# ANNUAL REPORT 2010

For the year ended March 31, 2010

Otsuka

Otsuka-people creating new products for better health worldwide

Otsuka Holdings Co., Ltd.

# Corporate Philosophy

## Otsuka-people creating new products for better health worldwide

**These words embody our commitment to:**

- Creating our own unique and innovative products
- Improving human health and well-being
- Contributing to the lives of people worldwide

On July 8 2008, Otsuka Holdings Co., Ltd. was established as a holding company for the Otsuka Group.

In keeping with the corporate philosophy and Otsuka's mottos "*JISSHO*" (Proof through Execution) and "*SOZOSEI*" (Creativity), we strive to utilize our Group's unique assets and skills to develop differentiating scientific solutions which contribute to the lives of people worldwide in the form of innovative and creative products ranging from pharmaceuticals to consumer products.

Otsuka Group is striving to cultivate a culture and a dynamic corporate climate reflecting our vision as a health care company. As such we are dedicated to achieving global sustainability, to our relationships with local communities and to the protection of the natural environment.

# Contents

# *JISSHO* and *SOZOSEI*

(Proof through Execution) (Creativity)

## Monuments embodying the Otsuka Group Philosophy

### Giant Tomato Trees / Bent Giant Cedar / Floating Stone

These three monuments embody the Otsuka Group philosophy, reminding all who visit the birthplace of the Otsuka Group in Tokushima of the importance of being creative and open-minded to new ideas.

Disclaimer

This annual report summarizes the operating and financial results of Otsuka Holdings Co., Ltd. and its subsidiaries and affiliates for fiscal 2009 (April 1, 2009 to March 31, 2010). It also includes information regarding selected material events which occurred between April 1, 2010 and the date of publication. This annual report contains forward-looking statements pertaining to plans, projections, strategies, and prospects for the Otsuka Group. These statements are based upon current analysis and belief in light of the information available on the issuing date of this annual report. As such, actual results may differ subject to risks and uncertainties that may affect Otsuka Group operations.

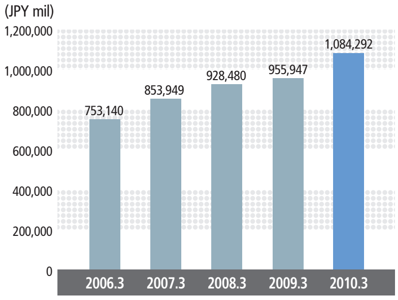
Note: The information regarding pharmaceutical products (including products under development) is not intended for any kind of advertising, promotion or medical advice.

# Financial Highlights

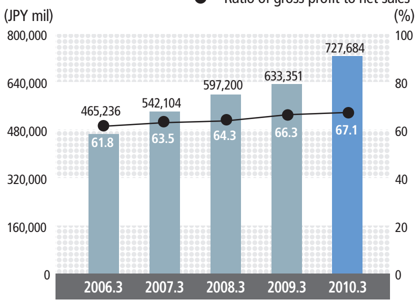
| | Millions of yen | | | | | Millions of U.S. dollars (Note 1) |
|---|---|---|---|---|---|---|
| | 2006.3 | 2007.3 | 2008.3 | 2009.3 | 2010.3 | 2010.3 |
| Net sales | ¥753,140 | ¥853,949 | ¥928,480 | ¥955,947 | ¥1,084,292 | $11,654 |
| Operating income | 58,850 | 91,490 | 118,254 | 91,520 | 98,481 | 1,058 |
| Net income | 26,594 | 52,874 | 61,865 | 47,084 | 67,443 | 725 |
| Per share of common stock-basic (Yen and U.S. dollars) | 1,980 | 4,009 | 4,693 | 2,727 | 143.50 | 1.54 |
| Per share of common stock-diluted (Yen and U.S. dollars) | 1,971 | 4,003 | 4,690 | 2,725 | 143.47 | 1.54 |
| Dividends per share (Yen and U.S. dollars) | 75 | 150 | 300 | 250 | 12.50 | 0.13 |
| Capital expenditures | 28,301 | 35,304 | 36,852 | 35,438 | 62,456 | 671 |
| Depreciation and amortization | 29,444 | 26,682 | 32,283 | 40,296 | 46,626 | 501 |
| R&D expenses | 103,704 | 105,256 | 101,804 | 135,900 | 151,849 | 1,632 |
| Total assets | 881,134 | 982,114 | 1,033,976 | 1,298,790 | 1,458,376 | 15,675 |
| Net assets (Note 2) | 392,171 | 667,781 | 731,782 | 863,816 | 948,457 | 10,194 |
| Return on equity | 7.1% | 12.6% | 13.0% | 7.2% | 7.7% | 7.7% |
| Equity ratio | 44.5% | 45.9% | 48.6% | 62.3% | 64.2% | 64.2% |
| Number of shares issued | 13,582,462 | 13,582,462 | 13,582,462 | 23,518,869 | 519,156,817 | 519,156,817 |
| Number of employees | 18,448 | 19,498 | 20,036 | 22,928 | 24,589 | 24,589 |

*Figures up to 2008 represent the consolidated results of Otsuka Pharmaceutical Co., Ltd.
*On June 30, 2009, Otsuka Holdings Co., Ltd. conducted a one-for-twenty stock split.
Notes:
1. Financial information in U.S. dollars has been converted at US$1=¥93.04, the rate of March 31, 2010.
2. From March 2007, minority interests have been included in net assets.

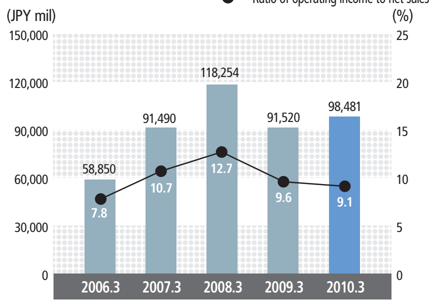
## Net Sales



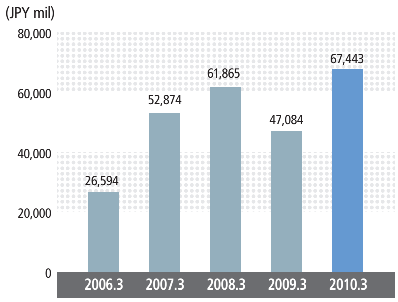

## Gross Profit



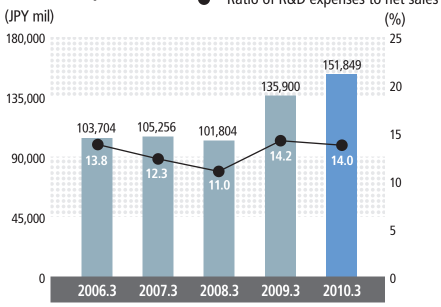

## Operating Income



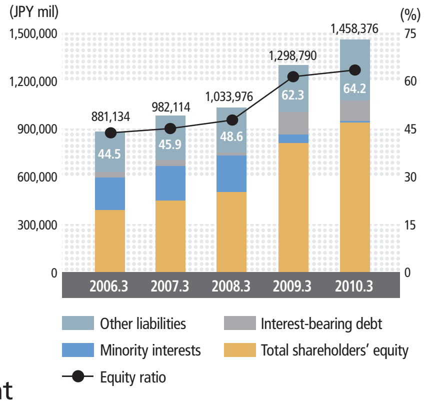

## Net Income



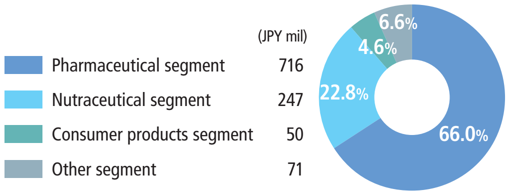

## R&D Expenses



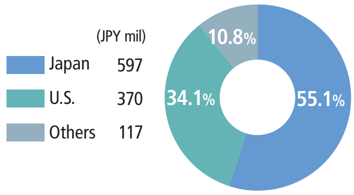

## Composition of Total Capital Employed

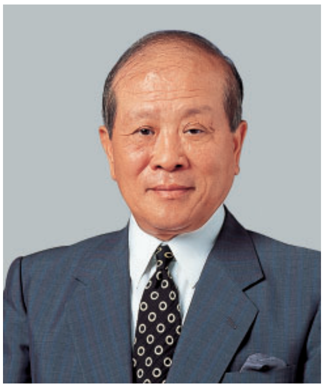



## Sales by business segment




## Sales by geographical segment





Chairman, Representative Director
Akihiko Otsuka

President and Representative Director, CEO
Tatsuo Higuchi

Vice Chairman, Representative Director
Kenichiro Otake

# Towards a Renewed Stage of Growth through *JISSHO* (Proof through Execution) and *SOZOSEI* (Creativity)

Dear shareholders,

As I outline to you the activities of Otsuka Holdings in this second term business report, I would also like to express my sincere appreciation for your continued understanding and support.

Consistent with efforts initiated during its first business term, Otsuka Holdings continued to reorganize its shareholdings in the fiscal year under review through an exchange of shares with Otsuka Chemical Co., Ltd. in July 2009. As a result, the Otsuka Group consisted of 77 companies as of March 31, 2010, including 65 consolidated subsidiaries and 12 affiliates consolidated under the equity method with a combined number of 24,589 employees worldwide. As a truly global company, the Otsuka Group has a network of 145 subsidiaries, affiliates and related companies with about 39,000 employees worldwide.

Throughout the Otsuka Group's worldwide network, our companies are committed to taking on the challenge of improving human health worldwide. In this regard, the Group is active in two broad business segments: pharmaceuticals, including a full range of activities from diagnosis to treatment of medical disorders, and nutraceuticals* for the maintenance and improvement of daily health.

In meeting the challenge of discovering and developing original technologies and solutions, the Otsuka Group has established a proven global track record for the delivery of effective and beneficial products and services.

The main product in our pharmaceutical business is *ABILIFY*, the world's first antipsychotic agent that works as a dopamine partial agonist. *ABILIFY* has been approved for sale and use in more than 70 countries and regions, enabling patients worldwide to recover and return to a fulfilling life in society. Based on the concept of "a drink with the same composition as 'sweat' to supplement the electrolytes and water lost from the body," the Otsuka Group also markets *Pocari Sweat* in 16 countries and regions globally. A long-running top-seller, *Pocari Sweat* this year celebrates its 30th anniversary.

As a corporate group that is seeking to secure sustained growth, we recognize the critical need to become a "company of true craftsmanship," skilled in the art of creating unique and unequaled products. Based on our corporate philosophy "Otsuka-people creating new products for better health worldwide," we strive to utilize our Group's unique assets and skills to develop innovative and creative products which contribute to the healthy lives of people worldwide.

As we work towards achieving our aspirations and goals, we ask for your ongoing understanding and support.

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

Note: "Nutraceuticals" is a combination of the words "nutrition" and "pharmaceuticals."

## Could you please summarize Otsuka Holdings’ performance in its second year of operations?

Amid considerable uncertainty with respect to the future of the worldwide economy, Otsuka Holdings confronted difficult operating conditions throughout its second business term. In addition to public policy initiatives aimed at reducing medical expenses, implemented most notably in the United States and Japan, the difficult business climate was attributable to deteriorating employment conditions and contractions in market scale.

Despite these unfavorable conditions, the Group delivered a sound performance. Consolidated net sales came to ¥1,084.2 billion, a 13.4% increase year on year. Operating income climbed 7.6% to ¥98.4 billion. While ordinary income rose 13.5% to ¥109 billion, net income surged 43.2% to ¥67.4 billion.

On a geographical basis, sales in Japan accounted for 55% of the Group net sales. Net sales in the pharmaceutical segment increased by 5.6% to ¥715.9 billion and continue to drive the Group’s overall performance. Net sales in the nutraceutical segment, consumer products segment and other segment were ¥246.9 billion, ¥50.1 billion and ¥71.3 billion, respectively.

Leveraging the distinctive characteristics of each Group company, we continue to strive to develop a solid range of products in our pharmaceutical segment. As illustrated by its performance to date, the Group is steadily building a proven track record of success and excellence.


*ABILIFY*, Otsuka’s atypical antipsychotic agent

The central nervous system and oncology are positioned at the heart of the Group’s pharmaceutical business activities. Global research and development accordingly focuses on these areas. In the fiscal year under review, our pharmaceutical segment recorded an increase in both revenues and earnings on the back of contributions from Otsuka Pharmaceutical’s top products such as the antipsychotic *ABILIFY* and the antiplatelet agent *Pletaal*. Furthermore, our selective $V_2$-vasopressin receptor antagonist for treatment of hyponatremia *SAMSCA*, was successfully launched in both the U.S. and Europe.


*TS-1*, a combination granule anticancer drug

Taiho Pharmaceutical released an additional new granule formulation of its leading anticancer drug *TS-1*. *TS-1* was added to the Chinese reimbursement drug list following approval in 2009. This is one example of our efforts to strengthen our presence in China and South-East Asia.

Otsuka Pharmaceutical Factory, Japan’s leading company in the field of parenteral and clinical nutrition, commenced sales in Japan of *ELNEOPA*, the world’s first high-calorie solution formulated with five trace elements.

Children in Indonesia enjoying *Pocari Sweat*

In the nutraceutical segment, the Group is focusing its marketing activities on promoting the functional benefits of our products, both in and outside Japan, with a particular focus on Asia, where sales of *Pocari Sweat* continue to grow steadily, especially in China and Indonesia. *SOYJOY*, which is marketed in several countries in the region as well as in the U.S. is enjoying increased brand recognition and growing sales.


*SOYJOY*, a healthy bar made of whole soybean dough and dried fruits

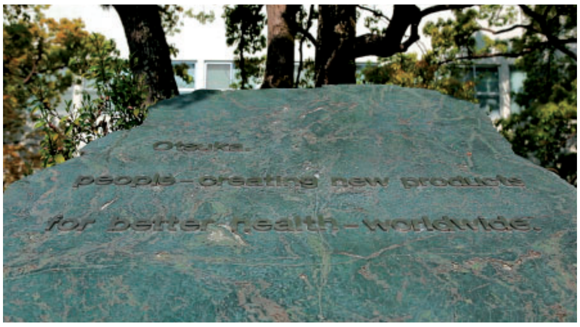
## What do you see as the Otsuka Group's core strengths?

The Otsuka Group's business goal is to consistently deliver unique products that contribute to health, a universal and commonly held theme among people throughout the world.

Our group companies strive to create unique products that address unmet medical needs or serve to create new product categories and markets. This degree of innovation is possible because each company can take full advantage of its individual characteristics and strengths under the Group's common corporate philosophy.

Sharing the technological skills and know-how held by our Group companies is a major factor in product innovation. It contributes to realizing substantial synergies across Group businesses and provides the engine that drives business growth.

Finally, our Group's strength lies in valuing transparency, diversity and open-mindedness. We respect the viewpoint of each individual and encourage our employees to question conventional wisdom, experiment with new ideas and put these ideas to the test.



The Otsuka Group's corporate philosophy engraved in a stone monument

Since the establishment of the Otsuka Group in 1921, we have always tried to find new product categories, often through trial and error. We believe that this approach is very much the cornerstone of our leading position in the field of clinical nutrition and the source of top products such as *Pocari Sweat*, *Calorie Mate* and *Oronamin C*. This approach has also led to our success in delivering world-class products in the pharmaceuticals field.

As I have mentioned, with its commitment to the universal value of "human health," the Otsuka Group has pioneered many health-related products. Our two main strategic pillars, pharmaceuticals for the treatment of medical disorders, and nutraceuticals to support maintenance and improvement of daily health, provide us with an enormous synergy potential though sharing advanced technological expertise and know-how between two businesses. We believe that realizing these synergies to the greatest extent possible will ultimately lead us to succeed in creating new markets.

At present, the Otsuka Group is pursuing new healthcare opportunities in soy-based products and medical devices. Based on our "Soylution" concept asserting that soybeans can provide a solution to the health, nutrition and environmental issues of the 21st century, we hope to share Japan's highly developed soy food culture on an international scale through a completely new class of soy-based products. In the medical devices area, we seek new treatment options partly through what we see as a convergence between pharmaceuticals and medical technology. We believe that such new approaches will result in treatment options that respond better to the needs of patients and deliver better therapeutic results than conventional therapies.

## How would you characterize the Otsuka Group's management vision?

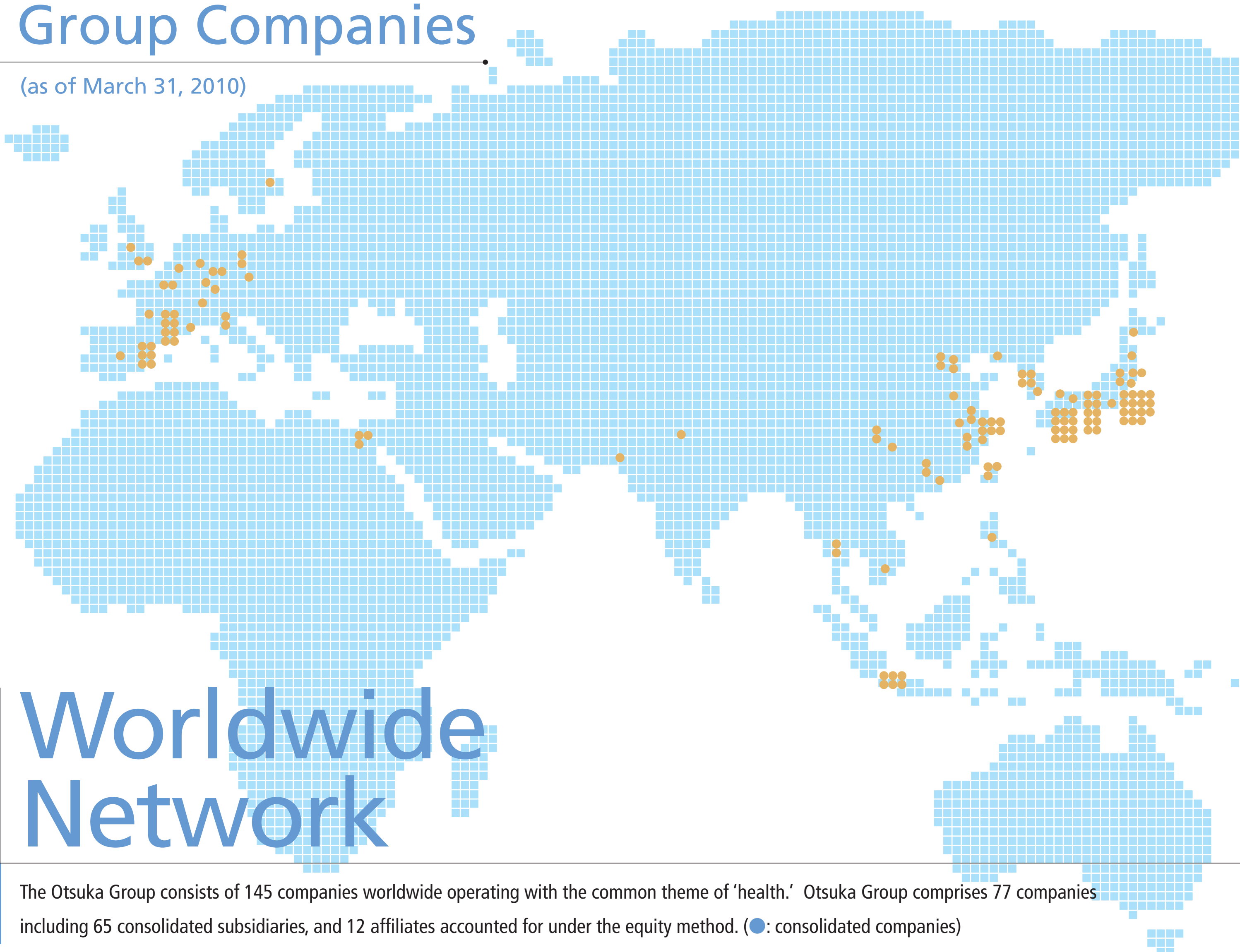
With ongoing economic globalization, we are now operating in a world where economic events and fluctuations in a single country can have a wide impact on global markets. This naturally raises the question as to what business model is most suitable to secure sustainable corporate development.

We see ourselves as a "manufactory" creating products with unique benefits, and we promote these products in a committed fashion in Japan and our global markets. We believe that this business model will enable us to keep growing while contributing to society as a whole.

*Pocari Sweat*, an ion supply drink

# Group Companies

(as of March 31, 2010)



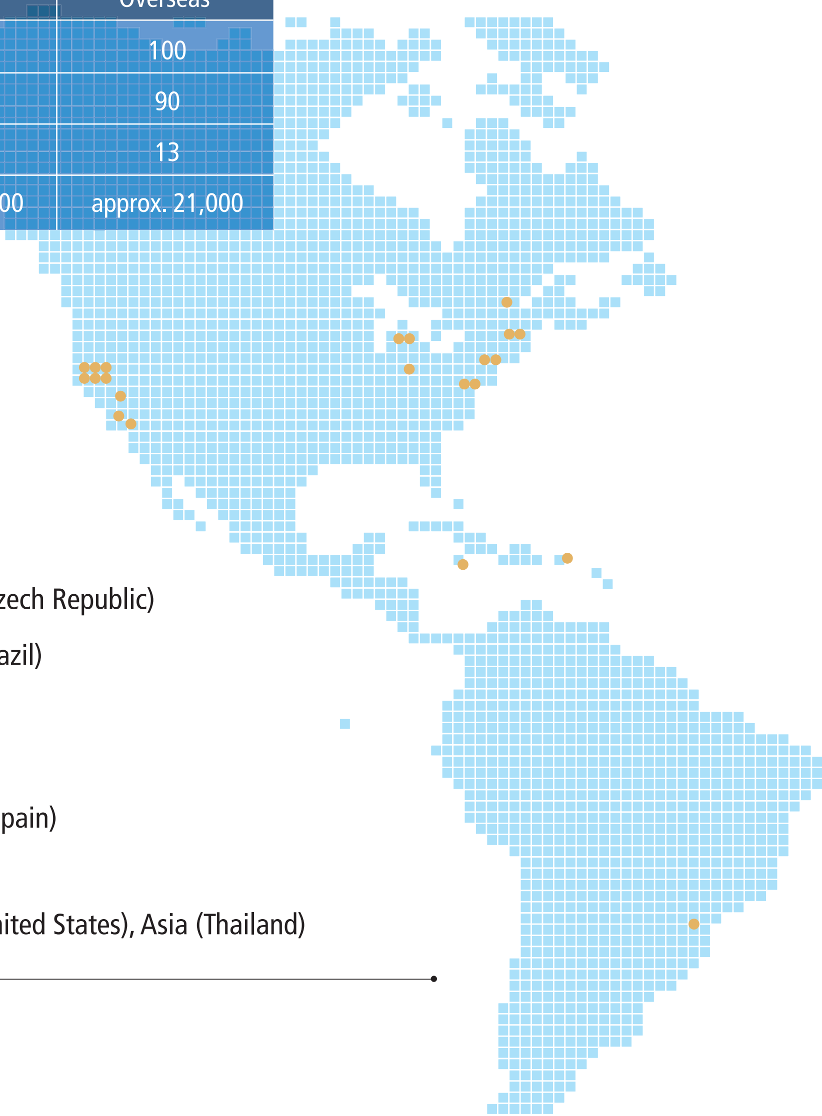
# Worldwide Network

The Otsuka Group consists of 145 companies worldwide operating with the common theme of 'health.' Otsuka Group comprises 77 companies including 65 consolidated subsidiaries, and 12 affiliates accounted for under the equity method. (●: consolidated companies)

- Otsuka Holdings Co., Ltd.
- Otsuka Pharmaceutical Co., Ltd.
- Otsuka Pharmaceutical Factory, Inc.
- Taiho Pharmaceutical Co., Ltd.
- Otsuka Warehouse Co., Ltd.
- Otsuka Chemical Co., Ltd.
- JIMRO Co., Ltd.
- EN Otsuka Pharmaceutical Co., Ltd.
- Otsuka Electronics Co., Ltd.
- Otsuka Techno Corporation
- J.O. Pharma Co., Ltd.
- Okayama Taiho Pharmaceutical Co., Ltd.
- Otsuka Packaging Industries Co., Ltd.
- Otsuka Foods Co., Ltd.
- Otsuka Chilled Foods Co., Ltd.
- MGC Otsuka Chemical Co., Ltd.
- Earth Chemical Co., Ltd.
- Earth Environmental Service Co., Ltd.
- Nippon Pharmaceutical Chemicals Co., Ltd.
- Otsuka Naruto Development Co., Ltd.
- Naruto Cruise Service Co., Ltd.
- Otsuka Ridge Co., Ltd.
- HAIESU Service Co., Ltd.
- Dairin Integrated Transportation Co., Ltd.
- Otsuka Furniture Manufacturing and Sales Co., Ltd.
- Otsuka Turftech Co., Ltd.
- Organ Technologies Inc.
- Otsuka Venex LLP
- ILS Inc. (former name, Ito Life Sciences Inc.)
- Agri Best Co., Ltd.
- Otsuka Ohmi Ceramics Co., Ltd.
- Youekidoko Saibai Kenkyusho Co., Ltd.
- Kitasato Otsuka Biomedical Assay Laboratories Co., Ltd.
- RIBOMIC Inc.
- Bean Stalk Snow Co., Ltd.
- Tokushima Vortis Co., Ltd.
- Naruto Salt Mfg. Co., Ltd.
- Tokushima Air Terminal Building Co., Ltd.
- NICHIBAN Co., Ltd.
- Big Bell Co., Ltd.
- Awa Union Transportation Co., Ltd.
- Marukita Furniture Center
- NEOS Corporation
- Yoshino Farm
- Earth Biochemical Co., Ltd.
- Otsuka America, Inc.
- Otsuka America Pharmaceutical, Inc.
- Otsuka Pharmaceutical Development & Commercialization, Inc.
- Otsuka Maryland Medicinal Laboratories, Inc.
- Cambridge Isotope Laboratories, Inc.
- CIL Isotope Separations, LLC
- Membrane Receptor Technologies LLC
- Pharmavite LLC
- Crystal Geyser Water Company
- Ridge Vineyards, Inc.
- Soma Beverage Company, LLC
- 2768691 Canada, Inc.
- CG Roxane LLC
- Oncomembrane Inc.
- Otsuka Global Insurance, Inc.
- Taiho Pharma U.S.A., Inc.
- Otsuka America Foods Inc.
- American Peptide Company, Inc.
- Otsuka Chemical do Brasil
- Galenea Corp.
- Graceland Fruit, Inc.
- Otsuka Pharmaceutical Europe Ltd.
- Otsuka Pharmaceuticals (UK) Ltd.
- Otsuka Pharmaceutical, S.A.
- Otsuka Pharma GmbH
- Otsuka Pharma Scandinavia AB
- Otsuka Pharmaceutical France SAS
- Cambridge Isotope Laboratories (Europe), GmbH
- Euriso-Top GmbH
- Advanced Biochemical Compounds, GmbH

Number of operations and employees of Otsuka Group

| | Worldwide | Japan | Overseas |
|---|---|---|---|
| Companies | 145 | 45 | 100 |
| Factories | 137 | 47 | 90 |
| Research Institutes | 46 | 33 | 13 |
| Employees | approx. 39,000 | approx. 18,000 | approx. 21,000 |



## History of Otsuka's global business expansion

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

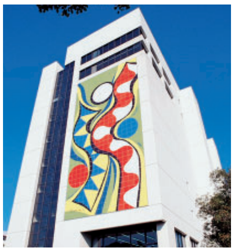
- M-fold Biotech, GmbH
- Euriso-Top S.A.S.
- Nutrition & Santé SAS
- Nutrition & Sante Iberia SL
- Nardobel SAS
- Nutrition & Soja SAS
- Laboratoires Dietetique et Sante SAS
- Cerealpes SAS
- Nutrition & Sante Italia SpA
- Sanutri AG
- Nutrition & Sante Benelux SA
- Hebron S.A.
- ALMA S.A.
- Otsuka Frankfurt Research Institute GmbH
- Otsuka Pharmaceutical Italy S.r.l.
- Interpharma Praha, a.s.
- Taiho Pharma Europe, Limited
- Vagora S.L.
- Trocellen Iberica S.A.
- Trocellen GmbH
- Otsuka (China) Investment Co., Ltd.
- Korea Otsuka Pharmaceutical Co., Ltd.
- Guangdong Otsuka Pharmaceutical Co., Ltd.
- Zhejiang Otsuka Pharmaceutical Co., Ltd.
- Sichuan Otsuka Pharmaceutical Co., Ltd.
- Taiwan Otsuka Pharmaceutical Co., Ltd.
- P.T. Otsuka Indonesia
- P.T. Merapi Utama Pharma
- P.T. Widatra Bhakti
- Egypt Otsuka Pharmaceutical Co., S.A.E.
- Tianjin Otsuka Beverage Co., Ltd.
- P.T. Amerta Indah Otsuka
- P.T. Otsuka Jaya Indah
- Giant Harvest Limited
- Shanghai Otsuka Foods Co., Ltd.
- P.T. Lautan Otsuka Chemical
- Otsuka Chemical (India) Private Limited
- Otsuka Pakistan Ltd.
- China Otsuka Pharmaceutical Co., Ltd.
- MicroPort Medical (Shanghai) Co., Ltd.
- MicroPort Scientific Corporation
- Thai Otsuka Pharmaceutical Co., Ltd.
- Dong-A Otsuka Co., Ltd.
- VV Food & Beverage Co., Ltd.
- King Car Otsuka Co., Ltd.
- Korea OIAA Co., Ltd.
- Otsuka Pharmaceutical (H.K.) Ltd.
- Hangzhou Linan Kangle Pharmaceutical Co., Ltd.
- Otsuka Beijing Research Institute
- Otsuka Shanghai Research Institute
- Otsuka (Philippines) Pharmaceutical, Inc.
- Otsuka Sims (Guangdong) Beverage Co., Ltd.
- Otsuka Saha Asia Research Co., Ltd.
- Otsuka Trading Africa Co. (SAE)
- Otsuka Import Export LLC
- Otsuka Electronics Korea Co., Ltd.
- Otsuka Tech Electronics Co., Ltd.
- Otsuka Electronics (Suzhou) Co., Ltd.
- Suzhou Otsuka Pharmaceutical Co., Ltd.
- Leshan Otsuka Techno Co., Ltd.
- Taiho Pharmaceutical of Beijing Co., Ltd.
- KOC Co., Ltd.
- Taicang Otsuka Chemical Co., Ltd.
- Dalian Otsuka Furniture Co., Ltd.
- ILS (Shanghai)Co.,Ltd.
- Zhangjiagang Otsuka Chemical Co., Ltd.
- Otsuka (Shanghai) Foods Safety Research & Development Co., Ltd.
- MOC Chemicals Trading (Shanghai) Co., Ltd.
- Chongqing Otsuka Huayi Chemical Co., Ltd.
- Otsuka OPV Co., Ltd.

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

## Group structure
(as of March 2010)

Otsuka Holdings

- Otsuka Pharmaceutical
- Otsuka Pharmaceutical Factory
- Taiho Pharmaceutical
- Otsuka Warehouse
- Otsuka Chemical



### Otsuka Pharmaceutical Co., Ltd.

Otsuka Pharmaceutical was established in 1964 as the pharmaceutical arm of the Otsuka Group with the objective of contributing to the health of people worldwide. With its two strategic segments, 'therapeutic drugs to treat illness' and 'consumer products to prevent illness and sustain everyday health,' the company is engaged in the research, development, manufacturing, and marketing of innovative and unique products. While striving to create value on a global scale, Otsuka Pharmaceutical cultivates an ethical perspective and pro-active corporate culture appropriate for a company striving to improve the quality of human life. Otsuka Pharmaceutical views itself as an integral part of the local communities it operates in and is dedicated to protecting the natural environment.

### Otsuka Pharmaceutical Factory, Inc.

Otsuka Pharmaceutical Factory was the first company in the Otsuka Group founded by Busaburo Otsuka in 1921. Specializing in parenteral nutrition, the company has developed products to suit the treatment of a range of different conditions and dose regimens, initiating the development and spread of plastic containers and packaging, dual-chamber bags for the administration of high-calorie infusion solutions, and kits for aseptic delivery of antibiotic solutions, thereby making a significant contribution to advances in intravenous solution therapy and product technology both within and outside of Japan. Otsuka Pharmaceutical Factory aims to be a leading company and the best partner of both patients and health care professionals in the field of clinical nutrition.

### Taiho Pharmaceutical Co., Ltd.

Established in 1963 and based on a corporate philosophy of 'striving to improve human health and contribute to a prosperous society,' Taiho Pharmaceutical has won acclaim both within and outside of Japan as a top company in the area of treatments for cancer. In addition, the company's OTC business provides unique and superior quality OTC drugs under the motto of supporting a 'loving and caring lifestyle.' Taiho Pharmaceutical addresses environmental issues and engages in an extensive range of community projects.

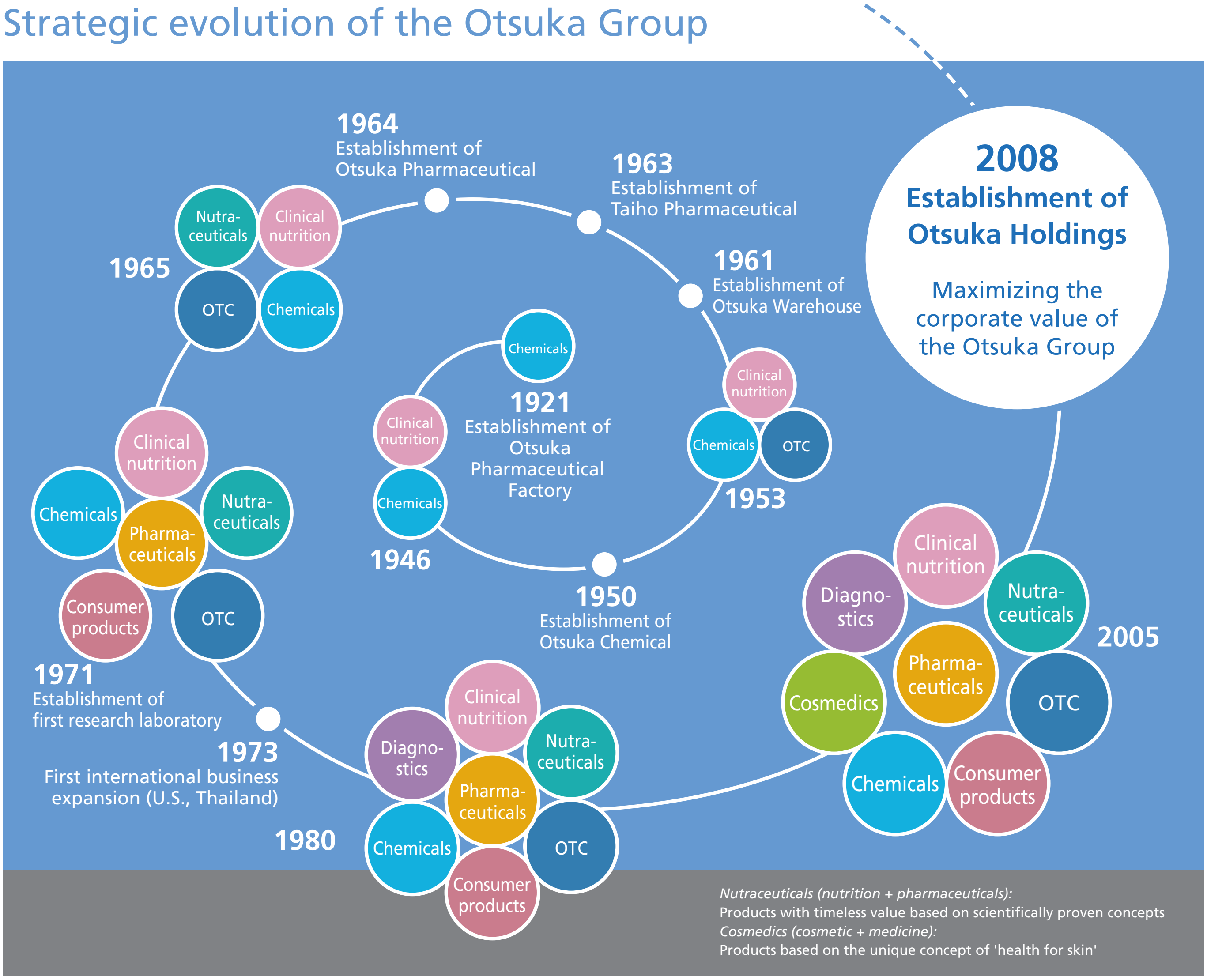
### Otsuka Warehouse Co., Ltd.

Since its establishment in 1961, Otsuka Warehouse has engaged in the distribution of pharmaceuticals as well as food and beverages. The company is well recognized for its track record in safety and security, a product of its history and experience. As a member of the global community, Otsuka Warehouse promotes environment-friendly distribution methods such as the introduction of modal shift and joint distribution to reduce $CO_2$ emissions. In its role as a 'Logistics Services Provider,' the company strives to create new dimensions in the distribution business to leave a prosperous and beautiful environment for the next generation.

### Otsuka Chemical Co., Ltd.

Established in 1950 as Otsuka Chemical and Medical Products, the company has since been involved in a diverse range of businesses, including chemicals, agriculture, food and beverages as well as furniture, aspiring to be perceived as a trusted manufacturer that uses creative technology to respond to customer needs with a focus on the key words of 'good life,' 'health' and 'environment.' On July 1, 2009, Otsuka Chemical made a new start as a wholly-owned subsidiary of Otsuka Holdings and will continue in its efforts to grow as a valued and respected company.

## Strategic evolution of the Otsuka Group




The history of the Otsuka Group began in 1921, when Busaburo Otsuka established a factory manufacturing chemical compounds in Naruto, Tokushima Prefecture (now Otsuka Pharmaceutical Factory Inc.). After this beginning as small-scale manufacturer of chemical raw materials, in 1946 the company began producing and selling intravenous solutions, marking its entry into the pharmaceutical products market.

In 1950, the organic chemicals division split off from Otsuka Pharmaceutical Factory to form Otsuka Chemical and Medical Products, Inc. (now Otsuka Chemical Co., Ltd.), which continues to contribute to human health with pharmaceutical intermediates and other chemical products.

In 1961, the Otsuka Pharmaceutical Factory transport and warehousing division split off from the company to become Otsuka Warehouse Co., Ltd., now involved mainly in pharmaceuticals and food products distribution.

Taiho Pharmaceutical Co., Ltd. was established in 1963, with operations specializing in oncology. Otsuka Pharmaceutical Co., Ltd. was established in 1964. Initially pursuing growth in OTC products and nutraceuticals to support the daily health of people, Otsuka Pharmaceutical established its first research laboratory in Tokushima in 1971, marking the start of research into the development of proprietary drugs based on the concept of creating innovative pharmaceutical products.

In 1973, Otsuka Pharmaceutical established offices in the U.S. and Thailand, beginning its global business expansion at an early stage.

In the Nutraceuticals business, Otsuka Pharmaceutical has leveraged its pharmaceutical research expertise to develop proprietary products and business models, creating various innovative products that anticipated consumer needs and established entirely new markets of their own.

In 2005, Otsuka Pharmaceutical entered the skin care market with products based on the concept of "healthy skin."

Otsuka Holdings was established in July 2008 as a group holding company with the aim of maximizing the corporate value of the Otsuka Group, a comprehensive corporate group dedicated to integrated health care.

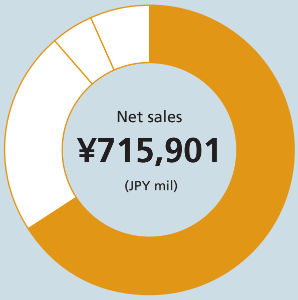
The Otsuka Group will function as a unified group under this holding structure as we strive to contribute to the health and prosperity of people worldwide.

# Business Segments

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

## Pharmaceuticals

66.0%

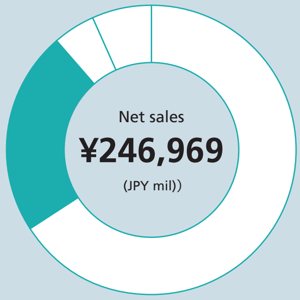



Our comprehensive approach to pharmaceutical research and development ranges from diagnosis to treatment of diseases targeted at unmet medical needs.

- Pharmaceuticals
- Parenteral nutrition (Clinical nutrition)
- Diagnostics
- Medical devices

## Nutraceuticals

22.8%



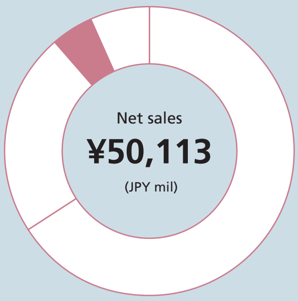

Expertise developed through our pharmaceuticals business is applied to the research and development of products that aid in the maintenance and improvement of day-to-day well-being.

- Functional foods and beverages
- Cosmedics*
- OTS products, Quasi-drugs

* cosmetic + medicine

## Consumer Products

4.6%

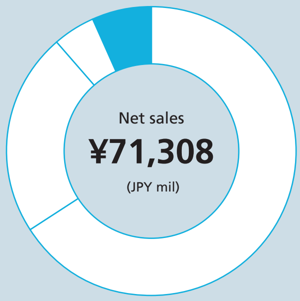



The Otsuka Group is engaged in the research and development of original and unique products in the food and beverage field.

- Water
- Foods
- Alcoholic beverages

## Other

6.6%




Research and development initiatives extend to chemical products and electronic equipment.

- Functional chemicals
- Fine chemicals
- Distribution
- Packaging
- Electronic equipment

# Pharmaceutical Segment

## Pharmaceutical Segment Overview

The Otsuka Group's pharmaceutical segment comprises four main businesses: pharmaceuticals, parenteral nutrition, diagnostics, and medical devices. In the core business of pharmaceuticals, Otsuka Pharmaceutical, which operates globally and focuses on the central nervous system and oncology, and Taiho Pharmaceutical, a leading company in the field of cancer treatments, are both involved in research and development, production and sales, with an emphasis on those diseases with high medical care needs. The parenteral nutrition business is conducted through Otsuka Pharmaceutical Factory, which continually strives to provide a steady supply of high-quality products and has the largest share of the domestic intravenous solution and clinical nutrition markets. The diagnostics and medical devices businesses are recognized as vital for future growth in our aim to provide comprehensive health care services that span from diagnostics to therapeutic treatments.

| | | | |
|---|---|---|---|
| Pharmaceuticals | Otsuka Pharmaceutical | Highest priority areas | Central nervous system　Oncology |
| | | Priority areas | Cardiovascular area　Gastroenterology　Respiratory system　Infectious disease　Ophthalmology　Dermatology |
| | Taiho Pharmaceutical | Oncology　Allergies　Urology | |
| Parenteral nutrition | Otsuka Pharmaceutical Factory | Intravenous solutions　Enteral nutrition　Contract manufacturing | |
| Diagnostics | Otsuka Pharmaceutical | Influenza diagnostic agents　Helicobacter pylori test kit　Other products | |
| Medical devices | JIMRO | Development of therapeutic systems for treating refractory diseases | |
| | Other affiliates | Manufacturing, sales and export of medical devices | |

## Marketing activities


### Pharmaceutical Business

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

#### ■ Core product groups

| Brand name (generic name) | Therapeutic category | Major indications | Company |
|---|---|---|---|
| ABILIFY (aripiprazole) | Antipsychotic | Schizophrenia | Otsuka Pharmaceutical |
| Pletaal/Pletal (cilostazol) | Antiplatelet agent | Improvement of ischemic symptoms including ulcers, pain and coldness associated with chronic arterial obstruction, prevention of recurrent cerebral infarction | Otsuka Pharmaceutical |
| Mucosta (rebamipide) | Antigastritis and antigastric ulcer agent | Gastritis, gastric ulcers | Otsuka Pharmaceutical |
| TS-1 (tegafur, gimeracil, oteracil potassium) | Antimetabolite | Gastric cancer, head and neck cancer, colorectal cancer, non-small cell lung cancer, pancreatic cancer, bile duct cancer, inoperable or recurrent breast cancer | Taiho Pharmaceutical |
| UFT (tegafur, uracil) | Antimetabolite | Gastric cancer, head and neck cancer, colorectal cancer, liver cancer, pancreatic cancer, cancer of the gallbladder/bile duct, lung cancer, breast cancer, bladder cancer, prostate cancer, cervical cancer | Taiho Pharmaceutical |
| Uzel (calcium folinate) | Reduced folic acid formulation | Folinate and tegafur/uracil combination therapy enhances efficacy of tegafur-uracil in treating colorectal cancer | Taiho Pharmaceutical |

## [Central nervous system]

Sales of Otsuka Pharmaceutical's atypical antipsychotic *ABILIFY* have shown solid growth since the product was released in the United States in 2002. *ABILIFY* has been approved in more than 70 countries and FY2009 global sales totaled ¥374.5 billion (a 26% increase from FY2008). *ABILIFY* was developed as an antipsychotic with a new mode of action and its efficacy and superior stability mean that patients can continue using the drug for long periods of time. *ABILIFY* has therefore gained attention for its usefulness in preventing relapses and allowing patients to return to a fulfilling life. The contract with Bristol-Myers Squibb for the development and commercialization of *ABILIFY* was extended in April 2009 and further global growth is expected.

## [Oncology]

Since releasing *Futraful* in 1974, Taiho Pharmaceutical has been a pioneer in the field of oral anticancer agents with products including *UFT* and *TS-1 Capsules*. Utilizing its many years of experience developing fluoropyrimidine anticancer agents, the company has continuously presented useful clinical data on gastric cancer, breast cancer, lung cancer, colorectal cancer, and other types of cancerous tumor. *TS-1 Capsules* in particular has become standard chemotherapy for gastric cancer, making it a core drug even in the age of polypharmacy.

In Japan, sales of the serotonin 5-$HT_3$ receptor antagonist antiemetic agent *Aloxi* (approved in January 2010) began in April 2010. *Aloxi* has been approved in 63 countries and is the medication recommended by the National Comprehensive Cancer Network (NCCN)'s Antiemesis Guidelines. Sales of the antineoplastic agent *Abraxane* (approved in July 2010 for breast cancer) also commenced in Japan in September 2010. *Abraxane* has been approved for breast cancer treatment in 41 countries including the U.S. and Europe.

Otsuka Pharmaceutical has seen solid U.S. sales of *IV Busulfex*, a conditioning regimen prior to bone marrow transplantation surgery to treat chronic myeloid leukemia. In addition, Otsuka and Bristol-Myers Squibb entered into an oncology collaboration for the two products, *SPRYCEL* and *IXEMPRA*. Co-promotion activities for *SPRYCEL* will start from 2010 in the U.S. and Japan, and 2012 in Europe.

## [Cardiovascular]

Otsuka Pharmaceutical's antiplatelet agent *Pletaal* is marketed in 25 countries including Japan, the U.S. and Europe. The prescription of *Pletaal* has shown steady growth as a result of research and development to identify new possible uses for the drug and efforts to proactively provide information. The selective $V_2$-vasopressin antagonist *SAMSCA* (tolvaptan) received U.S. Food and Drug Administration (FDA) approval in May 2009 as an effective treatment for hyponatremia, including in patients with heart failure, cirrhosis, and the syndrome of inappropriate antidiuretic hormone (SIADH). The European Commission (EC) also approved *SAMSCA* in August 2009 for indication of hyponatremia resulting from SIADH, and sales are showing steady growth.

## [Gastroenterology]

Strong sales of Otsuka Pharmaceutical's anti-gastritis and antigastric ulcer agent *Mucosta* continued due to the ongoing validation and proactive provision of data supporting the product's efficacy. Taiho's $H_2$-receptor antagonist *PROTECADIN* received approval in March 2010 for the additional indication of reflux esophagitis.

## [Ophthalmology]

Sales of *Mikelan LA*, a new formulation of Otsuka Pharmaceutical's *Mikelan* ophthalmic solution for treatment of glaucoma and ocular hypertension, were boosted by the new permission granted for long-term prescriptions. Sales of the broad-spectrum antibacterial ophthalmic solution *OZEX* Ophthalmic Solution, which has now also been approved for treatment in children, remained solid based on a more precise description in the drug's unique profile.

## [Allergies, urology]

Taiho Pharmaceutical's antiallergenic drug *IPD* recorded solid sales. In December 2009, the urinary incontinence/freguency urination agent *BUP-4* received additional approval for the indication of overactive bladder. In addition, Taiho terminated a co-marketing contract for *BUP-4* with UCB Japan and began exclusive sales in August 2010. In July 2009, Taiho and GlaxoSmithKline K.K. entered into a co-promotion arrangement for the benign prostatic hyperplasia treatment agent *Avolve*.

## Parenteral Nutrition (clinical nutrition) Business

### ■Core product groups

| Brand name | Category | Company |
|---|---|---|
| NEOPAREN (No. 1 and No. 2 Injection) | Carbohydrate, electrolyte, amino acid and multivitamin injection for central vein infusion | Otsuka Pharmaceutical Factory |
| B-FLUID for IV infusion | Amino acid and glucose injection with electrolytes and vitamin B1 | Otsuka Pharmaceutical Factory |
| RACOL | Enteral nutrition formula (for either enteral or oral administration) | Otsuka Pharmaceutical Factory |

The parenteral nutrition business is carried out primarily by Otsuka Pharmaceutical Factory, which has contributed to quality parenteral management by developing a full lineup of products to meet the needs of physicians, based on its advanced sterilization technology. These products include Japan's first plastic bottle pack and the world's first aseptically prepared antibiotic kit.

In September 2009, Otsuka Pharmaceutical Factory released *ELNEOPA No. 1 Injection* and *ELNEOPA No. 2 Injection*, the world's first high-calorie total parenteral nutrition (TPN) solutions formulated with five trace elements, containing glucose, electrolytes, amino acids, multi-vitamins and trace elements. *HINE Jelly AQUA*, which adds hydration, was added to the *HINE* and *HINE Jelly* lineup of concentrated liquid nutrition products in November 2009, further promoting nutritional management that corresponds to the patient's condition.




## Diagnostics Business

### ■Core product groups

| Brand name | Category | Company |
|---|---|---|
| UBIT | Diagnostic agent for H.pylori | Otsuka Pharmaceutical |
| Quick Navi-Flu | Influenza virus test kit | Otsuka Pharmaceutical |
| Uropaper III 'Eiken' | Urinalysis test strip | Otsuka Pharmaceutical |

The diagnostics business focuses on the development and sales of intracorporeal and extracorporeal diagnostic agents for clinical use and research-use reagents.  In the field of infectious diseases, sales of Otsuka Pharmaceutical's influenza virus test kit *Quick Navi-Flu*, an agent for in vitro diagnosis, have shown significant growth in part due to influenza epidemics.


## Medical Devices Business

### ■Core product groups

| Brand name | Category | Company |
|---|---|---|
| Adacolumn | Apheresis device for leukocyte adsorption | JIMRO |
| Firebird | Drug-eluting stent | MicroPort Medical |

JIMRO is the primary company for Otsuka Group medical devices. Using JIMRO's *Adacolumn*, an apheresis device for leukocyte adsorption that helps in the treatment of intractable inflammatory bowel disorder, a new granulocyte removal treatment method that absorbs unusually active leukocytes from the blood has been established.  In addition to the original approval for ulcerative colitis, approval was received in January 2009 for the treatment of Crohn's disease under health insurance coverage.

Shanghai-based MicroPort Medical is a market leader in China in drug-eluting stents (DES) and is steadily expanding, primarily in China but also in the rest of Asia.


## Otsuka Pharmaceutical Co., Ltd.

# Driven by *JISSHO* "proof through execution" and Creativity, we create useful medicines for patients.

### What is "uniquely Otsuka" in Otsuka's research and development?

Under the corporate philosophy, "Otsuka-people creating new products for better health worldwide," that is posted all around our research laboratories, Otsuka Pharmaceutical's motto is based in originality, not imitation. We aim for originality. That is the starting point for Otsuka's research and development.

Another aspect that may be "uniquely Otsuka" is that we obtain many insights into drug development from actual medical needs. Research staff meet directly with doctors around the world to get a first-hand feel for whether their research is actually useful in medical care. Making the effort to gain this first-hand experience is important.

### What are some representative examples of Otsuka's unique drug development?

*ABILIFY*, in the central nervous system (CNS) area of focus, is one. Most antipsychotics to date have been based on suppression of dopamine, but we took a new idea and, through trial and error, created a partial agonist based on partial dopamin activation. The idea is to control the amount of dopamine. On another occasion, a professor at a local university spoke of the need for "a diuretic that increases the excretion of free water only," and this led to the creation of *SAMSCA*, which was released in Europe and the U.S. last year. Both of these are examples of researchers' efforts to fulfill unmet medical needs.

### What are the special features of Otsuka Pharmaceutical's research and development?

Each researcher takes the initiative in carrying out research and pursuing unique themes of investigation. At the annual Kawauchi Conference, an internal research seminar, researchers from around the world gather in Tokushima, Otsuka's birthplace, bringing unique ideas and research themes. Recently, many of the presentations have been in the fields of the CNS and oncology. Although speed is required in the clinical area, in the research area we emphasize originality.

Many of our research successes have been based on carbostyril. *Mikelan* was the starting point and led to major success with *Meptin*, *Pletaal*, *Mucosta* and *ABILIFY*. We have also created new drugs like *SAMSCA* which do not have a carbostyril structure. Our research methods are not at all standardized. We carry out research using the latest technologies and give importance to the various reactions that take place in living organisms.

### Otsuka's progress in oncology

Research is progressing in small-molecular cancer treatments at the Fujii Memorial Research Institute and in peptides and immunology systems at the Microbiological Research Institute. Our anticancer agents, developed at the Fujii Memorial Research Institute, are currently undergoing Phase I testing in the U.S. and Asia. A therapeutic cancer vaccine in-licensed from OncoTherapy Science Inc. is at the clinical trial stage in Japan, and in clinical diagnostic agents, we have released for sale the *WT1 mRNA Assay Kit*, a diagnostic and prognostic agent for acute myeloid leukemia and myelodysplastic syndromes. We are also aggressively pursuing research in antibody drugs.

### "10th Research Center" (Drug Discovery Research Building) commencing operations

Medical care itself in recent years has tended to focus on individual internal organs and the area of research has also failed to look at the patient's overall condition. In order to eliminate walls around researchers in different fields, the biological system research building and the synthesis research building in Tokushima were consolidated in April 2010 with the establishment of the 10th Research Center. This promotes communication in the workplace that crosses organizational divisions. Through ongoing discussions among researchers engaged in studies of the CNS, the cardiovascular system, gastroenterology, and inflammation, insights can be offered across areas of specialization, leading to the creation of groundbreaking new drugs which patients anxiously await.

Taiho Pharmaceutical Co., Ltd.

# We aim to create innovative new drugs as experts in cancer treatment.

## Taiho's activities in the field of anticancer agents

Taiho Pharmaceutical focuses its research and development activities on three areas: oncology, its foremost field of activity, immunology/allergy and urology.

The company is well recognized among medical professionals in Japan, particularly in the area of cancer, and has gained significant trust and market share as a leading company in the field of antimetabolites. Taiho Pharmaceutical began the development of anticancer agents in 1969 with the in-licensing of the *FT-207* (later called *Futraful*) from the former Soviet Union. As an anticancer agent available for oral use, it made outpatient treatment possible, significantly reducing the burden on patients compared with the intravenous drip infusion available at the time. The company has continued to grow mainly due to successful launching of the next generation of anticancer agents, *UFT* and *TS-1*. Research and development is currently focused on the effective clinical application of *UFT* and *TS-1* employing recent advances in pharmacogenetics and on their successor drugs; for instance, molecular-targeted drugs that target tumor cell growth at the molecular level, as well as supportive drugs to control side effects and palliative care. In this way, our goal is to provide total care to cancer patients.

## Challenges in developing new anticancer agents

Progress continues in the development of anticancer agents that inhibit the enzymes needed for cancer cell proliferation, anticancer agents that inhibit DNA and RNA synthesis in cancer cells, and angiogenesis inhibitors that work to starve cancer cells by inhibiting the production of new blood vessels that would allow them to gain nutrients and oxygen.

## Strength and unique features of Taiho Pharmaceutical's research and development

Over our long history, we have built strong and trustful relationships with leading physicians and medical professionals, to the point that Taiho has become synonymous with oncology. In clinical settings, multiple drugs are being used for cancer treatment, with antimetabolites playing a crucial role in the treatment. Recently, the prescription of molecular-targeted drugs has been added for cancer treatment. Our research and development devotes equal resources to the creation of both antimetabolites and molecular-targeted drugs. Our employees, from researchers to individual medical representatives, are cancer treatment experts, and our strength lies in our ability to incorporate a wealth of data into comprehensive solutions.

## Establishment of Tsukuba Research Institute

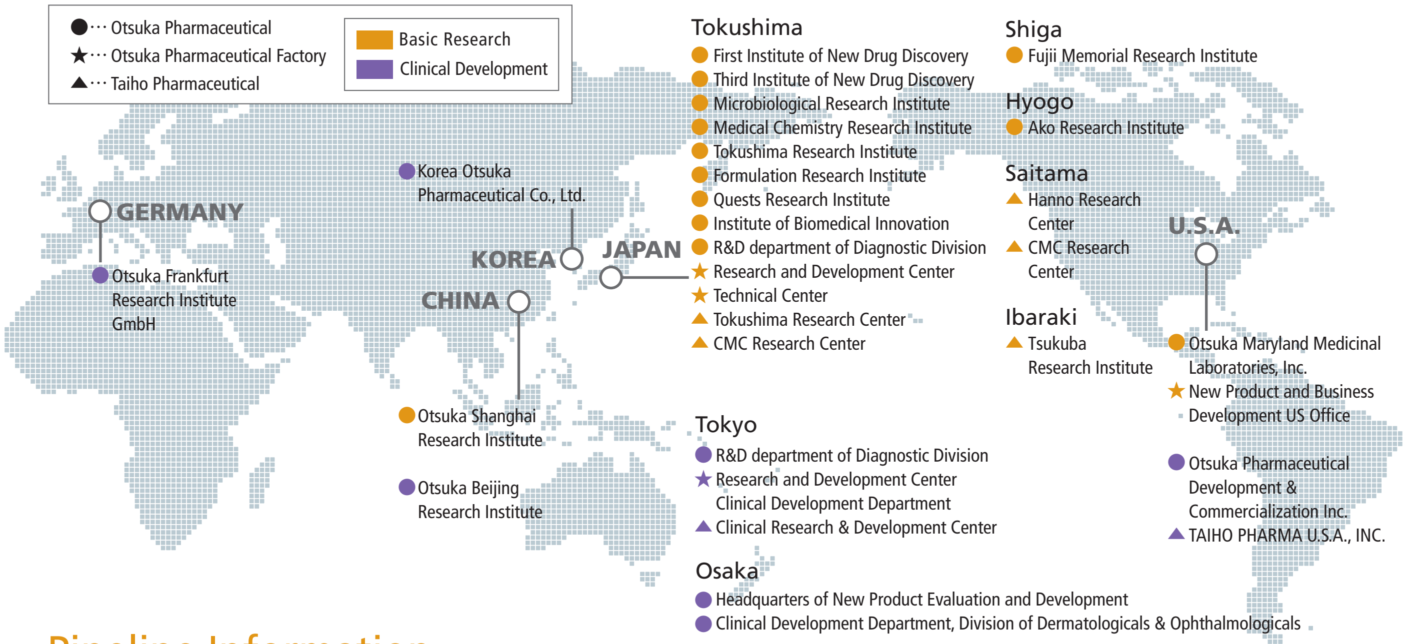
We purchased the facilities of the former Banyu Pharmaceutical's Tsukuba Research Institute in August 2009 and set it up as our new Research Laboratory for Molecular-Targeted Drugs. The fact that we consequently have acquired top-level researchers and superior basic technologies is a major benefit. We plan to consolidate the drug discovery function of our Hanno Research Center by moving it to the Tsukuba Research Institute by March 2011, thereby accelerating research through application of the newest cutting-edge technologies, including molecular design, bioinformatics, and biomarkers. Researchers with different backgrounds will work together under the banner of "Quickly delivering innovative new drugs to patients affected by cancer." This is Taiho Pharmaceutical's new strength.

## Current status and future plans for overseas development

Our proprietary injectable antibiotic *Zosyn/Tazocin* is marketed in more than 90 countries by Taiho's local partner, Pfizer Inc. Concurrently, our own overseas development is on the right track. *TS-1 Capsules* has recorded strong sales in Korea, and was launched in China and Singapore last year. An application has also been filed for the indication of gastric cancer treatment in Europe, while Phase III clinical trials are in progress in the U.S.

The worldwide adoption of an effective anticancer agent developed in Japan is of great importance. In China and the rest of Asia in particular, we are able to utilize a great deal of our existing clinical database because of the similar genomic background their populations share with the Japanese. Along with Otsuka Pharmaceutical, we are working to become a global specialty pharmaceutical company, with a special focus on oncology as well as immunology/allergy and urology.

# Overseas R&D Facilities




## Pipeline Information (As of September 30, 2010)

| Code/Brand name | Generic name | Origin | Category | Indication/Dosage form | Country/Region | Development Status |
|---|---|---|---|---|---|---|
| **Central nervous system** | | | | | | |
| OPC-14597 (ABILIFY*) | aripiprazole | Otsuka Pharmaceutical | Dopamine partial agonist | Schizophrenia/Depot injection | Global | Phase III |
| | | | | Manic episode associated with bipolar I disorder/Oral | JP | Phase III |
| | | | | Adjunctive therapy for major depressive disorder/Oral | JP | Phase III |
| | | | | Tic disorder/Oral | Korea | Phase III |
| | | | | Major depression/Combination of aripiprazole and antidepressants | US | Phase III |
| | | | | Tourette syndrome/Once-weekly tablet | US | Phase I |
| L059 (KEPPRA*) | levetiracetam | UCB | Anti-epileptic drug | Epilepsy (partial onset seizures)/Oral | JP | Approved Jul 2010 |
| SPM-962 (NEUPRO*) | rotigotine | UCB | Dopamine agonist | Parkinson's disease/Patch | JP | Phase III |
| | | | | Restless legs syndrome/Patch | JP | Phase III |
| OPC-34712 | | Otsuka Pharmaceutical | Dopamine partial agonist | Adjunctive therapy for major depressive disorder/Oral | US | Phase II |
| | | | | Schizophrenia/Oral | Global | Phase II |
| | | | | ADHD/Oral | US | Phase II |
| **Cardiovascular** | | | | | | |
| OPC-41061 (SAMSCA*) | tolvaptan | Otsuka Pharmaceutical | Vasopressin $V_2$-receptor antagonist | Cardiac edema/Oral | JP | Filed |
| | | | | Autosomal dominant polycystic kidney disease/Oral | Global | Phase II-III** |
| | | | | Hepatic edema/Oral | JP | Phase III |
| | | | | Hyponatremia/Oral | China | Filed |
| | | | | Hepatic edema/Oral | China | Phase II |
| **Anti-cancer and cancer-supportive care** | | | | | | |
| ABI-007(Abraxane) | paclitaxel protein-bound particle for injectable suspension | Abraxis Bioscience | Anti-cancer (nanoparticle) | Breast cancer/Injection | JP | Approved Jul 2010 |
| | | | | NSCLC/Injection | JP | Phase III |
| | | | | Gastric cancer/Injection | JP | Phase II |
| OVF | fentanyl | Cephalon | Narcotic analgesic | Cancer pain/Oral | JP | Phase III |
| S-1<br>TS-1(Korea)<br>TS-ONE(Singapore)<br>愛欺万(China) | | Taiho Pharmaceutical | Anti-cancer（Anti-metabolite） | Gastric cancer/Oral | US | Phase III |
| | | | | Gastric cancer/Oral | EU | Filed |
| | | | | Uterocervical cancer/Oral | JP, Asia | Phase III |
| | | | | Hepatocellular carcinoma/Oral | JP | Phase III |
| | | | | Pancreatic cancer, NSCLC/Oral | US | Phase II |
| | | | | Prostatic, renal cell cancer/Oral | JP | Phase II |
| TSU-68 | | SUGEN | Anti-cancer (Molecular targeted drug) | Hepatocellular carcinoma/Oral | JP | Phase II |
| | | | | Breast cancer/Oral | JP, Asia | Phase II |


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


Tsukuba Research Institute (Taiho Pharmaceutical)


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

Otsuka Shanghai Research Institute

Otsuka Maryland Medicinal Laboratories, Inc.

| Code/Brand name | Generic name | Origin | Category | Indication/Dosage form | Country/Region | Development Status |
|---|---|---|---|---|---|---|
| **Anti-cancer and cancer-supportive care** | | | | | | |
| TAS-102 | | Taiho Pharmaceutical | Anti-cancer (Anti-metabolite) | Colorectal cancer/Oral | JP | Phase II |
| TAS-106 | | Taiho Pharmaceutical | Anti-cancer (Anti-metabolite) | NSCLC/Injection | US, Asia | Phase II |
| ET-743 | trabectedin | PharmaMar | Anti-cancer | Malignant soft tissue tumors/Injection | JP | Phase I/II |
| OTS102 | | OncoTherapy Science | Therapeutic cancer vaccine | Pancreatic cancer/Injection | JP | Phase II/III |
| | | | | Biliary tract cancer/Injection | JP | Phase II |
| OIF | interferon α | Hayashibara Biochemical Labs | Natural interferon α | Highly advanced hepatocellular carcinoma(combination with 5-FU)/Injection | JP | Phase II |
| SATIVEX* | nabiximols | GW Pharmaceuticals | Cannabinoid (THC, CBD) | Cancer pain/Oral spray | US | Phase II |
| OPB-31121 | | Otsuka Pharmaceutical | Anti-cancer | Anti-cancer/Oral | US, Asia | Phase I |
| OPB-51602 | | Otsuka Pharmaceutical | Anti-cancer | Anti-cancer/Oral | US, Asia | Phase I |
| OTS11101 | | OncoTherapy Science | Therapeutic cancer vaccine | Pancreatic cancer/Injection | JP | Phase I |
| **Other areas** | | | | | | |
| CDP870 (CIMZIA*) | certolizumab pegol | UCB | PEGylated anti-TNF α drug | Crohn's disease/Injection | JP | Filing in process |
| | | | | Rheumatoid arthritis/Injection | JP | Phase II/III |
| OPC-12759E | rebamipide | Otsuka Pharmaceutical | Mucin-production enhancing agent | Dry eyes/Eye drops | JP | Filing in process |
| | | | | | US | Phase II |
| ACU-4429 | | Acucela | Visual cycle modulator | Dry AMD/Oral | US | Phase II |
| ONGLYZA* | saxagliptin | Bristol-Myers Squibb | DPP-IV inhibitor | Type2 diabetes mellitus/Oral | JP | Phase II/III |
| OPC-67683 | | Otsuka Pharmaceutical | Anti-tuberculosis agent | Multidrug-resistant tuberculosis/Oral | Global | Phase II |
| OPC-6535 | tetomilast | Otsuka Pharmaceutical | Anti-inflammatory agent | Crohn's disease/Oral | JP, Korea | Phase II/III |
| | | | | COPD/Oral | JP, US, China, Korea | Phase II |
| YP-18 | piperacillin, tazobactam | Taiho Pharmaceutical | β-lactamase inhibitor-antibiotic agent | "Peritonitis, intra-abdominal abscess, liver abscess, cholecystitis, cholangitis/Injection" | JP | Phase III |
| TAC-201 | | Meiji Dairies Corporation | Recombinant peptide for immunotherapy of Japanese cedar pollinosis | Cedar pollen allergy/Injection | JP | Phase II |
| NST-141 | | Nippon Shinyaku | Anti-pruritus agent | Pruritus in atopic dermatitis/external | JP | Phase I/II |
| **Diagnostics** | | | | | | |
| ODK-0501 (Rapirun pneumococcus) | | Otsuka Pharmaceutical | Diagnostic agent of pneumococcus infection | Extracorporeal diagnostic agent | JP | Approved May 2010 |
| ODK-0702 (Rapirun H.pylori stick) | H.pylori antibody kit | Otsuka Pharmaceutical | Diagnostic agent of H.pyroli infection | Extracorporeal diagnostic agent | JP | Approved Jun 2010 |
| ODK-0801 (WT1 mRNA assay kit) | Wilms tumor gene-1(WT1) mRNA Assay kit | Otsuka Pharmaceutical | Diagnostic and prognostic agent of MDS (myelodysplastic syndrome) | Extracorporeal diagnostic agent | JP | Filed |

Note 1: In general, we disclose compounds that are in Phase II or later stage of development, although some compounds in Phase I are disclosed in the above table.
Note 2: Product names with asterisk '*' are the names used outside Japan.
Note 3: ** Preparation for additional study.

# R&D Topics

## [Central nervous system]

The antipsychotic *ABILIFY* was approved in Europe for the additional indication of schizophrenia (in young patients) in September 2009. *ABILIFY* also received additional approval from FDA in November 2009 for the indication of treatment of irritability associated with autistic disorder in pediatric patients (ages 6 to 17 years). *SPM-962*, which is being developed to treat Parkinson's disease and restless leg syndrome, has entered Phase III clinical trials in Japan.

## [Oncology]

Otsuka Pharmaceutical concluded an agreement with Fuso Pharmaceutical Industries for the manufacture and commercialization of the therapeutic cancer vaccine *OTS102* in January 2010, which is in Phase II/III clinical trials for advanced pancreatic cancer and in Phase II trials for biliary tract cancer in Japan. The therapeutic cancer vaccine *OTS11101* has also begun Phase I trials in Japan for advanced pancreatic cancer. The novel/anticancer agent *OPB-51602* is in Phase I trials in the U.S. and Asia. Otsuka Pharmaceutical also established a global oncology collaboration with Bristol-Myers Squibb for two anticancer compounds in April 2009.

At Taiho Pharmaceutical, an application was filed in October 2009 for *TS-1* to treat gastric cancer in Europe. The Phase III trials of *TS-1* for gastric cancer in the U.S. are now in process. As new evidence for *TS-1*, the combination of *TS-1* and irinotecan has been proven to not be inferior to FOLFIRI (one of the standard therapies for secondary treatment of colorectal cancer). This result was announced at the European Society for Medical Oncology (ESMO) Congress in September 2009 and published in *The Lancet Oncology* in August 2010. In addition, the combination of *TS-1* and carboplatin has shown noninferiority to the combination of paclitaxel and carboplatin as a standard treatment for non-small cell lung cancer, and this finding was presented at the annual meeting of the American Society of Clinical Oncology (ASCO) in June 2010.

The 5-$HT_3$ receptor antagonist antiemetic agent *Aloxi* was approved in Japan in January 2010, and launched in April. The anticancer agent *Abraxane* was approved in Japan for breast cancer in July 2010 and sales commenced in September.

The novel antimetabolite *TAS-102* is in Phase II trials in Japan and the U.S., while the novel antineoplastic agent *TSU-68* is in Phase II trials in Japan for hepatocellular carcinoma.

## [Cardiovascular]

The antiplatelet agent *Pletal (cilostazol)* was launched in Spain in June 2009. The results of a large-scale clinical trial in patients with cerebral infarction, Cilostazol Stroke Prevention Study II (CSPS II), were announced at the International Stroke Conference. CSPS II showed that *Pletal* had a greater effect than aspirin in preventing relapse strokes (cerebral infarction, cerebral hemorrhage, subarachnoid hemorrhage) and serious hemorrhaging in patients with cerebral infarction. *SAMSCA*, approved for hyponatremia, was launched in the U.S. in June 2009, in Germany, the U.K., Sweden, Norway, and Finland in September 2009, and in Australia in November 2009. In Japan, an application was filed for cardiac edema in July 2009, Phase III trials for hepatic edema are currently in progress.

## [Other Fields]

### (Ophthalmology)

*ACU-4429*, which is being co-developed with Acucela Inc. for the dry form of age-related macular degeneration (AMD), began Phase II trials in the U.S. *OPC-12759E*, which is being developed to treat dry eye, is in Phase III in Japan.

### (Gastroenterology)

The $H_2$-receptor antagonist *PROTECADIN* was approved in Japan for the additional indication of reflux esophagitis in March 2010.

### (Urology)

*BUP-4*, a therapeutic drug for urinary incontinence/frequent urination, received additional approval in Japan in December 2009 for such indications as urgency urination, frequent urination, and urge incontinence associated with overactive bladder.

### (Others)

The antiinflammatory agent *OPC-6535* began Phase II/III trials for Crohn's disease in Korea following Japan. The DPP-4 inhibitor *saxagliptin*, which is being developed as a therapeutic drug for diabetes, began Phase II/III trials in Japan.

## [Clinical nutrition]

Otsuka Pharmaceutical Factory launched *ELNEOPA No. 1* Injection and *ELNEOPA No. 2 Injection* in September 2009 in Japan.

## [Diagnostics]

In the field of infectious diseases, Otsuka Pharmaceutical released the research reagent *Flu-Sw AH1pdm*, used to detect novel strains of influenza virus for survey and research purposes, in November 2009, and the in vitro diagnostic norovirus antigen kit *Quick Navi-Noro* in January 2010. An application has also been filed for the *Wilms tumor gene-1 (WT1) mRNA Assay Kit*.

# Nutraceutical Segment

## Overview of Nutraceutical Segment

The Otsuka Group's nutraceutical segment comprises of nutraceuticals, medical foods, cosmedics*1, over-the-counter (OTC) drugs and quasi-drugs that aid in the maintenance or improvement of day-to-day well-being. Highly functional products based on scientifically proven concepts have created new markets and been well received by consumers for many years. The Group will continue to develop products for the health of people around the world based on original research and concepts.

*1 cosmetics + medicine = cosmedics

### Otsuka Pharmaceutical

Otsuka Pharmaceutical develops nutritional products to support and maintain health in people's daily lives based on the concept of "nutraceuticals." Thorough scientific research on proper nutrition for people of different ages and physical conditions has created entirely new markets, including a market for the electrolyte drink *Pocari Sweat*, based on the concept of "a sweat drink," and the balanced nutritional food bar *Calorie Mate*.

In recent years, with attention on the unlimited nutritional possibilities of soybeans, the fruit and soy bar *SOYJOY* and the carbonated soy beverage *SOYSH* have been developed as new ways to enjoy the benefits of soy. Otsuka Pharmaceutical is promoting its soy business around the world under the 'Soylution'*2 concept, based on the belief that soybeans could provide a solution to health, dietary, and environmental issues. Research and development in the area of cosmedics, which began in 1990, focused on the health of the skin, and a succession of product releases in recent years has included *InnerSignal* and *UL-OS*. Otsuka Pharmaceutical is aiming to develop new nutraceutical products on a global scale.

*2 soy + solution = Soylution

### Otsuka Pharmaceutical Factory

Otsuka Pharmaceutical Factory is engaged in the research and development of medical foods—nutritional products and foods for special dietary use that can be used in medical facilities, nursing homes, or at home. Products, including the *OS-1* oral rehydration supplement that provides water and electrolytes, the high-density liquid diet product *HINE* that supports dietary nutritional treatment, and the *ENGELEAD* food product for people who have difficulty chewing or swallowing, have been developed with a desire to be the preferred partner of patients and medical professionals in the field of clinical nutrition.

### Taiho Pharmaceutical

Taiho Pharmaceutical is actively engaged in developing OTC products that are used for a variety of health conditions, with a unique lineup of products with proven effectiveness and special attributes. The vitamin health drink *Tiovita Drink*, the crude drug gastrointestinal remedy *Solmack*, and *Harncare*, a crude drug for mild incontinence and urinary frequency, are all well-known brands. *Henseki*, which is effective for adipositas, has potential for growth.

Saga Nutraceuticals Research Institute, Otsuka Pharmaceutical

Otsu Skin Care Research Institute, Otsuka Pharmaceutical

# Nutraceutical Segment—Topics

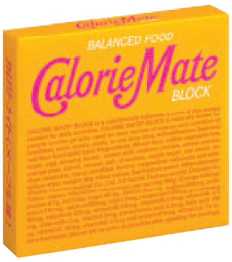
## *Pocari Sweat* 900ml PET Eco-bottle

In August 2009, Otsuka Pharmaceutical released *Pocari Sweat* in a 900ml environment-friendly bottle that is approximately 30% (12g)* lighter than the previous bottle. This was followed by the introduction of a 500ml PET Eco-bottle for *Amino-Value 4000*. Otsuka Pharmaceutical will continue to take into account the environmental impact of products through measures that include the use of environment-friendly bottles.

* The weight of the 900ml PET bottle was reduced by approximately 12g, from approximately 41g for the previous bottle to approximately 29g for the new bottle.


## New *SOYJOY* and *Calorie Mate* products released

Otsuka Pharmaceutical released two new items in September 2009. *SOYJOY Blueberry* is the 11th item in the *SOYJOY* line of fruit soy bars, and a maple-flavored product was added to the *Calorie Mate* line of balanced nutritional foods.


## New carbonated soy beverage *SOYSH* released

Otsuka Pharmaceutical released *SOYSH*, a new carbonated soy beverage, in July 2010. *SOYSH* represents a new soft drink category that combines soybeans and carbonation. With no noticeable soy aftertaste, *SOYSH* was developed to be enjoyed by people around the world.


## High-density liquid nutrition New *HINE Jelly AQUA* released

Otsuka Pharmaceutical Factory added *HINE Jelly AQUA* to the *HINE* and *HINE Jelly* lineup of concentrated liquid nutrition products for medical and nursing care institutions in November 2009. *HINE Jelly AQUA* is a liquid diet product that places particular emphasis on replenishing fluids, with more water per gram than other products.


## Test marketing of *Gerblé* brand of healthy, nutritional foods begins

Nutrition & Santé (N & S) became part of the Otsuka Group in 2009, and in April 2010, Otsuka Pharmaceutical began test marketing N & S's *Gerblé* brand of healthy, nutritional foods in Tokyo, Kanagawa, and Shizuoka. *Gerblé* is N & S's leading brand, and has been popular in France for more than 30 years. With natural ingredients including wheat germ and fruit and an emphasis on nutrition, *Gerblé* is a delicious, healthy, and nutritional food product.


## New *Tiovita Drink Aibitasu* added to Tiovita series

Taiho Pharmaceutical increased the amounts of vitamins B$_1$, B$_2$, and B$_6$ in its *Tiovita Drink*, which contains 1,000 mg of taurine, and released this as *Tiovita Drink Aibitasu* in June 2010. In a blueberry flavor that will also appeal to women, this new *Tiovita Drink* product is the recommended nutritional drink choice for a tired body.

# Main Nutraceutical Products

Note: Year in parentheses indicates the year the product was released.


### *Pocari Sweat* (1980)

Health drink swiftly replenishing fluids and ions (electrolytes) lost through perspiration. An optimal ion balance aids quick absorption by the body, making *Pocari Sweat* the ideal rehydration drink for use during and after sports activities or after taking a hot bath.

### *Oronamin C Drink* (1965)

Carbonated nutritional drink containing Vitamin C and other vitamins. Only 120ml in size, *Oronamin C* provides a refreshing burst of energy.


### *Calorie Mate* (1983)

Balanced nutritional bar containing all 5 major nutrients (vitamins, minerals, protein, fat, carbohydrates). Ideal as a nutritional supplement when under time pressure or when it is not possible to have a meal.


### *SOYJOY* (2006)

Novel nutrition bar made using only soybean dough (wheat-free) with a generous amount of dried fruit. Consumers can enjoy the nutritional elements of soybeans including soy protein and soy isoflavones in a smart and tasty way.


### *Amino-Value* (2003)

Highly concentrated drink supplying the branched-chain amino acids (valine, leucine, isoleucine) needed to support an active body. It supports your physical condition whether performing daily activities or working out.


### *Fibe-Mini* (1988)

Fiber drink for people whose diet lacks fiber. Optimal as a supplement for irregular diets, diets lacking in vegetables, and to support general health and beauty.


### *Nature Made* (1993)

The number one brand in the U.S.* for vitamins, minerals and supplements essential for maintaining health, *Nature Made* contains no artificial colors, flavors or preservatives.

* According to 2009 Nielsen data.


### *UL-OS* (2008)

A face and body skin care brand targeting middle-aged men based on the cosmedics concept of healthy skin support. Formulated with moisturizing ingredient AMP*, application of *UL-OS* corrects imbalances between skin sebum and moisture and leads to healthy skin.

* Adenosine monophosphate

### *InnerSignal* (2005)

A skin care brand offering a basic product range consisting of essence, lotion, emulsion, and cream and other products formulated with the active ingredient EnergySignal AMP*, which acts uniquely to suppress accumulation of melanin and prevent blemishes and freckles.

* Adenosine monophosphate OT


### *Tiovita Drink* (1964)

This vitamin health drink contains vitamins $B_1$, $B_2$, $B_6$ and niacinamide in addition to inositol, taurine, the digestive aid carnitine chloride, and anhydrous caffeine as a pick-me-up. In addition to *Tiovita Drink* (designated a quasi-drug), the lineup also includes *Tiovita Gold*, a revitalizing OTC drug.


### *Oronine H Ointment* (1953)

Known for over half a century as an effective medication for treating various skin conditions, *Oronine H Ointment* was the first product to make the Otsuka name widely recognized.

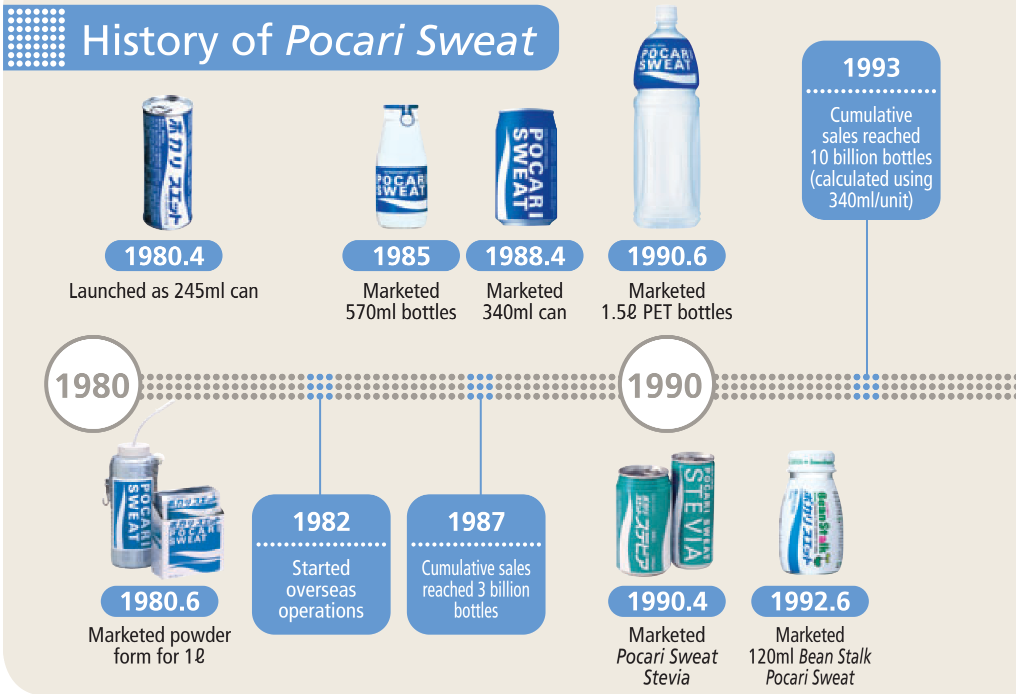

### *OS-1* (2005)

An oral rehydration supplement formulated with an optimal balance of glucose and electrolytes. A medical food to supply and maintain water and electrolyte levels in patients suffering from mild to moderate dehydration, *OS-1* is used to treat dehydration resulting from conditions including diarrhea, vomiting and fever caused by infectious enteritis or the common cold, insufficient oral intake of fluids among the elderly, or excessive perspiration.

# 30th Anniversary

## 30th Anniversary of *Pocari Sweat*

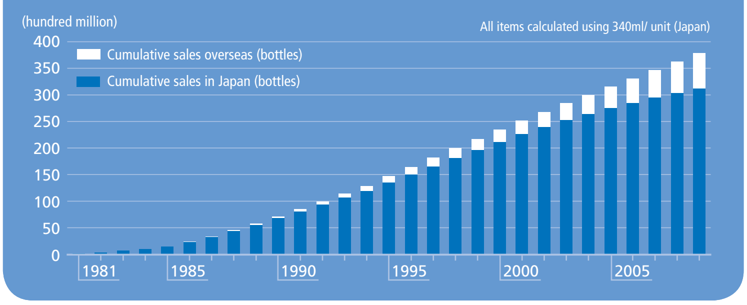
## History of *Pocari Sweat*




### *Pocari Sweat's* History

*Pocari Sweat* was born in 1980 after extensive research into the optimal fluid and ion replenishment for the human body. Conveying the concept of "a sweat drink" along with the idea of "contributing to better health," *Pocari Sweat* created the completely new market of functional drinks. Marking the 30th anniversary of its release this year, *Pocari Sweat* has grown into a popular, long-selling product.

### *Pocari Sweat*—cumulative sales (bottles)

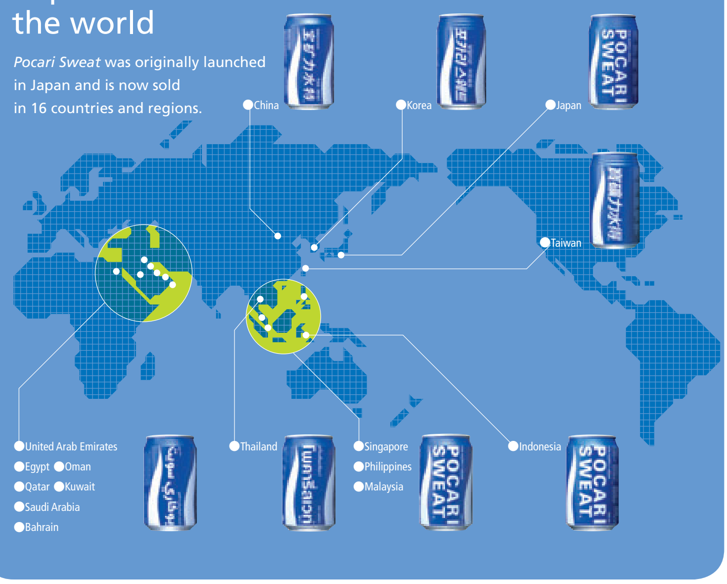


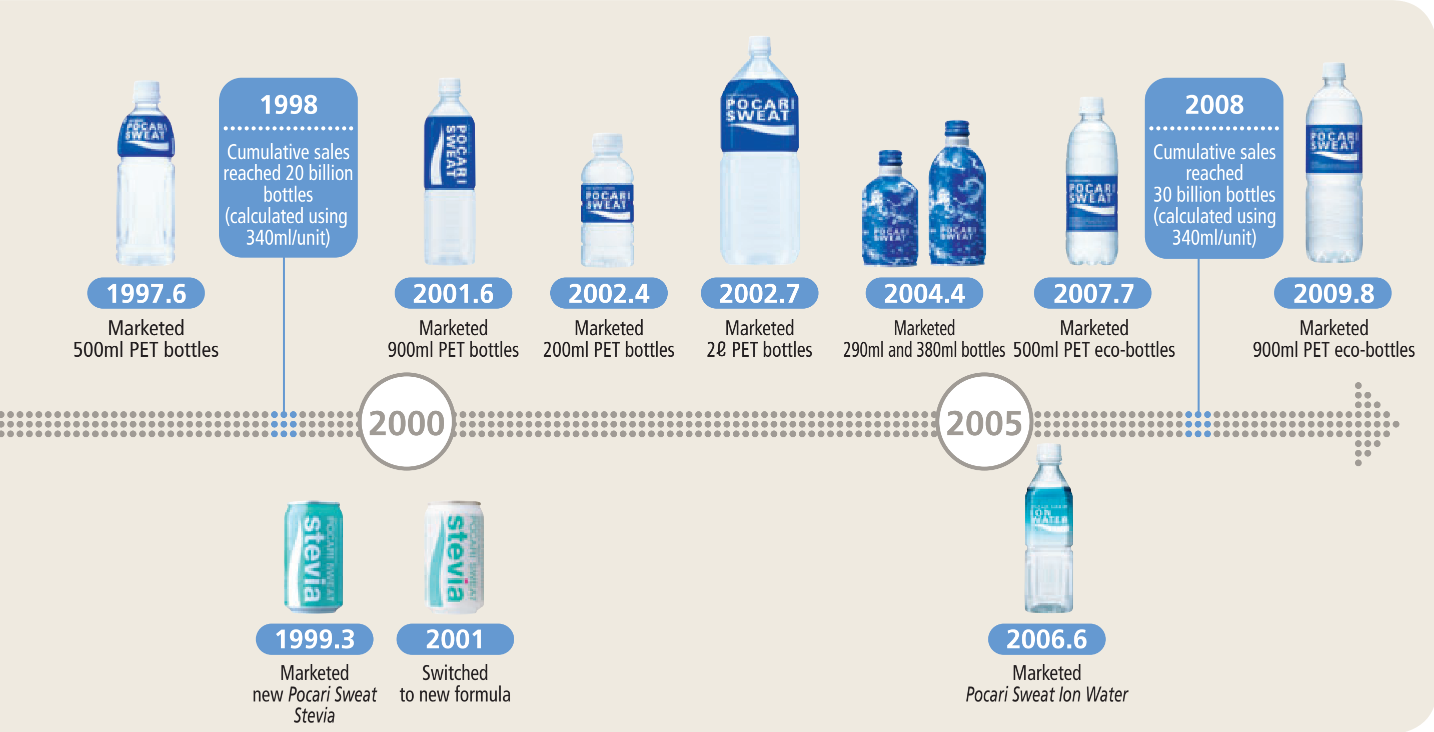

### Otsuka-people creating new products for better health worldwide

*Pocari Sweat* is undoubtedly a true Otsuka product that embodies our corporate philosophy. Going forward, this philosophy will not change, as we work to make people's lives richer and healthier.

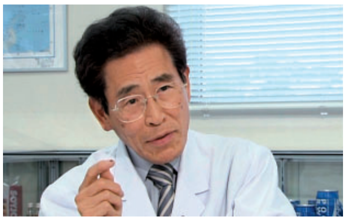
### Popular around the world

*Pocari Sweat* was originally launched in Japan and is now sold in 16 countries and regions.






## One of the developers of *Pocari Sweat* talks about the origins of this long-selling product



Akihisa Takaichi
Corporate Advisor,
Otsuka Pharmaceutical Co., Ltd.

### What led to the development of *Pocari Sweat*

In October 1973, Akihiko Otsuka, who was then in charge of Otsuka Pharmaceutical's Tokushima Factory (and is currently chairman at Otsuka Holdings), made the comment, "Couldn't we make a sweat drink?" In 1977, my supervisor Rokuro Harima and I began working on our own on a trial basis in a small, prefabricated work space. No-one had ever made "a sweat drink" before, and so with no-one to ask for advice, we spent our days experimenting.

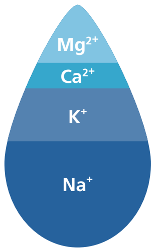
### Sweat as a science

Fluids and electrolytes are what is lost through perspiration. Therefore, "a sweat drink" is a drink that should easily replenish the components lost through perspiration. We decided to focus our development on the common perspiration that is excreted during daily activities. However, some of the electrolytes contained in perspiration, especially potassium, calcium, and magnesium, have an acrid or bitter taste, and our first prototypes did not taste good at all.

### Searching for "deliciousness"

Although we made more than 1,000 prototypes, this acrid, bitter taste was the most difficult issue in developing "a sweat drink." Because the concept was "a sweat drink" and we were developing a drink "contributing to better health," leaving out these component electrolytes because of their taste was not an option. We experimented over and over with various extracts, additives, and fruit juices to make a drink that contained these electrolytes and also tasted good. One of the things we tried was citrus fruits, and this finally marked a breakthrough for the formulation.

Composition ratio of cations in sweat




### A manufacturer's thoughts on *monozukuri* (craftsmanship)

The essential thing is to try and try again no matter how many times you fall flat on your face. You cannot take a new step using existing data from something else, you have to move one step at a time while building up your own track record. I consider this to be the starting point of creating a product. The word "creating" in the Otsuka corporate philosophy means making something that has not previously existed. That is not easy. A product is a straightforward expression of the manufacturer's idea. I believe that to create demand, you must make products that accurately appeal to consumers' sense of health and well-being.

# Soylution


The Otsuka Group is currently engaged in the soy business, and is working to introduce soy as a solution to our 21st century health, nutrition, and environment issues, under the concept of "Soylution." The first soylution product was the *SOYJOY* fruit soy bar. As of June 2010, *SOYJOY* was being marketed in seven countries and regions around the world, including Japan, China, and the U.S., and is showing growth as a global product.

Focusing on the unlimited benefits of soy, Otsuka Group seeks to contribute to the health of people around the world using its unique research, development, and technological capabilities to create highly original products.

## Otsuka Group's research, development and technological capabilities underpin the soy business

### Basic research on soy—creating added value, accumulating evidence

**Saga Nutraceuticals Research Institute (Otsuka Pharmaceutical)**

The Saga Nutraceuticals Research Institute discovered that the *Lactococcus* 20-92 strain of lactic acid bacteria produces equol, which improves symptoms associated with menopause, from daidzein, one of the isoflavones in soybeans. Given this discovery, food products that contain equol can be expected to positively affect the health of people whose intestines lack the bacterium that produces equol*.

* It is said that about 50% of Japanese people, and about 30% of Europeans and Americans, are able to internally produce equol.

### Product development technologies applied to soybeans

**First Research Institute of New Functional Products Development (Otsuka Pharmaceutical)**

*SOYSH* is a carbonated soy beverage based on the new concept of combining soy and carbon. In addition to overcoming the fact that soy milk coagulates when carbon is added, *SOYSH* was developed as a drink that can be enjoyed without a noticeable soy aftertaste. As a successor to *SOYJOY, SOYSH* is the result of our efforts that aim to develop new ways to ingest soy. *SOYSH* now helps to promote soy globally as part of the "Soylution" concept.

## The power of soy

Soybeans have historically been an important part of the Japanese diet and are said to have been eaten as long ago as the Jomon period (i.e., prior to 300 B.C.). Today, soy is not only recognized for its rich nutritional value, but has also been gaining attention around the world for the various forms of added value derived from its nutritional components.


### October 1999

The U.S. FDA approved the health claim that "a daily intake of at least 25 g of soy protein is effective in reducing the risk of heart disease."

### February 2010

Researchers at Japan's Ministry of Health, Labour and Welfare announced their finding that "the isoflavones in soybeans lower the risk of lung cancer (by up to 57% in nonsmoking males)."

## Otsuka Pharmaceutical exhibits at the 2010 Shanghai Expo

Otsuka Pharmaceutical is an exhibitor at the Japan Industry Pavilion of Expo 2010 Shanghai, China, the largest expo in history, taking place since May 2010. Based on the "Soylution" concept, Otsuka has been spreading the message that soy leads to healthy and rewarding lives for humanity and the earth under the banner "soy—a treasure for humans and the earth."

## Soy processing technologies

**Biwako Research Institute (Otsuka Foods)**

The Biwako Research Institute has developed the whole soybean beverage *SUGOIDAIZU*, using technology to bring out the natural flavor of soy in a smooth, easy-to-drink beverage. This technology for fresh soybean powderization formed the basis for the development of the *SOYJOY* fruit soy bar.



## Production technology of soy products

**Tokushima Itano Factory (Otsuka Pharmaceutical)**

*SOYJOY* fruit soy bars contain different fruit ingredients in each flavor type, and the amount of moisture content in each differs as well. Otsuka applied its own production technology, originally developed for the balanced nutritional bar *Calorie Mate*, and adjusted the temperature by 1–2 degrees when baking each type of bar to control the amount of moisture.

# Consumer Products Segment

## Overview of the Consumer Products Segment

Otsuka Foods and Otsuka Beverage, the two operating companies primarily responsible for the Group's consumer products segment, merged in January 2010. Otsuka Foods, the surviving company, aims to further expand the business by creating synergies utilizing the strengths of both companies.

### [Otsuka Foods]

Otsuka Foods provides foods and beverages that are an integral part of consumers' daily lives, under the caption "delicious, safe, reassuring, and healthy."

In the foods business, we have introduced a number of products that were the first of their kind, including *Bon Curry, Micro Magic, Mannan Hikari*, and *ReSOLA*. *Bon Curry*, released in 1968, created a new market and food culture as the world's first commercially food available in a plastic pouch bag, and has maintained its popularity over the subsequent 42 years, remaining synonymous with "instant curry."

In the beverage business, Otsuka Foods offers delicious, healthy drinks including *CRYSTAL GEYSER, Java Tea Straight*, and *MATCH*.

Otsuka Foods continues to demonstrate its pioneering spirit by providing highly original products that fully incorporate the "delicious, safe, reassuring, and healthy" ideals.

### New products targeting seniors and women
### Six additions to *My Size* series from August 2010

With demographics and family structures changing, foods that are easy to prepare are gaining attention and retort pouch meals and dishes are increasingly seen on the dinner table. Meanwhile, as the processed food market has not kept pace with demand for smaller portions, we introduced a new category of foods that, like clothing, can be "chosen in your own size."

The *My Size* series, which is for consumers who feel that the portions and calorie count of the foods available are a bit too much, offers two curries and three *donburi* (rice bowl) toppings at 150g and 100 kcal for ¥100, and *Mannan Gohan* at 150g and 150 kcal for ¥120.

### Eat to become beautiful!
### New *ReSOLA* launched!

The *ReSOLA* line of rice porridge, which uses natural ingredients and offers lifestyle support by making you feel beautiful from inside, was relaunched in August. In addition to two plain varieties, the new lineup includes four with natural flavorings for an even more satisfying taste. The packaging has also been redesigned so that the ingredients are made clear in the product name, and its appeal is heightened.

Bon Curry Gold 21

Bon Curry Neo

ReSOLA

Mannan Hikari

Mannan Hikari Konigiri

Micro Magic

CRYSTAL GEYSER

CRYSTAL GEYSER SPARKLING WATER

CRISTALINE

Java Tea Straight

MATCH

RIDGE

# Other Segment

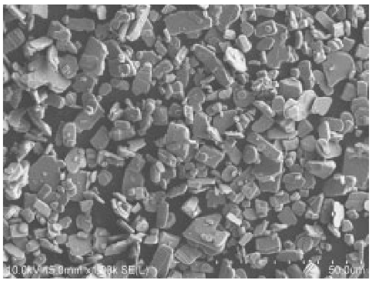
## Overview of the Other Segment

The Otsuka Group operates a range of businesses in areas that also include chemicals, transportation and warehousing, and electronic equipment.

### [Chemicals]

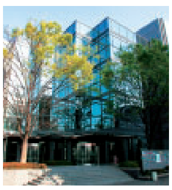
Otsuka Chemical plays the central role in the Otsuka Group's chemicals business, providing functional chemicals, functional materials, and fine chemicals.

*Unifoam AZ*, a foaming agent in the area of functional chemicals, is a material highly regarded for its heat insulation, soundproofing, and cushioning properties in wallpapers, floor materials and automobile interior materials. In the functional materials area, the environment-friendly compound *TERRACESS* is used as a primary material in disc brake pads. In the fine chemicals area, *GCLE* is an antibiotic intermediate developed by Otsuka Chemical.



TERRACESS

### Otsuka Chemical Glycotechnology Laboratory



The Glycotechnology Laboratory was established in April 2009 as Otsuka Chemical's new, independent research organization. Research here aims to develop technologies that support drug discovery, with a view to medium- to long-term growth based on oligosaccharides.

### [Transportation and Warehousing]

Otsuka Warehouse carries out the Otsuka Group's logistics operations. The company designs logistics matched to customers' needs, and builds and operates logistics systems to reduce distribution costs and improve distribution quality. In addition to business-to-business (B-to-B) logistics, services to support direct sales were launched in 2006, and the volume of orders is showing steady growth.

As a member of the global community, Otsuka Warehouse uses modal shift and collaborative distribution to promote environment-friendly logistics that reduce $CO_2$ emissions.

### [Electronic Equipment]

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

LED evaluation system

# Americas

Sales in the Otsuka Group's U.S. operations rose 28.9% from the previous year to ¥406.2 billion.

In the pharmaceutical segment, the antipsychotic *ABILIFY* (aripiprazole) continued to record solid sales. *ABILIFY* is co-promoted with Bristol-Myers Squibb. In April 2009 Otsuka Pharmaceutical and Bristol-Myers Squibb extended the contract for its development and commercialization in the U.S. Otsuka Pharmaceutical is aiming to further expand its business in the area of the central nervous system. *ABILIFY* received FDA approval in November 2009 for the additional indication of the treatment of irritability associated with autistic disorder in pediatric patients (age 6 to 17 years), resulting in a large contribution to the growth of the business. Prescriptions of *SAMSCA*, launched in June 2009 as the United States' first oral selective vasopressin antagonist, are also rising.

The nutraceutical segment recorded stronger sales of *Nature Made*, the VMS brand manufactured and marketed by Pharmavite LLC.

## Main Operating Companies

### Otsuka America Pharmaceutical, Inc. (OAPI) (Rockville, Maryland)

Established in 1989, OAPI today carries out marketing and sales of pharmaceuticals and medical devices in the U.S. OAPI currently handles the antipsychotic *ABILIFY*, the oral selective vasopressin antagonist *SAMSCA* (tolvaptan), *IV Busulfex*, a drug administered prior to bone marrow transplant to treat chronic myelogenous leukemia, *BreathTek*, a kit for diagnosing Helicobacter pylori infection, and the antiplatelet agent *Pletal* (cilostazol).


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

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

### Pharmavite LLC (Northridge, California)

Manufactures and sells *Nature Made* supplements and the *SOYJOY* fruit soy bar. *Nature Made* is recognized as the No. 1* supplement in the U.S. in terms of retail sales.

*2009 Nielsen data

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

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

### CG Roxane, LLC (Olancha, California)

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

# Europe

The antipsychotic *ABILIFY* continued to post strong sales for the pharmaceutical segment. The European Commission approved the Marketing Authorization Application for the oral selective vasopressin antagonist *SAMSCA* for the indication of treatment of hyponatremia secondary to SIADH (the syndrome of inappropriate antidiuretic hormone) in adults in August 2009, and sales are showing steady growth. In the nutraceutical segment, the Nutrition & Santé group, the European leader in functional and dietetic foods, became part of the Otsuka Group from fiscal 2009 following the acquisition of all outstanding shares in the previous year. Nutrition & Santé is being positioned as the European base for the nutraceutical segment.

## Main Operating Companies

### Otsuka Pharmaceutical Europe Ltd. (Middlesex, United Kingdom)

Central office for European manufacturing, marketing and sales of pharmaceuticals and medical devices. With offices in the U.K., France, Germany, Italy, Sweden and Spain, Otsuka Europe sells the antipsychotic *ABILIFY*, the oral selective vasopressin antagonist *SAMSCA*, the antiplatelet agent *Pletal*, the device for leukocyte adsorption *Adacolumn*, the beta blocker *Mikelan* (carteolol hydrochloride), and *UBIT* ($^{13}$C-urea), a diagnostic agent for Helicobacter pylori infection.


### Nutrition & Santé SAS (Revel, France)


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

### ALMA S.A. (Paris, France)

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


### Hebron S.A. (Barcelona, Spain)

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

# Asia and Middle East

Pharmaceuticals and nutraceuticals are the main segments in Asia and the Middle East, with operations in China, Korea, Taiwan, Indonesia, Thailand, the Philippines, Vietnam, Pakistan, India, and Egypt. During fiscal 2009, sales of *Pocari Sweat* were particularly strong in Indonesia and China.

## Main Operating Companies

### China Otsuka Pharmaceutical Co., Ltd. (Tianjin, China)

The Otsuka Group has a long history in China, beginning with the establishment of China Otsuka in 1981 as China's first pharmaceutical joint venture with a foreign company. China Otsuka currently has more than 1,000 employees, and handles basic intravenous solutions, preparations in ampoule, and ophthalmic solutions in 21 Chinese provinces and autonomous regions.


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

Manufactures and sells *Pocari Sweat* and sells *SOYJOY* in Indonesia. *Pocari Sweat* in particular recorded approximately 30% sales growth in fiscal 2009, or about 450 million bottles for the year, reflecting steady sales. To meet this demand, the new Kejayan Factory for *Pocari Sweat* production was completed in May 2010 in East Java province.


### Otsuka Shanghai Research Institute (Shanghai, China)

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

### Otsuka Chemical India Ltd. (Delhi, India)

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

## Key Principles

Otsuka Holdings was established as a holding company to strengthen corporate governance by separating the functions of management supervision and operational execution.

Based on our corporate philosophy of 'Otsuka—people creating new products for better health worldwide,' Otsuka Holdings has established the Otsuka Group Code of Conduct and a Compliance Program to fulfill our social responsibilities and fully comply with laws and regulations, in order to contribute to society as a good corporate citizen.

The Otsuka Group operates globally in the areas of pharmaceuticals, nutraceuticals, consumer products, and other businesses through five operating companies, each of which is a direct subsidiary of Otsuka Holdings with operational responsibility for its respective business area, and other Group affiliates.

Otsuka Holdings has adopted a Corporate Officer System, with directors elected at the annual shareholders' meeting making business decisions and supervising the execution of those decisions, and corporate officers responsible for carrying out business operations. This system ensures management transparency and swift execution.

## Corporate Governance System

Otsuka Holdings' work regulations determine which matters are to be decided and implemented by the Board of Directors, individual directors, corporate officers, and divisional managers.

A board meeting is held once a month to approve proposals and other relevant items regarding the management of the Company as stipulated in the Companies Act, as well as to provide a forum for directors to report on or exchange opinions regarding their respective business areas. As of June 29, 2010, the Company had 11 directors.

The directors' execution of duties is audited by statutory auditors, who attend board meetings and other important internal meetings. In accordance with the audit policy and audit plan approved at monthly meetings of the Board of Corporate Auditors, corporate auditors meet with the president, directors, and divisional managers, and conduct on-site audits. As of June 29, 2010, the Company had four corporate auditors, three of whom were outside auditors.

Deloitte Touche Tohmatsu LLC has been appointed to audit the accounts of Otsuka Holdings in accordance with the Companies Act and the Financial Instruments and Exchange Act. The corporate auditors, Internal Audit Department, and Internal Control Department (ICD) exchange information at meetings with the auditing firm and receive the audit report.

## Compliance Promotion Activities

Otsuka Holdings' Risk Management Committee, chaired by the Company's president, promotes compliance and activities to educate employees and ensure adherence to laws and regulations. Otsuka Holdings' Compliance Program is approved and its thorough implementation is supervised by the Board of Directors.

## Internal Controls for Financial Reporting

In view of the social responsibilities of an organization the size of Otsuka Holdings, the Company believes it needs internal controls that are no less robust than those of listed companies. An internal control system for financial reporting has therefore been established by ICD, which reports directly to the president. The internal control system was launched in fiscal 2008 with its corollary internal control report.

## Information Management

Otsuka Holdings has established Corporate Document Control Regulations and rigorously controls the management of important documents related to management decision making and material financial information documents, and promotes appropriate information disclosure.

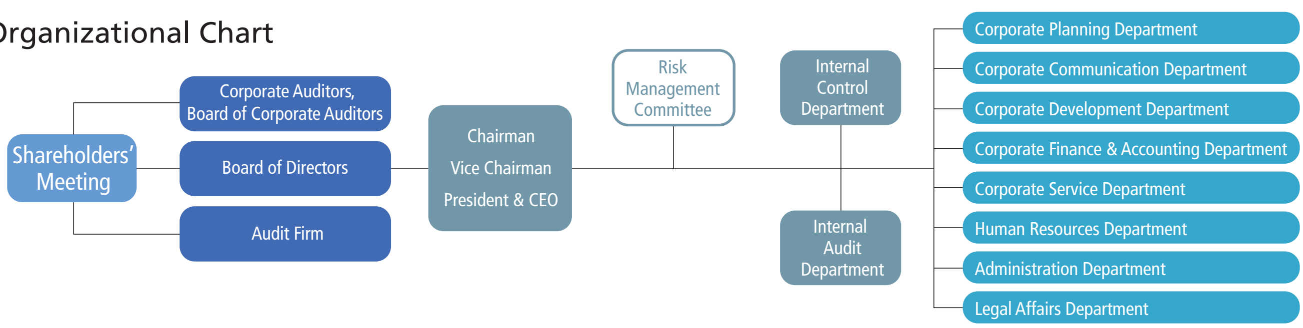
The Company has also established Rules for Information Security and implements measures to prevent unauthorized external access to, and outflow of, information, and protects personal information through Confidentiality Rules regarding Personal Information.

## Risk Management

Otsuka Holdings has established Risk Management Rules and a Risk Management Committee, chaired by the Company's president, to create a risk management structure. The risk management structure is separated into two components—risk management, for times of normal operations, and crisis management, for emergency situations.

The Otsuka Group communicates internally and strives to prevent damage or minimize its effects to ensure stable and uninterrupted business operations. As part of the Otsuka Group's risk management, managers of the Company and main subsidiaries carried out a simulated crisis management exercise in January 2010. The problems and issues identified in this exercise were studied, and a set of Emergency Response Guidelines for the Group were formulated for the event of a major earthquake or outbreak of avian influenza, etc.

## ■Organizational Chart



# Social Responsibility

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

## Peshawar Refugee Camp Clinic

Otsuka Pharmaceutical, Otsuka Pakistan, and Group companies across the Asian region established the Otsuka Welfare Clinic in 2003 to provide relief to Afghan refugees in Peshawar, the capital of Pakistan's former North-West Frontier Province (now called Khyber Pakhtunkhwa). Staffed by doctors, pharmacists, and nurses, the clinic treats patients free of charge.

Since its opening, the clinic has treated an average of 300 patients a day and more than 500,000 patients have visited the clinic to date.

## Environmental Metropolis: "Adopt an Eco-School" Project

Three Otsuka Group companies (Otsuka Pharmaceutical, Taiho Pharmaceutical, and Otsuka Chemical) collaborate in the "Adopt an Eco-School" project, an environmental education initiative sponsored by Tokushima Prefecture and local universities as an alliance of business, government and academia. The three Otsuka companies have "adopted" and sponsor environmental activities at Tokushima Kawauchi Junior High School. Part of the project involves Otsuka Group employees acting as instructors and giving talks on environmental issues. The project is designed to raise children's interest in environmental issues through participation in water quality surveys on the Yoshino River, observation of factory water treatment facilities, and other activities.

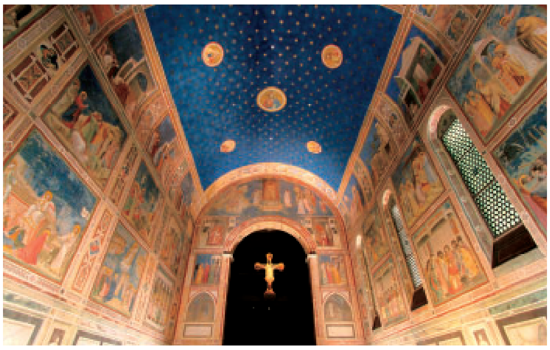
## Awa-Odori (dance) Festival

Held in the city of Tokushima and lasting four days from August 12 every year, the lively Awa-Odori Festival attracts more than 1.3 million spectators from all over Japan. Every year the Otsuka Group takes part in the festival by entering dance groups made up of employees of Group companies. These include the Otsuka-Ren dance group from Otsuka Pharmaceutical, the Otsuka Uzumaki-Ren from Otsuka Pharmaceutical Factory, the Otsuka Hatsuratsu-Ren from Otsuka Chemical, Otsuka Warehouse and Otsuka Foods, and the TIOVITA-Ren from Taiho Pharmaceutical.

## Supporting Tokushima Vortis

The Otsuka Group sponsors Tokushima Vortis—the Shikoku region's first J-League soccer team—and supports the team's activities.

(Photo: Tokushima Vortis)



## Otsuka Museum of Art

Established in Naruto, Tokushima Prefecture, in 1998 to commemorate the Otsuka Group's 75th anniversary, the Otsuka Museum of Art is the world's only art museum featuring famous masterpieces reproduced on ceramic panels. Including ancient relics and church frescoes, over 1,000 pieces from ancient to contemporary works held in more than 190 galleries in 25 countries around the world are reproduced in their original size using Otsuka Ohmi Ceramics' special manufacturing technique. With the original colors preserved from fading, the aesthetic value of the original works is conveyed. The museum has three floors below ground and two floors above, with displays ingeniously laid out as "environmental displays," "displays categorized by historical development" and "thematic displays," giving a first-hand sense of the changes that have occurred over 3,000 years of Western art history. A variety of events is also held in cooperation with the local community, including concerts, lectures, and educational programs for children.

## Otsuka Health Comic Library

Otsuka Health Comic Library was started in 1989 by Otsuka Pharmaceutical to teach children about the human body and how to stay healthy using entertaining illustrated explanations. One volume a year has been published for the past 20 years. The series is donated to elementary and junior high schools throughout Japan and to Japanese schools overseas. In addition to being read at school by children whenever they like, the comics are often used as teaching materials in school lessons. Some of the volumes issued are posted on Otsuka Pharmaceutical's website to make them accessible to even more people.

http://www.otsuka.co.jp/environment/comiclibrary/

*We Are Children of the Earth: The Environment & Our Health* from Otsuka Health Comic Library Sequel Vol. 3, published in March 2010, is the first volume collaborated on by readers, with illustrations collected from elementary school children around Japan and Japanese schools overseas and adapted by the cartoonist for the series.

## Installation of Cogeneration Systems

Otsuka Chemical's Tokushima Factory has installed a cogeneration system that effectively utilizes the heat created when electric power is generated using natural gas as fuel. This supplies electric power and steam to Otsuka Pharmaceutical, Otsuka Foods, and Taiho Pharmaceutical facilities in the same area. This system has reduced $CO_2$ emissions by 22%, cut nitrogen oxide and sulfur oxide emissions to one-tenth their previous levels and raised energy efficiency from 55% to 80%.

Otsuka Pharmaceutical Factory's Matsushige Factory has installed a similar cogeneration system that began operating full-scale in August 2010. The system aims to reduce the Group's environmental impact by supplying electric power to the Otsuka Chemical and Otsuka Warehouse facilities located on the premises.

## Outdoor Concerts

The Otsuka Pharmaceutical Wajiki Factory's grassy square, decorated with art objects and open to the local community as a "factory park," is popular among locals as a green space that is always open to all. The 2010 concert—Exciting Summer in Wajiki—is our 21st and coincides every year with the Awa-Odori Festival. The concert is supported by Otsuka Pharmaceutical and Otsuka Techno Corporation, along with other local businesses and organizations, to help contribute to the revitalization and development of the region.

## Financial highlights

During the fiscal year ended March 31, 2010, the Japanese economy faced uncertainties caused by the worsening employment conditions and sluggish consumer spending triggered by the global recession.

Against this background, we continued to expand our global operations based on our mission to contribute to better health worldwide through creation of innovative products.

Additionally, we completed a stock-for-stock exchange with Otsuka Chemical Company as a result of which Otsuka Chemical Company became a wholly-owned subsidiary of Otsuka Holdings Co., Ltd. (the "Company"), further strengthening the alliance structure.

These efforts resulted in consolidated net sales of ¥1,084.3 billion (13.4% increase from previous year), operating income of ¥98.5 billion (7.6% increase) and net income of ¥67.4 billion (43.2% increase) for the fiscal year ended March 31, 2010.

Operating results by business segments are as follows.

Effective April 1, 2009, the Group modified its business segmentation. The preceding fiscal year data has been reclassified to the new business segmentation for comparability purposes.

## Operating results by business segment

The Pharmaceuticals business posted ¥715.9 billion in global net sales (9.8% increase from previous year) backed by strong domestic sales of *ABILIFY*, *Mucosta*, *Pletaal*, and *TS-1*. In addition, *ABILIFY* performed well in the United States, Europe and Asia.

The Nutraceuticals business posted ¥248.8 billion in global net sales (13.5% increase from previous year), due to sales of *SOYJOY* and *Pocari Sweat*, which introduced a new 900ml PET bottle.

The Consumer Products business posted ¥51.1 billion in global net sales (1.9% decrease from previous year) as a result of sales of *Mannan Hikari* and *Crystal Geyser Water*. Net sales in Other businesses were ¥105.1 billion (74.8% increase from previous year) as Otsuka Chemical and its three affiliates were consolidated for the first time in the fiscal year ended March 31, 2010.

Gross profit amounted to ¥727.7 billion (14.9% increase from previous year) and selling, general and administrative expenses rose by ¥87.4 billion to ¥629.2 billion (16.1% increase), with increases primarily in sales promotion expenses (¥40.4 billion) and research and development expenses (¥15.9 billion).

As a result, operating income amounted to ¥98.5 billion (7.6% increase from previous year).

Net non-operating income was ¥3.5 billion, compared to the ¥1.4 billion loss in previous year. Major reasons for the improvement include a ¥4.9 billion increase in equity in earnings of unconsolidated subsidiaries and affiliates, a ¥2.4 billion decrease in foreign exchange loss and revenues related to extension of co-promotion agreement (¥1.8 billion) as a result of the $400 million received from Bristol-Myers Squibb for the extension of the development and commercialization collaboration agreement for *ABILIFY*.

As a result, net income before tax increased by ¥11.8 billion to ¥101.9 billion and net income increased by ¥20.4 billion to ¥67.4 billion.

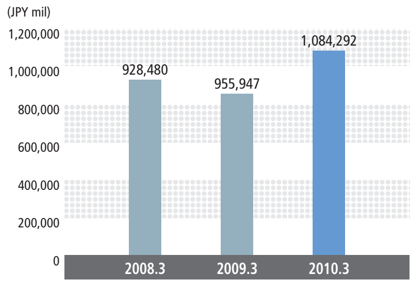
### (1) Pharmaceuticals business

In the therapeutic drug area, Otsuka Pharmaceutical Company's atypical antipsychotic drug *ABILIFY* showed a strong increase in sales. In Japan, a new formulation "*ABILIFY Oral Solution 0.1%*" was launched in April, expanding the treatment options available to patients. Additionally, the Company extended the U.S. portion of the agreement for the development and commercialization of *ABILIFY* with Bristol-Myers Squibb in April and the companies also established collaboration for two Bristol-Myers Squibb oncology products.

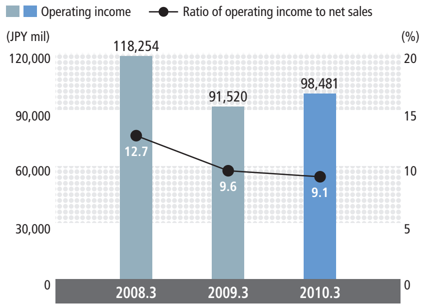
The impact of the generic versions of *Mucosta* and *Pletaal* in Japan was a major concern. However, due to strong promotional efforts, sales of both drugs showed solid performance. *SAMSCA*, an oral selective vasopressin V2-receptor antagonist, was launched in the U.S. in June and is continuing to grow, and sales began in the EU in September.

Taiho Pharmaceutical's new formulation of its anticancer drug *TS-1*, *TS-1 Combination Granule*, was introduced in Japan in June and sales have shown a steady increase. Global expansion of *TS-1* is progressing with launches in China in July and Singapore through our partner

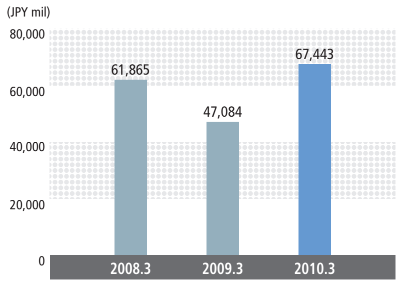
### Net Sales




### Operating Income




### Net Income



Pharmaforte in August. Sales of *Uzel* tablet grew as a result of the introduction of a smaller tablet formulation and *PROTECADIN* continued its growth. *Zosyn*, an injectable antibiotic made from *Tazobactam*, is sold in over 90 countries globally through our partner Pfizer and by Taisho Toyama Pharmaceutical in Japan.

In the clinical nutrition business, Otsuka Pharmaceutical Factory launched the world's first high-calorie total parenteral nutrition (TPN) solutions formulated with five trace elements in September 2009. Heparin lock flush solution also continued to show solid performance.

In the diagnostics business, as a result of the spread of the influenza epidemic, demand for Otsuka Pharmaceutical's influenza virus kit *Quick Navi-Flu* showed strong growth.

Pharmaceuticals net sales for the year ended March 31, 2010 was ¥715.9 billion (9.8% increase from previous year) and operating income was ¥132.9 billion for the period (0.5% decrease from previous year).

## (2) Nutraceuticals business

Otsuka Pharmaceutical's nutritional *SOYJOY* fruit soy bar is currently sold in seven countries and regions, and Otsuka Pharmaceutical is working to turn it into a global product. With the launch of *SOYJOY Banana Ca Plus* in April and *SOYJOY Blueberry* in September in Japan, the *SOYJOY* lineup has been expanded to 11 products.

*Pocari Sweat* is finding new markets in Asia and overseas brand building is progressing steadily. Sales of *Pocari Sweat* have expanded particularly well in Indonesia. In Japan, sales of a new 900-ml PET "eco-bottle" with an approximately 30% lighter weight than its predecessor began in August.

The line-up of the nutritionally balanced *CalorieMate Blocks* was extended by the addition of a new flavor, Maple, in September which contributed to increase in brand sales.

In the Cosmedics (cosmetic + medicine) field, the line expansion of the *UL-OS* brand (face and body skincare) combined with vigorous promotion contributed to a rise in brand awareness and an increase in brand users.

Sales of Taiho Pharmaceutical's mainstay *Tiovita* brand grew as aggressive marketing activities overcame continuing weakness in this category.

Sales of Nutrition & Santé SAS in France, which was acquired in 2008, is included in current year sales.

As a result of these efforts, the Nutraceuticals business achieved sales of ¥248.8 billion (13.5% increase from previous year) and operating income of ¥2.3 billion (¥5.2 billion loss in previous year).

## (3) Consumer products business

Development of new sales channels contributed to sales increase in Otsuka Foods' calorie control food, *Mannan Hikari*. Otsuka Foods was consolidated for the first time in the fiscal year ended March 31, 2010 due to its increased importance to the Group.

Otsuka Beverage continued marketing activities aimed at gaining greater market acceptance for Sinvino Java Tea Straight while working to strengthen the Crystal Geyser brand.

To further strengthen synergies, Otsuka Beverage was merged into Otsuka Foods effective January 1, 2010.

Despite these efforts, a persistent downturn in the consumption of consumer products resulted in a fall in sales to ¥51.1 billion (1.9% decrease from previous year) and operating loss of ¥8.4 billion (¥3.7 billion loss in previous year).

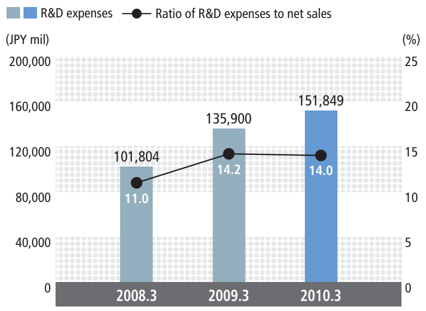
## (4) Other businesses

On July 1, 2009, Otsuka Chemical made a new start as a wholly-owned subsidiary of the Company. From the second half of the period, Otsuka Chemical saw a marked recovery in demand for its functional chemical products so that over the fiscal period as a whole, sales remained at approximately the same level as the previous year. In the fine chemical area, cost savings were achieved through synergies between plants in Japan and India, and net sales remained firm. Otsuka Chemical and its three affiliates were consolidated for the first time in the fiscal year ended March 31, 2010.

Otsuka Warehouse worked to develop an efficient and environment-friendly logistics system.

These results contributed to net sales of ¥105.1 billion (74.8%

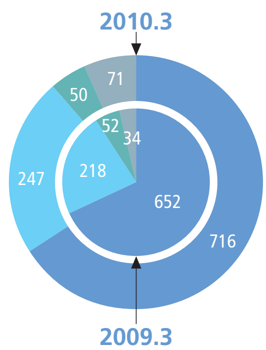
### R&D Expenses




### Sales by Business Segment

*External sales

| | 2009.3 (JPY bn) | 2010.3 (JPY bn) |
|---|---|---|
| Pharmaceuticals Business | 652 | 716 |
| Nutraceuticals Business | 218 | 247 |
| Consumer Products Business | 52 | 50 |
| Other Businesses | 34 | 71 |



increase from previous year) and operating income of ¥4.4 billion (92.9% increase) for this sector.

## Operating results by geographical segments

### (1) Japan

In the therapeutic drug sector of the Pharmaceutical business, growth in Otsuka Pharmaceutical's core products, *ABILIFY*, *Mucosta* and *Pletaal*, contributed to increase in sales. Growth in *ABILIFY's* overseas sales resulted in increased exports from Japan while Taiho Pharmaceutical's *Uzel, Procatedin* and *Zosyn* also contributed to the increase.

In the clinical nutrition business, Otsuka Pharmaceutical Factory's *ELNEOPA*, Heparin lock flush solution, *Neoparen, B-FLUID* and *Racol* all showed strong sales.

In the diagnostics business, Otsuka Pharmaceutical's influenza virus kit, *Quick Navi-Flu*, showed strong increase in demand.

In the Nutraceuticals business, Otsuka Pharmaceutical's *Calorie Mate* block and Taiho Pharmaceutical's *Tiovita* brand contributed to sales increase.

In the Consumer Products business, Otsuka Food's *Mannan-Hikari* contributed to sales, while Otsuka Beverage continued marketing activities aimed at gaining greater market acceptance for *Sinvino Java Tea Straight* and the *Crystal Geyser* brand.

Net sales in Japan for the year ended March 31, 2010 amounted to ¥709.4 billion (3.0% increase from previous year) and operating income to ¥86.5 billion (17.1% increase).

### (2) United States

In the therapeutic drug sector of the Pharmaceutical business, *ABILIFY* continued to show strong performance and *SAMSCA* was launched in June 2009.

In the Nutraceuticals business, *Nature Made* brand continued to grow.

Net sales in the U.S. for the year ended March 31, 2010 came to ¥406.2 billion (28.9% increase from previous year) and operating income to ¥11.3 billion (14.3% increase).

### (3) Other

In Europe, *ABILIFY* continued to perform well and sales of Nutrition & Santé, a nutritional and functional food company acquired in the previous fiscal year, is included in the consolidated sales from the fiscal year under review.

In Asia, the Pharmaceuticals and Nutraceuticals businesses both performed well. The Nutraceuticals business was driven particularly by the increase in *Pocari Sweat* sales in Indonesia and China.

Net sales excluding Japan and the U.S. for the year ended March 31, 2010 came to ¥121.6 billion (118.7% increase from previous year) and operating income to ¥8.4 billion (60.8% increase).

## Cash flows

The balance of cash and cash equivalents as of March 31, 2010 stood at ¥321.3 billion, an increase of ¥91.2 billion compared with the previous fiscal year-end. Net cash provided by operating activities was ¥173.5 billion, an increase of ¥115.0 billion compared with the previous fiscal year, which was partially offset by the net cash used in investing activities and financing activities, ¥59.0 billion and ¥28.1 billion, respectively.

An increase in net cash flow provided by operating activities was due mainly to an ¥11.8 billion increase in income before income taxes and minority interests and a ¥29.9 billion increase in long-term unearned revenues as a result of the $400 million received from Bristol-Myers Squibb for the extension of the development and commercialization collaboration agreement for *ABILIFY*. A ¥27.6 billion decrease in income taxes paid was mainly due to an increase in the R&D tax credit.

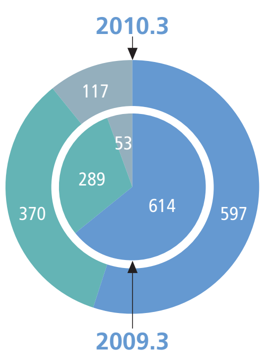
Net cash used in investing activities was ¥59.0 billion, compared with an outflow of ¥213.6 billion in the previous fiscal year. Investing activities in the previous fiscal year included the acquisition of Alma S.A. and Nutrition & Santé SAS for business expansion in Europe. Main investing activities in the current fiscal year included purchases of property, plant and equipment (¥39.7 billion) and investment securities (¥26.9 billion).

Net cash used in financing activities was ¥28.1 billion, compared with an inflow of ¥172.2 billion in the previous year. Whereas ¥94.9 billion was raised through issuance of stock in the previous year, cash flow from operating activities was used to repay debt in the current fiscal year.

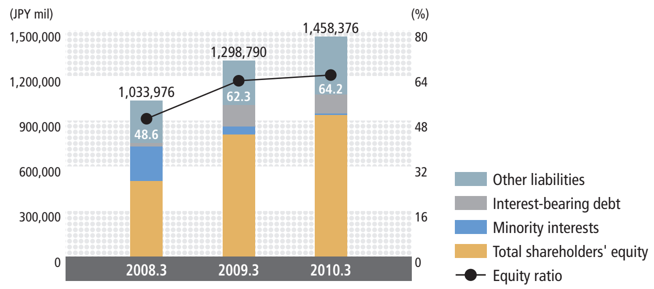
### Operating Results by Geographical Segment

*External sales

| | 2009.3 (JPY bn) | 2010.3 (JPY bn) |
|---|---|---|
| Japan | 614 | 597 |
| U.S. | 289 | 370 |
| Others | 53 | 117 |




### Composition of Total Capital Employed



## Operational risks

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

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

This explanation is not intended to be complete and there may be other risks affecting the Group's performance not listed below. Forward-looking information reflects our judgment on the basis of information available as of March 31, 2010.

### (1) Our ability to pay dividends is substantially dependent on our subsidiaries and affiliated companies' payments of dividends and management fees to us

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

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

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

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

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

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

Sales of our top-selling pharmaceutical product called *ABILIFY* constitute approximately 30% of our total consolidated net sales. If sales of this product decrease due to competition from other products, including generic versions of the product becoming available upon the expiration of related patents, or for other reasons, our financial condition and results of operations will be materially and adversely affected.

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

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

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

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

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

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

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

### (8) We depend on outside sources for raw materials

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

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

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

### (10) Our pharmaceutical products are subject to significant competition

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

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

If our patent and other intellectual property rights are infringed by third parties, we may not be able to take full advantage of existing demand for our products. We are also subject to the risk of infringement claims directed to us by third parties. If we are found to have infringed the intellectual property rights of others, or if we agree to settle under such terms, we may be required to recall the relevant products, terminate manufacturing and sales of such products, pay significant damages or pay significant royalties. Currently, we have filed patent infringement actions against a number of generic drug companies. It is not possible at this time to reasonably assess the outcome of these lawsuits or their impact on us. If, however, a generic drug company were to launch "at risk" or if we fail to prevail in these lawsuits, generic drug competition would likely result in substantial decreases in the sales of *ABILIFY* in the United States, which would have a material adverse effect on our financial condition and results of operations.

### (12) We are subject to litigation risk

We are subject to the risk of litigation from third parties with respect to the operation of our business, including claims related to product liability, antitrust regulation, consumer protection statutes, labor issues, contract disputes and the environment issues. In the event of an adverse decision or settlement, our business, financial condition and results of operations could be materially and adversely affected.

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

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

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

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

### (15) We are subject to market risk

In the fiscal year ended March 31, 2010, 48.8% of our net sales were from customers outside of Japan, and we believe that a significant portion of our net sales will continue to be based on foreign currencies from sources outside of Japan. As a result, fluctuations in foreign exchange rates, particularly of the U.S. dollar, beyond levels anticipated by us could have a material effect on our results of operations. In addition, because the financial statements of our foreign subsidiaries are denominated in foreign currencies, fluctuations in foreign currencies and their effects on the yen-equivalent amounts could have an impact on our financial condition and results of operations.

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

### (16) We face risks related to strategic alliances

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

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

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

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

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

| ASSETS | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Current assets: | | | |
| Cash and cash equivalents (Notes 7 and 14) | ¥ 321,306 | ¥ 230,104 | $ 3,453,418 |
| Time deposits (Note 14) | 6,362 | 5,735 | 68,379 |
| Marketable securities (Notes 4 and 14) | 23,211 | 12,241 | 249,473 |
| Receivables (Notes 7 and 14): | | | |
| Trade notes | 12,636 | 14,108 | 135,813 |
| Trade accounts | 217,822 | 210,049 | 2,341,165 |
| Unconsolidated subsidiaries and affiliated companies | 1,524 | 2,539 | 16,380 |
| Other | 7,625 | 5,564 | 81,954 |
| Allowance for doubtful receivables | (398) | (490) | (4,278) |
| Inventories (Notes 5 and 7) | 115,420 | 104,008 | 1,240,542 |
| Deferred tax assets (Note 10) | 28,290 | 19,865 | 304,063 |
| Other current assets | 17,718 | 18,565 | 190,434 |
| Total current assets | 751,516 | 622,288 | 8,077,343 |
| Property, plant and equipment (Notes 6 and 7): | | | |
| Land | 75,817 | 69,980 | 814,886 |
| Buildings and structures | 275,704 | 268,379 | 2,963,285 |
| Machinery and equipment | 271,309 | 252,795 | 2,916,047 |
| Furniture and fixtures | 66,233 | 61,703 | 711,877 |
| Lease assets | 16,160 | 12,808 | 173,689 |
| Construction in progress | 10,098 | 5,341 | 108,533 |
| Total | 715,321 | 671,006 | 7,688,317 |
| Accumulated depreciation | (454,386) | (426,702) | (4,883,770) |
| Net property, plant and equipment | 260,935 | 244,304 | 2,804,547 |
| Investments and other assets: | | | |
| Investment securities (Notes 4 and 14) | 115,295 | 107,473 | 1,239,198 |
| Investments in and advances to unconsolidated subsidiaries and affiliated companies (Note 14) | 188,636 | 192,156 | 2,027,472 |
| Goodwill (Note 6) | 44,752 | 41,649 | 480,997 |
| Intangible assets | 43,647 | 44,804 | 469,121 |
| Deferred tax assets (Note 10) | 33,975 | 27,981 | 365,166 |
| Other assets | 19,620 | 18,135 | 210,877 |
| Total investments and other assets | 445,925 | 432,198 | 4,792,831 |
| Total | ¥1,458,376 | ¥1,298,790 | $15,674,721 |

The accompanying notes are an integral part of these statements.

| LIABILITIES AND EQUITY | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Current liabilities: | | | |
| Short-term borrowings (Notes 7 and 14) | ¥ 39,450 | ¥ 23,950 | $ 424,011 |
| Current portion of long-term debt (Notes 7 and 14) | 26,850 | 17,058 | 288,586 |
| Payables (Note 14): | | | |
| Trade notes | 7,923 | 8,319 | 85,157 |
| Trade accounts | 84,289 | 73,736 | 905,944 |
| Construction | 6,995 | 4,720 | 75,183 |
| Unconsolidated subsidiaries and affiliated companies | 2,914 | 3,155 | 31,320 |
| Other | 37,508 | 31,894 | 403,138 |
| Income taxes payable (Note 14) | 35,332 | 9,272 | 379,751 |
| Accrued expenses | 53,837 | 49,530 | 578,644 |
| Other current liabilities | 16,711 | 11,653 | 179,610 |
| Total current liabilities | 311,809 | 233,287 | 3,351,344 |
| Long-term liabilities: | | | |
| Long-term debt (Note 7) | 69,990 | 98,439 | 752,257 |
| Liability for employees' retirement benefits (Note 8) | 45,081 | 40,614 | 484,534 |
| Retirement benefits for directors and corporate auditors | 3,314 | 3,212 | 35,619 |
| Negative goodwill | 31,398 | 33,862 | 337,468 |
| Long-term unearned revenues (Note 16) | 29,896 | - | 321,324 |
| Deferred tax liabilities (Note 10) | 13,193 | 15,565 | 141,799 |
| Other long-term liabilities | 5,238 | 9,995 | 56,298 |
| Total long-term liabilities | 198,110 | 201,687 | 2,129,299 |
| Commitments and contingent liabilities (Notes 12,15 and 16) | | | |
| Equity (Notes 9 and 19): | | | |
| Common stock: | 42,946 | 42,946 | 461,586 |
| Authorized—1,600,000,000 shares in 2010<br>Authorized— 80,000,000 shares in 2009 | | | |
| Issued—519,156,817 shares in 2010<br>Issued— 23,518,869 shares in 2009 | | | |
| Capital surplus | 432,482 | 355,816 | 4,648,345 |
| Retained earnings | 532,032 | 468,065 | 5,718,315 |
| Unrealized gain (loss) on available-for-sale securities | 4,259 | (716) | 45,776 |
| Deferred gain (loss) on derivatives under hedge accounting | (15) | - | (161) |
| Foreign currency translation adjustments | (30,060) | (34,608) | (323,087) |
| Treasury stock, at cost<br>42,610,147 shares in 2010<br>1,037,990 shares in 2009 | (45,354) | (22,073) | (487,468) |
| Total | 936,290 | 809,430 | 10,063,306 |
| Minority interests | 12,167 | 54,386 | 130,772 |
| Total equity | 948,457 | 863,816 | 10,194,078 |
| Total | ¥1,458,376 | ¥1,298,790 | $15,674,721 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Otsuka Holdings Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Net sales | ¥1,084,292 | ¥955,947 | $11,654,041 |
| Cost of sales | 356,608 | 322,596 | 3,832,846 |
| Gross profit | 727,684 | 633,351 | 7,821,195 |
| Selling, general and administrative expenses (Note 11) | 629,203 | 541,831 | 6,762,715 |
| Operating income | 98,481 | 91,520 | 1,058,480 |
| Other income (expenses): | | | |
| Interest and dividend income | 2,949 | 4,060 | 31,696 |
| Interest expense | (3,168) | (1,560) | (34,050) |
| Foreign exchange loss, net | (596) | (2,951) | (6,406) |
| Amortization of negative goodwill | 2,464 | 2,464 | 26,483 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 4,923 | 1,782 | 52,913 |
| Loss on impairment of long-lived assets (Note 6) | (2,360) | (1,565) | (25,365) |
| Loss on valuation of investment securities | (3,018) | (4,017) | (32,438) |
| Revenues related to extension of co-promotion agreement (Note 16) | 1,830 | - | 19,669 |
| Other, net (Note 8) | 435 | 385 | 4,676 |
| Other income (expenses), net | 3,459 | (1,402) | 37,178 |
| Income before income taxes and minority interests | 101,940 | 90,118 | 1,095,658 |
| Income taxes (Note 10): | | | |
| Current | 52,643 | 35,601 | 565,811 |
| Deferred | (19,157) | 549 | (205,901) |
| Total income taxes | 33,486 | 36,150 | 359,910 |
| Minority interests in net income | 1,011 | 6,884 | 10,866 |
| Net income | ¥ 67,443 | ¥ 47,084 | $ 724,882 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Per share of common stock (Notes 2(r) and 18): | | | |
| Basic net income | ¥143.50 | ¥136.36 | $1.54 |
| Diluted net income | 143.47 | 136.26 | 1.54 |
| Cash dividends applicable to the year | 12.50 | 12.50 | 0.13 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Equity

Otsuka Holdings Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2010 and 2009

| | Thousands | Millions of yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Outstanding number of shares of common stock | Common stock | Capital surplus | Retained earnings | Unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Treasury stock | Total | Minority interests | Total Equity |
| Balance, April 1, 2008 | 13,181 | ¥ 6,791 | ¥ 69,794 | ¥427,788 | ¥5,992 | ¥ 18 | ¥ (2,586) | ¥ (5,166) | ¥502,631 | ¥229,151 | ¥731,782 |
| Unification of Accounting Policies Applied to Foreign Subsidiaries | | | | (1,792) | | | | | (1,792) | | (1,792) |
| Issuance of new shares (Note 9) | 4,223 | 49,084 | 45,821 | | | | | | 94,905 | | 94,905 |
| Share transfer (Note 3) | | (13,209) | 13,209 | | | | | | - | | - |
| Stock-for-Stock exchanges (Notes 3 and 17) | 5,742 | 280 | 226,992 | | | | | | 227,272 | | 227,272 |
| Cash dividends, ¥15 per share | | | | (4,066) | | | | | (4,066) | | (4,066) |
| Net income | | | | 47,084 | | | | | 47,084 | | 47,084 |
| Purchase of treasury stock | (123) | | | | | | | (1,677) | (1,677) | | (1,677) |
| Retirement of treasury stock | | | | (383) | | | | 383 | - | | - |
| Change of company status to consolidated subsidiaries from equity method affiliates | (542) | | | | | | | (15,613) | (15,613) | | (15,613) |
| Change of scope of consolidation | | | | (566) | | | | | (566) | | (566) |
| Net change in the year | | | | | (6,708) | (18) | (32,022) | | (38,748) | (174,765) | (213,513) |
| Balance, March 31, 2009 | 22,481 | ¥42,946 | ¥355,816 | ¥468,065 | ¥ (716) | - | ¥(34,608) | ¥(22,073) | ¥809,430 | ¥ 54,386 | ¥863,816 |
| Cash dividends, ¥12.5 per share | | | | (5,880) | | | | | (5,880) | | (5,880) |
| Stock-split (Note 9) | 427,137 | | | | | | | | | | |
| Stock-for-Stock exchanges (Notes 3 and 17) | 26,937 | | 76,666 | | | | | (23,272) | 53,394 | | 53,394 |
| Net income | | | | 67,443 | | | | | 67,443 | | 67,443 |
| Purchase of treasury stock | (8) | | | | | | | (9) | (9) | | (9) |
| Adjustments of retained earnings for newly consolidated subsidiaries (Note 2(a)) | | | | 2,404 | | | | | 2,404 | | 2,404 |
| Net change in the year | | | | | 4,975 | (15) | 4,548 | | 9,508 | (42,219) | (32,711) |
| Balance, March 31, 2010 | 476,547 | ¥42,946 | ¥432,482 | ¥532,032 | ¥4,259 | ¥(15) | ¥(30,060) | ¥(45,354) | ¥936,290 | ¥ 12,167 | ¥948,457 |

| | | Thousands of U.S dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Unrealized gain (loss) on available-for-sale securities | Deferred gain (loss) on derivatives under hedge accounting | Foreign currency translation adjustments | Treasury stock | Total | Minority interests | Total Equity |
| Balance, March 31, 2009 | | $461,586 | $3,824,334 | $5,030,794 | $ (7,696) | - | $ (371,969) | $(237,242) | $ 8,699,807 | $584,544 | $ 9,284,351 |
| Cash dividends, $0.13 per share | | | | (63,199) | | | | | (63,199) | | (63,199) |
| Stock-for-Stock exchanges (Notes 3 and 17) | | | 824,011 | | | | | (250,129) | 573,882 | | 573,882 |
| Net income | | | | 724,882 | | | | | 724,882 | | 724,882 |
| Purchase of treasury stock | | | | | | | | (97) | (97) | | (97) |
| Adjustments of retained earnings for newly consolidated subsidiaries (Note2(a)) | | | | 25,838 | | | | | 25,838 | | 25,838 |
| Net change in the year | | | | | 53,472 | (161) | 48,882 | | 102,193 | (453,772) | (351,579) |
| Balance, March 31, 2010 | | $461,586 | $4,648,345 | $5,718,315 | $45,776 | $(161) | $(323,087) | $(487,468) | $10,063,306 | $130,772 | $10,194,078 |

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Otsuka Holdings Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2010 and 2009

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Operating activities: | | | |
| Income before income taxes and minority interests | ¥101,940 | ¥ 90,118 | $1,095,658 |
| Adjustments for: | | | |
| Income taxes paid | (27,678) | (55,245) | (297,485) |
| Depreciation and amortization | 47,081 | 37,926 | 506,030 |
| Amortization of negative goodwill | (2,464) | (2,464) | (26,483) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (4,923) | (1,782) | (52,913) |
| Loss on impairment of long-lived assets | 2,360 | 1,565 | 25,365 |
| Loss on valuation of investment securities | 3,018 | 4,017 | 32,438 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in trade receivables | 193 | (7,292) | 2,074 |
| Increase in inventories | (7,376) | (9,264) | (79,278) |
| Increase (decrease) in trade payables | 5,297 | (5,222) | 56,933 |
| Increase in long-term unearned revenues | 29,896 | - | 321,324 |
| Other, net | 26,165 | 6,114 | 281,223 |
| Net cash provided by operating activities | 173,509 | 58,471 | 1,864,886 |
| Investing activities: | | | |
| Proceeds from sales of property, plant and equipment | 159 | 748 | 1,709 |
| Purchases of property, plant and equipment | (39,720) | (30,188) | (426,913) |
| Proceeds from sales and redemptions of investment securities | 15,718 | 11,178 | 168,938 |
| Purchases of investment securities | (26,856) | (20,707) | (288,650) |
| Purchases of stock of unconsolidated subsidiaries and affiliated companies | (1,909) | (131,503) | (20,518) |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 17) | - | (34,470) | - |
| Proceeds from withdrawal of time deposits | 8,704 | 3,518 | 93,551 |
| Payments into time deposits | (8,997) | (9,078) | (96,700) |
| Other, net | (6,114) | (3,108) | (65,714) |
| Net cash used in investing activities | (59,015) | (213,610) | (634,297) |
| Financing activities: | | | |
| Increase in short-term debt—net | 13,469 | 19,335 | 144,766 |
| Proceeds from long-term debt | 3,473 | 73,556 | 37,328 |
| Repayments of long-term debt | (35,200) | (6,353) | (378,332) |
| Issuance of common stock | - | 94,905 | - |
| Dividends paid | (5,880) | (4,066) | (63,199) |
| Dividends paid to minority interests in consolidated subsidiaries | (914) | (1,049) | (9,824) |
| Other, net | (3,087) | (4,131) | (33,179) |
| Net cash (used in) provided by financing activities | (28,139) | 172,197 | (302,440) |
| Foreign currency translation adjustments on cash and cash equivalents | 958 | (9,696) | 10,297 |
| Net increase in cash and cash equivalents | 87,313 | 7,362 | 938,446 |
| Cash and cash equivalents of newly consolidated subsidiaries | 3,889 | 95 | 41,799 |
| Cash and cash equivalents, beginning of year | 230,104 | 222,647 | 2,473,173 |
| Cash and cash equivalents, end of year | ¥321,306 | ¥230,104 | $3,453,418 |

The accompanying notes are an integral part of these statements.

## 1. Basis of presenting consolidated financial statements

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

In preparing these consolidated financial statements, certain reclassifications and presentational changes have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Otsuka Holdings Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93.04 to $1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of significant accounting policies

### (a) Consolidation

The consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 65 significant (65 as of March 31, 2009) subsidiaries (together, the "Group"). Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

During the year ended March 31, 2010, nine subsidiaries were newly included in the consolidated financial statements due to their increase in materiality, and 9 subsidiaries were merged with other consolidated subsidiaries.

Investments in one (one as of March 31, 2009) unconsolidated subsidiary and 11 (11 as of March 31, 2009) affiliated companies are accounted for by the equity method.

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

The excess of cost of investments in consolidated subsidiaries over fair value of their net assets or the excess of net assets of consolidated subsidiaries over purchase cost at the date of acquisition is amortized on a straight-line basis over a period of 5 or 20 years.

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

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

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

1) The accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements.
2) Financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or U.S. GAAP tentatively may be used for the consolidation process.
3) However, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:
   (1) amortization of goodwill;
   (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity;
   (3) expensing capitalized development costs of R&D;
   (4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting;
   (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and
   (6) exclusion of minority interests from net income, if contained.

PITF No.18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

### (c) Business combination

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

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

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

### (d) Cash equivalents

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

### (e) Securities

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

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

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

### (f) Inventories

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

### (g) Property, plant and equipment

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

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

The range of useful lives is from 3 to 65 years for buildings and structures and from 2 to 25 years for machinery and equipment.

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

Prior to April 1, 2009, art ceramics were classified as non-depreciable assets due to their scarcity and lack of physical depreciation. Technological advances in the field of art ceramics have made the recognition of functional depreciation possible. As a result, the Company has begun depreciation for art ceramics by the declining-balance method effective April 1, 2009.

The effect of this change was to increase depreciation expense by ¥707 million ($7,599 thousand) and decrease operating income and income before income taxes and minority interests by the same amount. Please see Note 20 for the effect on the segment information.

Effective April 1, 2009, art ceramics are classified mainly as buildings and structures. The balance in the art ceramics account at March 31, 2009 was ¥13,093 million and was reclassified from "Other property, plant and equipment" to "Buildings and structures" in the Consolidated Balance Sheet.

### (h) Intangible assets

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

### (i) Long-lived assets

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

### (j) Retirement benefits

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

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

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

### (k) Research and development expenses

Research and development expenses are charged to income as incurred.

### (l) Leases

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

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

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

All other leases are accounted for as operating leases.

### (m) Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

### (n) Income taxes

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

### (o) Foreign currency transactions

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

### (p) Foreign currency translation

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the current exchange rate.

### (q) Derivative financial instruments

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

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

i) all derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statement of income; and

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

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

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

### (r) Per share information

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

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

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

### (s) New accounting pronouncements

**1) Business Combinations**

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

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

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

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**2) Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**

The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows applying the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

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

(1) amortization of goodwill;
(2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity;
(3) expensing capitalized development costs of R&D;
(4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting;
(5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and
(6) exclusion of minority interests from net income, if contained.

This standard is applicable to the equity method of accounting for fiscal years beginning on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**3) Asset Retirement Obligations**

In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No.21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**4) Accounting Changes and Error Corrections**

In December 2009, the ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies

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

(2) Changes in Presentation

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**5) Segment Information Disclosures**

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," No. 20 "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

## 3. Business combination

In the fiscal year ended March 31, 2010, the Group went through a series of corporate reorganizations with the objective of enhancing the efficiency and effectiveness of the operations for further business development.

To all of the transactions explained in this section, the Company applied "Accounting Standard for Business Combinations (BAC, October 31, 2003)" and "Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ, Guidance No. 10)" and treated them as business transactions under common control.

### 1) Merger of Otsuka Chemical Holdings Co., Ltd. and Otsuka Chemical Co., Ltd.

On June 30, 2009, Otsuka Chemical Holdings Co., Ltd. merged with Otsuka Chemical Co., Ltd., with Otsuka Chemical Holdings Co., Ltd. as the surviving corporation. The company name was subsequently changed to Otsuka Chemical Co., Ltd.

### 2) Stock-for-stock exchange with Otsuka Chemical Co., Ltd.

On July 1, 2009, Otsuka Holdings Co., Ltd. completed a stock-for-stock exchange with Otsuka Chemical Co., Ltd., and as a result Otsuka Chemical Co., Ltd. became a wholly-owned subsidiary of the Company.

In this transaction, one share of the Company's stock was allotted to each share of Otsuka Chemical's stock excluding shares owned by the Company. The Company issued 48,779,437 new shares valued at ¥77,325 million ($831,094 thousand), and combined with the acquisition cost of ¥25 million ($269 thousand), the total cost to the Company was ¥77,350 million ($831,363 thousand). The Company recorded goodwill of ¥8,056 million ($86,586 thousand) as a result of this transaction.

### 3) Absorption-type company split transaction with Otsuka Chemical Co., Ltd.

On August 1, 2009, by means of an absorption-type company split ("Kyushu-bunkatsu"), Otsuka Chemical Co., Ltd. transferred to the Company all of its shareholdings in Otsuka Holdings Co., Ltd. and Otsuka Beverage Co., Ltd.

### 4) Merger of Otsuka Foods Co., Ltd. and Otsuka Beverage Co., Ltd.

On January 1, 2010, Otsuka Foods Co., Ltd. merged with Otsuka Beverage Co., Ltd., with Otsuka Foods Co., Ltd. as the surviving corporation.

In the fiscal year ended March 31, 2009, the Otsuka Group went through a series of corporate reorganizations beginning with the establishment of Otsuka Holdings Co., Ltd. on July 8, 2008. The objective of these transactions was to reorganize the businesses of the Otsuka Group under the leadership of the newly established holding company and enhance efficiency and effectiveness of the operations for further business development.

To all of the transactions explained in this section, the Company applied "Accounting Standard for Business Combinations (BAC, October 31, 2003)" and "Guidance on Accounting Standard for Business Combinations and Business Divestitures (ASBJ, Guidance No. 10)" and treated them as business transactions under common control.

### 1) Establishment of Otsuka Holdings Co., Ltd. through a sole share transfer

On July 8, 2008, the Company was established as a wholly owning parent company of Otsuka Pharmaceutical Co., Ltd., through a sole share transfer by Otsuka Pharmaceutical Co., Ltd.

### 2) Absorption-type company split transaction with Otsuka Pharmaceutical Co., Ltd.

On October 1, 2008, by means of an absorption-type company split ("Kyushu-bunkatsu"), Otsuka Pharmaceutical Co., Ltd. transferred to the Company all of its shareholdings in Otsuka Chemical Holdings Co., Ltd., Otsuka Pharmaceutical Factory, Inc. and Otsuka Warehouse Co., Ltd.

### 3) Stock-for-stock exchange with Otsuka Pharmaceutical Factory, Inc.

On October 31, 2008, the Company completed a stock-for-stock exchange with Otsuka Pharmaceutical Factory, Inc., and as a result, Otsuka Pharmaceutical Factory, Inc. became a wholly-owned subsidiary of the Company. In this transaction, 30 shares of the Company's stock were allotted to each share of Otsuka Pharmaceutical Factory's stock excluding shares owned by the Company. The Company issued 1,920,000 new shares valued at ¥80,256 million, and combined with acquisition costs of ¥45 million, the total costs to the Company was ¥80,301 million. Neither positive nor negative goodwill arose from this transaction.

### 4) Absorption-type company split transaction with Otsuka Pharmaceutical Factory, Inc.

On November 1, 2008, by means of an absorption-type company split ("Kyushu-bunkatsu"), Otsuka Pharmaceutical Factory, Inc. transferred to the Company all of its shareholdings in Taiho Pharmaceutical, Co., Ltd. and Otsuka Chemical Holdings Co., Ltd.

### 5) Absorption-type company split transaction with Otsuka Warehouse Co., Ltd.

On November 1, 2008, by means of an absorption-type company split ("Kyushu-bunkatsu"), Otsuka Warehouse Co., Ltd. transferred to the Company all of its shareholdings in Taiho Pharmaceutical, Co., Ltd. and Otsuka Chemical Holdings Co., Ltd.

### 6) Stock-for-stock exchange with Taiho Pharmaceutical Co., Ltd.

On January 1, 2009, the Company completed a stock-for-stock exchange with Taiho Pharmaceutical Co., Ltd., and as a result Taiho Pharmaceutical Co., Ltd. became a wholly-owned subsidiary of the Company. In this transaction, 20 shares of the Company's stock were allotted to each share of Taiho Pharmaceutical's stock excluding shares owned by the Company. The Company issued 3,822,280 new shares valued at ¥147,016 million, and combined with acquisition costs of ¥45 million, the total costs to the Company were ¥147,061 million. Neither positive nor negative goodwill arose from this transaction.

## 4. Securities

Securities as of March 31, 2010 and 2009 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Current: | | | |
| Government and corporate bonds | ¥ 23,097 | ¥ 12,174 | $ 248,248 |
| Other | 114 | 67 | 1,225 |
| Total | ¥ 23,211 | ¥ 12,241 | $ 249,473 |
| Non-Current: | | | |
| Marketable equity securities | ¥ 49,950 | ¥ 38,125 | $ 536,866 |
| Government and corporate bonds | 57,810 | 55,405 | 621,346 |
| Other | 7,535 | 13,943 | 80,986 |
| Total | ¥115,295 | ¥107,473 | $1,239,198 |

The costs and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

| Mar 31, 2010 | Millions of Yen | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥42,595 | ¥10,312 | ¥2,957 | ¥49,950 |
| Other | 27,113 | – | – | 27,113 |
| Held-to-maturity | 80,907 | 1,014 | 110 | 81,811 |

| Mar 31, 2009 | Millions of Yen | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥38,208 | ¥6,667 | ¥6,750 | ¥38,125 |
| Held-to-maturity | 67,479 | 865 | 59 | 68,285 |

| Mar 31, 2010 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | $457,814 | $110,834 | $31,782 | $536,866 |
| Other | 291,412 | – | – | 291,412 |
| Held-to-maturity | 869,593 | 10,899 | 1,182 | 879,310 |

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2009 were as follows. The similar information for March 31, 2010 is disclosed in Note 14.

| Mar 31, 2009 | Millions of Yen |
|---|---|
| | Carrying amount |
| Available-for-sale: | |
| Equity securities | ¥11,444 |
| Other | 2,665 |
| Held-to-maturity | – |
| Total | ¥14,109 |

The information of available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

| Mar 31, 2010 | Millions of Yen | | |
|---|---|---|---|
| | Proceeds | Realized Gains | Realized Losses |
| Available-for-sale: | | | |
| Equity securities | ¥5 | ¥5 | ¥1 |
| Total | ¥5 | ¥5 | ¥1 |

| Mar 31, 2010 | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Proceeds | Realized Gains | Realized Losses |
| Available-for-sale: | | | |
| Equity securities | $54 | $54 | $11 |
| Total | $54 | $54 | $11 |

Proceeds from sales of available-for-sale securities for the year ended March 31, 2009 were ¥475 million. Gross realized gains on these sales, computed on the moving average cost basis, were ¥49 million for the year ended March 31, 2009.

The impairment losses on available-for-sale equity securities for the years ended March 31, 2010 and 2009 were ¥1,560 million ($16,765 thousand) and ¥3,903 million, respectively.

## 5. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Finished products and merchandise | ¥ 64,164 | ¥ 55,285 | $ 689,639 |
| Work-in process | 22,948 | 19,473 | 246,647 |
| Raw materials and supplies | 28,308 | 29,250 | 304,256 |
| Total | ¥115,420 | ¥104,008 | $1,240,542 |

## 6. Long-lived assets

The Group reviewed its long-lived assets for impairment as of March 31, 2010. The Group recognized an impairment loss of ¥2,360 million ($25,365 thousand) as other expenses for certain business properties related to Nutraceuticals, Consumer products, and Other due to a decline in profits of these segments, certain production facilities related to Pharmaceuticals due to low operating rate of the facilities, and certain idle assets due to substantial decline in their fair market value. The carrying amount of those assets was written down to the recoverable amount.

Impairment losses which the Group recognized for the year ended March 31, 2010 were as follows:

| Pharmaceuticals: | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Machinery and equipment | ¥19 | $204 |
| Total | ¥19 | $204 |

| Nutraceuticals: | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Buildings and structures | ¥ 861 | $ 9,254 |
| Machinery and equipment | 688 | 7,395 |
| Other | 109 | 1,171 |
| Total | ¥1,658 | $17,820 |

| Consumer products: | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Software | ¥ 77 | $ 828 |
| Furniture and fixtures | 42 | 451 |
| Other | 61 | 656 |
| Total | ¥180 | $1,935 |

| Other: | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Furniture and fixtures | ¥51 | $548 |
| Total | ¥51 | $548 |

| Idle assets: | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Land | ¥195 | $2,096 |
| Machinery and equipment | 129 | 1,387 |
| Other | 128 | 1,375 |
| Total | ¥452 | $4,858 |

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

The Group recorded an impairment loss of ¥1,565 million for the year ended March 31, 2009 mainly relating to unutilized land and goodwill.

## 7. Short-term borrowings and long-term debt

Short-term borrowings at March 31, 2010 and 2009 represented loans, principally from banks. The weighted-average interest rates on these borrowings were 1.6% and 2.8% at March 31, 2010 and 2009, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Secured loans from banks and financial institutions | | | |
| Due 2010 to 2015, with a weighted-average interest rate of 3.5% (2010) and due 2009 to 2015, with a weighted-average interest rate of 6.7% (2009) | ¥ 2,558 | ¥ 20,562 | $ 27,494 |
| Unsecured loans from banks and financial institutions | | | |
| Due 2010 to 2018, with a weighted-average interest rate of 1.0% (2010) and due 2009 to 2018, with a weighted-average interest rate of 1.1% (2009) | 83,089 | 85,760 | 893,046 |
| Lease liabilities | 11,193 | 9,175 | 120,303 |
| Total | 96,840 | 115,497 | 1,040,843 |
| Less—portion due within one year | | | |
| Loans | 23,258 | 13,472 | 249,979 |
| Lease liabilities | 3,592 | 3,586 | 38,607 |
| Long-term debt, less current portion | ¥69,990 | ¥ 98,439 | $ 752,257 |

Annual maturities of long-term debt, at March 31, 2010, were as follows:

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2011 | ¥26,850 | $ 288,586 |
| 2012 | 26,662 | 286,565 |
| 2013 | 7,205 | 77,440 |
| 2014 | 34,062 | 366,101 |
| 2015 | 1,043 | 11,210 |
| 2016 and thereafter | 1,018 | 10,941 |
| Total | ¥96,840 | $1,040,843 |

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥24,166 million ($259,738 thousand) and the above collateralized long-term debt at March 31, 2010 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Cash and cash equivalents | ¥ 682 | $ 7,330 |
| Receivables—trade accounts | 7,861 | 84,491 |
| Inventories | 5,017 | 53,923 |
| Property, plant and equipment - net of accumulated depreciation | 8,720 | 93,723 |
| Other | 779 | 8,373 |
| Total | ¥23,059 | $247,840 |

## 8. Retirement benefits

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

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

Certain domestic companies transferred part of their defined benefit pension plans to the defined contribution plan as of April 1, 2008. As a result of this transfer, a gain on abolishment of retirement benefit plans of ¥1,097 million was recognized as other income for the year ended March 31, 2009.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Projected benefit obligation | ¥195,608 | ¥191,670 | $2,102,409 |
| Fair value of plan assets | (133,282) | (116,861) | (1,432,524) |
| Unrecognized prior service cost | 3,135 | 7,141 | 33,695 |
| Unrecognized actuarial loss | (20,122) | (39,373) | (216,273) |
| Unrecognized transitional obligation | (258) | (2,537) | (2,773) |
| Prepaid pension cost | - | 574 | - |
| Net liability | ¥ 45,081 | ¥ 40,614 | $ 484,534 |

The components of net periodic retirement benefit costs for the years ended March 31, 2010 and 2009 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Service cost | ¥ 7,819 | ¥ 7,557 | $ 84,039 |
| Interest cost | 4,192 | 3,701 | 45,056 |
| Expected return on plan assets | (3,355) | (3,988) | (36,060) |
| Amortization of prior service cost | (4,076) | (3,167) | (43,809) |
| Recognized actuarial loss | 6,667 | 2,140 | 71,657 |
| Amortization of transitional obligation | 2,427 | 2,171 | 26,086 |
| Net periodic benefit costs | 13,674 | 8,414 | 146,969 |
| Additional benefit | 330 | 378 | 3,547 |
| Contributions to defined contribution pension plan | 1,851 | 1,750 | 19,895 |
| Total | ¥15,855 | ¥10,542 | $170,411 |

Assumptions used for the years ended March 31, 2010 and 2009 are set forth as follows:

| | 2010.3 | 2009.3 |
|---|---|---|
| Discount rate | 2.00-12.00% | 2.00-12.00% |
| Expected rate of return on plan assets | 2.00-12.00% | 2.00-10.00% |
| Amortization period of prior service cost | 5-23 years | 5-23 years |
| Recognition period of actuarial gain/loss | 5-15 years | 5-15 years |
| Amortization period of transitional obligation | 5-15 years | 5-10 years |

## 9. Equity

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

### (a) Dividends

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

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

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

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

### (c) Treasury stock and treasury stock acquisition rights

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

Stock split

On June 30, 2009, the Company executed a twenty-for-one stock split by way of a free share distribution.

Issuance of new shares through third-party allocation

1) On July 7, 2008, Otsuka Pharmaceutical Co., Ltd. issued 1,352,500 new shares valued at ¥23,155 million in a third-party allocation of new shares. On July 8, 2008, the Company was established through a sole share transfer by Otsuka Pharmaceutical Co., Ltd.

2) On September 30, 2008, the Company issued 2,700,000 new shares valued at ¥67,500 million in a third-party allocation of new shares.

3) On December 25, 2008, the Company issued 170,000 new shares valued at ¥4,250 million in a third-party allocation of new shares.

## 10. Income taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in aggregate, resulted in a normal effective statutory tax rate of 40.6% for each of the fiscal years ended March 31, 2010 and 2009.

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

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Deferred tax assets: | | | |
| Liability for employees' retirement benefits | ¥15,609 | ¥13,755 | $167,767 |
| Unrealized intercompany profits from inventories | 12,037 | 8,878 | 129,374 |
| Accrued expenses | 9,564 | 8,595 | 102,794 |
| Accrued enterprise tax | 3,360 | 807 | 36,113 |
| Tax loss carryforwards | 13,338 | 9,765 | 143,358 |
| Research and development expenses | 6,762 | 7,261 | 72,678 |
| Loss on devaluation of investment securities | 6,000 | 5,046 | 64,488 |
| Loss on impairment of long-lived assets | 2,358 | 2,071 | 25,344 |
| Long-term unearned revenue | 15,110 | - | 162,403 |
| Other | 8,564 | 10,532 | 92,048 |
| Less valuation allowance | (23,571) | (15,978) | (253,342) |
| Total | ¥69,131 | ¥50,732 | $743,025 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | ¥ 2,913 | ¥ 269 | $ 31,309 |
| Unrealized gain on full revaluation resulting from inclusion of consolidated subsidiaries | 6,350 | 6,766 | 68,250 |
| Revaluation of brands | 6,942 | 7,086 | 74,613 |
| Other | 3,987 | 4,565 | 42,853 |
| Total | ¥20,192 | ¥18,686 | $217,025 |
| Net deferred tax assets | ¥48,939 | ¥32,046 | $526,000 |

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated financial statements of income for the year ended March 31, 2010 is as follows:

| | 2010.3 |
|---|---|
| Normal effective statutory tax rate | 40.6% |
| Tax credit for research and development expenses | (14.8%) |
| Expenses not deductible for income tax purposes | 2.9% |
| Valuation allowance | 5.4% |
| Difference in statutory tax rate of subsidiaries | (0.6%) |
| Equity in earnings of affiliates | (0.9%) |
| Other—net | 0.2% |
| Actual effective tax rate | 32.8% |

Analysis of difference between the normal effective statutory tax rate (40.6%) and the actual effective tax rate (40.1%) for the year ended March 31, 2009 is omitted because the difference is less than 5% of the normal effective tax rate.

At March 31, 2010, certain consolidated subsidiaries had tax loss carryforwards aggregating ¥41,852 million ($449,828 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2011 | ¥ 2,734 | $ 29,385 |
| 2012 | 2,951 | 31,718 |
| 2013 | 3,585 | 38,532 |
| 2014 | 3,109 | 33,416 |
| 2015 and thereafter | 29,473 | 316,777 |
| Total | ¥41,852 | $449,828 |

## 11. Research and development expenses

Research and development expenses charged to income were ¥151,849 million ($1,632,083 thousand) and ¥135,900 million for the years ended March 31, 2010 and 2009, respectively.

## 12. Leases

The Group leases certain assets, mainly machinery and equipment.

The future minimum lease payments under non-cancelable operating leases at March 31, 2010 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Due within one year | ¥ 2,309 | $ 24,817 |
| Due after one year | 12,409 | 133,373 |
| Total | ¥14,718 | $158,190 |

## 13. Related party transactions

There were no material related party transactions for the year ended March 31, 2010.

During the year ended March 31, 2009, the Company acquired additional shares in Otsuka Chemical Holdings Co., Ltd. valued at ¥52,470 million in total, which were issued in a third-party allocation of new shares, and as a result, Otsuka Chemical Holdings Co., Ltd. became a consolidated subsidiary of the Company. Prior to the transaction, Otsuka Chemical Holdings Co., Ltd. was an affiliated company of the Company accounted for under the equity method.

## 14. Financial instruments and related disclosures

In March 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

### (1) Group policy for financial instruments

The Group uses financial instruments, mainly long-term debt such as bank loans and lease obligations, based on its capital financing plan. Short-term bank loans are used to fund its ongoing operations. Cash surpluses, if any, are invested in low risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

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

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

Derivatives mainly include forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and interest-rate swaps, which are used to manage exposure to changes in interest rates of bank loans. Please see Note 15 for more details about derivatives.

### (3) Risk management for financial instruments

**Credit risk management**

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers to identify the default risk of customers in early stage. With respect to held-to-maturity investments, the Group manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 15 for details about derivatives.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis. Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables. Please see Note 15 for details about derivatives.

**Liquidity risk management**

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

### (4) Fair values of financial instruments

Fair values of financial instruments are based on the quoted price in active markets. If a quoted price is not available, a theoretical value is calculated using a valuation technique that is based on internal assumptions. A change in such assumptions may result in a different value. Also please see Note 15 for the details of fair value for derivatives.

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

| March 31, 2010 | Millions of Yen | | |
|---|---|---|---|
| | Carrying amount | Fair value | Unrealized gain/loss |
| Cash and cash equivalents | ¥321,306 | ¥321,306 | ¥ - |
| Time deposits | 6,362 | 6,362 | - |
| Receivables | 239,209 | 239,209 | - |
| Marketable and investment securities | 130,970 | 131,874 | 904 |
| Investments in unconsolidated subsidiaries and affiliated companies | 18,098 | 62,341 | 44,243 |
| Total | ¥715,945 | ¥761,092 | ¥45,147 |
| Short-term borrowings | ¥ 39,450 | ¥ 39,450 | ¥ - |
| Payables | 139,629 | 139,629 | - |
| Income tax payable | 35,332 | 35,332 | - |
| Long-term debt (excluding lease liabilities) | 85,646 | 85,651 | 5 |
| Total | ¥300,057 | ¥300,062 | ¥ 5 |

| March 31, 2010 | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | Carrying amount | Fair value | Unrealized gain/loss |
| Cash and cash equivalents | $3,453,418 | $3,453,418 | $ - |
| Time deposits | 68,379 | 68,379 | - |
| Receivables | 2,571,034 | 2,571,034 | - |
| Marketable and investment securities | 1,407,674 | 1,417,390 | 9,716 |
| Investments in unconsolidated subsidiaries and affiliated companies | 194,518 | 670,045 | 475,527 |
| Total | $7,695,023 | $8,180,266 | $485,243 |
| Short-term borrowings | $ 424,011 | $ 424,011 | $ - |
| Payables | 1,500,742 | 1,500,742 | - |
| Income tax payable | 379,751 | 379,751 | - |
| Long-term debt (excluding lease liabilities) | 920,529 | 920,583 | 54 |
| Total | $3,225,033 | $3,225,087 | $ 54 |

#### Cash and cash equivalents, time deposits and receivables

The carrying value of cash and cash equivalents, time deposits and receivables approximates fair value because of their short maturities.

#### Marketable and investment securities, and investments in unconsolidated subsidiaries and affiliated companies

The fair value of marketable and investment securities is measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 4.

#### Payables, short-term borrowings and income tax payable

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

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

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

#### Derivatives

The information of the fair value for derivatives is included in Note 15.

b) Financial instruments whose fair value cannot be reliably determined

| March 31, 2010 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | Carrying amount | |
| Investments that do not have a quoted market price in an active market | ¥174,571 | $1,876,301 |

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

| March 31, 2010 | Millions of Yen | | | |
|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents | ¥321,306 | ¥ - | ¥ - | ¥ - |
| Time deposits | 6,362 | - | - | - |
| Receivables | 239,607 | - | - | - |
| Marketable and investment securities: | | | | |
| Held-to-maturity securities | 23,097 | 54,510 | 2,300 | 1,000 |
| Available-for-sales securities | 113 | - | - | - |
| Total | ¥590,485 | ¥54,510 | ¥2,300 | ¥1,000 |

| March 31, 2010 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents | $3,453,418 | $ - | $ - | $ - |
| Time deposits | 68,379 | - | - | - |
| Receivables | 2,575,312 | - | - | - |
| Marketable and investment securities | | | | |
| Held-to-maturity securities | 248,248 | 585,877 | 24,721 | 10,748 |
| Available-for-sales securities | 1,215 | - | - | - |
| Total | $6,346,572 | $585,877 | $24,721 | $10,748 |

Please see Note 7 for annual maturities of long-term debt and obligations under finance leases.

## 15. Derivatives

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

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

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

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

As noted in Note 14, the Group has applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for the year ended March 31, 2010.

Derivative transactions to which hedge accounting is not applied at March 31, 2010

| At March 31, 2010 | Millions of Yen | | | |
|---|---|---|---|---|
| | Contract Amount | Contract Amount due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | ¥ 312 | ¥ - | ¥ (27) | ¥ (27) |
| Buying Euro | 360 | - | (14) | (14) |
| Buying JP¥ | - | - | - | - |
| Selling U.S.$ | 213 | - | - | - |
| Selling Euro | 86 | - | - | - |
| Foreign exchange option | | | | |
| U.S.$ | 8,431 | 5,532 | (912) | (912) |
| Total | ¥ 9,402 | ¥ 5,532 | ¥(953) | ¥(953) |
| Interest rate swaps | | | | |
| (floating rate receipt, floating rate payment) | ¥12,751 | ¥12,286 | ¥(746) | ¥(746) |
| Total | ¥12,751 | ¥12,286 | ¥(746) | ¥(746) |

| At March 31, 2010 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Contract Amount | Contract Amount due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | $ 3,353 | $ - | $ (290) | $ (290) |
| Buying Euro | 3,869 | - | (150) | (150) |
| Buying JP¥ | - | - | - | - |
| Selling U.S.$ | 2,289 | - | - | - |
| Selling Euro | 924 | - | - | - |
| Foreign exchange option | | | | |
| U.S.$ | 90,618 | 59,458 | (9,803) | (9,803) |
| Total | $101,053 | $ 59,458 | $(10,243) | $(10,243) |
| Interest rate swaps | | | | |
| (floating rate receipt, floating rate payment) | $137,049 | $132,051 | $ (8,018) | $ (8,018) |
| Total | $137,049 | $132,051 | $ (8,018) | $ (8,018) |

Derivative transactions to which hedge accounting is applied at March 31, 2010

| At March 31, 2010 | Millions of Yen | | | |
|---|---|---|---|---|
| | Hedged Item | Contract Amount | Contract Amount due after One Year | Fair Value |
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | Forecasted transactions | ¥ 329 | ¥ - | ¥(21) |
| Interest rate swaps: | | | | |
| (fixed rate payment, floating rate receipt) | Long-term debt | ¥11,090 | ¥2,050 | ¥(44) |

| At March 31, 2010 | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | Hedged Item | Contract Amount | Contract Amount due after One Year | Fair Value |
| Foreign currency forward contracts: | | | | |
| Buying U.S.$ | Forecasted transactions | $ 3,536 | $ - | $(226) |
| Interest rate swaps: | | | | |
| (fixed rate payment, floating rate receipt) | Long-term debt | $119,196 | $22,034 | $(473) |

The following is the fair value information for derivative contracts to which hedge accounting is not applied at March 31, 2009. Derivative contracts which qualify for hedge accounting are excluded from the information below.

| At March 31, 2009 | Millions of Yen | | |
|---|---|---|---|
| | Contract Amount | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | |
| Buying U.S.$ | ¥ 5 | ¥ 4 | ¥ (1) |
| Buying Euro | 342 | 366 | 24 |
| Buying Singapore $ | 2 | 2 | - |
| Buying Canadian $ | 134 | 133 | (1) |
| Foreign exchange option | | | |
| U.S.$ | 11,327 | (780) | (780) |
| Total | ¥11,810 | ¥(275) | ¥(758) |
| Interest rate swaps: | | | |
| (floating rate receipt, floating rate payment) | ¥25,899 | ¥(454) | ¥(454) |
| Interest rate caps: | | | |
| Buying | 13,282 | 44 | 44 |
| Total | ¥39,181 | ¥(410) | ¥(410) |

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

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

## 16. Contingent liabilities

At March 31, 2010, the Group had the following contingent liabilities:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Trade notes discounted | ¥ 482 | $ 5,181 |
| Guarantees and similar items of bank loans | ¥16,854 | $181,148 |

In October 2009, the Group sold part of its shareholding in NEOS Corporation ("NEOS") to ITO EN, LTD. ("ITO-EN") for ¥979 million ($10,522 thousand). In the event ITO-EN requests the Group to repurchase the shares within 5 years from the date of contract execution because NEOS fails to resolve its negative net worth or for any other reason, the Group is obligated to buy back the shares in NEOS for the original selling price.

In April 2009, the Group and Bristol-Myers Squibb Company ("BMS") agreed to extend the U.S. portion of the development and commercialization collaboration agreement from November 2012 to April 2015. Under the terms of the agreement, the Group received $400 million and the share of Abilify U.S. net sales that the Group records was modified effective January 1, 2010. The Group recorded this payment as unearned revenues and it is being recognized as revenue over the period from January 2010 to April 2015. The Group recognized revenues related to an amendment of a co-promotion agreement totaling ¥1,830 million($19,669 thousand) in other income for the year ended March 31, 2010.

Based on the agreement, as amended effective January 1, 2010, in the event a generic product enters the U.S. market and BMS requests a termination of the contract amendment, the Group is obligated to pay a generic termination fee. The generic termination fee is reduced by the unearned revenue balance and represents a contingent liability at each fiscal year end. The contingent liability as of March 31, 2010 was ¥4,243 million ($45,604 thousand).

## 17. Cash flow information

### (1) Assets and liabilities of companies newly consolidated through acquisitions for the fiscal year ended March 31, 2009.

| | Millions of Yen |
|---|---|
| Current assets | ¥106,007 |
| Non-current assets | 78,802 |
| Goodwill | 27,996 |
| Current liabilities | (38,618) |
| Long-term liabilities | (53,811) |
| Treasury stock | 22,381 |
| Foreign currency transaction adjustments | (14) |
| Minority interests | (45,807) |
| Carrying values of investments in newly consolidated companies at the date of acquisition | (16,160) |
| Acquisition costs | 80,776 |
| Cash and cash equivalent of newly consolidated companies | (46,306) |
| Payments for the acquisitions | ¥ 34,470 |

### (2) Non-monetary transactions

Increase in capital and capital surplus as a result of the stock-for-stock exchanges:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2010.3 | 2009.3 | 2010.3 |
| Capital | ¥ - | ¥ 280 | $ - |
| Capital surplus | 76,666 | 226,992 | 824,011 |
| Treasury stock | (23,272) | - | (250,129) |
| Total | ¥53,394 | ¥227,272 | $573,882 |

## 18. Net income per share

The following is a reconciliation of the differences between basic and diluted net income per share ("EPS"), after retroactive restatement of stock split, for the years ended March 31, 2010 and 2009.

| For the year ended March 31, 2010: | Millions of Yen | Thousands of shares | Yen | Dollars |
|---|---|---|---|---|
| | Net income | Weighted average shares | EPS | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥67,425 | 469,833 | ¥143.51 | $1.54 |
| Effect of Dilutive Securities | | | | |
| Warrants issued by affiliated companies | (17) | - | - | - |
| Diluted EPS | | | | |
| Net income for computation | ¥67,408 | 469,833 | ¥143.47 | $1.54 |

| For the year ended March 31, 2009: | Millions of Yen | Thousands of shares | Yen |
|---|---|---|---|
| | Net income | Weighted average shares | EPS |
| Basic EPS | | | |
| Net income available to common shareholders | ¥47,084 | 345,291 | ¥136.36 |
| Effect of Dilutive Securities | | | |
| Warrants issued by affiliated companies | (36) | - | - |
| Diluted EPS | | | |
| Net income for computation | ¥47,048 | 345,291 | ¥136.26 |

## 19. Subsequent events

### (a) Appropriation of retained earnings

The following appropriations of retained earnings at March 31, 2010 were approved at the Company's Board of Directors held on May 14, 2010:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥12.5($0.13) per share | ¥5,972 | $64,187 |

### (b) Reduction in legal capital surplus

The reduction in legal capital surplus of ¥10,000 million ($107,481 thousand) was approved at the Company's shareholders meeting held on June 29, 2010. Legal capital surplus of ¥10,000 million ($107,481 thousand), out of ¥703,072 million ($7,556,664 thousand), was transferred to other capital surplus effective immediately in accordance with Article 448 Section 1 of the Companies Act.

The purpose of the transfer was to increase the amount available for distribution and to allow the Company to adopt a flexible capital management policy.

### (c) Stock option plan

The following stock option plan for the Company's and its affiliates' directors, corporate auditors and corporate officers were approved at the Company's shareholders meeting and the Company's Board of Directors which was held on June 29, 2010.

| | |
|---|---|
| Number of persons to receive stock options | 11 Company directors |
| Type of shares to be issued upon the exercise of the stock options | Common stock |
| Number of shares to be issued upon the exercise of the stock options | 490,000 shares |
| Exercise price | 1 Yen |
| Exercise period | From July 23, 2012 to July 31, 2015 |

| | |
|---|---|
| Number of persons to receive stock options | 4 Company corporate auditors |
| Type of shares to be issued upon the exercise of the stock options | Common stock |
| Number of shares to be issued upon the exercise of the stock options | 32,000 shares |
| Exercise price | 2,100 Yen |
| Exercise period | From July 23, 2012 to July 31, 2015 |

| | |
|---|---|
| Number of persons to receive stock options | 3 wholly owned subsidiary directors |
| Type of shares to be issued upon the exercise of the stock options | Common stock |
| Number of shares to be issued upon the exercise of the stock options | 150,000 shares |
| Exercise price | 1 Yen |
| Exercise period | From July 23, 2012 to July 31, 2015 |

| | |
|---|---|
| Number of persons to receive stock options | 61 Company corporate officers and subsidiary directors, corporate auditors and corporate officers |
| Type of shares to be issued upon the exercise of the stock options | Common stock |
| Number of shares to be issued upon the exercise of the stock options | 620,000 shares |
| Exercise price | 2,100 Yen |
| Exercise period | From July 23, 2012 to July 31, 2015 |

## 20. Segment information

### (a) Business segments

Effective April 1, 2009, the Group modified its business segmentation from "Pharmaceuticals", "Consumer products" and "Other" to "Pharmaceuticals", "Nutraceuticals", "Consumer products" and "Other" in order to separate the functional products, which are based on scientific concepts as "Nutraceuticals", and to be able to monitor the business independently.

The Group defines the new segments as follows:

Pharmaceuticals, which is comprised of research and development, production and sales of prescription drugs and clinical nutrition.

Nutraceuticals, which is comprised of production and sales of functional foods, over-the-counter drugs and supplements.

Consumer products, which is comprised of mineral water, beverages and food products.

Other, which encompasses other operations, comprised of logistics, warehousing, chemical products, agricultural products and electronics.

Business segment information for the fiscal years ended March 31, 2010 and 2009 is as follows:

## 1) Sales and operating income

| 2010.3 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | ¥715,901 | ¥246,969 | ¥50,113 | ¥ 71,309 | ¥1,084,292 | ¥ - | ¥1,084,292 |
| Intersegment sales | 10 | 1,806 | 1,003 | 33,767 | 36,586 | (36,586) | - |
| Total Sales | 715,911 | 248,775 | 51,116 | 105,076 | 1,120,878 | (36,586) | 1,084,292 |
| Operating expenses | 583,044 | 246,520 | 59,516 | 100,639 | 989,719 | (3,908) | 985,811 |
| Operating income (loss) | ¥132,867 | ¥ 2,255 | ¥ (8,400) | ¥ 4,437 | ¥ 131,159 | ¥(32,678) | ¥ 98,481 |

| 2010.3 | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | $7,694,551 | $2,654,439 | $538,618 | $ 766,433 | $11,654,041 | $ - | $11,654,041 |
| Intersegment sales | 107 | 19,411 | 10,780 | 362,931 | 393,229 | (393,229) | - |
| Total Sales | 7,694,658 | 2,673,850 | 549,398 | 1,129,364 | 12,047,270 | (393,229) | 11,654,041 |
| Operating expenses | 6,266,595 | 2,649,613 | 639,682 | 1,081,674 | 10,637,564 | (42,003) | 10,595,561 |
| Operating income (loss) | $1,428,063 | $ 24,237 | $ (90,284) | $ 47,690 | $ 1,409,706 | $(351,226) | $ 1,058,480 |

## 2) Total assets, depreciation, impairment loss and capital expenditures

| 2010.3 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Total assets | ¥432,916 | ¥197,748 | ¥147,456 | ¥125,256 | ¥903,376 | ¥555,000 | ¥1,458,376 |
| Depreciation | 20,381 | 15,104 | 1,127 | 5,337 | 41,949 | 4,677 | 46,626 |
| Impairment loss | 42 | 1,789 | 180 | 100 | 2,111 | 249 | 2,360 |
| Capital expenditures | 21,110 | 23,128 | 849 | 7,708 | 52,795 | 9,661 | 62,456 |

| 2010.3 | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Total assets | $4,653,009 | $2,125,408 | $1,584,867 | $1,346,260 | $9,709,544 | $5,965,177 | $15,674,721 |
| Depreciation | 219,056 | 162,339 | 12,113 | 57,363 | 450,871 | 50,268 | 501,139 |
| Impairment loss | 451 | 19,228 | 1,935 | 1,075 | 22,689 | 2,676 | 25,365 |
| Capital expenditures | 226,892 | 248,581 | 9,125 | 82,846 | 567,444 | 103,837 | 671,281 |

If the segment information for the year ended March 31, 2009 had been prepared using the new segmentation, such information would have been as follows:

## 1) Sales and operating income

| 2009.3 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | ¥651,710 | ¥217,928 | ¥51,934 | ¥34,375 | ¥955,947 | ¥ - | ¥955,947 |
| Intersegment sales | 468 | 1,223 | 146 | 25,748 | 27,585 | (27,585) | - |
| Total Sales | 652,178 | 219,151 | 52,080 | 60,123 | 983,532 | (27,585) | 955,947 |
| Operating expenses | 518,604 | 224,363 | 55,754 | 57,824 | 856,545 | 7,882 | 864,427 |
| Operating income (loss) | ¥133,574 | ¥ (5,212) | ¥ (3,674) | ¥ 2,299 | ¥126,987 | ¥ (35,467) | ¥ 91,520 |

## 2) Total assets, depreciation, impairment loss and capital expenditures

| 2009.3 | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Nutraceuticals | Consumer products | Other | Total | Eliminations / Corporate | Consolidated |
| Total assets | ¥345,719 | ¥194,132 | ¥148,473 | ¥122,123 | ¥810,447 | ¥488,343 | ¥1,298,790 |
| Depreciation | 22,285 | 10,516 | 675 | 2,488 | 35,964 | 4,332 | 40,296 |
| Impairment loss | 930 | - | - | 106 | 1,036 | 529 | 1,565 |
| Capital expenditures | 16,292 | 36,759 | 545 | 2,572 | 56,168 | 7,267 | 63,435 |

Note:

1) As discussed in Note 2(g), effective April 1, 2009, the Company has begun depreciation of art ceramics by the declining-balance method. The effect of this change was to decrease operating income in the Eliminations/Corporate segment by ¥707 million ($7,599 thousand).

## (b) Geographical segments

The geographical segments are classified as "Japan", "U.S.", and "Other." Consistent with the business segment information, corporate administrative expenses that cannot be classified into any specific segments are included in "Eliminations/Corporate."

The geographical segment information for the year ended March 31, 2010 and 2009 are as follows:

| 2010.3 | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | U.S. | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | ¥ 597,273 | ¥369,762 | ¥117,257 | ¥1,084,292 | ¥ - | ¥1,084,292 |
| Intersegment sales | 112,105 | 36,423 | 4,316 | 152,844 | (152,844) | - |
| Total sales | 709,378 | 406,185 | 121,573 | 1,237,136 | (152,844) | 1,084,292 |
| Operating expenses | 622,877 | 394,880 | 113,152 | 1,130,909 | (145,098) | 985,811 |
| Operating income | ¥ 86,501 | ¥ 11,305 | ¥ 8,421 | ¥ 106,227 | ¥ (7,746) | ¥ 98,481 |
| Total assets | ¥1,344,431 | ¥124,162 | ¥130,664 | ¥1,599,257 | ¥(140,881) | ¥1,458,376 |

| 2009.3 | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | Japan | U.S. | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | ¥ 613,632 | ¥288,909 | ¥ 53,406 | ¥ 955,947 | ¥ - | ¥ 955,947 |
| Intersegment sales | 75,318 | 26,099 | 2,195 | 103,612 | (103,612) | - |
| Total sales | 688,950 | 315,008 | 55,601 | 1,059,559 | (103,612) | 955,947 |
| Operating expenses | 615,107 | 305,120 | 50,365 | 970,592 | (106,165) | 864,427 |
| Operating income | ¥ 73,843 | ¥ 9,888 | ¥ 5,236 | ¥ 88,967 | ¥ 2,553 | ¥ 91,520 |
| Total assets | ¥1,211,309 | ¥104,981 | ¥103,896 | ¥1,420,186 | ¥ (121,396) | ¥1,298,790 |

| 2010.3 | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| | Japan | U.S. | Other | Total | Eliminations / Corporate | Consolidated |
| Sales to customers | $ 6,419,529 | $3,974,226 | $1,260,286 | $ 11,654,041 | $ - | $11,654,041 |
| Intersegment sales | 1,204,912 | 391,477 | 46,389 | 1,642,778 | (1,642,778) | - |
| Total sales | 7,624,441 | 4,365,703 | 1,306,675 | 13,296,819 | (1,642,778) | 11,654,041 |
| Operating expenses | 6,694,723 | 4,244,196 | 1,216,165 | 12,155,084 | (1,559,523) | 10,595,561 |
| Operating income | $ 929,718 | $ 121,507 | $ 90,510 | $ 1,141,735 | $ (83,255) | $ 1,058,480 |
| Total assets | $14,450,032 | $1,334,501 | $1,404,386 | $ 17,188,919 | $ (1,514,198) | $15,674,721 |

Note:

1) As discussed in Note 2(g), effective April 1, 2009, the Company has begun depreciation of art ceramics by the declining-balance method. The effect of this change was to decrease operating income in Japan by ¥707 million ($7,599 thousand).

## (c) Overseas sales

Overseas sales for the years ended March 31, 2010 and 2009 are as follows:

| 2010 | Millions of Yen | | |
|---|---|---|---|
| | U.S. | Other | Total |
| Overseas sales | ¥388,433 | ¥137,083 | ¥ 525,516 |
| Consolidated net sales | | | ¥1,084,292 |
| Overseas sales as a percentage of consolidated net sales | 35.8% | 12.6% | 48.4% |

| 2010 | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | U.S. | Other | Total |
| Overseas sales | $4,174,903 | $1,473,377 | $ 5,648,280 |
| Consolidated net sales | | | $11,654,041 |

| 2009 | Millions of Yen | | |
|---|---|---|---|
| | U.S. | Other | Total |
| Overseas sales | ¥328,324 | ¥66,691 | ¥395,015 |
| Consolidated net sales | | | ¥955,947 |
| Overseas sales as a percentage of consolidated net sales | 34.3% | 7.0% | 41.3% |

Deloitte.

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# INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Otsuka Holdings Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otsuka Holdings Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 19 to the consolidated financial statements, on June 29, 2010 the Company's shareholders meeting approved a reduction in legal capital surplus.

As discussed in Note 20 to the consolidated financial statements, effective April 1, 2009, the Company changed the segmentation reporting of its business.

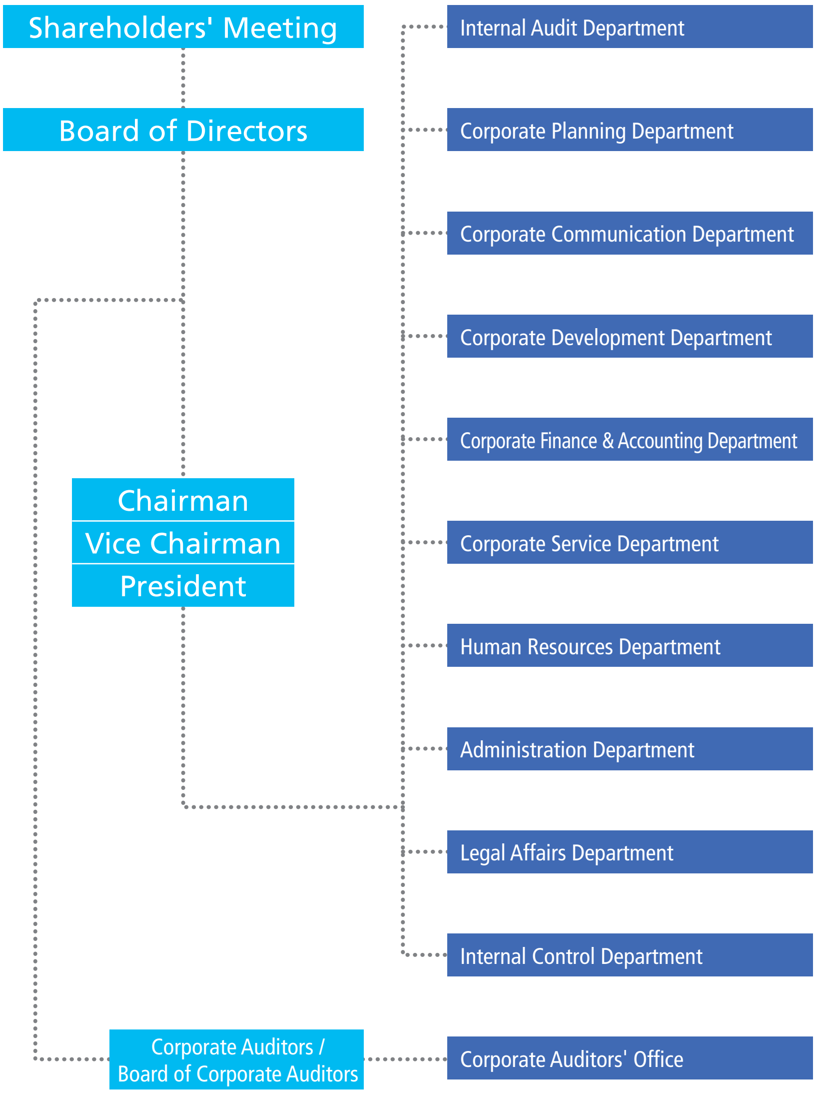
Our audits also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 29, 2010

Member of
Deloitte Touche Tohmatsu

## Company organization




## Board of directors (as of July 1, 2010)

**Chairman, Representative Director**
Akihiko Otsuka

**Vice Chairman, Representative Director**
Kenichiro Otake

**President and Representative Director, CEO**
Tatsuo Higuchi

**Senior Managing Director, Corporate Finance**
Atsumasa Makise

**Managing Director, Corporate Planning**
Katsuya Yamasaki

**Managing Director, Corporate Development**
Noriko Tojo

**Managing Director, Corporate Administration**
Yoshiro Matsuo

**Executive Directors**
Yujiro Otsuka
Yukio Kobayashi
Sadanobu Tobe

**Standing Corporate Auditor**
Masahiko Kato

**Corporate Auditors**
Yasuhisa Katsuta
Norikazu Yahagi
Hiroshi Sugawara

## Corporate profile (as of March 31, 2010)

| | |
|---|---|
| Company name | Otsuka Holdings Co., Ltd. |
| Established | July 8, 2008 |
| Capital | JPY 42,946 million |
| Registered address | 2-9 Kanda-Tsukasamachi, Chiyoda-ku, Tokyo 101-0048, Japan |
| Tokyo headquarters | Shinagawa Grand Central Tower, 2-16-4 Konan, Minato-ku, Tokyo 108-8241, Japan<br>Tel +81-3-6717-1410 |
| Number of employees | 66 (Consoldated: 24,589) |
| Business description | Control, management and related activities with respect to the Company's subsidiaries and affiliates active in the pharmaceutical industry, nutraceutical industry, consumer products and other areas. |
| Public notices (in English) | http://www.otsuka.com/en/ |

As of March 31, 2010

| | |
|---|---|
| Number of shares authorized | 1,600,000,000 |
| Number of shares issued | 519,156,817 |
| Number of shareholders | 7,122 |

## Principal shareholders

| Name | Number of shares held (thousands) | Percentage of voting rights (%) |
|---|---|---|
| The Nomura Trust and Banking Co., Ltd. (Otsuka Founders Shareholding Fund Trust Account) | 55,205 | 11.55 |
| Otsuka Estate Ltd. | 40,449 | 8.47 |
| Otsuka Group Employee Shareholding Fund | 27,952 | 5.85 |
| Nomura Holdings, Inc. | 12,195 | 2.55 |
| Otsuka Asset Co., Ltd. | 12,000 | 2.51 |
| The Awa Bank, Limited | 10,970 | 2.30 |
| Nomura Trust and Banking Co., Ltd., Otsuka Group Employee Shareholding Fund Trust Account | 8,105 | 1.70 |
| Resona Bank, Ltd. | 4,568 | 0.96 |
| Otsuka Toshimi Foundation | 4,180 | 0.87 |
| Mediceo Corporation | 4,096 | 0.86 |

Notes
1) Holdings of less than one thousand are rounded down.
2) In addition to the above, 41,321,260 shares of treasury stock were held as of March 31, 2010.
3) For the purpose of calculating the percentage of voting rights, treasury stock has been excluded.

*On June 30, 2009, Otsuka Holdings Co., Ltd. conducted a one-for-twenty stock split. At the same time, the number of authorized shares as set out in the Company's articles of incorporation was changed to 1,600,000,000.

## Classification of shareholders

| | Number of shares | Percentage holding | Number of shareholders |
|---|---|---|---|
| Other corporations | 147,018,654 | 28.3 | 92 |
| Financial instruments firms | 193,680 | 0.1 | 1 |
| Financial institutions | 78,849,840 | 15.2 | 4 |
| Foreign corporations | 606,000 | 0.1 | 2 |
| Individuals and other | 292,488,643 | 56.3 | 7,023 |
| Total | 519,156,817 | 100.00 | 7,122 |

Otsuka

Otsuka Holdings Co., Ltd.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