knowledge and not grossly negligent in performing the duties as Outside Audit & Supervisory Board Member that cause liability.

**Proposal 4:** Amount of Remuneration, etc. as Share Remuneration-type Stock Options and Determination of the Content Thereof

While it was resolved at the 2nd Annual Shareholders Meeting held on June 29, 2010, that the cap of the annual remuneration amount for the Company's Directors would be 1,500 million yen or less (provided, however, that employees' salaries were not included therein) and such resolution has been effective to date, the Company has decided to introduce a share remuneration-type stock option system along with business performance achievement conditions as described below. In addition to the above resolution, the Company hereby requests approval of the share acquisition rights in the content specified in 2 below being granted to the Directors (excluding Outside Directors) within the annual amount of 1,200 million yen or less as share remuneration-type stock options. The remuneration amount as stock options shall be the amount obtained by multiplying the fair price per share acquisition right calculated on the allotment date of the share acquisition rights by the number equal to the cap of the total number of share acquisition rights, out of the share acquisition rights to be allotted, that can be exercised as established in a share acquisition rights allotment agreement to be executed between the Company and the Directors subject to allotment (hereinafter "Beneficiaries") in accordance with a resolution of the Company's Board of Directors.

Although the current number of Directors is nine (9) (including three (3) Outside Directors), subject to the approval of the Proposal 2 entitled "Election of Nine (9) Directors" as originally proposed, the number of Directors will be nine (9) (including three (3) Outside Directors).

Also, the Company asks that specific granting periods and distributions to each Director be determined by the Board of Directors.

1. Reasons for the proposal and reasons justifying such remuneration

In order to make a greater contribution to the continued improvement of our mid-to-long term business performance and corporate value, remuneration-type stock options (share acquisition rights), along with business performance achievement conditions, will be issued to the Company's Directors (excluding Outside Directors). By way of the foregoing, the remuneration system of the Company's Directors (excluding Outside Directors) will become a system in which the ratio of business performance-linked-type remuneration is further increased.

The specific mid-term incentive plan using share acquisition rights scheduled to be implemented in 2016 ("Mid-term Incentive Plan") shall apply to the three (3) year period commencing from the business year ending on December 31, 2016 and ending on the business year ending on December 31, 2018 ("Subject Period"). Subject to the Mid-term Incentive Plan, the number of share acquisition rights that can be exercised shall be determined based on the level of achievement, etc. of the mid-term management plan for which 2018 is designated as the final year ("Mid-term Management Plan"). Specifically, it is scheduled that the share acquisition rights in the content specified in 2 below will be granted up to a total amount of 1,200 million yen (Note 1) to the Company's Directors (excluding Outside Directors) as mid-term incentives for three (3) years until the termination of the Mid-term Management Plan; out of the above, the number of share acquisition rights that can finally be exercised and the total amount of remuneration pertaining thereto will change between 25% and 100%, based on the level of achievement of the Mid-term Management Plan, etc. (Note 2).

It is scheduled that similar share remuneration-type stock options (share acquisition rights) will also be granted for approximately three (3) Directors of the Company's subsidiaries who do not concurrently serve as Directors of the Company. The number of share acquisition rights that can be exercised by Directors of the Company's subsidiaries who do not concurrently serve as Directors of the Company shall be changed according to the titles of the Beneficiaries and the Company's business performance, as well as the business performance of the Company's subsidiaries.

(Note 1) The share acquisition rights shall be granted only once until December 31, 2018, during which time the Mid-term Management Plan will be in progress, and it is not scheduled to additionally issue any similar share acquisition rights while the Mid-term Management Plan is in progress. As a resolution under Article 361 of the Companies Act, while the remuneration cap for the business year in which the day on which share acquisition rights are granted falls is designated as "within an annual amount of 1,200 million yen," the share acquisition rights to be granted are considered to be mid-term incentives based on the level of achievement, etc. of the Mid-term Management Plan for the three (3) year period until the termination of the Mid-term Management Plan.

(Note 2) Under the Mid-term Incentive Plan, 40% of the share acquisition rights that can be exercised as determined by the

title of each Beneficiary shall be designated as a “fixed portion” which can be exercised in a lump sum by the elapse of the final year of the Subject Period, and 60% (i.e., the remainder thereof) shall be designated as a “business performance-linked portion,” which is a system wherein, based on the level of achievement of the consolidated sales objective amount and the consolidated business profit objective amount in the December 2018 period, etc., to be established at the time of introducing the Mid-term Incentive Plan, the number of share acquisition rights that can be exercised will be finalized (200% in the case where the level of achievement of the objective amount is 200% or more, and 0% in the case where the level of achievement of the objective amount is 80% or less.).

2. Outline of share acquisition rights as share remuneration-type stock options

(1) Class and number of shares subject to share acquisition rights

In each business year, the annual cap shall be 810,000 ordinary shares in the Company (Note 3); provided, however, that if the number of shares subject to the share acquisition rights set forth in (2) below is adjusted, the same adjustment shall be carried out herein.

(2) Total number of share acquisition rights

In each business year, the annual cap shall be 8,100 (Note 3).

The number of shares able to be received by way of exercising one (1) share acquisition right shall be 100 ordinary shares in the Company; provided, however, that the number of shares subject to share acquisition rights shall be adjusted within the necessary and reasonable extent in the case of the Company carrying out a share split, consolidation of shares, or an allotment of shares without contribution, or if it otherwise becomes necessary to adjust the number of shares subject to each of the share acquisition rights.

(3) Paid-in amount for share acquisition rights

The paid-in amount shall be obtained by multiplying the option price per share calculated by using the Black-Scholes Model on the allotment date of each of the share acquisition rights by the number of shares subject to one (1) share acquisition right. The share acquisition right holders shall, in lieu of payment of such paid-in amount, set off the remuneration claims against the Company and the paid-in obligations pertaining to the total paid-in amount of the share acquisition rights to be allotted.

(4) Value of property to be invested upon exercise of share acquisition rights

The value of the property to be invested upon the exercise of one (1) share acquisition right shall be the amount obtained by multiplying the paid-in amount per share that can be received by way of exercising the share acquisition rights (“Exercise Value”) by the number of shares subject to one (1) share acquisition right. The Exercise Value shall be one (1) yen.

(5) Period during which share acquisition rights can be exercised

For two (2) years from March 1 of the business year following the elapse of three (3) business years including the business year to which the allotment date belongs.

(6) Conditions for exercise of share acquisition rights

(i) In principle, share acquisition right holders must, as of the exercise of the share acquisition rights held thereby, continuously hold the same status as Directors of the Company or the Company’s subsidiaries as they held on the allotment date.

(ii) Other conditions for exercise of the share acquisition rights shall be determined at the meeting of the Board of Directors in which the subscription for such share acquisition rights shall be resolved.

(7) Matters concerning increases in common stock and capital surplus when shares are issued through the exercise of share acquisition rights

(i) The increase in common stock when shares are issued through the exercise of share acquisition rights shall be half of the limit amount of an increase in common stock, etc. to be calculated in accordance with Article 17-1 of the Ordinance on Company Accounting, and any fractions less than one (1) yen which may occur as a result of calculation shall be rounded up.

(ii) The increase in additional paid-in capital when shares are issued through the exercise of share acquisition rights shall be the limit amount of an increase in common stock, etc. stated in (i) above less increase in common stock as provided in (i) above.

(Translation)

- (8) Restriction on acquisition of share acquisition rights through transfer  
Restriction on the acquisition of share acquisition rights through transfer shall require the approval of the Company's Board of Directors.
- (9) Other content, etc. concerning share acquisition rights  
Other content, etc. concerning the share acquisition rights shall be determined at the meeting of the Board of Directors in which the subscription for such share acquisition rights shall be resolved.

(Note 3) It is scheduled that each of the number of share acquisition rights to be allotted to the Beneficiaries will be designated as the same number of share acquisition rights (the theoretical maximum number) that can be exercised by a person who has the highest title in the case where the greatest possible business performance is achieved, regardless of their actual title as of the allotment to each Beneficiary, in preparation for a situation where there is a change in the level of achievement of the consolidated sales objective amount and the consolidated business profit objective amount in the December 2018 period, etc., to be established at the time of introducing the Mid-term Incentive Plan and/or each Beneficiary's title during the Subject Period.

In addition, it is scheduled that a cap will be set as a whole for the total number of share acquisition rights that can be finally exercised by each Beneficiary. Specifically, in principle, it is assumed that, in the case where the business operation system as of the allotment date (the titles and the number of persons who assume such titles as of the same day) is maintained and the greatest possible business performance is achieved, it is assumed that the total number of share acquisition rights that can be exercised by the Beneficiaries who assume each title will be set as a cap, and, it is scheduled that the condition where no exercise is allowed if such cap is exceeded will be set forth in a share acquisition rights agreement to be executed between the Company and the Beneficiaries in accordance with a resolution of the Company's Board of Directors. If the Proposal 2 entitled "Election of Nine (9) Directors" is approved as originally proposed, which proposal is scheduled to be proposed at this Annual Shareholders Meeting, the number of Directors who will become Beneficiaries will be six (6) persons. The cap that shall be established on the total number of share acquisition rights that can be exercised shall be based on the presumption that such six (6) Directors will continuously serve as Directors for three (3) years, and also, such cap is scheduled to be based on the number of share acquisition rights that can be exercised when the level of achievement of the business performance objective amount becomes 200% or more with regard to the business performance-linked portion, and such number is expected to be established up to a maximum of approximately 3,400 (340,000 shares that are subject to the number of shares).

When the total paid-in amount for such share acquisition rights is calculated by using the Black-Scholes Model based on the conditions as of January 31, 2016, the amount thereof is approximately 1,000 million yen. Furthermore, out of the above, when the total paid-in amount for share acquisition rights that can be exercised when such six (6) Directors continuously serve as Directors for three (3) years and 100% of the business performance objective is achieved is calculated by using the Black-Scholes Model based on the conditions as of January 31, 2016, the amount thereof is approximately 600 million yen. Such amount is designated as a mid-term incentive based on the level of achievement of the Mid-term Management Plan for the three (3) year period until December 31, 2018, etc.

[Reference]

Out of the share acquisition rights which the Beneficiaries have been allotted, the number of share acquisition rights that can be exercised shall be calculated as follows:

(Calculation formula for base number)

Base amount / Simple closing price of the Company's shares listed on the First Section of the Tokyo Stock Exchange of the day immediately prior to the allotment date (in the event of there being no such closing price on that day, the closing price on the immediately preceding trading day) / 100

\* Any fraction less than one (1) shall be rounded down.

\* The level of the base amount shall be determined taking into consideration the balance of the content of duties performed, the responsibilities and the base remuneration (monthly remuneration).

(Calculation formula for exercisable numbers)

Under the Mid-term Incentive Plan, 40% of the base number of the share acquisition rights of each Beneficiary shall be designated as a “fixed portion,” which can be exercised in a lump sum by the elapse of the final year of the Subject Period, and 60% (i.e., the remainder thereof) shall be designated as a “business performance-linked portion,” which is a system wherein, based on the level of achievement of the consolidated sales objective amount and the consolidated business profit objective amount in the December 2018 period, etc., to be established at the time of introducing the Mid-term Incentive Plan, the number of share acquisition rights that can be exercised will be finalized.

Base number x 40% (fixed portion) + base number x 60% (changing portion) x business performance-linked coefficient

\* Any fraction less than one (1) shall be rounded down.

\* The business performance-linked coefficient shall be determined within the range of 0% - 200%, based on the level of achievement of the consolidated sales objective amount and the consolidated business profit objective amount in the December 2018 period, etc., established at the time of introducing the Mid-term Incentive Plan (provided, however, that the business performance-linked coefficient shall be 200% in the case where the level of achievement of the objective amount is 200% or more, and 0% in the case where the level of achievement of the objective amount is 80% or less.).



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

(For the fiscal year from January 1, 2015 to December 31, 2015)

**1. Business Progress and Achievement of the Otsuka Group****(1) Overview of business during the current fiscal year**

## i) Business activity and results

The Company changed the fiscal year end for its consolidated accounts from March 31 to December 31 from the 7th Fiscal Year, following resolution regarding the partial amendments to the Articles of Incorporation at the 6th Annual Shareholders Meeting held on June 27, 2014.

Therefore, to provide a comparison with results for the previous year, we have calculated results for the period from January 1, 2014 to December 31, 2014 for all consolidated companies, which are shown for reference purposes below.

(Summary of operating results for the FY2015 ended December 31, 2015)

During the fiscal year under review, the global economy showed signs of a slow down with the noteworthy exception of the U.S. Major factors were lower growth rates across emerging markets, particularly China, and falling commodity prices.

While economic policy in Japan once again focused on reviving core economic growth, the rise in social insurance cost remains to be a central theme in Japan's fiscal restructuring. Consequently, policies aimed at curbing healthcare spending continued to put further pressure on pharmaceutical industry revenues. However, since Japan's "Healthy Life Expectancy" policy is fully aligned with our longstanding corporate philosophy to contribute to "people's health," we expect that new business opportunities that contribute to public health will ultimately result in strategic opportunities for the group.

During 2015, the Group recorded consolidated net sales of ¥1,445,227 million (down 8.1% from ¥1,571,843 million for the same period in the previous year), with operating income of ¥151,837 million (down 29.0% from ¥213,831 million for the same period in the previous year), ordinary income of ¥159,899 million (down 32.2% from ¥235,688 million for the same period in the previous year) and net income of ¥84,086 million (down 45.8% from ¥155,128 million for the same period in the previous year).

Results by business segment are as follows:

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

	Pharmaceuticals	Nutraceuticals*	Consumer Products	Other	Adjustments	Consolidated
Net sales	971,842	330,203	43,200	145,193	(45,211)	1,445,227
Segment income (loss)	156,813	31,267	(3,314)	5,893	(38,822)	151,837

\*nutraceuticals = nutrition + pharmaceuticals

(Reference: Results for the same period in the previous year)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer Products	Other	Adjustments	Consolidated
Net sales	1,141,813	295,198	44,133	134,643	(43,945)	1,571,843
Segment income (loss)	234,388	20,641	(1,780)	6,801	(46,218)	213,831

## ii) Major business activities (as of December 31, 2015)

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

**Pharmaceuticals**

In the area of central nervous system (“CNS”) disorders, global sales of the antipsychotic agent *ABILIFY* fell more than 40% compared with the same period in the previous year due to the impact of the loss of exclusivity in the U.S. and Europe. In Japan, sales of *ABILIFY* rose year-on-year, supported by an increase in prescriptions and sales share for orally disintegrating tablets for the three approved indications of schizophrenia, manic episodes of bipolar disorder and major depressive disorder.

Aripiprazole intramuscular depot formulation *Abilify Maintena*<sup>\*1</sup> (once-monthly injection) registered significant sales growth in the U.S., supported by efforts to promote the drug’s efficacy for the treatment of acutely relapsed adults with schizophrenia and the merits of a ready-to-use prefilled syringe launched in March 2015 and an additional administration route using the deltoid muscle approved in July 2015. In Europe, the number of countries where *Abilify Maintena* has been launched expanded to 27 as of December 31, 2015, contributing to increased sales. *Abilify Maintena* was also launched in Japan in May 2015, as *ABILIFY for extended-release injectable suspension, for intramuscular use*, adding to the growing number of markets worldwide where the drug is now available and significantly boosting global sales. The new antipsychotic agent *REXULTI* (generic name: brexpiprazole)<sup>\*1</sup> received approval as treatment for schizophrenia and for adjunctive therapy in major depressive disorder in the U.S. in July 2015. Prescriptions have been growing steadily since the drug was launched in August 2015.

In Japan, antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, has firmly achieved growth in market share as the top-selling brand<sup>\*2</sup> in the domestic antiepileptic drug market. This reflected growth in prescriptions for pediatric patients and approval in February 2015 for the monotherapy treatment of epileptic partial-onset seizures. *Neupro Patch*, the world’s only transdermal dopamine agonist, benefited from increasing understanding of use of the patch formulation and growing recognition of its effect in improving wearing-off<sup>\*3</sup> symptoms in indications of Parkinson’s disease and restless legs syndrome, and is seeing continued strong growth in sales. It has become the top-selling brand<sup>\*2</sup> in the dopamine agonist market in Japan.

Sales of *NUDEXTA* climbed significantly. *NUDEXTA* is developed by U.S. company Avanir Pharmaceuticals, Inc., which became part of the Otsuka Group in January 2015 and has strengths to develop drugs in the area of neurologic diseases. The drug’s stronger sales reflected its increasingly recognized status as the world’s first and only treatment for the neurologic disease pseudobulbar affect (“PBA”) on the back of the strengthened sales network in the U.S.

In the area of oncology, global sales of anti-cancer agent *TS-1* declined compared with the same period in the previous year, due to a decrease in domestic sales mainly impacted from rival products, despite overseas sales growth on the back of expanding the countries where it is marketed and rising prescriptions in China. Sales of anti-cancer agent *UFT* declined due to the impact of rival products, and sales of reduced folic acid formulation *Uzel* were steady year on year on the back of renewed efforts to promote the drug using existing data. Sales of long-acting 5-HT<sub>3</sub> receptor antagonist antiemetic agent *Aloxi* increased compared to the same period in the previous year, supported by the use in new clinical departments. Sales of anti-cancer agent *Abraxane* grew strongly compared with the same period in the previous year, supported by an increase in

prescriptions due to its approval for the additional indication of pancreatic cancer in December 2014. *Lonsurf*, a new anti-cancer agent, was launched in Japan in May 2014 as a treatment of colorectal cancer, and sales have been growing steadily. It also received approval in the U.S. and the Group started to sell the drug through in-house sales platform there in October 2015.

The anti-cancer agent *SPRYCEL*, which is being promoted in Japan, the U.S. and Europe, in collaboration with BMS<sup>\*4</sup>, has seen growth in prescriptions worldwide as a first-line treatment for chronic myeloid leukemia. Sales of the drug increased compared with the same period in the previous year. *Busulfex*, an allogeneic hematopoietic stem cell pre-transplanting regimen now sold in more than 50 markets worldwide, has established a standard drug therapy approach as a conditioning agent administered prior to bone marrow transplants in place of total-body radiation. Sales of *Busulfex* increased compared with the same period in the previous year.

In the area of cardiovascular system, the number of markets where *Samsca*, a vasopressin V<sub>2</sub>-receptor antagonist developed by Otsuka Pharmaceutical, was on sale grew to 21 markets worldwide as of December 31, 2015. The drug is gaining more acceptance among medical specialists due to its value as an oral aquaretic agent, supporting a large increase in global sales compared with the same period in the previous year. *Samsca* (marketed as *Jinarc* outside Japan) was approved as the world's first drug for the treatment for autosomal dominant polycystic kidney disease ("ADPKD") in Japan in March 2014. Prescriptions for the drug have increased as education of patients and prescribers has increased understanding of the therapy. In May 2015, the drug was also approved in Europe, and through such developments, the number of countries where it is marketed as a treatment for ADPKD is expanding. Sales of antiplatelet agent *Pletaal/Pletal* declined compared with the same period in the previous year due to the impact of promotion of generic products in Japan.

In the area of digestive system, *TAKECAB*, co-promoted with Takeda Pharmaceutical Company Limited, has seen steady growth in prescriptions since its launch in February 2015. Sales of anti-gastritis and anti-gastric ulcer agent *Mucosta* declined compared with the same period in the previous year due to the impact of promotion of generic products in Japan.

In the area of clinical nutrition, sales overall remained steady compared with the same period in the previous year despite sales growth for the high-calorie TPN solution *ELNEOPA*, which received recognition for its reduced risk of infection and shortened labor time when the TPN is mixed and prepared.

As a result, net sales in the pharmaceutical segment for the fiscal year ended December 31, 2015 totaled ¥971,842 million (down 14.9% from the same period in the previous year), with operating income of ¥156,813 million (down 33.1%).

\*1: Alliance products under the global alliance with H. Lundbeck A/S

\*2: ©2016IMS Health. Estimated based on "Japan Pharmaceutical Market, January-December 2015." All rights reserved, no reproduction without permission.

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

\*4: Bristol-Myers Squibb Company

## Nutraceuticals

The *Pocari Sweat* electrolyte supplement drink is marketed in 20 countries and regions worldwide. Sales volume in Japan increased compared with the same period in the previous year, despite a weak domestic market for sports drinks<sup>\*5</sup>. The result reflected demand from users, stimulated in part by efforts to provide health information based on scientific evidence. Overseas, sales volumes declined compared with the same period in the previous year, with sales volume in Indonesia affected by rival products and other factors, while sales volume in China grew through efforts to cultivate consumers and promote the product's benefits.

Sales volume for carbonated nutritional drink *Oronamin C* declined slightly compared with the same period in the previous year, despite steady growth in the number of stores that stock *Oronamin C Royalpolis*, which was relaunched in March 2015. *Oronamin C* was launched in Hong Kong in May 2015. *Oronamin C* is now sold in nine markets worldwide.

Sales volume for balanced nutrition food *Calorie Mate* increased compared with the same period in the previous year. This reflected enhanced efforts to increase consumer understanding

about the product and secure new users, mainly targeting students preparing for entrance exams and office workers.

The Otsuka Group operates its soy-related business in 11 markets worldwide, based on the concept of “Soylution,” which sees soy as a solution to various health and environmental issues. As new items in the *SOYJOY* baked soy bar range, the Group relaunched *Strawberry* and *Blueberry* in March 2015, followed in September 2015 by the relaunch of *Raisin, Apple and Hawthorn Berry* in Japan. Operations are gradually deploying overseas as well.

Sales of *EQUELLE*, a food product containing equol<sup>\*6</sup> for supporting women’s health, have progressed steadily, reflecting the Group’s efforts to provide information with a focus on the relationship between equol and physical and emotional changes in women.

*Nature Made*, supplied by the subsidiary Pharmavite LLC of the U.S. (“Pharmavite”), has been the number one retail national vitamin and supplement brand in the U.S. for nine consecutive years<sup>\*7</sup>. Sales of *Nature Made* supplements rose compared with the same period in the previous year in conjunction with an upswing in the U.S. market<sup>\*8</sup>. In Japan, Otsuka Pharmaceutical relaunched five items as Foods with Nutrient Function Claims: *Lutein, Astaxanthin, Fish Oil Pearl, Super Fish Oil*, and *Ginkgo Biloba* (Japan’s first Food with Nutrient Function Claims for cognitive function).

Also, with the acquisition of FoodState Inc. in the U.S. in December 2014, Pharmavite succeeded in newly entering the natural food market. Sales of the company’s natural food-based supplements, *MegaFood* and *INNATE* were also firm.

At Nutrition & Santé SAS, an Otsuka Group subsidiary that operates in more than 40 countries, mainly in Europe, gluten-free food products sold under the *Gerblé* nutrition and health food brand continued to drive growth, while sales of organic food products and soy products also grew steadily. In October 2015, Nutrition & Santé SAS acquired Biocentury, S.L.U., a leading Spanish health and functional foods company.

*Kenja-no-shokutaku* (wise man’s dining) *Double Support*, a Food for Specified Health Use, has the functions of slowing down the body’s absorption of both sugars and lipids, thereby reducing the rise in blood glucose levels and triglycerides after meals. The product’s user base has grown through activities targeting a clearly defined customer segment. In April 2015, *Kenja-no-shokutaku Double Support* was also launched in Hong Kong.

In the cosmetics area, the Group launched new products in Japan in the *UL•OS* men’s skincare brand, *UL•OS Adult Body Sheet* and *UL•OS Adult Facial Sheet* in March 2015, followed by *UL•OS Medicated Skin Whitening* in August 2015. Sales of the new products have been growing steadily. In South Korea, sales of the brand increased compared with the same period in the previous year, supported by efforts to develop the brand. Sales of the women’s skincare brand *InnerSignal* increased compared with the same period in the previous year as a result of acquiring new customers and expanding the base of loyal users.

Sales volume for oral rehydration solution *OS-1* increased compared with the same period in the previous year due to greater awareness of the product. This reflected product exposure in the heat stroke medical treatment guidelines, support activities, and aggressive promotion activities.

Sales volume for nutrient tonic *Tiovita* declined compared with the same period in the previous year, due mainly to the shrinking market for nutrient tonics and the impact of rival products.

Sales of *Oronine H Ointment* increased year on year in Japan and in Hong Kong. In Japan, this was supported by efforts to promote the benefits of a new laminated tube product launched in August 2015 and in Hong Kong the increase was due to promotion activities on the back of a reinforced marketing structure.

In addition, the Group established the new company Otsuka Wellness Vending Co., Ltd. to conduct a vending machine business and the company commenced business operations in January 2015. In March 2015, the Group entered into a business alliance agreement with Asahi Soft Drinks Co., Ltd., and it has since been moving forward with an initiative where both companies sell their own products and the other’s major products in their own vending machines. In the vending machine business, the Group is continuing activities aimed at strengthening the businesses of both the nutraceuticals and the consumer products segments while working to maximize the value of the Group’s products.

As a result, net sales in the nutraceutical segment for the fiscal year ended December 31, 2015 totaled ¥330,203 million (up 11.9% from the same period in the previous year), with operating

income of ¥31,267 million (up 51.5%).

\*5: Inryo Soken data: Down 4% in sales in January–December 2015

\*6: Equol is a metabolite produced from daidzein, one of the isoflavones contained in soy, by intestinal flora. Equol binds to estrogen receptors and has weak estrogen-like effects.

\*7: Pharmavite calculation based in part on data reported by Nielsen through its Scantrack<sup>®</sup> service for the Total Vitamins Category in dollar and unit sales, for the 52-week periods ending 12/27/2008 in the US Food Drug Mass channels; and for the 52-week periods ending 12/26/2009 through 12/19/2015 in the US xAOC channels. © 2016, The Nielsen Company

\*8: Nielsen xAOC through 12/05/15 +4.2% for the last 4 periods.

### Consumer Products

Sales volume for *Match*, a carbonated electrolyte drink containing vitamins, declined compared with the same period in the previous year. Nevertheless, we are working to reenergize the brand in the market by continuing to implement an aggressive marketing strategy and sales promotion activities mainly targeting the high school student market. Although sales volume for mineral water products, centered on *Crystal Geyser*, remained level compared with the same period in the previous year, we have reinforced our communication efforts targeting growth in new customers.

In the *Bon Curry* range of instant curry dishes, sales volume increased compared with the same period in the previous year due to a stepped up marketing strategy and sales promotion activities that boosted brand value. This included the launch of new products, such as the upgraded *Bon Curry Gold* from 2013, which can be heated in a microwave oven without removing the curry pouch from the box, special winter and summer products for a limited period only, and *The Bon Curry* – the highest-quality product in the range so far.

As a result, net sales in the consumer products segment for the fiscal year ended December 31, 2015 totaled ¥43,200 million (down 2.1% from the same period in the previous year), with operating loss of ¥3,314 million (compared with an operating loss of ¥1,780 million for the same period in the previous year). In the consumer products segment, the Group has recently conducted a comprehensive review into such areas as marketing strategies and sale promotion activities, aiming at improving profitability, and based on these findings, it is implementing management reforms.

### Other

In the specialty chemical business, sales of *TERPLUS*, pigment dispersing agents used in color filters and inkjets, increased compared with the same period in the previous year due to increases in the number of new users and sales to existing users. However, both sales volume of hydrazine hydrate and sales volume of tire additives *BMH* and *PHZ* declined. As a result, sales overall in the specialty chemical business were steady compared with the same period in the previous year.

In the fine chemical business, sales increased compared with the same period in the previous year due to higher unit sales prices for pharmaceutical intermediates overseas and forex factors.

In the transportation and warehousing business, there was an increase in the volume of products handled by existing business partners, and owing to the promotion of a “common distribution platform (distribution of products to market for the Group as well as for other firms)” business, there was also an increase in new external customers. As a result, sales increased compared with the same period in the previous year. Sales in the direct sales support business increased compared with the same period in the previous year due to growth in the volume of orders handled.

As a result, net sales in the other businesses for the fiscal year ended December 31, 2015 totaled ¥145,193 million (up 7.8% from the same period in the previous year), with operating income of ¥5,893 million (down 13.3%).

(Translation)

iii) Research and development activities

Research and development expenses for the current fiscal year totaled ¥201,010 million.

Research and development expenses for the pharmaceutical business amounted to ¥191,424 million, those for the nutraceutical business amounted to ¥5,077 million, those for the consumer products business amounted to ¥475 million and those for the other businesses amounted to ¥4,032 million.

Pipeline information

The following compounds are in Phase III or later stage of development as of December 31, 2015.

Category	Development Code (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Central nervous system	OPC-14597 (ABILIFY) (ABILIFY for extended-release injectable suspension, for intramuscular use/Abilify Maintena) <aripiprazole>	Schizophrenia / Depot injection		approved				
		Autism / Oral		•				
		Agitation associated with Alzheimer-type dementia / Oral	•					
		Bipolar I / Depot injection	•		•		•	
	ASC-01 <aripiprazole, sertraline>	Major depressive disorder / Oral	•					
	OPC-34712 (REXULTI) <brexipiprazole>	Adjunctive therapy for major depressive disorder / Oral				approved	•	
		Schizophrenia / Oral	•			approved	•	
		Agitation associated with Alzheimer-type dementia / Oral			•		•	
		Posttraumatic stress disorder (PTSD) / Oral			•		•	
	Lu AE58054 <idalopirdine>	Alzheimer-type dementia / Oral			•		•	
	Lu AA36143 <nalmefene>	Reduction of alcohol consumption in patients with alcohol dependence / Oral	•					
	L059 (E Keppra) <levetiracetam>	Epilepsy (generalized onset seizures) / Oral		•				
		Epilepsy (partial onset seizures/mono therapy) / Oral and Injection		approved				
	AVP-786 <deuterium-modified dextromethorphan, quinidine>	Agitation associated with Alzheimer-type dementia / Oral			•		•	
AVP-825 (ONZETRA Xsail) <sumatriptan>	Acute migraine / Inhalations				approved			

Category	Development Code (Brand name) <Generic name>	Indication / Dosage form	Development status					
			JP		U.S.		EU	
			Phase III	Filed	Phase III	Filed	Phase III	Filed
Oncology	S-1 ( <i>TS-1/Teysuno</i> ) <tegafur, gimeracil, oteracil>	Uterocervical cancer / Oral	•					
	TAS-102 ( <i>Lonsurf</i> ) <trifluridine, tipiracil>	Colorectal cancer / Oral				approved		•
	TAS-118 <tegafur, gimeracil, oteracil, folinate>	Pancreatic cancer / Oral	•					
		Gastric cancer / Oral	•					
	( <i>SATIVEX</i> ) <nabiximols>	Cancer pain / Oral spray			•			
	SGI-110 <guadecitabine>	Acute myeloid leukemia (AML) / Injection	•		•		•	
ET-743 ( <i>Yondelis</i> ) <trabectedin>	Malignant soft tissue sarcoma / Injection		approved					
Cardiovascular system	OPC-41061 ( <i>Samsca/Jinarc</i> ) <tolvaptan>	Autosomal dominant polycystic kidney disease / Oral			•			approved
Other categories	YP-18 ( <i>Zosyn</i> ) <tazobactam, piperacillin>	Febrile neutropenia / Injection		approved				
	OPC-12759E ( <i>Mucosta Ophthalmic Suspension</i> ) <rebamipide>	Dry eyes / Eye drops MD (Multi Dose)	•					
	ACU-4429 <emixustat>	Dry age-related macular degeneration / Oral			•*			
	OPC-67683 ( <i>Delyba</i> ) <delamanid>	Multidrug-resistant tuberculosis / Oral			•			
	TAC-202 <bilastine>	Allergic rhinitis / Oral		•				
		Chronic urticaria, pruritus associated with skin disease / Oral		•				
	OPC-1085EL <carteolol, latanoprost>	Glaucoma / Eye drops		•				
	OPB-2045G ( <i>OLANEDINE</i> ) <olanexidin>	Patient preoperative preparation / Topical		approved				
	OPF-105 <Amino Acid, Carbohydrate, and Fat Emulsion Injection with Electrolytes and Vitamins>	Peripheral parenteral nutrition solution / Injection	•					
OPF-108 <Amino Acid, Carbohydrate, Electrolytes and Vitamins>	High-calorie TPN solution / Injection		•					

\* Phase II / III

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

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

Category	Brand Name (Generic Name) Development Code	Status
Central nervous system	<i>ABILIFY</i> <i>ABILIFY for extended-release injectable suspension, for intramuscular use</i> (aripiprazole)	[Japan] <ul style="list-style-type: none"> <li>• An application was filed in December 2015 for <i>ABILIFY</i> for an additional indication of autism.</li> <li>• Approval for <i>ABILIFY for extended-release injectable suspension, for intramuscular use</i> was granted in March 2015 for the indications of schizophrenia.</li> </ul>
	<i>REXULTI</i> (brexpiprazole) OPC-34712	[U.S.] <ul style="list-style-type: none"> <li>• Approval was granted in July 2015 for the indications of schizophrenia and adjunctive therapy in major depressive disorder.</li> </ul>
	(nalmefene) Lu AA36143	[Japan] <ul style="list-style-type: none"> <li>• Phase III trial was initiated in February 2015 for the reduction of alcohol consumption in patients with alcohol dependence.</li> </ul>
	<i>E Keppra</i> (levetiracetam) L059	[Japan] <ul style="list-style-type: none"> <li>• A partial change approval was granted in February 2015 for effects and efficacy of monotherapy treatment of epileptic for partial-onset seizures.</li> <li>• An application was filed in March 2015 for the indications of epileptic for generalized onset seizures.</li> </ul>
	(deuterium-modified dextromethorphan, quinidine) AVP-786*	[U.S.] <ul style="list-style-type: none"> <li>• Phase II trial for the treatment of residual symptoms of schizophrenia was initiated in September 2015.</li> </ul> [U.S. and Europe] <ul style="list-style-type: none"> <li>• Phase III trial for the treatment of agitation associated with Alzheimer-type dementia was initiated in August 2015.</li> </ul>
	<i>ONZETRA Xsail</i> (sumatriptan) AVP-825*	(Additional information) [U.S.] <ul style="list-style-type: none"> <li>• Approval was granted in January 2016 for the indications of acute migraine.</li> </ul>



Category	Brand Name (Generic Name) Development Code	Status
Oncology	<i>Lonsurf</i> (trifluridine, tipiracil) TAS-102	[U.S.] • Approval was granted in September 2015 for the indications of colorectal cancer.  [Europe] • An application was filed in February 2015 for the indications of colorectal cancer.  [Japan] • A partial change approval was granted in March 2015 for effects and efficacy of colorectal cancer.
	(tegafur, gimeracil, oteracil, folinate) TAS-118	[Japan and Asia] • Phase III trial for the treatment of gastric cancer was initiated in January 2015.
	(guadecitabine) SGI-110	[U.S., Europe, Japan and Asia] • Phase III trial for the treatment of acute myeloid leukemia (AML) was initiated in March 2015.
	<i>Yondelis</i> (trabectedin) ET-743	[Japan] • Approval was granted in September 2015 for the indications of malignant soft tissue sarcoma.
Cardiovascular system	<i>Samsca/Jinarc</i> (tolvaptan) OPC-41061	[Europe] • Approval was granted in May 2015 for the indications of autosomal dominant polycystic kidney disease (“ADPKD”).
Other categories	<i>Zosyn</i> (tazobactam, piperacillin) YP-18	[Japan] • Approval for an additional indication of febrile neutropenia was granted in June 2015.
	(bilastine) TAC-202	[Japan] • An application was filed in November 2015 for the indications of allergic rhinitis, urticaria, and itching resulting from skin diseases (eczema/dermatitis, prurigo, and cutaneous pruritus).
	(carteolol, latanoprost) OPC-1085EL	[Japan] • An application was filed in October 2015 for the indications of glaucoma and ocular hypertension.
	OPS-2071	[Japan and Asia] • Phase II trials for the treatment of clostridium difficile infection and enteric infection were initiated in August 2015.
	<i>OLANEDINE</i> (olanexidin) OPB-2045G	[Japan] • Approval was granted in July 2015 as antiseptics for external use.
	(amino acid, carbohydrate, electrolytes and vitamins) OPF-108	<b>[Japan]</b> • An application was filed in July 2015 for a high-calorie TPN solution containing carbohydrate, electrolytes, amino acids, vitamins and trace elements that enables supplementation of nutrition via central veins.
Diagnostic	<i>Otsuka Major BCR-ABL mRNA Measurement Kit</i>	[Japan] • <i>The Otsuka Major BCR-ABL mRNA Measurement Kit</i> was covered by Health Insurance in Japan from April 2015.

\* Drugs currently under development, acquired through the purchase of Avanir Pharmaceuticals, Inc. in January 2015.

iv) Capital investments

Capital investments including the acquisition of goodwill and intangible assets during the current fiscal year amounted to ¥523,863 million. These investments were funded by own capital and borrowings.

Capital investments in the pharmaceutical business totaled ¥488,117 million. That amount includes goodwill and intangible assets totaling ¥459,305 million related to Avanir Pharmaceuticals, Inc., which was acquired on January 13, 2015.

Capital investments in the nutraceutical business totaled ¥19,029 million. Principal investments included the acquisition of Biocentury, S.L.U., and the renewal of existing facilities.

Capital investments in the consumer business totaled ¥5,971 million, while those in other businesses totaled ¥8,018 million, and corporate investments (common) totaled ¥2,726 million.

v) Acquisition of shares in other companies

On January 13, 2015, Otsuka Pharmaceutical Co., Ltd. acquired Avanir Pharmaceuticals, Inc., a U.S. biopharmaceutical venture company based in California, through Otsuka America, Inc. As a result, Avanir became a consolidated subsidiary.

## (2) Key issues to be addressed

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

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

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

i) Strengthen core therapeutic areas

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

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

- In the clinical nutrition business, the Group will pursue overseas development, mostly in Asia, and in the medical devices business, the Group will focus efforts on diversifying treatment solutions.
- ii) Structural reform, evolution and growth of the nutraceutical business
- The Group will cultivate new products by accelerating new product development based on the concept of “healthy life expectancy” and focusing on sales promotion that emphasizes benefits of product value.
  - Targeting growth in overseas sales, the Group will expand the Pocari Sweat business in Asia, the Nature Made business in the U.S., and the nutrition and health food product business of Nutrition & Santé SAS in Europe.
  - Aiming for sustainable growth over the long term, the Group will invest strategically in products and overseas sales channels, and actively promote proprietary brands overseas.
  - In order to accelerate product development and overseas business expansion, the Group will review business assets that support the value chain and work toward implementing structural reforms.

### Progress on Principal Measures

Progress with the plan’s principal measures is as follows:

- Global sales of *Abilify Maintena* / *ABILIFY for extended-release injectable suspension, for intramuscular use*\*<sup>1</sup> rose strongly, supported by the start of sales in Japan, in addition to the existing markets of the U.S. and Europe.
- Sales of *REXULTI* started in the U.S. after the drug was granted approval for the indications of schizophrenia and adjunctive therapy in major depressive disorder.
- *Lonsurf* was granted approval as a treatment for colorectal cancer and started to sell through in-house sales platform in the U.S., following approval in Japan. An application for the indications of colorectal cancer was also filed in Europe and a license agreement was concluded with Servier for the development and commercialization of *Lonsurf* in Europe and other countries\*<sup>2</sup>.
- *Samsca/Jinarc* was granted approval in Europe following its earlier approval in Japan, as the world’s first drug for the treatment for ADPKD. The number of countries where it is marketed is expanding.
- In the nutraceutical business, the Group has developed new product categories and actively invested in growth fields, supporting solid sales growth in overseas operations. Domestic operations were also firm after the Group reviewed its business assets through new product development.

\*1: Product name in Japan

\*2: Countries outside North America and Asia

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

Item	The 5th fiscal year (Ended March 31, 2013)	The 6th fiscal year (Ended March 31, 2014)	The 7th fiscal year (Ended December 31, 2014)	The 8th fiscal year (Ended December 31, 2015)
Net sales (Millions of yen)	1,218,055	1,452,759	1,224,298	1,445,227
Ordinary income (Millions of yen)	184,462	215,235	217,210	159,899
Net income (Millions of yen)	122,429	150,989	143,143	84,086
Net income per share (Yen)	221.90	278.07	264.20	155.12
Total assets (Millions of yen)	1,779,207	2,028,399	2,178,184	2,528,510
Net assets (Millions of yen)	1,325,071	1,510,759	1,658,600	1,683,436
Net assets per share (Yen)	2,381.64	2,740.89	3,004.38	3,053.82

Note: The 7th Fiscal Year is a period of nine months from April 1, 2014 to December 31, 2014 as a result of changing the fiscal year end.

**(4) Significant subsidiaries** (as of December 31, 2015)

Company name	Country	Capital	Percentage of voting rights held by the Company	Major business activities
Otsuka Pharmaceutical Co., Ltd.	Japan	20,000 million yen	100.00%	Manufacture and sale of pharmaceutical products, clinical inspections and medical devices, food and beverages, and cosmetic products
Otsuka Pharmaceutical Factory, Inc.	Japan	80 million yen	100.00%	Manufacture and sale of pharmaceutical products
Taiho Pharmaceutical Co., Ltd.	Japan	200 million yen	100.00%	Manufacture and sale of pharmaceutical products
Otsuka Warehouse Co., Ltd.	Japan	800 million yen	100.00%	Warehousing and transport business
Otsuka Chemical Co., Ltd.	Japan	5,000 million yen	100.00%	Manufacture and sale of chemical products
Otsuka Foods Co., Ltd.	Japan	1,000 million yen	*100.00%	Manufacture and sale of food and beverages, sale of alcoholic drinks (wine)
Otsuka America Pharmaceutical, Inc.	U.S.	50,000 thousand U.S. dollars	*100.00%	Manufacture and sale of pharmaceutical products
Pharmavite LLC	U.S.	1,032 thousand U.S. dollars	*100.00%	Manufacture and sale of nutritional products
Otsuka Pharmaceutical Europe Ltd.	U.K.	140,652 thousand euro	*100.00%	Manufacture and sale of pharmaceutical products
Nutrition & Santé SAS	France	45,150 thousand euro	*100.00%	Manufacture and sale of food products

## Notes:

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

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

Note: The Company's total assets amounted to ¥945,590 million at the current fiscal year-end.

**(5) Major offices and factories** (as of December 31, 2015)

## The Company

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

## Significant subsidiaries

Company name	Location
Otsuka Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Pharmaceutical Factory, Inc.	Naruto City, Tokushima
Taiho Pharmaceutical Co., Ltd.	Chiyoda-ku, Tokyo
Otsuka Warehouse Co., Ltd.	Minato-ku, Osaka
Otsuka Chemical Co., Ltd.	Chuo-ku, Osaka
Otsuka Foods Co., Ltd.	Chuo-ku, Osaka
Otsuka America Pharmaceutical, Inc.	Maryland, U.S.
Pharmavite LLC	California, U.S.
Otsuka Pharmaceutical Europe Ltd.	Buckinghamshire, U.K.
Nutrition & Santé SAS	Midi-Pyrénées, French Republic

(Translation)

**(6) Employees** (as of December 31, 2015)

i) Employees of the Otsuka Group

Business segment	Number of employees		Increase / Decrease from the previous fiscal year	
Pharmaceuticals	17,947	(1,261)	up 890	(up 63)
Nutraceuticals	7,339	(1,667)	up 317	(up 230)
Consumer products	514	(102)	down 26	(up 4)
Other	3,141	(665)	down 66	(up 6)
Corporate (Common)	1,697	(338)	up 41	(down 16)
Total	30,638	(4,033)	up 1,156	(up 287)

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

ii) Employees of the Company

Number of employees	Increase / Decrease from the previous fiscal year	Average age	Average service years
78 (84)	up 5 (down 10)	45.1	3.2

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

**(7) Major creditors** (as of December 31, 2015)

Creditor	Balance of borrowings
Mizuho Bank, Ltd.	83,968 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd	81,251 million yen
Resona Bank, Limited	50,569 million yen
Sumitomo Mitsui Banking Corporation	43,877 million yen
The Awa Bank, Ltd.	14,692 million yen

(Translation)

## 2. Current Status of the Company

### (1) Shares (as of December 31, 2015)

- i) Total number of authorized shares: 1,600,000,000 shares
- ii) Total number of issued shares: 557,835,617 shares
- iii) Number of shareholders: 54,839
- iv) Principal shareholders (top 10 shareholders):

Name of shareholder	Number of shares held (thousand)	Shareholding ratio (%)
The Nomura Trust and Banking Co., Ltd. Otsuka Founders Shareholding Fund Trust Account	62,038	11.44
Otsuka Estate Ltd.	22,891	4.22
Japan Trustee Services Bank, Ltd. (trust account)	16,378	3.02
The Master Trust Bank of Japan, Ltd. (trust account)	15,613	2.88
Otsuka Group Employee Shareholding Fund	15,181	2.80
The Awa Bank, Ltd	10,970	2.02
GOLDMAN SACHS & CO. REG	7,844	1.44
Otsuka Asset Co., Ltd.	7,380	1.36
STATE STREET BANK WEST CLIENT - TREATY 505234	7,303	1.34
The Bank Of New York Mellon SA/NV 10	7,140	1.31

Notes:

1. Number of shares held is rounded down to the nearest thousand.
2. Although the Company holds 15,985,891 of its own shares, treasury stock is excluded from the above list.
3. Shareholding ratio is calculated after treasury stock is deducted.

### (2) Status of share acquisition rights

No items to report.

(Translation)

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

i) Directors and Audit & Supervisory Board Members (as of December 31, 2015)

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

Notes:

1. Executive Directors, Yasuyuki Hiroto, Juichi Kawaguchi and Tadaaki Konose are Outside Directors.
2. Audit & Supervisory Board Members, Norikazu Yahagi and Hiroshi Sugawara are Outside Audit & Supervisory Board Members.
3. Audit & Supervisory Board Member, Hiroshi Sugawara is a certified public accountant and has extensive knowledge of finance and accounting.
4. The Company appoints Executive Directors Yasuyuki Hiroto, Juichi Kawaguchi and Tadaaki Konose as well as Audit & Supervisory Board Members Norikazu Yahagi and Hiroshi Sugawara as Independent Officers as provided for under the rules of Tokyo Stock Exchange, Inc. and have registered them with the Exchange.

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

Classification	Number of persons paid	Amount of compensations paid
Directors (of which Outside Directors)	9 (3)	391 million yen (21 million yen)
Audit & Supervisory Board Members (of which Outside Audit & Supervisory Board Members)	4 (2)	58 million yen (24 million yen)
Total (of which Outside Directors and Audit & Supervisory Board Members)	13 (5)	449 million yen (45 million yen)

Notes:

1. There are no Directors of the Company who concurrently serve as employees.

2. The upper limit of compensation for Directors is set at ¥1,500 million per year (does not include the portion of salary for an employee position) as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010.
3. The upper limit of compensation for Audit & Supervisory Board Members is set at ¥80 million per year as resolved at the 2nd Annual Shareholders Meeting on June 29, 2010.
4. The above amounts of compensation include ¥118 million in bonuses for five Directors.
5. During the current fiscal year, Outside Directors and Audit & Supervisory Board Members received total compensation of ¥3 million from the Company's subsidiaries.

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

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

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

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

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

(ii) Major activities during the current fiscal year

Executive Director, Yasuyuki Hirotoni attended all thirteen (13) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his extensive experience and high-level insights acquired throughout many years in corporate management.

Executive Director, Juichi Kawaguchi attended all thirteen (13) meetings of the Board of Directors held during the current fiscal year and provided appropriate comments based on his knowledge and experience as a corporate executive acquired through his career.

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

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

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

iv) Overview of the agreement for limitation of liability

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



**(4) Accounting auditor**

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

ii) Amount of compensations

	Payment
Total compensations for the current fiscal year	114 million yen
Total of monies and other property benefits, which the Company and subsidiaries should pay to the accounting auditor	405 million yen

Notes:

1. The Company compensates the accounting auditor for advice and guidance, etc. concerning international financial reporting standards, which is a service other than the services prescribed in Article 2, Paragraph 1 of the Certified Public Accountants Act.
2. The Audit & Supervisory Board gave its consent for the amount of compensation for the accounting auditor after the verification necessary to determine whether the following matters were appropriate; the content of the accounting auditor's audit plans, the status of execution of duties by the accounting auditor, and the basis for calculating the estimate of compensation.
3. Of the Company's principal subsidiaries, Otsuka America Pharmaceutical, Inc. and three other companies are audited by a certified public accountant or an audit corporation (including parties holding qualifications comparable to those of a certified public accountant or an audit corporation in a country besides Japan) other than the accounting auditor of the Company (provided, however, that such parties fall under the provisions of the Companies Act or the Financial Instruments and Exchange Act (or foreign laws comparable to the said Acts)).
4. As compensations for audits based on the Companies Act and that based on the Financial Instruments and Exchange Act are not clearly distinguished under the audit agreement concluded between the Company and the accounting auditor nor can they be classified in practice, the amount of compensations for the accounting auditor in the current fiscal year represents the aggregate amount for these audits.

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

In the event any deficiency is found in the execution of duties by the accounting auditor, or if judging the necessity thereof, the Audit & Supervisory Board will submit a resolution related to the dismissal or non-reappointment of the accounting auditor. Based on that submission, the Board of Directors will call a shareholders' meeting to discuss the resolution.

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

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

At a meeting on April 13, 2015, the Board of Directors approved a resolution to partially revise its basic policies on internal control to ensure the appropriateness of operations (internal control system) in light of revisions to the Companies Act and the Ordinance for Enforcement of the Companies Act that come into effect on May 1, 2015. The revised basic policies are as follows:

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

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

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

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

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

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

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

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

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

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

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

In the event of an unforeseen situation, the Company shall promptly implement responsive measures to minimize any damage caused by the emergent situation.

iv) System to ensure efficient execution of duties by Directors

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

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

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

The Company, as the holding company that undertakes the role of maximizing the corporate value of the Otsuka Group, shall put in place a system to secure the appropriateness of operations from the viewpoint of the entire Otsuka Group. The Company will maintain a reporting system comprising subsidiary Directors, Corporate Officers, employees responsible for executing operations, and individuals responsible for conducting duties defined in Article 598, Paragraph 1 of the Companies Act, or individuals with authority over those employees (hereinafter "Directors, etc.") and ensure that the Directors, etc. of subsidiaries always conduct their duties efficiently and appropriately.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors and employees, if so requested by Audit & Supervisory Board Members, shall promptly report matters relating to business executions.

Internal Audit Department, Administration Department, Corporate Finance & Accounting Department, Internal Control Department and any other relevant department shall provide

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

**(6) Overview of current status of system to ensure the appropriateness of operations**

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

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

i) Overview of internal control system

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

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

ii) Compliance efforts

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

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

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

(ii) Compliance training

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

iii) Reinforcing risk management system

(i) Risk management system

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

(ii) Information security

The Company entrusts a specialist information security company to regularly check all the websites operated by the Company and each of the Group companies.

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

iv) Management of affiliates

In accordance with the “Affiliate Management Regulations,” the Company’s Board of Directors approves important decisions related to affiliates. Reports stipulated under the “Affiliate Management Regulations” were submitted to the Board of Directors or principle departments depending on the level of importance.

v) Execution of duties by Directors

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

vi) Execution of duties by Audit & Supervisory Board Members

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

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

Meetings of the Audit & Supervisory Board were held regularly and at other times when needed to work to improve the effectiveness and efficiency of audits through reporting the audit activities of individual Audit & Supervisory Board Members, and exchanging opinions and information.

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

Audit & Supervisory Board Members visited and inspected the Group companies and received reports from Representative Directors and other individuals at those companies to gain understandings of business issues, risk and other matters, and provided guidance as necessary.

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

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

Based on this policy, the Company has resolved to pay a year-end dividend of ¥50 per share for the current fiscal year. Combined with the interim dividend of ¥50 per share that was paid on September 7, 2015, this amounts to annual dividends of ¥100 per share. The effective date of the year-end dividend for the current fiscal year is March 31, 2016.

**Consolidated Balance Sheet**

(As of December 31, 2015)

(Millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>1,176,882</b>	<b>Current liabilities</b>	<b>467,075</b>
Cash and deposits	439,377	Notes and accounts payable-trade	82,690
Notes and accounts receivable-trade	379,459	Short-term borrowings	79,679
Marketable securities	127,601	Lease obligations	2,106
Merchandise and finished goods	71,254	Accounts payable-other	66,454
Work in process	34,725	Accrued expenses	169,960
Raw materials and supplies	38,908	Income taxes payable	19,336
Deferred tax assets	32,455	Provision for bonuses	14,149
Other current assets	53,833	Provision for directors' bonuses	259
Allowance for doubtful accounts	(733)	Other current liabilities	32,439
<b>Noncurrent assets</b>	<b>1,351,578</b>	<b>Long-term liabilities</b>	<b>377,998</b>
<b>Property, plant and equipment</b>	<b>356,422</b>	Long-term debt	234,229
Buildings and structures	137,151	Lease obligations	5,299
Machinery and equipment	92,840	Deferred tax liabilities	99,941
Furniture and fixtures	16,626	Liability for directors' retirement benefits	2,495
Land	82,287	Net defined benefit liability	9,753
Leased assets	6,726	Negative goodwill	17,227
Construction in progress	20,790	Other long-term liabilities	9,051
<b>Intangible assets</b>	<b>642,492</b>	<b>Total Liabilities</b>	<b>845,073</b>
Goodwill	233,971	<b>Net Assets</b>	
In-process research and development	238,301	<b>Shareholders' equity</b>	<b>1,572,793</b>
Software	17,111	Common stock	81,690
Other intangible assets	153,108	Capital surplus	512,702
<b>Investments and other assets</b>	<b>352,663</b>	Retained earnings	1,025,663
Investment securities	258,928	Treasury stock, at cost	(47,262)
Investments in capital	42,917	<b>Accumulated other comprehensive income</b>	<b>81,952</b>
Long-term loans receivable	5,600	Unrealized gain on available-for-sale securities	27,053
Deferred tax assets	7,397	Deferred gain on derivatives under hedge accounting	130
Net defined benefit asset	22,769	Foreign currency translation adjustments	41,749
Other assets	15,833	Remeasurements of defined benefit plans	13,019
Allowance for investment loss	(75)	<b>Minority interests</b>	<b>28,689</b>
Allowance for doubtful accounts	(707)	<b>Total Net Assets</b>	<b>1,683,436</b>
<b>Deferred assets</b>	<b>49</b>	<b>Total Liabilities and Net Assets</b>	<b>2,528,510</b>
<b>Total Assets</b>	<b>2,528,510</b>		

(Translation)

## Consolidated Statement of Income

(From January 1, 2015 to December 31, 2015)

(Millions of yen)

Item	Amount	
<b>Net sales</b>		<b>1,445,227</b>
<b>Cost of sales</b>		<b>449,270</b>
<b>Gross profit</b>		<b>995,956</b>
<b>Selling, general and administrative expenses</b>		<b>844,118</b>
<b>Operating income</b>		<b>151,837</b>
<b>Non-operating income</b>		
Interest and dividend income	3,262	
Amortization of negative goodwill	2,694	
Equity in earnings of unconsolidated subsidiaries and affiliates	8,032	
Other	2,374	<b>16,364</b>
<b>Non-operating expenses</b>		
Interest expense	4,104	
Foreign exchange loss, net	2,999	
Other	1,198	<b>8,301</b>
<b>Ordinary income</b>		<b>159,899</b>
<b>Extraordinary income</b>		
Gain on sales of noncurrent assets	917	
Gain on sales of investment securities	2,821	
Gain on change in equity interest	518	
Subsidy income	415	
Other	322	<b>4,994</b>
<b>Extraordinary loss</b>		
Loss on retirement of noncurrent assets	1,205	
Impairment loss	18,819	
Loss on valuation of investment securities	899	
Loss on valuation of investments in capital	2,501	
Other	3,301	<b>26,727</b>
<b>Income before income taxes and minority interests</b>		<b>138,167</b>
<b>Income taxes-current</b>	37,753	
<b>Income taxes-deferred</b>	18,692	<b>56,446</b>
<b>Income before minority interests</b>		<b>81,721</b>
<b>Minority interests in net loss</b>		<b>2,364</b>
<b>Net income</b>		<b>84,086</b>

(Translation)

**Consolidated Statement of Changes in Net Assets**

(From January 1, 2015 to December 31, 2015)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>Beginning balance as of January 1, 2015</b>	<b>81,690</b>	<b>512,747</b>	<b>990,906</b>	<b>(47,415)</b>	<b>1,537,928</b>
<b>Changes in the year</b>					
Change in scope of consolidation			(565)		(565)
Dividends			(48,764)		(48,764)
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		(45)		155	110
Net income			84,086		84,086
Net changes other than shareholders' equity					
<b>Total changes in the year</b>	<b>-</b>	<b>(45)</b>	<b>34,757</b>	<b>153</b>	<b>34,865</b>
<b>Ending balance as of December 31, 2015</b>	<b>81,690</b>	<b>512,702</b>	<b>1,025,663</b>	<b>(47,262)</b>	<b>1,572,793</b>

	Accumulated other comprehensive income					Minority interests	Total net assets
	Unrealized gain on available-for-sale securities	Deferred gain (loss) on derivatives under hedge accounting	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
<b>Beginning balance as of January 1, 2015</b>	<b>13,152</b>	<b>392</b>	<b>57,161</b>	<b>19,167</b>	<b>89,873</b>	<b>30,798</b>	<b>1,658,600</b>
<b>Changes in the year</b>							
Change in scope of consolidation							(565)
Dividends							(48,764)
Purchase of treasury stock							(1)
Disposal of treasury stock							110
Net income							84,086
Net changes other than shareholders' equity	13,901	(262)	(15,411)	(6,147)	(7,920)	(2,108)	(10,029)
<b>Total changes in the year</b>	<b>13,901</b>	<b>(262)</b>	<b>(15,411)</b>	<b>(6,147)</b>	<b>(7,920)</b>	<b>(2,108)</b>	<b>24,836</b>
<b>Ending balance as of December 31, 2015</b>	<b>27,053</b>	<b>130</b>	<b>41,749</b>	<b>13,019</b>	<b>81,952</b>	<b>28,689</b>	<b>1,683,436</b>



## Notes regarding Consolidated Financial Statements

### 1. Notes regarding Basis of Presenting Consolidated Financial Statements

#### (1) Scope of Consolidation

##### i) Consolidated subsidiaries

- Number of consolidated subsidiaries: 112
- Names of principal consolidated subsidiaries:  
Otsuka Pharmaceutical Co., Ltd., Otsuka Pharmaceutical Factory, Inc., Taiho Pharmaceutical Co., Ltd., Otsuka Warehouse Co., Ltd., Otsuka Electronics Co., Ltd., Otsuka Chemical Co., Ltd., Otsuka Foods Co., Ltd., Otsuka America, Inc., Otsuka America Pharmaceutical, Inc., Pharmavite LLC, P.T. Amerta Indah Otsuka, Otsuka Pharmaceutical Europe Ltd. and Nutrition & Santé SAS

##### ii) Unconsolidated subsidiaries

- Names of principal unconsolidated subsidiaries:  
Otsuka Pakistan Ltd. and Otsuka Australia Pharmaceutical Pty Ltd.
- Reasons for excluding from the scope of consolidation  
Unconsolidated subsidiaries are small in size and the aggregate total assets, sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage) and other indicators do not have a material effect on the consolidated financial statements and have therefore been excluded from the scope of consolidation.

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

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

- Number of unconsolidated subsidiaries and affiliates accounted for by the equity method: 16
- Names of principal equity method companies:  
Otsuka Pakistan Ltd., Earth Chemical Co., Ltd., ALMA S.A., CG Roxane LLC, VV Food & Beverage Co., Ltd., China Otsuka Pharmaceutical Co., Ltd. and Nichiban Co., Ltd.

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

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

##### iii) Special note regarding the application of the equity method

With respect to companies accounted for by the equity method and whose fiscal year end differs from the consolidated fiscal year end, financial statements based on the provisional settlement of accounts as of December 31, 2015 have been used to facilitate the preparation of the consolidated financial statements.

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

Avanir Pharmaceuticals, Inc., Biocentury, S.L.U. and four other companies have been newly included in the scope of consolidation from the current fiscal year as a result of acquisition of their shares.

Otsuka Wellness Vending Co., Ltd., Taiho Oncology, Inc., Otsuka Chemical America, Inc. and four other companies have been newly included in the scope of consolidation from the current fiscal year due to their increased materiality.

Diatranz Otsuka Limited, which had been an affiliated company accounted for by the equity method, was included in the scope of consolidation from the current fiscal year as it has become a subsidiary.

Bigarade Corporation, which had been in the scope of consolidation, was absorbed by Avanir

Pharmaceuticals, Inc., a consolidated subsidiary. Nardobel Participacoes Ltda., which had been in the scope of consolidation, was absorbed by Jasmine Comercio de Produtos Alimenticios LTDA, a consolidated subsidiary.

Otsuka America Foods, Inc. a previously consolidated subsidiary, was excluded from the scope of consolidation upon liquidation. Also, American Peptide Company, Inc., a previously consolidated subsidiary, was excluded from the scope of consolidation as a result of sale of its all shares.

(4) Fiscal Year End of Consolidated Subsidiaries

The fiscal year end of consolidated subsidiaries is the same as the consolidated fiscal year end.

(5) Accounting Policies

i) Valuation of major assets

(i) Held-to-maturity securities:

Stated at amortized cost (straight-line method).

(ii) Shares and investments in capital of unconsolidated subsidiaries, affiliates and limited liability entities not accounted for by the equity method:

Stated at cost, determined by the moving-average method.

(iii) Other securities

• Marketable securities classified as available-for-sale:

Stated at fair value based on the quoted market price at the end of the fiscal year with unrealized gains or losses, net of applicable taxes, stated in a separate component of net assets. The cost of securities sold is calculated using the moving-average method.

• Non-marketable securities classified as available-for-sale:

Stated at cost, determined primarily by the moving-average method.

(iv) Valuation of inventories

• Merchandise and supplies:

Merchandise and supplies of domestic consolidated subsidiaries are stated at the lower of cost or net selling value, determined primarily by the first-in, first-out method. Merchandise and supplies of foreign consolidated subsidiaries are stated at the lower of cost or market value, determined by the first-in, first-out method.

• Finished goods, work in process and raw materials:

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

(v) Derivatives:

Stated at fair value.

ii) Depreciation and amortization of major depreciable and amortizable assets

(i) Property, plant and equipment (excluding leased assets):

The Group primarily uses the straight-line method.

(ii) Intangible assets (excluding leased assets):

The Group mainly uses the straight-line method.

(iii) Leased assets:

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

iii) Reserves

(i) Allowance for doubtful accounts:

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

(ii) Provision for bonuses:

In order to cover payment of bonuses to employees, the Company and its domestic consolidated subsidiaries set up reserves in the amount of estimated bonuses, which are attributable to the corresponding fiscal year.

(iii) Provision for directors' bonuses:

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

(iv) Liability for directors' retirement benefits:

In order to cover payment of retirement benefits to directors, audit & supervisory board members and corporate officers of certain consolidated subsidiaries, the amount that would be required if all directors, audit & supervisory board members and corporate officers retired is recorded at the balance sheet date pursuant to the retirement benefit regulations for executive directors, retirement benefit regulations for audit & supervisory board members, and retirement benefit regulations for corporate officers (internal regulations).

(v) Allowance for investment loss:

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

iv) Principal methods of hedge accounting

(i) Methods of hedge accounting:

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

(ii) Hedging instruments and hedged items:

Hedging instruments: Currency exchange forward contracts, interest rate swaps and foreign currency deposits

Hedged items: Assets and liabilities denominated in foreign currencies, forecasted foreign currency transactions and long-term debt

(iii) Hedging policies:

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

(iv) Evaluation of effectiveness of hedges:

a. Currency exchange forward contracts and foreign currency deposits:

Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are the same currencies, and changes in the cash flow caused by foreign exchange rate fluctuations are expected to be completely offset.

b. Interest rate swaps:

Evaluation of the effectiveness of hedges is omitted as hedging instruments and hedged items are under the same terms and conditions, and changes in the cash flow are expected to be completely offset from the start of hedging activities onward.

v) Amortization of goodwill and negative goodwill

Goodwill and negative goodwill are amortized by the straight-line method over a period of 5 to 20 years.

vi) Other

(i) Accounting method of retirement benefits:

In order to cover payments of retirement benefits to employees, the net amount after deducting plan assets from retirement benefit obligations is recognized as net defined benefit liability (net defined benefit asset, in the event plan assets exceed retirement benefit obligations) based on the estimated amount as of the current fiscal year end.

a. Methods of attributing estimated retirement benefits to accounting periods

When calculating retirement benefit obligations, the benefit formula is used to attribute estimated benefits to the period through the end of the current fiscal year.

b. Recognition of actuarial gains and losses, prior service costs, and transitional obligations

Actuarial gains and losses are amortized in the succeeding years by the straight-line method over a certain number of years equal to or less than the average remaining service period of employees (5–20 years) at the time of occurrence.

Prior service costs are amortized by the straight-line method over a certain number of years equal to or less than the average remaining service period of employees (5–23 years) at the time of occurrence.

Transitional obligations are amortized over 5 to 15 years.

(ii) Accounting method for consumption taxes:

Consumption taxes are excluded from revenues and expenses.

**2. Notes regarding Changes in Method of Presentation**

(Consolidated Balance Sheet)

In the previous fiscal year, “in-process research and development” was included in “other” under “Intangible assets.” However, this item is now separately presented due to its increased materiality. The amount of “in-process research and development” in the previous fiscal year was ¥33,106 million.

(Consolidated Statement of Income)

In the previous fiscal year, “gain on change in equity interest” was included in “other” under “extraordinary income.” However, this item is now separately presented due to its increased materiality.

The amount of “gain on change in equity interest” in the previous fiscal year was ¥124 million.

**3. Notes regarding Additional Information**

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

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015. Under these acts, the corporate income tax rates, etc. are to be changed effective from the fiscal year beginning on or after April 1, 2015.

As a result, the effective statutory tax rates to calculate deferred tax assets and deferred tax liabilities were changed from 35.6% to 33.0% for temporary differences that are expected to be recovered or settled in the fiscal year beginning on January 1, 2016, and from 35.6% to 32.2% for temporary differences that are expected to be recovered or settled in the fiscal years beginning on or after January 1, 2017.

Due to these revisions, deferred tax assets (net amount after deducting deferred tax liabilities) decreased by ¥628 million, income taxes-deferred (expense) increased by ¥2,559 million, unrealized gain on available-for-sale securities (credit balance in net assets) increased by ¥1,228 million, remeasurements of defined benefit plans (credit balance in net assets) increased by ¥697 million and deferred gain on derivatives under hedge accounting (credit balance in net assets) increased by ¥4 million.

**4. Notes regarding Consolidated Balance Sheet****(1) Assets Pledged as Collateral and Secured Liabilities**

		(Millions of yen)
Cash and deposits	¥	64
Buildings and structures		448
Machinery and equipment		2,087
Land		596
Total	¥	3,196

The properties above are pledged as collateral for short-term borrowings of ¥427 million and long-term debt of ¥1,545 million.

(2) Accumulated Depreciation on Property, Plant and Equipment                      ¥600,456 million

**(3) Contingent Liabilities**

The Company guarantees the obligations of the following companies to financial and other institutions:

		(Millions of yen)
Nanjing Otsuka Techbond Techno Co., Ltd.	¥	1,032
Changzhou Otsuka Econ Techno Co., Ltd.		410
Otsuka OPV Co., Ltd.		236
Marukita Furniture Center		150
Other		14
Total	¥	1,844

(4) Trade Notes Discounted    ¥470 million

**5. Notes regarding Consolidated Statement of Income**

Net sales include ¥66,049 million recognized as revenue from up-front licensing payments received.

**6. Notes regarding Consolidated Statement of Changes in Net Assets****(1) Total Number of Issued Shares**

Class of shares	Number of shares as of January 1, 2015	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2015
Common stock	557,835 thousand shares	-	-	557,835 thousand shares

**(2) Number of Shares of Treasury Stock**

Class of shares	Number of shares as of January 1, 2015	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2015
Common stock	16,037 thousand shares	0 thousand shares	52 thousand shares	15,985 thousand shares

Notes:

- The 0-thousand-share increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.
- The 52-thousand-share decrease in the number of shares of treasury stock is due to the exercise of stock options.

## (3) Dividends

## i) Payment of dividends

Resolution	Class of shares	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 13, 2015	Common stock	¥21,671 million	¥40	December 31, 2014	March 30, 2015
Meeting of the Board of Directors held on August 7, 2015	Common stock	¥27,092 million	¥50	June 30, 2015	September 7, 2015

## ii) Dividends whose record date is in the current fiscal year but whose effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends	Dividends per share	Record date	Effective date
Meeting of the Board of Directors held on February 12, 2016	Common stock	Retained earnings	¥27,092 million	¥50	December 31, 2015	March 31, 2016

## 7. Notes regarding Financial Instruments

## (1) Matters Concerning Conditions of Financial Instruments

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

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

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

## (2) Fair Value of Financial Instruments

Carrying amounts of financial instruments, fair values of financial instruments and their differences as of December 31, 2015 are as follows. Financial instruments whose fair value cannot be reliably determined are excluded (see Note 2 below).

(Millions of yen)

	Carrying amount	Fair value (Note 1)	Difference
i) Cash and deposits	439,377	439,377	-
ii) Notes and accounts receivable-trade Allowance for doubtful accounts (*1)	379,459 (662)		
	378,796	378,796	-
iii) Marketable and investment securities (Note 2)			
Investments in unconsolidated subsidiaries and affiliates	40,752	118,017	77,264
Held-to-maturity securities	35,934	36,004	69
Available-for-sale securities	187,625	187,625	-
Total Assets	1,082,487	1,159,821	77,334



## 9. Other Notes

(Business Combinations)

Business combinations due to acquisition

### (1) Overview of Business Combination

#### i) Name of company acquired and nature of business

Name of company acquired: Avanir Pharmaceuticals, Inc.

Nature of business: Research, development, manufacturing and marketing of pharmaceutical products

#### ii) Rationale for business combination

Avanir Pharmaceuticals, Inc. (“Avanir”) is a biopharmaceutical venture company specializing in the area of central nervous system (“CNS”) diseases. It was founded in 1988 in Southern California and now employs approximately 500 people. Avanir developed and launched NUEDEXTA<sup>®</sup> (dextromethorphan hydrobromide/quinidine sulfate) 20 mg/10 mg capsules in the U.S. in February 2011 as the world’s first and only approved treatment for the PBA. Avanir markets NUEDEXTA in the U.S. through its own sales organization of over 300 sales representatives, 150 of whom are medical representatives hired to accelerate the continued growth of NUEDEXTA for PBA.

The company’s pipeline includes programs in Alzheimer-type dementia, Parkinson’s disease, migraine, and other CNS indications. The promising new chemical entity AVP-786, with a target indication for behavioral disorders (agitation) associated with Alzheimer-type dementia, is being prepared to enter Phase III clinical trials.

The acquisition of Avanir will bring Otsuka Pharmaceutical Co., Ltd. (“Otsuka Pharmaceutical”) three distinct values: 1) NUEDEXTA, created to treat the under-recognized neurologic disease PBA; 2) the late-stage investigational compound AVP-786 in clinical development to treat agitation associated with Alzheimer-type dementia; and 3) Avanir’s clinical development and commercial expertise in neurologic diseases, which complements Otsuka Pharmaceutical’s capabilities in psychiatric diseases. These will accelerate Otsuka Pharmaceutical’s existing expansion strategy in the neurologic area, widening the overall CNS portfolio, inclusive of the psychiatric and neurologic areas, supporting both short- and medium-term growth.

This acquisition is consistent with the Otsuka Group’s investment philosophy: invest in companies and businesses with which we can share a common management philosophy, human resources, products and technology to enhance corporate value, and invest with a long-term perspective. The acquisition is based on Otsuka’s central concepts of creativity and proof through execution.

#### iii) Date of business combination

January 13, 2015 (U.S. Eastern Standard Time)

#### iv) Legal type of business combination

All-cash tender offer

#### v) Name of resulting entity

Avanir Pharmaceuticals, Inc.

#### vi) Share of voting rights acquired

100%

#### vii) Main rationale for selecting the acquiring entity

The acquisition company (Bigarade Corporation), a subsidiary of the Company, has acquired all shares of Avanir Pharmaceuticals, Inc. for cash.

### (2) Period of Performance of the Acquired Company Included in the Consolidated Financial Statements

January 13, 2015 to December 31, 2015

### (3) Total Acquisition Price and Breakdown

Acquisition price: US\$3,507 million in cash

Direct costs related to the acquisition: US\$20 million



(Translation)

(4) Amount and Reason for Recognition of Goodwill Arising from the Acquisition, Amortization Method and Period of Goodwill

- i) Amount of goodwill recognized  
¥160,633 million
- ii) Reason for recognition of goodwill  
Since the acquisition price exceeded the net amount of acquired assets and liabilities, the exceeding amount was recognized as goodwill.
- iii) Amortization method and period of goodwill  
Straight-line method over 20 years

(5) The Amount and Major Breakdown of Assets Acquired and Liabilities Assumed on the Date of the Business Combination

		(Millions of yen)
Current assets	¥	41,309
Noncurrent assets		299,710
Total assets		<u>341,019</u>
Current liabilities		11,013
Long-term liabilities		76,813
Total liabilities	¥	<u>87,826</u>

(6) Amount Allocated to Intangible Assets other than Goodwill, its Breakdown by Major Types, and Weighted Average Amortization Period by Major Types

- i) Amount allocated to intangible assets  
¥298,671 million
- ii) Breakdown by major types  
Distribution rights and others: ¥96,449 million  
In-process research and development: ¥202,221 million
- iii) Weighted average amortization period by major types  
Distribution rights and others: 12 years  
In-process research and development: Planned to be amortized over the expected period of use.

(7) Estimated Amount and Calculation Method of the Impact on the Consolidated Statement of Income for the Current Fiscal Year Assuming that the Business Combination had been Completed at the Beginning of the Current Fiscal Year

Omitted due to immateriality.

(Translation)

**Balance Sheet**  
(As of December 31, 2015)

(Millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>200,860</b>	<b>Current liabilities</b>	<b>17,025</b>
Cash and deposits	67,328	Lease obligations	35
Marketable securities	100,000	Accounts payable-other	1,108
Supplies	48	Accrued expenses	51
Prepaid expenses	267	Income tax payable	89
Short-term loans receivable from subsidiaries and affiliates	31,924	Deposits received from subsidiaries and affiliates	15,635
Income taxes receivable	870	Provision for bonuses	21
Other current assets	420	Provision for directors' bonuses	39
<b>Noncurrent assets</b>	<b>744,729</b>	Other current liabilities	42
<b>Property, plant and equipment</b>	<b>371</b>	<b>Long-term liabilities</b>	<b>1,841</b>
Buildings	28	Lease obligations	107
Structures	45	Deferred tax liabilities	1,734
Furniture and fixtures	159	<b>Total Liabilities</b>	<b>18,867</b>
Leased assets	136	<b>Net Assets</b>	
<b>Intangible assets</b>	<b>820</b>	<b>Shareholders' equity</b>	<b>923,071</b>
Software	770	<b>Common stock</b>	<b>81,690</b>
Trademark rights	50	<b>Capital surplus</b>	<b>810,216</b>
<b>Investments and other assets</b>	<b>743,537</b>	Additional paid-in capital	731,816
Investment securities	18,754	Other capital surplus	78,400
Stocks of subsidiaries and affiliates	724,720	<b>Retained earnings</b>	<b>78,426</b>
Other assets	62	Other retained earnings	78,426
		Retained earnings brought forward	78,426
		<b>Treasury stock, at cost</b>	<b>(47,262)</b>
		<b>Valuation and translation adjustments</b>	<b>3,651</b>
		Unrealized gain on available-for-sale securities	3,651
		<b>Total Net Assets</b>	<b>926,723</b>
<b>Total Assets</b>	<b>945,590</b>	<b>Total Liabilities and Net Assets</b>	<b>945,590</b>

(Translation)

**Statement of Income**  
(From January 1, 2015 to December 31, 2015)

(Millions of yen)

Item	Amount	
<b>Operating revenues</b>		<b>7,396</b>
<b>Operating expenses</b>		<b>6,566</b>
<b>Operating income</b>		<b>829</b>
<b>Non-operating income</b>		
Interest and dividend income	682	
Business consignment fees	822	
Other	121	
		<b>1,626</b>
<b>Non-operating expenses</b>		
Interest expense	4	
Commission fee	7	
		<b>12</b>
<b>Ordinary income</b>		<b>2,444</b>
<b>Extraordinary loss</b>		
Loss on retirement of noncurrent assets	0	<b>0</b>
<b>Income before income taxes</b>		<b>2,443</b>
<b>Income taxes-current</b>		<b>8</b>
<b>Net income</b>		<b>2,435</b>

(Translation)

**Statement of Changes in Net Assets**

(From January 1, 2015 to December 31, 2015)

(Millions of yen)

	Shareholders' equity							
	Common stock	Capital surplus			Retained earnings		Treasury stock, at cost	Total shareholders' equity
		Additional paid-in capital	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
<b>Beginning balance as of January 1, 2015</b>	<b>81,690</b>	<b>731,816</b>	<b>78,445</b>	<b>810,261</b>	<b>124,755</b>	<b>124,755</b>	<b>(47,415)</b>	<b>969,292</b>
<b>Changes in the year</b>								
Dividends					(48,764)	(48,764)		(48,764)
Purchase of treasury stock							(1)	(1)
Disposal of treasury stock			(45)	(45)			155	110
Net income					2,435	2,435		2,435
Net changes other than shareholders' equity								
<b>Total changes in the year</b>	<b>-</b>	<b>-</b>	<b>(45)</b>	<b>(45)</b>	<b>(46,328)</b>	<b>(46,328)</b>	<b>153</b>	<b>(46,220)</b>
<b>Ending balance as of December 31, 2015</b>	<b>81,690</b>	<b>731,816</b>	<b>78,400</b>	<b>810,216</b>	<b>78,426</b>	<b>78,426</b>	<b>(47,262)</b>	<b>923,071</b>

	Valuation and translation adjustments		Total net assets
	Unrealized gain on available-for-sale securities	Total valuation and translation adjustments	
<b>Beginning balance as of January 1, 2015</b>	<b>1,706</b>	<b>1,706</b>	<b>970,999</b>
<b>Changes in the year</b>			
Dividends			(48,764)
Purchase of treasury stock			(1)
Disposal of treasury stock			110
Net income			2,435
Net changes other than shareholders' equity	1,944	1,944	1,944
<b>Total changes in the year</b>	<b>1,944</b>	<b>1,944</b>	<b>(44,276)</b>
<b>Ending balance as of December 31, 2015</b>	<b>3,651</b>	<b>3,651</b>	<b>926,723</b>



(Translation)

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

##### Number of Shares of Treasury Stock

Class of shares	Number of shares as of January 1, 2015	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares as of December 31, 2015
Common stock	16,037 thousand shares	0 thousand shares	52 thousand shares	15,985 thousand shares

Notes:

1. The 0-thousand-share increase in the number of shares of treasury stock is due to the purchase of shares less than one share unit.
2. The 52-thousand-share decrease in the number of shares of treasury stock is due to the exercise of stock options.

#### 5. Notes regarding Income Taxes

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

Deferred tax assets		(Millions of yen)
Provision for bonuses	¥	9
Accrued directors' salaries		26
Accrued enterprise tax		28
Accrued business office taxes		1
Loss on valuation of stocks of subsidiaries and affiliates		127
Loss on extinguishment of tie-in shares		185
Adjustment of tax-basis book value of stocks of subsidiaries and affiliates		115
Tax loss carryforwards		5,777
Subtotal		6,272
Valuation allowance		(6,272)
Total of deferred tax assets	¥	-
Deferred tax liabilities		(Millions of yen)
Unrealized gain on available-for-sale securities	¥	(1,734)
Total of deferred tax liabilities		(1,734)
Net deferred tax liabilities	¥	(1,734)

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

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015. Under these acts, the corporate income tax rates, etc. are to be changed effective from the fiscal year beginning on or after April 1, 2015.

As a result, the effective statutory tax rates to calculate deferred tax assets and deferred tax liabilities were changed from 35.6% to 33.0% for temporary differences that are expected to be recovered or settled in the fiscal year beginning on January 1, 2016, and from 35.6% to 32.2% for temporary differences that are expected to be recovered or settled in the fiscal years beginning on or after January 1, 2017.

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

## 6. Notes regarding Related Party Transactions

### (1) Subsidiaries

Type	Company name	Percentage owned	Relationship		Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
			Interlocking directors and audit & supervisory board members	Business relationship				
Subsidiary	Otsuka Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct  (Held by the subsidiary) None	4	Investment in stock	Receipt of management fees (Note 1)	2,177	Accounts payable-other  Accrued expenses Short-term loans receivable from subsidiaries and affiliates (Note 3)  Other current assets (Accrued interest)  Other current assets (Account receivable-other)	210  31  30,487   1  65
					Salaries of seconded employees (Note 2)	1,023		
					Borrowing and lending of funds (Note 3)	4,114		
					Lending of funds	50,000		
					Collection of funds	50,000		
					Receipt of interest (Note 4)	126		
					Payment of interest (Note 4)	1		
Business consignment fees (Note 5)	430							
Subsidiary	Taiho Pharmaceutical Co., Ltd.	(Held by the Company) 100.0% direct  (Held by the subsidiary) None	-	Investment in stock	Borrowing of funds (Note 3) Payment of interest (Note 4)	13,911 2	Deposits received from subsidiaries and affiliates	13,650

Terms and conditions of transactions and policy on determination thereof

Notes:

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

(Translation)

(2) Officers and Significant Individual Shareholders, etc.

Type	Company name or individual's name	Percentage owned	Relationship	Transaction details	Transaction amount (Millions of yen)	Item	Balance as of fiscal year end (Millions of yen)
Audit & Supervisory Board Member	Hiroshi Sugawara	(Held by the Audit & Supervisory Board Member) 0.0% direct	Outside Audit & Supervisory Board Member of the Company	Disposal of treasury stock in accordance with exercising stock option (Note 1)	11	-	-
Close family member of Director	Yujiro Otsuka	(Held by the close family member of Director) 0.0% direct	Close family member of Director of the Company	Payment of consulting fee (Note 2)	24	-	-

Terms and conditions of transactions and policy on determination thereof

Notes:

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

**7. Notes regarding Per Share Information**

- |                          |           |
|--------------------------|-----------|
| (1) Net Assets per Share | ¥1,710.29 |
| (2) Net Income per Share | ¥4.49     |



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

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

February 9, 2016

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

Deloitte Touche Tohmatsu LLC

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

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

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

Pursuant to the fourth paragraph of Article 444 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of December 31, 2015 of Otsuka Holdings Co., Ltd. (the "Company") and consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from January 1, 2015 to December 31, 2015, and the related notes.

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

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

**Auditor's Responsibility**

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

(Translation)

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

**Audit Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. and its consolidated subsidiaries as of December 31, 2015, and the results of their operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**

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

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

**Independent Auditor's Report (Financial Statements)**

(TRANSLATION)

**INDEPENDENT AUDITOR'S REPORT**

February 9, 2016

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

Deloitte Touche Tohmatsu LLC

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

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

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

Pursuant to the first item, second paragraph of Article 436 of the Companies Act, we have audited the financial statements, namely, the balance sheet as of December 31, 2015 of Otsuka Holdings Co., Ltd. (the "Company"), and the related statements of income and changes in net assets for the eighth fiscal year from January 1, 2015 to December 31, 2015, and the related notes and the accompanying supplemental schedules.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

(Translation)

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

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

**Audit Opinion**

In our opinion, the financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of Otsuka Holdings Co., Ltd. as of December 31, 2015, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in Japan.

**Interest**

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

The above represents a translation, for convenience only, of the original report issued in the Japanese language and "the accompanying supplemental schedules" referred to in this report are not included in the attached financial documents.

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

### **AUDIT REPORT**

Regarding the performance of duties by the Directors for the 8th Fiscal Year (for FY2015) from January 1, 2015 to December 31, 2015, the Audit & Supervisory Board hereby submits its audit report, which has been prepared through discussions based on the audit report prepared by each Audit & Supervisory Board Member.

#### 1. Auditing Methods and Content of Audits

- (1) The Audit & Supervisory Board established the auditing policies, allocation of duties, and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding the status of his or her audit and the results thereof, as well as reports from the Directors and independent auditors regarding performance of their duties, and sought explanations as necessary.
- (2) In accordance with the auditing standards for Audit & Supervisory Board Members determined by the Audit & Supervisory Board, the auditing policies and audit plan for the relevant fiscal year and the division of work, each Audit & Supervisory Board Member endeavored to collect information and established auditing circumstances through communication with Directors, the Internal Audit Department and other employees, and audits were implemented as follows:
  - i) Each Audit & Supervisory Board Member attended the meeting of the Board of Directors and other important meetings to receive reports regarding performance of duties from Directors and other employees, and sought explanations as necessary. Each Audit & Supervisory Board Member also inspected the significant approved documents and examined the status of operations and conditions of assets at its head office and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors, Audit & Supervisory Board Members, and other relevant personnel of the subsidiaries, and received business reports from subsidiaries as necessary.
  - ii) With respect to contents of resolutions of the Board of Directors regarding the development of the system to ensure that the performance of duties by the Directors conforms to the laws and regulations and the Articles of Incorporation and other systems that are stipulated in Article 100 (1) and (3) of the Ordinance for Enforcement of the Companies Act as being necessary to ensure appropriateness of operations of a joint stock company and business group comprising its subsidiaries, and also the systems (internal control systems) developed based on such resolutions, which are described in the Business Report, we periodically received reports from the Directors and other relevant personnel, sought explanations as necessary and made opinions, on the establishment and management of such systems.
  - iii) Furthermore, we monitored and verified whether the independent auditors maintained their independence and implemented appropriate audits, and received reports from the independent auditors regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the independent auditors that “the system for ensuring that duties are performed properly” (matters set forth in each Item of Article 131 of the Corporate Accounting Rules) is organized in accordance with the “product quality management standards regarding audits” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the Business Report and the accompanying supplementary schedules, the financial statements (Balance Sheets, Statements of Income, Statements of Changes in Net Assets, and Notes regarding Financial Statements), supplementary schedules thereof, as well as the Consolidated Financial Statements (Consolidated Balance Sheets, Consolidated Statement of Income, Consolidated Statement of Changes in Net Assets and Notes regarding Consolidated Financial Statements) related to the relevant fiscal year.

2. Results of Audit

- (1) Results of Audit of the Business Report, etc.
  - i) In our opinion, the Business Report and the accompanying supplementary schedules are in accordance with the related laws and regulations and the Articles of Incorporation, and fairly represent the Company's condition.
  - ii) With regard to the performance of duties by the Directors, we have found no evidence of wrongful action or material violation of related laws and regulations, nor of any violation with respect to the Articles of Incorporation.
  - iii) In our opinion, resolutions of the Board of Directors for internal control systems are fair and reasonable. And there is no problem with the contents of the Business Report and the performance of duties by the Directors with respect to internal control systems.
- (2) Results of Audit of Financial Statements and the Accompanying Supplementary Schedules  
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.
- (3) Results of Audit of Consolidated Financial Statements  
In our opinion, the methods and results employed and rendered by the independent auditors, Deloitte Touche Tohmatsu LLC, are fair and reasonable.

February 11, 2016

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

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