ANNUAL REPORT 2015

For the fiscal year ended December 31, 2015

Otsuka Corporation

CONTENTS

Mission Statement

Mission

OTSUKA CORPORATION serves a wide range of companies, providing comprehensive support for their business activities by presenting, within a concrete framework, new business opportunities and management improvement strategies brought about by innovations in information and telecommunication technology. By so doing, we continue to facilitate the growth of our client companies and contribute to the development of our country and the creation of a spiritually enriching society.

Goals

- To become a corporate group that is recognized and trusted as a valuable corporate citizen.
- To encourage employee growth and self–realization through the attainment of personal goals and professional achievement.
- To demonstrate harmonious coexistence and growth with nature and society.
- To create business models that consistently keep pace with the changing times.

Principles

- Always thinking from the customer's perspective and acting through harmonious team work.
- Maintaining the spirit of challenge inherited from our predecessors, exercising our own critical judgment, and acting on our own initiative.
- Fully complying with all prevailing laws and regulations, and maintaining high ethical standards.

Otsuka Corporation

Forward-looking Statements

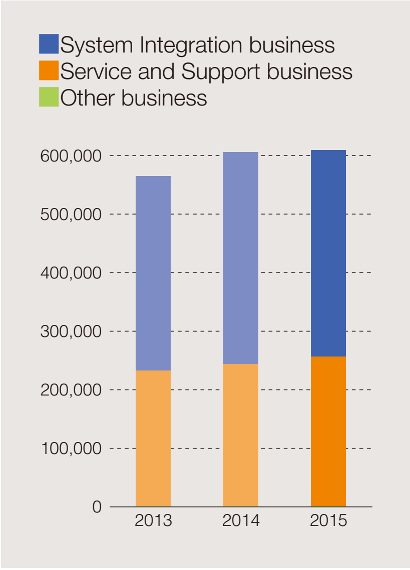
The forecasts, plans and outlooks concerning future operating results that are described in this Annual Report are judgments believed to be reasonable by the Company's management, based upon the information available to OTSUKA CORPORATION and member companies of the OTSUKA Group at the time such future projections were created. Various factors that form the basis of these forward-looking statements may differ from the OTSUKA Group's assumptions, and actual results may differ significantly from those presented here. Such factors include changes in the economic situation in principal markets and in product demand, and changes in various domestic and international regulations, accounting standards and customary business practices.

Consolidated Financial Highlights

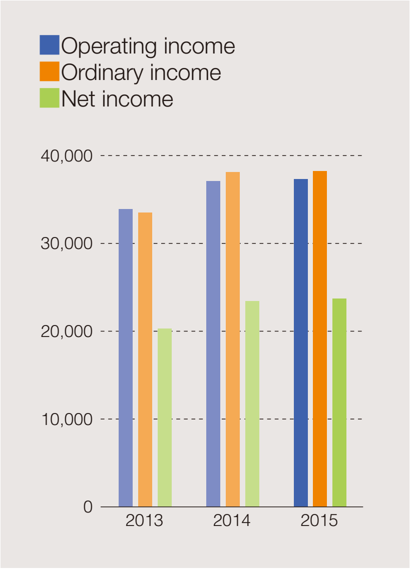
OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2013, 2014 and 2015			Millions of yen	Thousands of U.S. dollars	%
	2013	2014	**2015**	**2015**	Change
Net sales	¥564,595	¥605,766	**¥609,045**	**$5,052,644**	+0.5
System Integration business	332,067	362,068	**353,170**	**2,929,899**	-2.5
Service and Support business	231,868	243,316	**255,490**	**2,119,545**	+5.0
Other business	658	381	**385**	**3,199**	+1.1
Operating income	33,901	37,097	**37,311**	**309,540**	+0.6
Ordinary income	33,505	38,144	**38,240**	**317,240**	+0.3
Income before income taxes and minority interests	33,049	37,910	**38,316**	**317,874**	+1.1
Net income	20,271	23,455	**23,705**	**196,664**	+1.1
Total assets	279,589	305,513	**324,755**	**2,694,169**	+6.3
Interest-bearing debt	9,070	9,584	**9,344**	**77,518**	-2.5
Equity	144,150	163,277	**173,229**	**1,437,110**	+6.1
Net income per share (EPS) (Yen and U.S. dollars)	213.83	247.41	**250.06**	**2.07**	+1.1
Dividends per share of common stock (Yen and U.S. dollars)	78.33	90.00	**100.00**	**0.83**	+11.1
Cash flows from operating activities per share (Yen and U.S. dollars)	198.10	360.02	**291.37**	**2.42**	-19.1
Operating income to Net sales ratio (%)	6.00	6.12	**6.13**	**—**	
Net income to Net sales ratio (%)	3.59	3.87	**3.89**	**—**	
Interest-bearing debt ratio (%)	3.24	3.14	**2.88**	**—**	
Equity ratio (%)	51.56	53.44	**53.34**	**—**	
Return on equity (ROE) (%)	14.87	15.26	**14.09**	**—**	

Notes:
Equity = Total net assets - Share subscription rights - Minority interests
Figures for ROE are calculated using average equity.
U.S. dollar amounts are computed using the December 31, 2015 exchange rate of ¥120.54 = US$1.
The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2013.

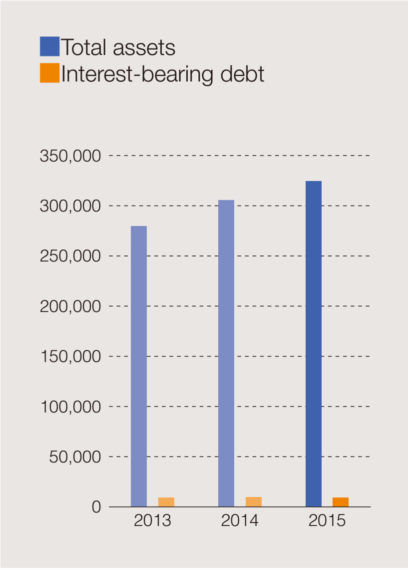
Net sales (Millions of yen)



Operating income, Ordinary income, Net income (Millions of yen)



Total assets, Interest-bearing debt (Millions of yen)



Note:
Sums of less than a million yen are rounded down.

To Our Shareholders and Investors

I am pleased to announce the results for the fiscal year ended December 31, 2015 and to thank our shareholders and investors for their loyal support.

During the fiscal year under review, the Japanese economy sustained a moderate recovery as corporate IT investments remained brisk. The OTSUKA Group focused on combined proposals and solutions that lead to aggressive IT investment by improving productivity, reducing costs and realizing power savings.

As a result of these measures and due to the impact of special demand in the previous year, net sales slightly increased 0.5% from the previous fiscal year to ¥609,045 million. At the earnings level, operating income increased 0.6% to ¥37,311 million, ordinary income increased 0.3% to ¥38,240 million and net income increased 1.1% to ¥23,705 million.

Management has resolved to pay year-end dividends per share of ¥100 in line with our efforts to return profits to shareholders, who have given us their support.

In the coming fiscal year, corporate IT investments are expected to remain stable. Under these conditions, we will further strengthen our contact with customers and strive to meet customers' IT utilization needs and their power saving needs.

In working to realize our Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. Your ongoing support is greatly appreciated as we move forward with these endeavors.

Yuji Otsuka, President & Chief Executive Officer

March 2016

Overview of Consolidated Operations

Japanese Economy Sustains a Moderate Recovery

During the fiscal year under review (January 1, 2015 to December 31, 2015), the Japanese economy sustained a moderate recovery despite evident weakness in some areas.

Under these economic conditions, IT investments by domestic companies generally trended firmly amid a rebound in corporate earnings. Domestic unit sales of PCs continued a year-on-year decline due to a reactionary falloff in demand for replacement purchases for Windows XP. Nevertheless, there was also rising interest in responding to the Social Security and Tax Number (“My Number”) System and security countermeasures.

Added-value Combined Proposals

Within this environment, under the fiscal 2015 slogan “Live up to customer trust from a customer viewpoint and vitalize office with solutions,” the OTSUKA Group worked to ensure we can provide solutions leading to aggressive IT investment. To do so, we made added-value combined proposals that raise productivity, reduce costs and realize power savings to customers needing to respond to the Social Security and Tax Number (“My Number”) System and strengthen security, as well as to customers with the need to make IT investments aimed at strengthening competiveness.

Moreover, we made efforts aimed at strengthening the accumulated business that included augmenting our line of appealing office supplies and developing a lineup of maintenance services that support improvements in productivity of corporate activities and reduce burdens.

**Recovery in corporate earnings
IT investments trending firmly**

Raise productivity, reduce costs and achieve power savings leading to aggressive IT investment

Sales and Profits Increase Just Slightly due to the Impact of Special Demand in the Previous Fiscal Year

As a result of the above measures and due to the impact of special demand in the previous year, net sales slightly increased 0.5% from the previous fiscal year to ¥609,045 million.

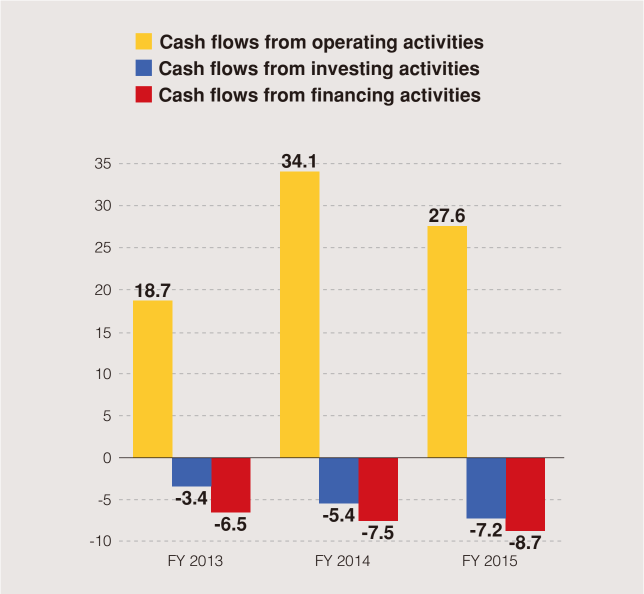
At the profit level, operating income rose 0.6% to ¥37,311 million. Ordinary income increased 0.3% to ¥38,240 million and net income was up 1.1% to ¥23,705 million.

(Millions of yen)

	FY 2014	FY 2015	
	Amount	**Amount**	**Change to Last Year**
Net sales	605,766	**609,045**	**+0.5%**
Operating income	37,097	**37,311**	**+0.6%**
Ordinary income	38,144	**38,240**	**+0.3%**
Net income	23,455	**23,705**	**+1.1%**

Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥27,621 million, a decrease of ¥6,508 million from the previous fiscal year due to an increase in notes and accounts receivable – trade.

Net cash used in investing activities amounted to ¥7,235 million, an increase of ¥1,825 million from the previous fiscal year due to the absence of proceeds from the liquidation of a subsidiary recorded in the previous fiscal year.

Net cash used in financing activities increased ¥1,162 million to ¥8,742 million due to an increase in cash dividends paid.

Overview of Results by Quarter

Net Sales

Net sales declined in the first quarter (January-March) of 2015 due to the impact of special demand in the previous year, but increased from the second quarter (April-June) of 2015 and onward.

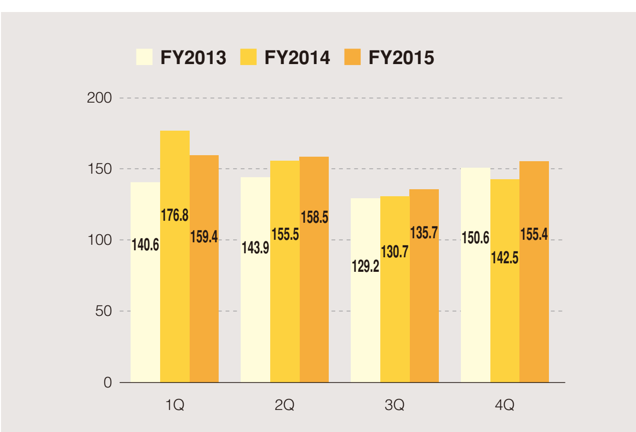
Net sales in the first quarter (January-March) of 2015 amounted to ¥159,411 million, a 9.9% decrease from the previous first quarter. Net sales in the second quarter (April-June) of 2015 amounted to ¥158,522 million, an increase of 1.9% over the previous second quarter. Net sales in the third quarter (July-September) of 2015 amounted to ¥135,704 million, a 3.7% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2015 amounted to ¥155,408 million, an increase of 9.0% over the previous fourth quarter.

Ordinary Income

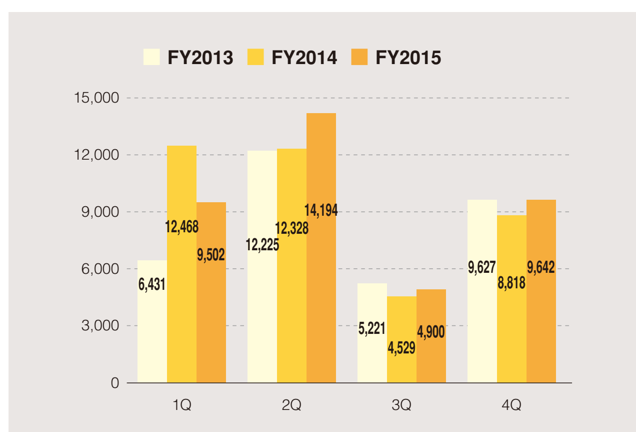
Ordinary income declined in the first quarter (January-March) of 2015 due to the impact of special demand in the previous year, but trended upward from the second quarter (April-June) of 2015 and onward.

Ordinary income in the first quarter (January-March) of 2015 amounted to ¥9,502 million, a decrease of 23.8% from the previous first quarter. Ordinary income in the second quarter (April-June) of 2015 amounted to ¥14,194 million, an increase of 15.1% from the previous second quarter. Ordinary income in the third quarter (July-September) of 2015 amounted to ¥4,900 million, an increase of 8.2% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2015 amounted to ¥9,642 million, up 9.3% from the previous fourth quarter.

Quarterly Net Sales (Billions of yen)



Quarterly Ordinary Income (Millions of yen)



Overview of Business Segments

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We focused on solutions that spur demand for security measures and mobile devices, while in September, prior to the notification of personal identity numbers, we began providing the "Raku Raku My Number Handling System." This system covers a series of administrative processes that include acquisition, storage, use and disposal. Although these initiatives underpinned growth in unit sales of copiers and tablet devices, net sales for the year in the System Integration business decreased 2.5% to ¥353,170 million due in part to the impact of special demand in the previous fiscal year.

Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We renewed the website for our "tanomail" office supply mail-order service business to increase sales opportunities and implemented price increases for some products in conjunction with a steep rise in the costs of raw materials. In September, we significantly expanded the number of "packages, tools and work supplies" handled to approximately 100,000 items.

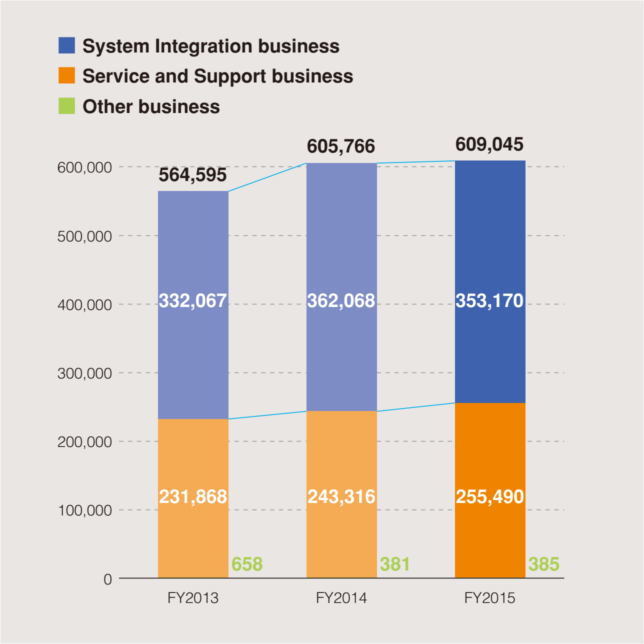
In the maintenance business, we commenced the "tayoreru hikari" optic fiber broadband service for companies and strengthened our "Raku Raku Solution Series," an outsourcing service for IT operations management. As a result, net sales in the Service and Support business rose 5.0% to ¥255,490 million.

Other Business

In the Other Business, net sales increased 1.1% from the previous fiscal year to ¥385 million.

Net Sales by Segments

(Millions of yen)



Focusing Efforts on the Accumulated Business

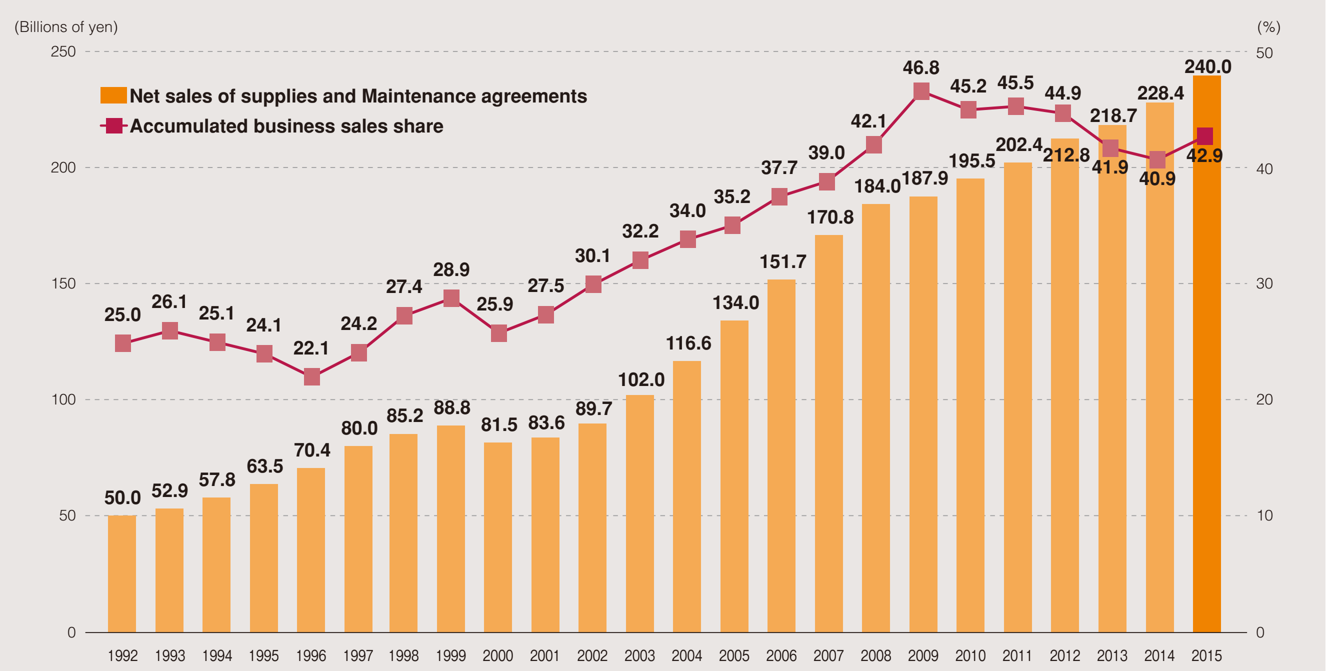
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the "accumulated business" within the Service and Support business.

The accumulated business is not easily impacted by fluctuations in the economy and is steadily achieving growth annually. As such, this can be said to be a cumulative or accumulation business.

In fiscal 2015 as well, sales in the accumulated business grew steadily, increasing ¥11.6 billion, or 5.1%, to ¥240.0 billion and accounting for 42.9% of net sales. Since our public listing in 2000, net sales have increased ¥158.5 billion, an approximately 190% increase (non-consolidated basis).

OTSUKA CORPORATION will continue to focus on the accumulated business as it works to raise the stability of its operations.

Accumulated Business (Non-consolidated)



Figures for 1992-1999 are provided as a reference.

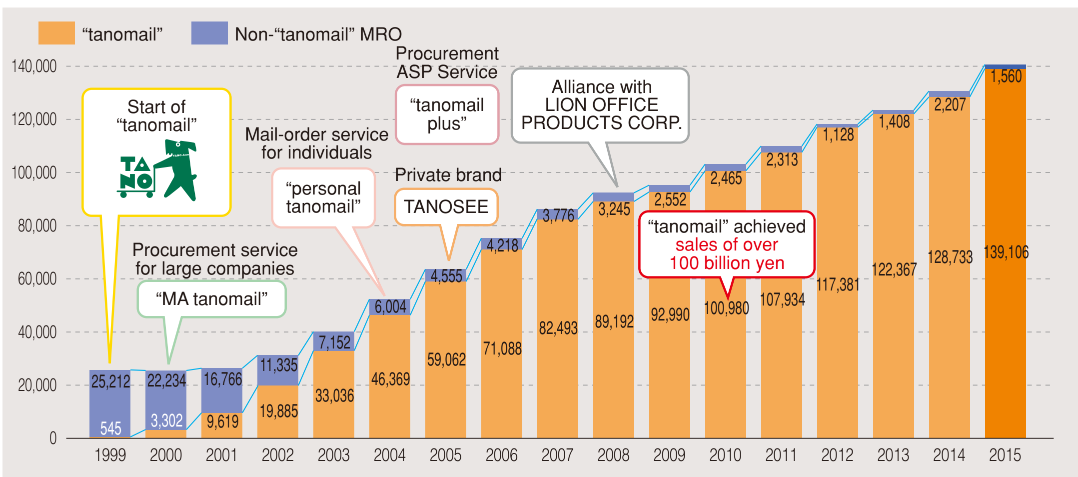
"tanomail" and "tayoreru" are the core pillars of the accumulated business.

たのめーる "tanomail"

Net sales in our "tanomail" office supply mail-order service business are expanding steadily. In fiscal 2015, net sales increased 8.1% to ¥139,106 million.

Annual Sales of "tanomail" (Non-consolidated)

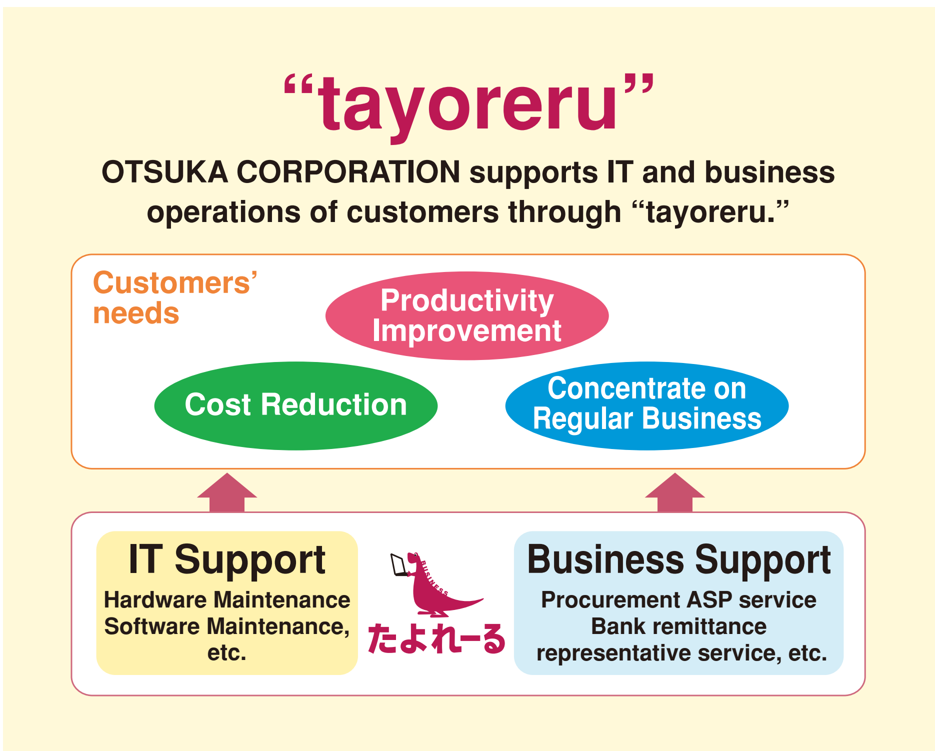
(Millions of yen)



たよれーる "tayoreru"

The "tayoreru" support service business supports customers' IT and business operations.

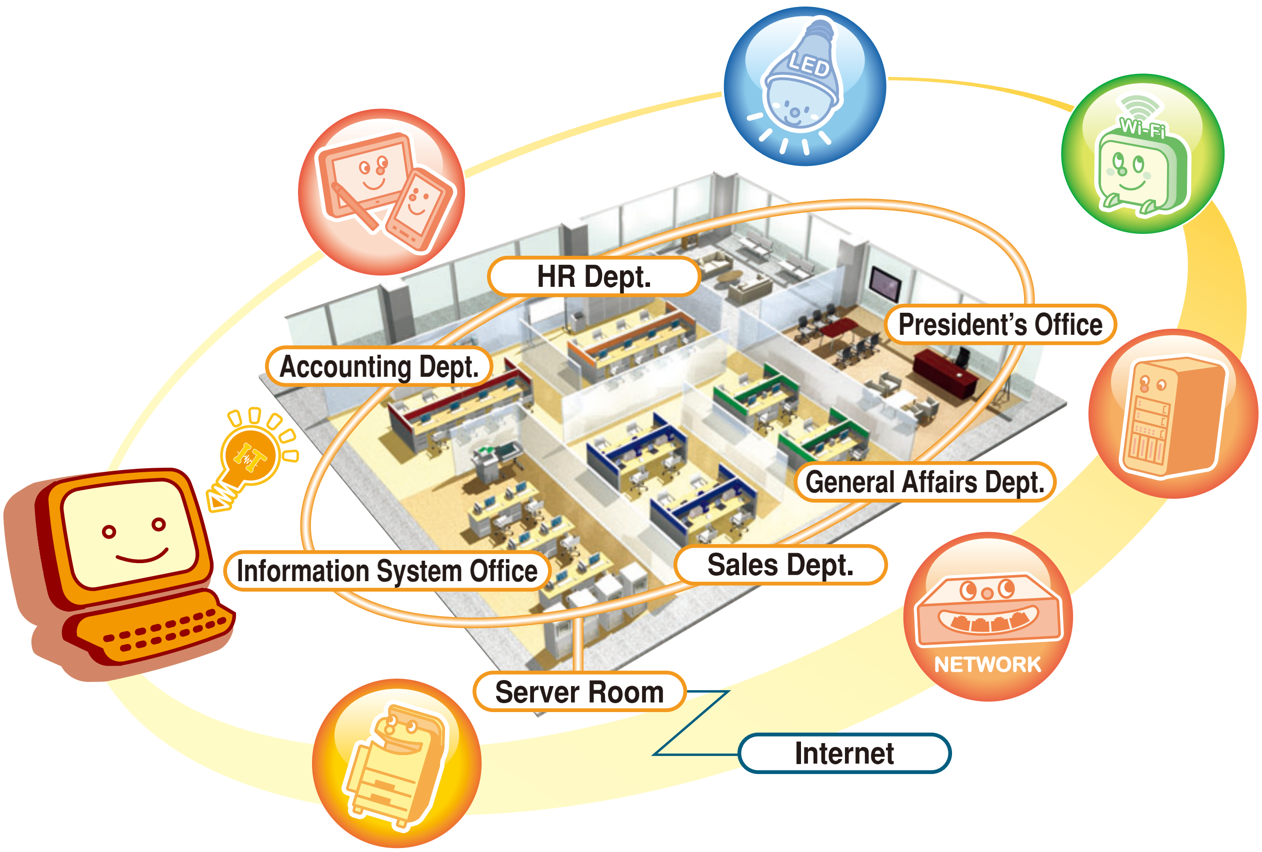
OTSUKA CORPORATION aims to be an indispensable presence in customers' business infrastructure.



OTSUKA CORPORATION—A Partner to Our Customers

OTSUKA CORPORATION offers one-stop solutions and even one-stop support that integrates the various kinds of business equipment, information and telecommunication devices essential to corporate offices.

OTSUKA CORPORATION aims to be a partner that grows together with our customers.

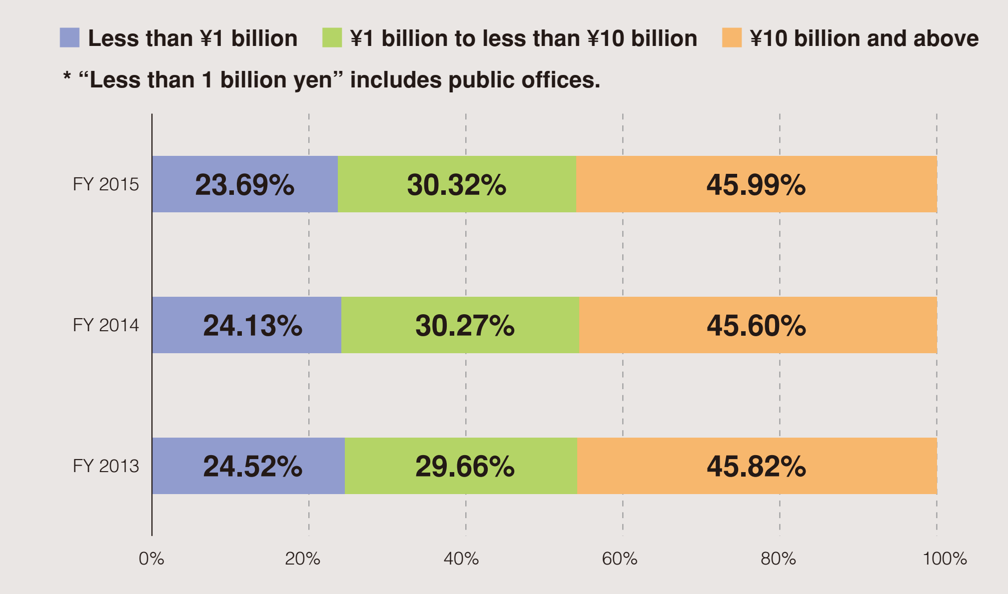


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

OTSUKA CORPORATION maintains a well-balanced composition of customers, with the corporate scale of the Company's customers ranging from major enterprises to small- and medium-sized firms.

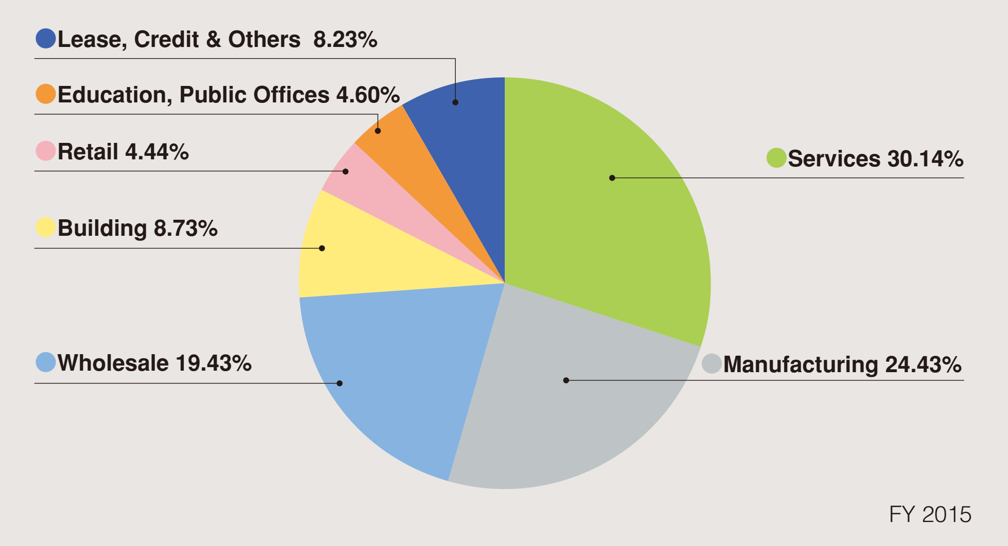
In terms of annual net sales, in fiscal 2015 the ratio of companies with sales of ¥10 billion and above and companies with annual net sales of ¥1 billion to less than ¥10 billion both increased, while the ratio of companies with sales of less than ¥1 billion decreased.

Net sales structure on Customers' total annual business scale (Non-consolidated)



We also have a well-balanced customer base by customers' type of industry. In fiscal 2015, there was no major change in the sales breakdown of customers by type of industry.

Sales Breakdown by Customers' type of Industry (Non-consolidated)



Overview of Key Strategic Businesses (Non-consolidated)

<Amount of Sales> (Millions of yen)

	FY 2013	FY 2014		**FY 2015**	
	Amount	Amount	Change to Last Year	**Amount**	**Change to Last Year**
“tanomail”	122,367	128,733	+5.2%	**139,106**	**+8.1%**
SMILE	11,061	11,673	+5.5%	**10,479**	**−10.2%**
ODS21	43,525	43,575	+0.1%	**46,196**	**+6.0%**
OSM	50,453	50,836	+0.8%	**59,831**	**+17.7%**

(ODS : Otsuka Document Solutions OSM : Otsuka Security Management)

<Reference: Number of units sold> (Units)

	Units	Units	Change to Last Year	**Units**	**Change to Last Year**
Copiers	34,432	37,392	+8.6%	**41,384**	**+10.7%**
(of which color copiers)	30,449	33,793	+11.0%	**38,391**	**+13.6%**
Servers	37,989	39,467	+3.9%	**37,718**	**−4.4%**
Personal computers	932,607	966,600	+3.6%	**795,646**	**−17.7%**
Client Total				**847,320**	**−15.0%**

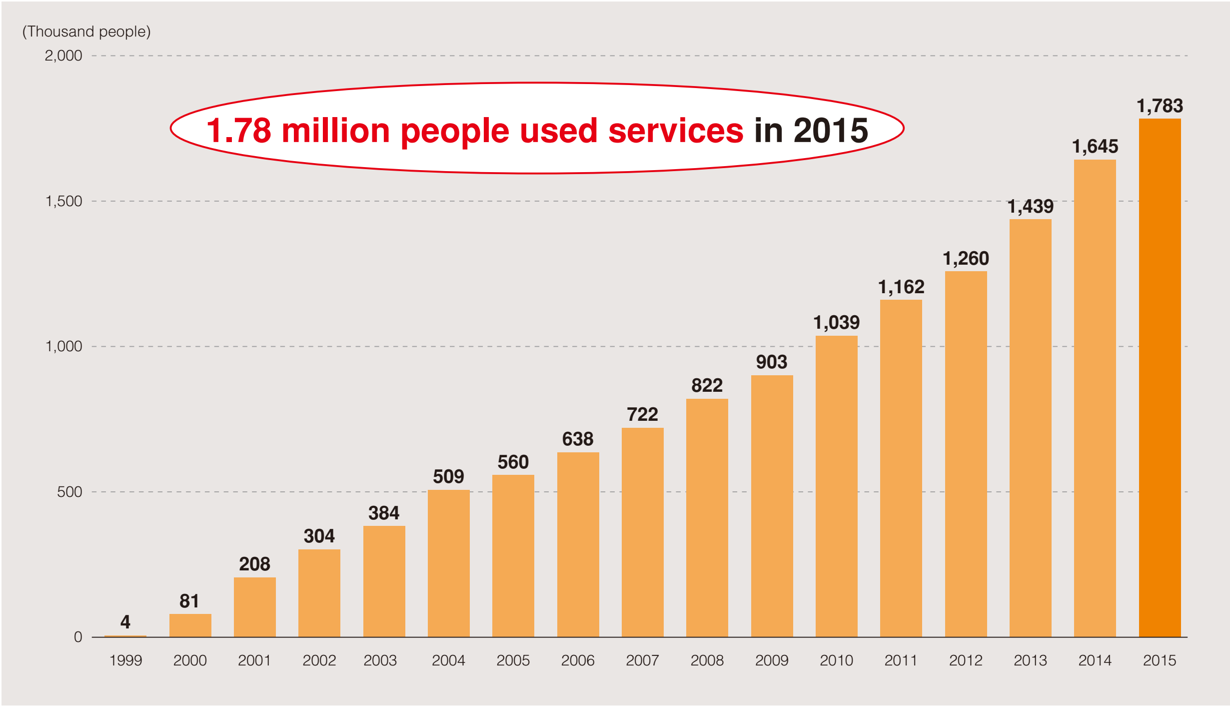
Otsuka Security Management (OSM), our security business, recorded high growth, while sales of copiers also trended favorably. Sales of PCs declined from the previous year due in part to the impact of special demand in the previous year.

OTSUKA CORPORATION’s Web Services (ASP)

Provision of services commenced in 1999. The number of users exceeded 1.78 million in 2015.

OTSUKA CORPORATION has been providing its main Web services since 1999. The number of users of its main Web services has been rising steadily, and in 2015, the number reached 1.78 million.

Number of Users of OTSUKA CORPORATION’s Main Web Services (ASP)



Outlook for Fiscal 2016

Corporate IT Investments Expected to Remain Stable

In the future, the Japanese economy is expected to continue a modest recovery. Nevertheless, there are reasons for concern such as an increase in U.S. interest rates, trends in the Chinese economy, the impact of declining crude oil prices and geopolitical risk, thus cautious actions are forecast in some of these areas.

Under these economic conditions, domestic companies need to continue making aggressive investments for raising productivity and strengthening competitiveness while also starting preparations for responding to the operation of the Social Security and Tax Number ("My Number") System and the introduction of reduced consumption tax rates. As a result, corporate IT investments are forecast to trend firmly in the future as well.

Proposing Solutions Using Our Total Strengths

Given the above economic conditions and outlook for corporate IT investments, the Group will respond to the Social Security and Tax Number ("My Number") System and the reduced consumption tax rates as well as provide support for raising productivity and increasing the earnings power of domestic companies by utilizing our numerous products and services to enhance and improve the systems environments of our customers. To do so, we will further strengthen our contact with customers and propose solutions utilizing our total strengths. We will also bolster our lineup of appealing office supplies and develop a lineup of maintenance services that support improvements in productivity of corporate activities and reduce burdens. At the same time, we will strengthen our accumulated business; build stable and long-term business relationships with customers; and strengthen our earnings foundation. Additionally, in terms of both human resources development and structures, we will raise the level of our sales capabilities and support capabilities and strive to further raise productivity.

Market Forecast in 2016

- Moderate growth in the Japanese economy despite uncertainty in the global economy
- Growing labor shortages
- Demand for raising productivity through aggressive IT investment
- Market expansion of tablet devices
- Upgrade to Windows 10 will be accelerated toward the end of free upgrade period
- Full-scale operation of the Social Security and Tax Number ("My Number") System
- Response to introduction of reduced consumption tax rates
- Electricity liberalization
- Strong demand by companies for IT utilization and energy-saving

Policies and Measures in 2016

"Vitalize office with solutions and live up to customer trust"

- Proposal of solutions to enhance productivity and labor saving
- Expansion of business items with customers and cross-selling
- Proposal of client utilization focusing on tablet devices
- Strengthening of optical communication lines and network solutions
- Help customers respond to "My Number" or reduced consumption tax rates
- Measures to raise the level of performance such as "Virtual Manager"

Strategies by Segment

In the System Integration business, we will focus closely on corporate IT investment trends and IT utilization needs, further promote comprehensive proposals and combined system proposals that combine copiers, computers, tablets and other mobile devices, telephones, optical lines, Wi-Fi environments and security products as we strengthen our solutions proposals. In responding to the Social Security and Tax Number ("My Number") System, we will not just merely respond to this new system but also will actively make added-value proposals that help to further raise productivity and reduce costs within the environments established for responding to this system.

In the Service and Support business, the OTSUKA Group will upgrade and expand our lineup of products matched to customer needs and enhance our lineup of "TANOSEE" private-brand products in our "tanomail" office supply mail-order service business. At the same time, we will further strengthen our contact with customers to stimulate sales. In our "tayoreru" support service business, we will develop operational agent-type services and security-related services and strengthen new services that are not reliant on hardware.

Forecast for Fiscal 2016

In fiscal 2016 the Company forecasts a 4.9% increase in consolidated net sales to ¥639,000 million, a 7.2% increase in operating income to ¥40,000 million, a 5.9% increase in ordinary income to ¥40,500 million and a 6.2% increase in net income attributable to owners of the parent to ¥25,180 million.

By segment, we forecast a 5.0% increase in net sales to ¥370,880 million in the System Integration business, a 4.8% increase to ¥267,740 million in the Service and Support business and a 1.5% decrease to ¥380 million in the Other Business.

Forecast for Consolidated Net Sales and Income (Millions of yen)

	Fiscal 2015	Fiscal 2016 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	609,045	639,000	+4.9%
Operating income	37,311	40,000	+7.2%
Ordinary income	38,240	40,500	+5.9%
Net income*	23,705	25,180	+6.2%

*Net income attributable to owners of parent

Forecast for Consolidated Net Sales by Segment (Millions of yen)

	Fiscal 2015	Fiscal 2016 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	353,170	370,880	+5.0%
Service and Support business	255,490	267,740	+4.8%
Other business	385	380	–1.5%

Social Contribution and Environmental Preservation Activities

Starting from our immediate surroundings, OTSUKA CORPORATION is participating in activities for contributing to society and helping to preserve the environment in a diverse range of fields. Some of the highlights for fiscal 2015 are introduced herein.

■ Great East Japan Earthquake Reconstruction Support Activities

● Holding Product Fairs to Support Reconstruction after the Great East Japan Earthquake

As part of efforts started in 2012 to support earthquake reconstruction from our immediate surroundings, we hold regular product fairs at our head office that are attended by organizations from disaster-stricken regions as we continue to undertake activities to support reconstruction through the purchase of products from the damaged regions. In 2015, we held 11 product fairs, mainly at the Head Office.

● Implementation of the "OTSUKA CORPORATION Heartful Fund" Rebuilding Support Project

Following activities in 2014, we continued to hold the Rebuilding Support Project as a rebuilding support activity through the "OTSUKA CORPORATION Heartful Fund" matching gift program. In 2015, the project received 38 project applications and support was provided for six projects that had a high level of backing from fund contributors.

■ "Happy Points" Donation Program

In 2015 we started the "Happy Points" donation program as a social contribution program, Under this program, we provide customers with "Happy Points" according to the amount of their orders through the "tanomail" office supply mail-order service business. Customers can choose to donate their points to the Guide Dog & Service Dog & Hearing Dog Association of Japan, the Japanese Red Cross Society or the Japan Committee for UNICEF. We converted the points requested by customers as of the end of September at a rate of ¥1 per 1 point and donated a total of ¥1,114,000.

■ Renewing ISO 14001 Certification

OTSUKA CORPORATION formulated the "Environmental Policies" in 2000 and is implementing environmental protection activities in conformance with ISO 14001, the international standard for environmental management systems. In 2015, all 25 business sites underwent renewal examinations and successfully maintained certification. The content of the ISO 14001 standard has been revised for the first time in 10 years and we plan to transition to the new certification.

■ "Tanokun no Mori (TANO-kun Forest)"

In Brazil, 170,000 Tasmanian blue gum trees planted in a forest named "Tanokun no Mori (TANO-kun Forest)" in 2011 have been steadily growing. Plans call for expanding the initial 150-hectare reforested area to 500 hectares by 2017.

Immediately after planting: December 28, 2011

December 27, 2012

January 4, 2016

Corporate Governance

Corporate Governance

Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its Mission Statement, the OTSUKA Group aims to adapt nimbly to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

1. Corporate Governance System

A. Overview of the Corporate Governance System

OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Corporate Auditors and Board of Corporate Auditors and Independent Auditors. A Corporate Auditor System has therefore been adopted. Additionally, the Company appoints outside directors and outside auditors with the aim of strengthening the monitoring of the execution of duties.

With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

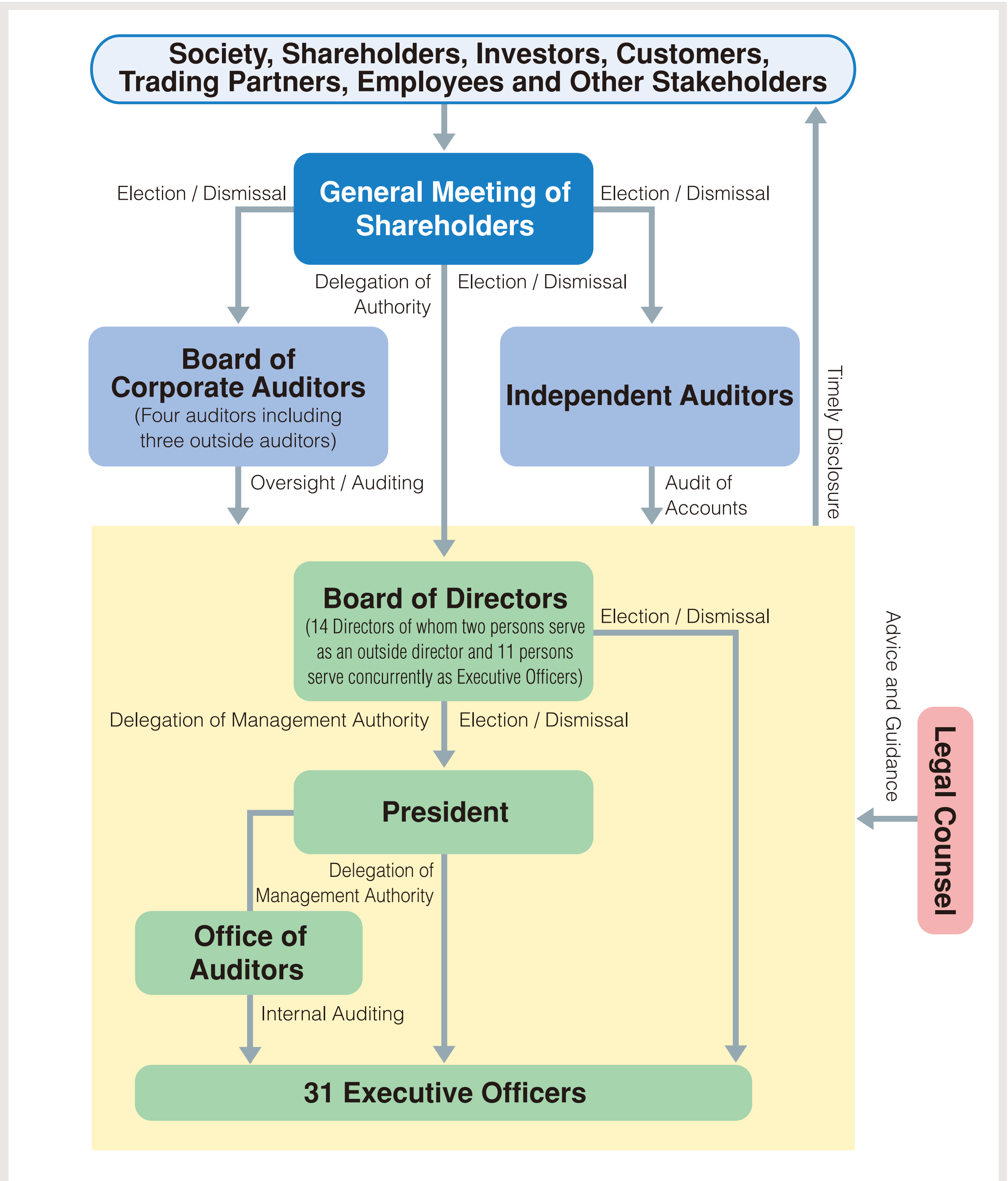
The Board of Directors consists of 14 persons, including two outside directors, and the Board of Directors meets regularly once a month to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Corporate Auditors handle the oversight of business execution.

The Board of Corporate Auditors is comprised of four auditors, including three outside auditors. The Corporate Auditors attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor that suitable management is being carried out and closely audit the execution of duties by Directors.

Group Management Meetings comprising top management of all Group companies (Special Executive Officers) are also held to clarify operational conditions at each company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

Note: At the Regular General Meeting of Shareholders to be convened on March 29, 2016, the Company will newly appoint one outside director.

The structure for corporate management decision-making, business operations and oversight is as follows:



B. Reason for Adopting Present Corporate Governance System

It has been deemed that a governance system led by outside directors would not be suitable due to a wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. A Corporate Auditor System has therefore been adopted in the manner above.

The Company assures transparency of decision-making by strengthening management oversight and audit functions by auditors, including outside auditors, and appoints outside directors with no conflict of interest with general shareholders to strengthen management supervision functions. By doing so, the Company aims to contribute to proper decision-making by the Board of Directors.

In this manner, the Company believes that its Corporate Governance system under which Executive Officers handle business execution based on the Board of Directors, including outside directors, and the Board of Corporate Auditors, including outside auditors, functions effectively.

C. Other Matters Concerning Corporate Governance

State of Internal Control Systems

Pursuant to Paragraph 5, Article 362 of the Companies Act, the Company has determined the following basic policies at a meeting of the Board of Directors for systems that ensure the proper execution of business operations.

• Basic policies for internal control systems

a) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees

Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

Directors and employees shall strive to enhance the compliance system by taking such measures as improving awareness through continuous compliance education, improving business operations through internal audits, and properly applying the internal reporting system in working to ensure compliance with laws and the Articles of Incorporation in the execution of their duties.

b) System for storing and managing information concerning the execution of duties by directors

Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

c) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

In the event of unexpected contingencies, we shall set up a task force, collect risk information and devise quick and appropriate countermeasures.

d) System for ensuring the efficient execution of duties by directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while specific details shall be stipulated in Duty Authority Regulations and Separation of Duty Regulations and efficiency shall be raised.

e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

Group companies shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. A system shall be established that enables reports on the status of business execution to be received from Group companies while an internal auditing office shall be established within each Group company and contribute to the rationalization of management by making improvements to business operations. By convening the Group Management Meeting, we shall ascertain the state of management and the progress of profit plans at each Group company. Concurrently, we shall work to strengthen corporate governance at each Group company through the Special Executive Officer System.

f) Matters regarding employees assisting Corporate Auditors when requested and the independence of such employees from Directors

In the event that an auditor requests the assistance of an employee, a proper system shall be established upon consultation with the Corporate Auditor. Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee, the independence of such employees from Directors shall be ensured by obtaining the prior consent of the Corporate Auditor.

g) System for reporting to Corporate Auditors by Directors and employees and other systems regarding reporting to Corporate Auditors

A system shall be established that enables Corporate Auditors to receive reports from Directors and employees on the state of execution of duties. At the same time collaboration and coordination with internal departments carrying out audits shall be strengthened. A system shall be established that enables Directors and employees of Group companies as well as parties receiving reports from these persons to report to the Corporate Auditors of the parent company.

h) System for ensuring effective audits by Corporate Auditors

Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. An internal auditing office shall maintain close relations with the Corporate Auditors and undertake inspections in accordance with the requests of Corporate Auditors.

The Company's System Regarding Reporting to Corporate Auditors

Directors, employees and executive officers and employees of subsidiaries shall report the following matters to the Corporate Auditors.

- Important institutional decision matters
- Material facts that could cause significant damage to the Company
- Matters concerning the state of internal audits and risk management
- Material facts that violate laws and regulations or the Articles of Incorporation
- The state of internal reporting and consultations and details of cases that are reported or have involved consultations
- Other matters for which corporate auditors have requested reporting

In accordance with employment regulations, persons reporting to Corporate Auditors shall not be treated unfavorably for the reason of having reported the relevant matter.

Matters Related to the Treatment of Expenses and Liabilities Incurred in Business Execution by Corporate Auditors

In the case auditors request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall process these expenses in the case that such requested expenses except in the case these are determined to be unnecessary, for the execution of duties by such auditors upon deliberation with the department in charge.

Basic thinking on the elimination of antisocial forces and establishment of measures

a) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no relations with antisocial forces that threaten the order and safety of society.

b) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office, Human Resources and General Affairs Department, and Customer Relationship Office as the department and office responsible for responding to antisocial forces. The Company shall collaborate with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence. At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

State of Establishment of Risk Management Structure

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management as part of a risk management system.

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope. At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

State of Establishment of a Structure for Assuring the Appropriate Business Operations of Subsidiaries

The Office of Auditors receives reports on the results of internal audits implemented at each Group company from the Internal Auditing Office established within each Group company.

Group Management Meetings are held three times during each fiscal year and these clarify operational conditions at each Group company and make progress in achieving profit targets.

D. Summary of Details of Contract of Limited Liability

As prescribed by Article 427-1 of the Companies Act, the Company, outside directors (excludes executive directors) and auditors conclude a contract that limits liability under Article 423-1 of the Act. The amount limit of the liability based on this contract shall be the amount prescribed by law. However, this limitation shall be recognized only in cases in which the execution of duties by the relevant outside directors (excludes executive directors) and Corporate Auditors that caused the liabilities were carried out in good faith and without any gross negligence.

2. Status of Internal Audits and Audits by Corporate Auditors

As the organization for internal audits and audits by Corporate Auditors, the Office of Auditors (12 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Office of Auditors receives reports on the results of internal audits implemented at each Group company from the Internal Auditing Office established within each Group company.

The Board of Corporate Auditors formulates auditing policies and assigns relevant duties regarding audits. Each Corporate Auditor complies with the standards set by the Board of Corporate Auditors when conducting audits and works to gather information and ensure smooth lines of communication with Directors and the Office of Auditors in order to create an effective environment for auditing. Corporate Auditors attend the Board of Directors meetings and other important meetings to hear reports from Directors and others on the status of execution of duties and to examine the condition of business operations and assets at the Head Office and key business locations. Other functions include oversight and inspection of the status of internal control systems.

Corporate Auditors and staff from the Office of Auditors meet regularly once a month to exchange information regarding such matters as auditing plans as well as the condition of audit implementation and business execution, and take appropriate steps as required.

Corporate Auditors and the Independent Auditors meet on a timely basis to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information confirming the legality of actions taken by Directors and take appropriate steps as required.

3. Corporate Audits

OTSUKA CORPORATION contracts Ernst & Young ShinNihon LLC to handle its accounting auditing.

The names of CPAs involved in auditing-related operations and composition of staff assisting in auditing-related operations for the fiscal year under review are as follows.

Ernst & Young ShinNihon LLC

Ryuzo Shiraha, Designated Employee with Limited Liability and Managing Partner

Shigeyuki Kano, Designated Employee with Limited Liability and Managing Partner

Sei Eshita, Designated Employee with Limited Liability and Managing Partner

Number of Staff Assisting in Accounting-related Operations

CPAs	17
Other individuals	24

* Summarized, as all members have less than seven years of continuous auditing experience

4. Outside Directors and Outside Auditors

The Company has appointed two persons as outside directors and three persons as outside auditors. Jiro Makino has been appointed as an outside director because of his qualifications as a lawyer to the management of the Company and long years of involvement the actual practice of legal affairs. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Jiro Makino Law Office legal professional corporation, in which outside director Jiro Makino currently has a key position.

Tetsuo Saito has been appointed as an outside director because of his long years of experience in participating in the management of numerous companies in multiple industries. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE. There are no special interests or otherwise relationship between the Company and Work Two Co., Ltd., Arax Co., Ltd., Diamond Dining Co., Ltd., DM Solutions Co., Ltd. and Career Design Center Co., Ltd. in which Tetsuo Saito currently has key positions.

Kazuhiko Nakai has been appointed as an outside auditor because of their qualifications as certified public accountants to the management of the Company. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Kazuhiko Nakai Tax Accountant Office, Kazuhiko Nakai CPA Office and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has a key position.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Tetsutaro Wakatsuki has been appointed as an outside auditor because of his qualifications as a lawyer to the management of the Company. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Murata & Wakatsuki Law Offices, TPC Co., Ltd. and SBI Money Plaza Co., Ltd., in which Tetsutaro Wakatsuki concurrently has key positions.

Etsuo Hada has been appointed as an outside auditor because of his qualifications as a Certified Public Accountant (CPA), licensed tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement the actual practice of corporate accounting and legal affairs. He makes reports to the TSE as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Hada CPA and Judicial Scrivener Office and Nikkan Kogyo Shimbun Ltd. in which outside auditor Etsuo Hada currently has key positions.

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE).

The outside directors and outside auditors each attend Board of Directors meetings to provide insights and impart opinions based on their extensive experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

The outside auditors receive on a regular basis auditing reports at the Board of Corporate Auditors, reports concerning the state of establishment and operation of internal controls from the Internal Control Committee and reports on internal audits from the Office of Auditors. This enables the outside auditors to understand the current state of the Group and pertinent issues, and when the need arises they express their opinions from a specialist standpoint at the Board of Directors. Additionally, outside auditors exchange information and opinions with the Independent Auditors and internal auditing departments, beginning with the Office of Auditors, at their discretion and work to share auditing information.

5. Remuneration of Directors and Corporate Auditors

A. Total Remuneration, Breakdown of Remuneration and Number of Applicable Officers by Classification

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Base Pay	Bonus	Retirement Benefits	
Directors (excluding outside directors)	376	259	73	43	12
Corporate Auditors (except outside auditors)	18	16	–	1	1
Outside Auditors	26	26	–	–	5

Notes:
1. The above includes one outside auditor who resigned from the Company at the conclusion of the 54th regular General Meeting of Shareholders on March 27, 2015.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for Corporate Auditors is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

B. Total Consolidated Remuneration by Director and Corporate Auditor

Not disclosed since there are no Directors or Corporate Auditors that receive consolidated remuneration of ¥100 million or more.

C. Policy for Determination of Remuneration Policy and its Calculation Method for Directors and Corporate Auditors

Remuneration for Directors comprises basic pay, bonus and retirement benefits. The method of calculation for each is as follows. Basic pay refers to fixed remuneration determined based on the maximum annual income of the employee and the importance of their role in each position. It is set within the limit determined by a resolution passed at the General Meeting of Shareholders. In order to link contribution to business performance, bonuses are determined based on target achievement for operating income and the degree of contribution of each Director. Remuneration for Corporate Auditors is determined based on deliberation by Corporate Auditors and set within the limit determined by a resolution passed at the General Meeting of Shareholders. In principle, the Company sets an annual basic total amount for retirement benefits for each class of Standing Officer. Retirement benefits are paid at the time of retirement in an amount adjusted for company and individual performance. The Company does not employ a stock option system.

6. Principal Stockholdings by the Company

A. Investment shares held for any purpose other than pure investment

Number of securities	57
Total amount on balance sheet	¥8,175 million

B. Name, number, amount on balance sheet of investment shares held for any purpose other than pure investment and purpose for holding them

(Previous Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	1,000,000	3,805	To facilitate and maintain business relationship
Ricoh Company, Ltd.	272,637	335	Same as above
The Bank of Yokohama Ltd.	382,204	251	Same as above
Daiwa House Industry Co, Ltd.	100,000	229	Same as above
Uchida Esco Co., Ltd.	180,000	189	Same as above
Billing System Corporation	50,000	184	Same as above
Daito Trust Construction Co., Ltd.	13,100	179	Same as above
ThreePro Group Co., Ltd.	360,000	133	Same as above
Credit Saison Co., Ltd.	50,000	112	Same as above
Meiko Network Japan Co., Ltd.	60,000	73	Same as above
The Keiyo Bank, Ltd.	50,000	33	Same as above
Zeon Corporation	29,367	31	Same as above
Nippon Kayaku Co., Ltd.	16,256	24	Same as above
NAMCO BANDAI Holdings Inc.	9,504	24	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	23	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	19	Same as above
Iino Kaiun Kaisha, Ltd.	28,485	19	Same as above
J ESCOM HOLDINGS, INC.	150,000	11	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	9	Same as above
Iwabuchi Corporation	17,155	8	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	7	Same as above
HYPER Inc.	6,000	5	Same as above
Morinaga & Co., Ltd.	14,633	4	Same as above
Mizuho Financial Group, Inc.	21,520	4	Same as above
Rengo Co., Ltd.	7,600	3	Same as above
Autobacs Seven Co., Ltd.	1,500	2	Same as above
Canon Marketing Japan Inc.	1,155	2	Same as above
Maruzen Co., Ltd.	2,000	2	Same as above
Tsuchiya Holdings Co., Ltd.	8,411	2	Same as above
Daikyo Incorporated	9,400	1	Same as above

(Current Fiscal Year)

Specified investment stocks

Name	Number of Shares	Amount on Balance Sheet (Millions of yen)	Purpose for Holding
Temp Holdings Co., Ltd.	3,000,000	5,655	To facilitate and maintain business relationship
Ricoh Company, Ltd.	288,280	360	Same as above
Daiwa House Industry Co, Ltd.	100,000	350	Same as above
The Bank of Yokohama Ltd.	382,204	285	Same as above
Billing System Corporation	50,000	255	Same as above
ThreePro Group Co., Ltd.	360,000	209	Same as above

Daito Trust Construction Co., Ltd.	13,100	183	Same as above
Uchida Esco Co., Ltd.	180,000	174	Same as above
Credit Saison Co., Ltd.	50,000	120	Same as above
Meiko Network Japan Co., Ltd.	60,000	84	Same as above
Zeon Corporation	30,265	29	Same as above
The Keiyo Bank, Ltd.	50,000	28	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	27	Same as above
NAMCO BANDAI Holdings Inc.	9,504	24	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	22	Same as above
Nippon Kayaku Co., Ltd.	16,783	21	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	15	Same as above
Iino Kaiun Kaisha, Ltd.	29,536	14	Same as above
J ESCOM HOLDINGS, INC.	150,000	14	Same as above
Iwabuchi Corporation	18,138	10	Same as above
Morinaga & Co., Ltd.	15,025	9	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	8	Same as above
HYPER Inc.	12,000	6	Same as above
Mizuho Financial Group, Inc.	21,520	5	Same as above
Rengo Co., Ltd.	7,600	3	Same as above
Autobacs Seven Co., Ltd.	1,500	3	Same as above
Canon Marketing Japan Inc.	1,155	2	Same as above
Maruzen Co., Ltd.	2,000	1	Same as above
Daikyo Incorporated	9,400	1	Same as above
Tsuchiya Holdings Co., Ltd.	9,114	1	Same as above

C. Investment stocks held for the purpose of pure investment

Not applicable

7. Number of Directors

The Company's Articles of Incorporation stipulate that the number of Company Directors shall be 19 or fewer.

8. Resolutions for Appointment and Dismissal of Director

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights, and is decided by a majority of shareholders. In addition, a resolution for the appointment of a Director shall not be decided by cumulative voting.

9. Requirements for Special Resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Companies Act, shall be adopted when it is approved by a vote of two-thirds or more of the voting rights present at a General Meeting of Shareholders, a quorum for which shall be the presence of shareholders of one-third of the aggregate voting rights if the total shareholders are capable of exercising such rights. This aim is to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

10. Decision-making Body for the Distribution of Retained Earnings

The regular General Meeting of Shareholders shall serve as the decision-making body for the distribution of retained earnings at year-end.

11. Interim Dividend

Pursuant to Paragraph 5, Article 454 of the Companies Act, the Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year. This is in order to allow the flexible return of profits to shareholders.

12. Purchase of Own Shares

The purport of the Company's Articles of Incorporation stipulates that the Company shall be able to purchase its own shares based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act. This is aimed at purchasing own shares through market transactions to enable the execution of a flexible capital policy that responds to changes in economic conditions.

Remuneration for Independent Auditors

1. Breakdown of Remuneration for Independent Auditors

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	65	0	65	—
Consolidated Subsidiaries	13	—	13	—
Total	79	0	79	—

2. Other Major Remuneration

Not applicable

3. Non-Auditing Services by Independent Auditors for Consolidated Companies

Previous Fiscal Year

Non-auditing services for which the Company pays remuneration to independent auditors consist of services related to seminars for customers and other services.

Current Fiscal Year

Not applicable

4. Audit Remuneration Policy

The Company determines an appropriate amount of audit remuneration based on a number of factors, including the number of days of auditing work, the nature of auditing duties and scale of work to ensure the accounting auditor can conduct auditing and certification services fairly and in good faith from an independent standpoint.

Board of Directors and Corporate Auditors (As of March 29, 2016)

President & Chief Executive Officer

Yuji Otsuka

Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura

Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi

Managing Director & Executive Operating Officer

Kimio Shiokawa

Managing Director & Operating Officer

Katsuhiro Yano

Managing Director & Operating Officer

Hironobu Saito

Managing Director & Operating Officer

Yasuhiro Wakamatsu

Managing Director & Operating Officer

Hironobu Tsurumi

Managing Director & Operating Officer

Minoru Sakurai

Director & Senior Managing Officers

Mitsuya Hirose
Osamu Tanaka
Norihiko Moriya

Directors

Jiro Makino
Tetsuo Saito

Standing Auditor

Naoto Minai

Auditors

Kazuhiko Nakai
Tetsutaro Wakatsuki
Etsuo Hada

Business Risks

The most common risks that could potentially impact the Group's business performance results and financial condition are outlined below. While these are the most common risks, they do not represent all potential risks.

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 29, 2016.

Customer-related Risks

The OTSUKA Group's customers range from large enterprises to small firms that span a broad range in terms of company scale and industries. Consequently, its level of dependency on any specific customer is low.

However, the Group's operations could be impacted by convergent changes in IT investment trends by a large number of companies as a result of unexpected changes in the economic environment.

Supplier-related Risks

The OTSUKA Group is supplied with high-quality products, services and technologies (hereafter called "products") by numerous suppliers for respective segments in order to optimally resolve the problems of each customer. While working to deepen its relationship with suppliers to ensure stable supply of these "products," the Group is constantly working to acquire information on newer "products" as well.

However, the Group's operations could be impacted by the inability to supply "products" in the quantity demanded by customers because of insufficient supply of "products" due to issues at supplier sites, as well as by the Group's inability to obtain substitutes.

Information Leakage Risks

The OTSUKA Group possesses an abundance of individual and corporate information pertaining to operations that is handled carefully. The Group received approval to use the Privacy Mark of the Japan Institute for Promotion of Digital Economy and Community, and its Internet Data Center acquired certification for Information Security Management Systems (ISMS).

As a concrete measure to manage data, the Group has released an internal and external Personal Information Protection Policy, as well as established regulations on personal information protection, confidentiality and information system security. The Group has its employees take a pledge of confidentiality as well as works to prevent information leakage outside of the Group and raises awareness of information management through its proprietary educational "CP (Compliance Program) License System" and other measures.

Even with these measures, however, the Group's operations could be impacted by assuming liabilities for damage and loss of trust by society in the unlikely event that personal or corporate information is leaked outside the Group.

Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2013, 2014 and 2015

	Millions of yen			Thousands of U.S. dollars
	2013	2014	**2015**	**2015**
Net sales	¥564,595	¥605,766	**¥609,045**	**$5,052,644**
System Integration business	332,067	362,068	**353,170**	**2,929,899**
Service and Support business	231,868	243,316	**255,490**	**2,119,545**
Other business	658	381	**385**	**3,199**
Operating income	33,901	37,097	**37,311**	**309,540**
Ordinary income	33,505	38,144	**38,240**	**317,240**
Income before income taxes and minority interests	33,049	37,910	**38,316**	**317,874**
Net income	20,271	23,455	**23,705**	**196,664**
Total assets	279,589	305,513	**324,755**	**2,694,169**
Interest-bearing debt	9,070	9,584	**9,344**	**77,518**
Equity	144,150	163,277	**173,229**	**1,437,110**
Net income per share (EPS) (Yen and U.S. dollars)	213.83	247.41	**250.06**	**2.07**
Dividends per share of common stock (Yen and U.S. dollars)	78.33	90.00	**100.00**	**0.83**
Cash flows from operating activities per share (Yen and U.S. dollars)	198.10	360.02	**291.37**	**2.42**
Operating income to Net sales ratio (%)	6.00	6.12	**6.13**	**—**
Net income to Net sales ratio (%)	3.59	3.87	**3.89**	**—**
Interest-bearing debt ratio (%)	3.24	3.14	**2.88**	**—**
Equity ratio (%)	51.56	53.44	**53.34**	**—**
Return on equity (ROE) (%)	14.87	15.26	**14.09**	**—**

Notes:
Equity = Total net assets - Share subscription rights - Minority interests
Figures for ROE are calculated using average equity.
U.S. dollar amounts are computed using the December 31, 2015 exchange rate of ¥120.54 = US$1.
The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2013.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	2014	**2015**	Difference to Last Year	% Change to Last Year
				Millions of yen
Net sales	¥605,766	**¥609,045**	+3,279	+0.5%
System Integration business	362,068	**353,170**	-8,898	-2.5
Service & Support business	243,316	**255,490**	+12,173	+5.0
Other business	381	**385**	+4	+1.1
Cost of sales	474,176	**474,977**	+801	+0.2
Gross profit	131,589	**134,068**	+2,478	+1.9
Selling, general and administrative expenses	94,492	**96,756**	+2,264	+2.4
Operating income	37,097	**37,311**	+214	+0.6
Ordinary income	38,144	**38,240**	+95	+0.3
Income before income taxes and minority interests	37,910	**38,316**	+406	+1.1
Income taxes				
Current	13,886	**13,796**	-89	-0.6
Deferred	359	**639**	+279	+77.7
Net income	23,455	**23,705**	+250	+1.1

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥609,045 million, an increase of ¥3,279 million (0.5%) from the previous fiscal year.

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We focused on solutions that spur demand for security measures and mobile devices, while in September, prior to the notification of personal identity numbers, we began providing the "Raku Raku My Number Handling System." This system covers a series of administrative processes that include acquisition, storage, use and disposal. Although these initiatives underpinned growth in unit sales of copiers and tablet devices, net sales for the year in the System Integration business decreased 2.5% to ¥353,170 million due in part to the impact of special demand in the previous fiscal year.

Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We renewed the website for our "tanomail" office supply mail-order service business to increase sales opportunities and implemented price increases for some products in conjunction with a steep rise in the costs of raw materials. In September, we significantly expanded the number of "packages, tools and work supplies" handled to approximately 100,000 items.

In the maintenance business, we commenced the "tayoreru hikari" optic fiber broadband service for companies and strengthened our "Raku Raku Solution Series," an outsourcing service for IT operations management. As a result, net sales in the Service and Support business rose 5.0% to ¥255,490 million.

Other Business

In the Other Business, net sales increased 1.1% from the previous fiscal year to ¥385 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 1.9% to ¥134,068 million due to the slight growth in net sales.

Because the rise in gross profit slightly exceeded the increase in selling, general and administrative (SG&A) expenses, operating income increased 0.6% to ¥37,311 million, ordinary income increased 0.3% to ¥38,240 million and net income was up 1.1% to ¥23,705 million. Net income per share amounted to ¥250.06.

Financial Position

			Millions of yen	
	2014	**2015**	Difference to Last Year	% Change to Last Year
Assets:	¥305,513	**¥324,755**	+19,241	+6.3%
Current assets	234,931	**255,679**	+20,748	+8.8
Non-current assets	70,581	**69,075**	-1,506	-2.1
Liabilities:	141,165	**150,352**	+9,187	+6.5
Current liabilities	133,282	**139,523**	+6,240	+4.7
Non-current liabilities	7,882	**10,829**	+2,946	+37.4
Net assets	164,347	**174,402**	+10,054	+6.1

Assets

Total assets at fiscal year-end increased ¥19,241 million from the previous fiscal year-end to ¥324,755 million.

Current assets increased ¥20,748 million from the previous fiscal year-end to ¥255,679 million due to an increase in cash and deposits.

Non-current assets decreased ¥1,506 million from the previous fiscal year-end to ¥69,075 million.

Liabilities

Total liabilities at fiscal year-end increased ¥9,187 million from the previous fiscal year-end to ¥150,352 million.

Current liabilities increased ¥6,240 million from the previous fiscal year-end to ¥139,523 million due to increases in notes and accounts payable-trade and electronically recorded obligations-operating.

Non-current liabilities increased ¥2,946 million from the previous fiscal year-end to ¥10,829 million.

Net Assets

Total net assets at fiscal year-end increased ¥10,054 million from the previous fiscal year-end to ¥174,402 million due to an increase in retained earnings.

As a result, the equity ratio declined 0.1 percentage point from the previous fiscal year-end to 53.3%.

The interest coverage ratio was 683.24 times, the interest-bearing debt ratio was 2.88%, return on equity (ROE) was 14.09% and return on assets (ROA) was 11.95%.

	2014	**2015**
Interest coverage ratio (times)	596.52	**683.24**
Interest-bearing debt ratio (%)	3.14	**2.88**
ROE (%)	15.26	**14.09**
ROA (%)	12.78	**11.95**

Interest coverage ratio = Business profit / (Interest expenses + Interest payable on bonds)

ROA = Business profit / Total assets (average during the fiscal year)

Business profit = Operating income + Interest income + Interest on securities + Dividends income + Gain (loss) on Equity in earnings of affiliated companies

Cash flows

	Millions of yen	
	2014	**2015**
Cash flows from operating activities	¥34,130	**¥27,621**
Cash flows from investing activities	-5,410	**-7,235**
Cash flows from financing activities	-7,580	**-8,742**
Cash and cash equivalents at end of year	97,943	**109,587**

Cash and cash equivalents at end of year totalled ¥109,587 million, an increase of ¥11,643 million from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥27,621 million, a decrease of ¥6,508 million from the previous fiscal year due to an increase in notes and accounts receivable – trade.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥7,235 million, an increase of ¥1,825 million from the previous fiscal year due to the absence of proceeds from the liquidation of a subsidiary recorded in the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1,162 million to ¥8,742 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, decreased ¥8,334 million to ¥20,386 million.

Forecast for Fiscal 2016

In fiscal 2016 the Company forecasts a 4.9% increase in consolidated net sales to ¥639,000 million, a 7.2% increase in operating income to ¥40,000 million, a 5.9% increase in ordinary income to ¥40,500 million and a 6.2% increase in net income attributable to owners of the parent to ¥25,180 million.

By segment, we forecast a 5.0% increase in net sales to ¥370,880 million in the System Integration business, a 4.8% increase to ¥267,740 million in the Service and Support business and a 1.5% decrease to ¥380 million in the Other Business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
ASSETS			
Current assets			
Cash and deposits (Note 2)	¥ 90,234	**¥ 100,676**	**$ 835,209**
Notes and accounts receivable - trade (Note 4)	98,066	**105,055**	**871,536**
Securities	5,900	**6,900**	**57,242**
Merchandise	17,822	**19,499**	**161,766**
Work in process	993	**744**	**6,179**
Raw materials and supplies	810	**780**	**6,471**
Deferred tax assets	2,969	**2,806**	**23,283**
Other	18,282	**19,353**	**160,558**
Allowance for doubtful accounts	(146)	**(135)**	**(1,126)**
Total current assets	234,931	**255,679**	**2,121,121**
Non-current assets			
Property, plant and equipment			
Buildings and structures	63,351	**63,157**	**523,952**
Accumulated depreciation and impairment loss	(41,080)	**(42,025)**	**(348,645)**
Buildings and structures, net	22,270	**21,131**	**175,306**
Land (Note 3)	16,832	**16,832**	**139,644**
Other	13,553	**13,694**	**113,607**
Accumulated depreciation and impairment loss	(10,294)	**(10,530)**	**(87,363)**
Other, net	3,259	**3,163**	**26,244**
Total property, plant and equipment	42,363	**41,127**	**341,195**
Intangible assets			
Software	8,133	**9,510**	**78,896**
Other	59	**59**	**496**
Total intangible assets	8,192	**9,569**	**79,392**
Investments and other assets			
Investment securities (Note 1)	8,671	**11,013**	**91,371**
Guarantee deposits	2,553	**2,516**	**20,879**
Long-term prepaid expenses	291	**191**	**1,589**
Deferred tax assets	1,338	**2,209**	**18,327**
Net defined benefit asset	5,389	**—**	**—**
Other	1,977	**2,631**	**21,828**
Allowance for doubtful accounts	(196)	**(185)**	**(1,536)**
Total investments and other assets	20,025	**18,377**	**152,460**
Total non-current assets	70,581	**69,075**	**573,047**
Total assets	¥305,513	**¥324,755**	**$2,694,169**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Liabilities			
Current liabilities			
Notes and accounts payable – trade (Notes 2,4)	¥ 67,066	**¥ 74,542**	**$ 618,401**
Electronically recorded obligations - operating	15,389	**17,095**	**141,823**
Short-term loans payable	6,850	**6,700**	**55,583**
Lease obligations	960	**1,043**	**8,655**
Income taxes payable	8,007	**7,916**	**65,671**
Advances received	10,845	**10,212**	**84,720**
Provision for bonuses	3,126	**3,184**	**26,417**
Other	21,036	**18,829**	**156,212**
Total current liabilities	133,282	**139,523**	**1,157,486**
Non-current liabilities			
Lease obligations	1,774	**1,600**	**13,279**
Deferred tax liabilities	2,059	**—**	**—**
Deferred tax liabilities for land revaluation (Note 3)	142	**129**	**1,072**
Provision for directors' retirement benefits	582	**588**	**4,879**
Net defined benefit liability	2,533	**7,640**	**63,382**
Asset retirement obligations	215	**217**	**1,805**
Other	575	**653**	**5,420**
Total non-current liabilities	7,882	**10,829**	**89,839**
Total liabilities	141,165	**150,352**	**1,247,325**
Net assets			
Shareholders' equity			
Capital stock	10,374	**10,374**	**86,069**
Capital surplus	16,254	**16,254**	**134,849**
Retained earnings	145,326	**154,389**	**1,280,811**
Treasury shares	(135)	**(136)**	**(1,135)**
Total shareholders' equity	171,820	**180,881**	**1,500,595**
Accumulated other comprehensive income			
Unrealized holding gain in securities	2,974	**4,617**	**38,307**
Revaluation reserve for land (Note 3)	(14,069)	**(14,055)**	**(116,607)**
Foreign currency translation adjustment	52	**25**	**215**
Remeasurements of defined benefit plans	2,499	**1,759**	**14,600**
Total accumulated other comprehensive income	(8,543)	**(7,652)**	**(63,484)**
Minority interests	1,070	**1,173**	**9,732**
Total net assets	164,347	**174,402**	**1,446,843**
Total liabilities and net assets	¥305,513	**¥324,755**	**$2,694,169**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Net sales	¥605,766	**¥609,045**	**$5,052,644**
Cost of sales	474,176	**474,977**	**3,940,414**
Gross profit	131,589	**134,068**	**1,112,230**
Selling, general and administrative expenses			
Salaries, allowances and bonuses	40,069	**40,103**	**332,701**
Directors' compensations	580	**574**	**4,762**
Welfare expenses	6,278	**6,455**	**53,551**
Rent expenses	6,047	**6,080**	**50,440**
Transportation and warehousing expenses	15,570	**16,812**	**139,476**
Provision for bonuses	2,055	**2,104**	**17,458**
Retirement benefit expenses	1,962	**1,725**	**14,312**
Provision for directors' retirement benefits	72	**71**	**593**
Provision of allowance for doubtful accounts	25	**77**	**646**
Depreciation	3,562	**4,003**	**33,209**
Other	18,267	**18,748**	**155,536**
Total Selling, general and administrative expenses (Note 1)	94,492	**96,756**	**802,690**
Operating income	37,097	**37,311**	**309,540**
Non-operating income			
Interest income	42	**44**	**365**
Dividend income	78	**96**	**798**
House rent income	238	**253**	**2,107**
Income from recycling	212	**122**	**1,016**
Gain on Equity in earnings of affiliated companies	174	**213**	**1,774**
Foreign exchange gains	140	**53**	**446**
Other	223	**202**	**1,676**
Total non-operating income	1,112	**986**	**8,184**
Non-operating expenses			
Interest expenses	62	**55**	**457**
Other	3	**3**	**27**
Total non-operating expenses	65	**58**	**484**
Ordinary income	38,144	**38,240**	**317,240**
Extraordinary income			
Gain on sales of Property, plant and equipment (Note 2)	56	**—**	**—**
Gain on liquidation of subsidiaries and affiliates	223	**—**	**—**
Gain on sales of investment securities	29	**130**	**1,080**
Compensation income	52	**34**	**283**
Other	—	**3**	**29**
Total extraordinary income	363	**168**	**1,394**
Extraordinary losses			
Loss on sales of Property, plant and equipment (Note 3)	393	**—**	**—**
Loss on disposal of Property, plant and equipment and Intangible assets (Note 4)	118	**88**	**735**
Loss on valuation of investment securities	77	**—**	**—**
Other	7	**2**	**23**
Total extraordinary losses	597	**91**	**759**
Income before income taxes and minority interests	37,910	**38,316**	**317,874**
Income taxes-current	13,886	**13,796**	**114,459**
Income taxes-deferred	359	**639**	**5,301**
Total income taxes	14,246	**14,435**	**119,760**
Income before minority interests	23,663	**23,880**	**198,114**
Minority interests in income	208	**174**	**1,449**
Net income	¥ 23,455	**¥ 23,705**	**$ 196,664**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Income before minority interests	¥23,663	**¥23,880**	**$198,114**
Other comprehensive income			
Unrealized holding gain in securities	662	**1,639**	**13,601**
Revaluation reserve for land	235	**13**	**112**
Remeasurements of defined benefit plans	—	**(738)**	**(6,129)**
Share of other comprehensive income of entities accounted for using equity method	51	**(23)**	**(195)**
Total other comprehensive income (Note 1)	948	**890**	**7,389**
Comprehensive income	¥24,612	**¥24,771**	**$205,503**
Comprehensive income attributable to :			
Comprehensive income attributable to owners of parent	¥24,403	**¥24,597**	**$204,057**
Comprehensive income attributable to minority interests	208	**174**	**1,445**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2014

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2014	¥10,374	¥16,254	¥129,640	¥(127)	¥156,142
Cumulative effects of changes in accounting policies					—
Restated balance at January 1, 2014	10,374	16,254	129,640	(127)	156,142
Dividends of surplus			(7,426)		(7,426)
Net income			23,455		23,455
Change in the scope of consolidation			(107)		(107)
Transfer from Revaluation Reserve for Land			(235)		(235)
Purchase of treasury shares				(8)	(8)
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	15,686	(8)	15,678
Balance at December 31, 2014	¥10,374	¥16,254	¥145,326	¥(135)	¥171,820

Millions of yen

	Accumulated other comprehensive income						
	Unrealized holding gain in securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at January 1, 2014	¥2,314	¥(14,304)	¥ (0)	—	¥(11,991)	¥ 915	¥145,066
Cumulative effects of changes in accounting policies							—
Restated balance at January 1, 2014	2,314	(14,304)	(0)	—	(11,991)	915	145,066
Dividends of surplus							(7,426)
Net income							23,455
Change in the scope of consolidation							(107)
Transfer from Revaluation Reserve for Land							(235)
Purchase of treasury shares							(8)
Net changes of items other than shareholders' equity	660	235	53	2,499	3,447	155	3,602
Total changes of items during the period	660	235	53	2,499	3,447	155	19,281
Balance at December 31, 2014	¥2,974	¥(14,069)	¥52	¥2,499	¥ (8,543)	¥1,070	¥164,347

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2015

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2015	**¥10,374**	**¥16,254**	**¥145,326**	**¥(135)**	**¥171,820**
Cumulative effects of changes in accounting policies			**(6,111)**		**(6,111)**
Restated balance at January 1, 2015	**10,374**	**16,254**	**139,215**	**(135)**	**165,709**
Dividends of surplus			**(8,532)**		**(8,532)**
Net income			**23,705**		**23,705**
Purchase of treasury shares				**(1)**	**(1)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**—**	**15,173**	**(1)**	**15,172**
Balance at December 31, 2015	**¥10,374**	**¥16,254**	**¥154,389**	**¥(136)**	**¥180,881**

	Accumulated other comprehensive income						Millions of yen
	Unrealized holding gain in securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at January 1, 2015	**¥2,974**	**¥(14,069)**	**¥52**	**¥2,499**	**¥(8,543)**	**¥1,070**	**¥164,347**
Cumulative effects of changes in accounting policies						**(9)**	**(6,121)**
Restated balance at January 1, 2015	**2,974**	**(14,069)**	**52**	**2,499**	**(8,543)**	**1,061**	**158,226**
Dividends of surplus							**(8,532)**
Net income							**23,705**
Purchase of treasury shares							**(1)**
Net changes of items other than shareholders' equity	**1,643**	**13**	**(26)**	**(739)**	**891**	**111**	**1,002**
Total changes of items during the period	**1,643**	**13**	**(26)**	**(739)**	**891**	**111**	**16,175**
Balance at December 31, 2015	**¥4,617**	**¥(14,055)**	**¥25**	**¥1,759**	**¥(7,652)**	**¥1,173**	**¥174,402**

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2015

	Shareholders' equity				Thousands of U.S. dollars
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2015	**$86,069**	**$134,849**	**$1,205,632**	**$(1,126)**	**$1,425,425**
Cumulative effects of changes in accounting policies			**(50,703)**		**(50,703)**
Restated balance at January 1, 2015	**86,069**	**134,849**	**1,154,929**	**(1,126)**	**1,374,722**
Dividends of surplus			**(70,782)**		**(70,782)**
Net income			**196,664**		**196,664**
Purchase of treasury shares				**(9)**	**(9)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**—**	**125,882**	**(9)**	**125,873**
Balance at December 31, 2015	**$86,069**	**$134,849**	**$1,280,811**	**$(1,135)**	**$1,500,595**

	Accumulated other comprehensive income						Thousands of U.S. dollars
	Unrealized holding gain in securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at January 1, 2015	**$24,675**	**$(116,719)**	**$433**	**$20,733**	**$(70,877)**	**$8,882**	**$1,363,430**
Cumulative effects of changes in accounting policies						**(76)**	**(50,779)**
Restated balance at January 1, 2015	**24,675**	**(116,719)**	**433**	**20,733**	**(70,877)**	**8,805**	**1,312,651**
Dividends of surplus							**(70,782)**
Net income							**196,664**
Purchase of treasury shares							**(9)**
Net changes of items other than shareholders' equity	**13,631**	**112**	**(218)**	**(6,133)**	**7,392**	**926**	**8,319**
Total changes of items during the period	**13,631**	**112**	**(218)**	**(6,133)**	**7,392**	**926**	**134,192**
Balance at December 31, 2015	**$38,307**	**$(116,607)**	**$215**	**$14,600**	**$(63,484)**	**$9,732**	**$1,446,843**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2014 and 2015

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥37,910	**¥ 38,316**	**$317,874**
Depreciation	5,286	**5,764**	**47,819**
Increase (decrease) in allowance for doubtful accounts	(253)	**(21)**	**(180)**
Interest and dividend income	(121)	**(140)**	**(1,163)**
Interest expenses	62	**55**	**457**
Loss (gain) on Equity in earnings of affiliated companies	(174)	**(213)**	**(1,774)**
(Gain) on liquidation of subsidiaries and affiliates	(223)	**—**	**—**
Compensation income	(52)	**(34)**	**(283)**
Loss on disposal of Property, plant and equipment and Intangible assets	118	**88**	**735**
Loss (gain) on sales of Property, plant and equipment	337	**—**	**—**
Decrease (increase) in notes and accounts receivable - trade	1,664	**(6,974)**	**(57,857)**
Decrease (increase) in inventories	1,002	**(1,398)**	**(11,601)**
Increase (decrease) in notes and accounts payable - trade	(2,558)	**9,180**	**76,163**
Loss (gain) on sales of investment securities	(29)	**(130)**	**(1,080)**
Loss (gain) on valuation of investment securities	77	**—**	**—**
Other, net	3,834	**(3,157)**	**(26,196)**
Subtotal	46,879	**41,334**	**342,913**
Interest and dividend income received	190	**233**	**1,934**
Interest expenses paid	(63)	**(54)**	**(455)**
Proceeds from compensation	52	**34**	**283**
Income taxes paid	(12,929)	**(13,925)**	**(115,524)**
Net cash provided by (used in) operating activities	34,130	**27,621**	**229,152**
Cash flows from investing activities:			
Payments into time deposits	—	**(800)**	**(6,636)**
Purchase of property, plant and equipment	(1,907)	**(1,488)**	**(12,347)**
Proceeds from sales of property, plant and equipment	494	**—**	**—**
Purchase of software	(5,180)	**(5,030)**	**(41,732)**
Purchase of investment securities	(22)	**(54)**	**(450)**
Proceeds from sales of investment securities	30	**140**	**1,167**
Proceeds from liquidation of subsidiaries	1,273	**—**	**—**
Payments of long-term loans receivable	(7)	**(73)**	**(606)**
Collection of long-term loans receivable	26	**18**	**157**
Other, net	(117)	**50**	**422**
Net cash provided by (used in) investing activities	(5,410)	**(7,235)**	**(60,025)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(100)	**(150)**	**(1,244)**
Cash dividends paid	(7,425)	**(8,528)**	**(70,755)**
Other, net	(55)	**(63)**	**(528)**
Net cash provided by (used in) financing activities	(7,580)	**(8,742)**	**(72,528)**
Net increase (decrease) in cash and cash equivalents	21,140	**11,643**	**96,597**
Cash and cash equivalents at beginning of year	76,863	**97,943**	**812,540**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(60)	**—**	**—**
Cash and cash equivalents at end of year (Note 1)	¥97,943	**¥109,587**	**$909,138**

The accompanying notes are an integral part of these statements.

(FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS)

1. Basis of Presentation of the Consolidated Financial Statements

Accounting Principles

The accompanying consolidated financial statements of OTSUKA CORPORATION (“the Company”) and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

As of December 31, 2014 and 2015 subsidiaries and consolidated subsidiaries were as follows:

	2014	2015
Subsidiaries	9	8
(Consolidated subsidiaries)	(6)	(5)

The 5 subsidiaries which were consolidated in the year ended December 31, 2015 are listed below:

	A ratio of voting rights held by the Company
OSK Co.,LTD.	100.0%
Alpha Techno Co.,LTD.	100.0%
Alpha Net Co.,LTD.	100.0%
Otsuka Auto Service Co.,LTD.	100.0%
Networld Corporation	81.5%

The Company and its consolidated subsidiaries are hereinafter referred to as “the Companies.”
The consolidated subsidiaries listed above apply a fiscal year ending on December 31 of each year, which is the same as that of the Company.
The accounts of the unconsolidated subsidiaries consisted of insignificant amounts in terms of total assets, net sales, net income and retained earnings, and have, therefore, been excluded from the scope of consolidation.
Alpha System Co.,LTD. has been excluded from the scope of consolidation due to absorption of that company by consolidated subsidiary OSK Co.,LTD.

(2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2014 and 2015 unconsolidated subsidiaries and affiliates were as follows:

	2014	2015
Unconsolidated subsidiaries	3	3
Affiliates	8	8
(Affiliates by the equity method)	(2)	(2)

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method were carried at cost, since they did not have a material impact on consolidated net income and retained earnings in the consolidated financial statements.

The 2 investments in affiliate by the equity method as of December 31, 2015 are listed below:

	A ratio of voting rights held by the Company
Otsuka Information Technology Corp.	37.8%
LION OFFICE PRODUCTS CORP.	40.4%

As for LION OFFICE PRODUCTS CORP. whose fiscal year-end is different from the Company’s fiscal year-end, the Company uses its interim financial statements whose fiscal year-end is most recent on the Company’s, with reasonable adjustments that would have been made to conform to financial statements as of the Company’s fiscal year-end and for the year then ended, for equity accounting purposes.

(3) Financial instruments

(a) Securities

Securities held by the Companies are classified into two categories:

- Held-to-maturity debt securities
  Held-to-maturity debt securities are stated using amortized cost method on a straight-line basis.

- Available-for-sale securities
  Securities with market quotations are stated at fair value, based on market prices at the balance sheet date. (Unrealized gains/losses from valuation of marketable securities are charged directly to net assets at a net-of-tax amount, while cost of sale is determined by the moving-average method.)
  Securities without market quotations are stated at cost, determined by the moving-average method.
  Regarding investments in limited partnerships and similar investments, an amount equivalent to the Company's partnership investment gain or loss under the equity method, with such a gain or loss being based on the latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated statement of income.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in the consolidated statement of income for the period in which they arise.

(4) Inventories

Inventories are stated at cost (the book value of inventories on the balance sheet is stated by writing down based on their decrease in profitability).

Merchandise	Primarily, moving-average method
Work in process	Specific identification method
Raw materials and supplies	Primarily, moving-average method

(5) Property and equipment (excluding lease assets)

Depreciation is computed using the declining-balance method, at rates based on the estimated useful lives of assets. Depreciation of buildings (excluding facilities attached to buildings) newly acquired after April 1, 1998 has been provided based on the straight-line method.

Estimated useful lives of assets are principally as follows:

Buildings and structures — 15 to 50 years

Other — 4 to 10 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to the consolidated statement of income as incurred.

(6) Software (excluding lease assets)

Development costs of computer software to be sold are amortized based on the estimated sales revenue with the minimum amortization amount calculated based on a useful life within 3 years.

Software developed for internal use is amortized on a straight-line basis over the estimated useful life of the asset, which is mainly 5 years.

(7) Leases

Depreciation of finance lease assets, which do not transfer ownership of the assets at the end of the lease term, is calculated by the straight-line method over the lease periods, which are deemed as the useful lives, assuming no residual value.

(8) Allowance for doubtful accounts

An allowance for doubtful accounts is provided at an amount of potential losses from uncollectable receivables based on the historical rate of losses from bad debts for ordinary receivables, and on the estimated collectability of receivables from companies in financial difficulty.

(9) Provision for bonuses

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year.

(10) Provision for directors' retirement benefits

The Companies have retirement benefits for directors.

Retirement benefits for directors at the balance sheet date are based on an estimate of the amounts to be paid as retirement allowance by the Companies for services rendered by directors by that date.

(11) Accounting methods for retirement benefits

(a)The method to attribute expected benefit to periods of service

The retirement benefit obligation for employee is attributed to each period by the benefit formula basis over the estimated years of service of the eligible employees.

(b)The method of recording of actuarial gains and losses and prior service costs

Prior service cost is being amortized as incurred by the straight-line method over periods (12 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the following the year in which the gain or loss is recognized primarily by the straight-line method over periods (12 years), which are shorter than the average remaining years of service of the employees.

(12) The revenue recognition basis regarding the make-to-order software

Revenues and costs of the make-to-order software contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

(13) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits which can be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(14) Accounting for income taxes

Income taxes of the Companies consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The Companies have adopted the deferred tax accounting method. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(15) Accounting for the consumption tax

The Japanese Consumption Tax Law generally imposes consumption tax at a flat rate on all domestic consumption of goods and services. The consumption tax withheld upon sale is not included in the amount of “Net sales” in the accompanying consolidated statements of income but recorded as a liability. Consumption tax, which is paid by the Companies on purchases of goods and services, is not included in the amounts of costs/expenses in the consolidated statements of income, but offset against the balance withheld, and the net balance is included in “Other” in current liabilities in the consolidated balance sheets.

(16) Changes in accounting policies

<Application of the accounting standard for retirement benefits>

The Companies adopted Section 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, of 17th May 2012; hereinafter “retirement benefits' accounting standard”) and main clause of Section 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, of 26th March 2015; hereinafter “retirement benefits' guidance”) from the current fiscal year, and have changed the calculation methods for retirement benefit obligations and have revised service costs.

In addition, the method of attributing expected retirement benefit to periods has been revised from the straight-line basis to benefit formula basis and the method of determining the discount rates has been revised from that determined based on bonds with a maturity period approximate to the expected average remaining working lives of employees to one that uses a single weighted average discount rate reflecting the estimated timing of retirement benefit payment and the estimated amount of each retirement benefit payment.

In accordance with transitional accounting treatment as stated in Section 37 of retirement benefits' accounting standard, the effect of the changes in calculation method for retirement benefit obligations and service costs has been recognized as an adjustment to retained earnings at the beginning of the current fiscal year.

As a result, as of the beginning of this consolidated fiscal year, net defined benefit liability increased by ¥9,580 million ($79,483 thousand) while retained earnings decreased by ¥6,111 million ($50,703 thousand). The effect of this application on operating income, ordinary income, and income before income taxes and minority interests during this consolidated fiscal year was immaterial.

The impact of this application on per-share figures is described in the relevant section of this report.

(17) Accounting standards issued but not yet adopted

(a) Accounting standards for business combinations

— Accounting Standards for Business Combinations (ASBJ Statement No. 21 on 13th September, 2013)
— Accounting Standards for Consolidated Financial Statements (ASBJ Statement No. 22 on 13th September, 2013)
— Accounting Standard for Business Divestitures (ASBJ Statement No. 7, on 13th September, 2013)
— Accounting Standard for Earnings Per Share (ASBJ Statement No. 2, on 13th September, 2013)
— Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, on 13th September, 2013)
— Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No. 4, on 13th September, 2013)

(1) Outline

Under these revised accounting standards, the following were mainly amended.

①The accounting treatment for changes in a parents' ownership interest in a subsidiary when the parent retains control over the subsidiary in the additional acquisition of shares in a subsidiary
②The accounting treatment of acquisition related costs
③Change in presentation of net income and changes of the presentation to "non-controlling interests" from minority interests
④Transitional provisions for accounting treatments

(2) Expected adoption date

The revised accounting standard and guidance will be adopted from the beginning of the fiscal period ending 31st December 2016. The provisional accounting treatments will apply to corporate business combinations performed on or after the beginning of the fiscal period ending 31st December 2016.

(3) Effect of application of the standards

The financial impact of the application of these accounting standards on the consolidated financial statements is currently being evaluated.

(b) Implementation Guidance for Tax Effect Accounting

— Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 on 28th December, 2015)

(1) Outline

Regarding the recoverability of deferred tax assets, accounting treatments were changed.

The Implementation Guidance basically continues to apply the framework used in the JICPA Guidance No.66 that provides the criteria for classification of entities into 5 categories determines the amount of deferred tax assets, but certain accounting treatments were changed. The Implementation Guidance includes the following:

① Accounting treatments for entities which are not included in any category,
② Criteria as to the classification of entities in the category 2 and the category 3,
③ Accounting treatments of unscheduled deductible temporary differences for entities in the category 2,
④ Accounting treatments for deductible temporary differences for entities in the category 3, which are scheduled to be deductible after 5 years, and
⑤ Accounting treatments for entities in the category 4 in the current fiscal year, which are expected to be included in the category 2 or 3 in the following year.

(2) Expected adoption date

The revised guidance will be adopted from the beginning of the fiscal period ending 31st December 2017.

(3) Effect of application of the guidance

The financial impact of the application of the guidance on the consolidated financial statements is currently being evaluated.

(18) Changes in presentation

Following the revision of the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, March 26, 2015), the presentation method of notes relating to retirement benefits under multi-employer plans has been changed, and the consolidated financial statements of the previous fiscal year have been reclassified.

(19) Rounding of amounts

Amounts of less than a million yen have been omitted.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.54=US$1, the rate of exchange on December 31, 2015, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate.

(CONSOLIDATED BALANCE SHEETS)

*1. Investment securities

As of December 31, 2014 and 2015, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Investment securities (stocks)	¥2,314	**¥2,426**	**$20,128**
Investment securities (capital)	217	**217**	**1,801**

*2. Pledged Assets

As of December 31, 2014 and 2015, assets pledged as collateral for notes and accounts payable-trade were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Time deposits	¥5	**¥5**	**$41**

*3. Land Revaluation

Pursuant to the Law Concerning Land Revaluation, the Company revalued land used for business activities on December 31, 2001. The excess of the revalued carrying amount over the book value before revaluation was recorded as “Revaluation difference on land”, net assets in the accompanying consolidated balance sheets. The land prices used for the revaluation were determined based on the prices in the official notice published by the Commissioner of the National Tax Agency in accordance with Article 2, Paragraphs 3 and 4 of the Enforcement Ordinance Concerning Land Revaluation, after making reasonable adjustments. Revaluation is permitted for one time only.

As of December 31, 2014 and 2015, the excess of the book value after revaluation over the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
	¥(637)	**¥(519)**	**$(4,311)**

*4. Notes maturing on December 31

December 31, 2014 and 2015 were a bank holiday, and notes matured on December 31 are accounted for as if they were settled on the maturity dates.

As of December 31, 2014 and 2015, notes matured on December 31 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Notes receivable	¥586	**¥613**	**$5,090**
Notes payable	2	**17**	**142**

CONSOLIDATED STATEMENTS OF INCOME

*1. Research and development expenses

For the years ended December 31, 2014 and 2015, Research and development expenses included in general and administrative expenses and manufacturing costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Research and development expenses	¥503	**¥561**	**$4,657**

*2. Gain on sales of Property, plant and equipment

For the years ended December 31, 2014 and 2015, Gain on sales of Property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Land	¥56	**—**	**—**

*3. Loss on sales of Property, plant and equipment

For the years ended December 31, 2014 and 2015, Loss on sales of Property, plant and equipment were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Buildings and structures	¥289	**—**	**—**
Land	104	**—**	**—**
Loss on sales of Property, plant and equipment	¥393	**—**	**—**

*4. Loss on disposal of Property, plant and equipment and Intangible assets

For the years ended December 31, 2014 and 2015, Loss on disposal of Property, plant and equipment and Intangible assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Buildings and structures	¥ 64	**¥53**	**$444**
Property, plant and equipment, etc.	34	**19**	**163**
Software	19	**15**	**127**
Loss on disposal of Property, plant and equipment and Intangible assets	¥118	**¥88**	**$735**

(CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

*1. Other comprehensive income

For the years ended December 31, 2014 and 2015, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Unrealized holding gain in securities			
Amount arising during the year	¥1,029	**¥2,193**	**$18,194**
Reclassification adjustments	(0)	**—**	**—**
Amount before tax effect	1,029	**2,193**	**18,194**
Tax effect	(366)	**(553)**	**(4,593)**
Unrealized holding gain in securities	662	**1,639**	**13,601**
Revaluation reserve for land			
Amount arising during the year	187	**—**	**—**
Reclassification adjustments	—	**—**	**—**
Amount before tax effects	187	**—**	**—**
Tax effects	47	**13**	**112**
Revaluation reserve for land	235	**13**	**112**
Remeasurements of defined benefit plans			
Amount arising during the year	—	**(294)**	**(2,441)**
Reclassification adjustments	—	**(989)**	**(8,207)**
Amount before tax effects	—	**(1,283)**	**(10,649)**
Tax effects	—	**544**	**4,519**
Remeasurements of defined benefit plans	—	**(738)**	**(6,129)**
Share of other comprehensive income of associates accounted for using equity method			
Amount arising during the year	51	**(23)**	**(192)**
Reclassification adjustments	—	**(0)**	**(0)**
Share of other comprehensive income of associates accounted for using equity method Amount arising during the year	51	**(23)**	**(192)**
Total other comprehensive income	¥ 948	**¥ 890**	**$ 7,391**

(CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)

1. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of distributions from capital surplus (other than capital reserves) and retained earnings (other than retained earnings reserves) be appropriated to capital reserves and retained earnings reserves.

No further appropriations are required when the total amount of capital reserves and retained earnings reserves reach 25% of stated capital.

Such distributions can be made at any time by resolution of the shareholders or the Board of Directors if certain conditions are met, but neither capital reserves nor retained earnings reserves are available for distributions.

2. Dividends from surplus, etc

(1) Number of shares issued

	Thousands of shares	
	2014	**2015**
Number of shares at the beginning of the fiscal year	31,667	**95,001**
Increase	(*) 63,334	**—**
Decrease	—	**—**
Number of shares at the end of the fiscal year	95,001	**95,001**

Type of all shares issued is Common Stock.

* The Company decided to split its shares on three for one basis with the effective date of July 1, 2014.
Increase in number of shares issued of common stock is due to this stock split for shares.

(2) Number of treasury stock shares

	Thousands of shares	
	2014	**2015**
Number of shares at the beginning of the fiscal year	66	**199**
Increase	(*1) 133	(*2) **0**
Decrease	—	**—**
Number of shares at the end of the fiscal year	199	**200**

Type of all shares issued is Common Stock.

*1 The Company decided to split its shares on three for one basis with the effective date of July 1, 2014.
The 133 thousands of shares increase in the number of treasury stock shares consists of increases of 132 thousands of shares as a result of this stock split and of 1 thousand of shares from the purchase of shares of less than standard unit.

*2 The 0 thousands of shares increase of treasury stock, which is common stock shares, is due to purchase of shares of less than standard unit.

(3) Items related to subscription rights to shares and own share option

None.

(4) Items related to dividends

General meeting of shareholders approved resolutions on the amount of dividends payment as follows

Resolution date	Dividends paid		Dividend per share		Record date	Effective date
	(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
27-Mar-14	¥7,426	$61,607	(*) ¥235.00	$1.95	31-Dec-13	28-Mar-14
27-Mar-15	**¥8,532**	**$70,782**	**¥ 90.00**	**$0.75**	31-Dec-14	30-Mar-15
29-Mar-16	**¥9,480**	**$78,646**	**¥100.00**	**$0.83**	31-Dec-15	30-Mar-16

Type of all shares issued is Common Stock.

Source of dividends is Retained earnings.

* The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date.
The Dividends per share for the fiscal year 2013 are amounts prior to the stock split.
Taking the stock split into account, the year-end dividends per share are ¥78.33 ($0.65) for the fiscal year 2013.

(CONSOLIDATED STATEMENTS OF CASH FLOWS)

*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2014 and 2015 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Cash and deposits	¥90,234	**¥100,676**	**$835,209**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(458)**
Short-term investments with maturity or redemption dates within three months from acquisition date	5,900	**6,900**	**57,242**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,864	**2,066**	**17,144**
Cash and cash equivalents	¥97,943	**¥109,587**	**$909,138**

(LEASE TRANSACTIONS)

*1. Operating Lease Transactions

The amounts of future lease payments on operating leases as of December 31, 2014 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Due within one year	¥ 628	**¥475**	**$3,945**
Due after one year	719	**404**	**3,356**
Total	¥1,347	**¥880**	**$7,302**

(FINANCIAL INSTRUMENTS)

1. Financial Instruments

(1) Policy for financial instruments

The Companies manage surplus funds through low-risk financial instruments, and raise short-term funds through bank loans.

(2) Types of financial instruments, related risk and risk management

Trade receivables -trade notes and accounts receivable- are exposed to customers' credit risk.

The Companies try to reduce credit risk by monitoring and analyzing the creditworthiness of each customer, as well as managing due dates and balances.

Investment securities are comprised of mainly held-to-maturity debt securities and the securities of the companies with which the Companies have operational relationships.

Although debt securities and listed securities are exposed to the risk arising from fluctuations in the market, the Companies monitor and analyze market value and the issuers' financial status periodically to reduce these risks.

Trade payables - trade notes and accounts payable, electronically recorded obligations- have payment due date within three months.

Bank loans are raised mainly in connection with business activities.

The Companies reduce liquidity risk relating to these payables by developing a cash flow plan.

Derivative transactions are foreign exchange contracts, entered into by the consolidated subsidiary.

Conducting and managing derivative transactions are in accordance with the internal policies, which set forth delegation of authority.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of December 31, 2014 and 2015 and estimated fair value were as follows:

	Millions of yen		
			2014
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	¥ 90,234	¥ 90,234	¥ —
2) Notes and accounts receivable - trade	98,066	98,066	—
3) Investment securities			
Held-to-maturity debt securities	5,900	5,900	—
Other securities	5,868	5,868	—
Investment in affiliates	1,105	3,337	2,231
Total assets	¥201,175	¥203,406	¥ 2,231
Liabilities			
4) Notes and accounts payable – trade	¥ 67,066	¥ 67,066	¥ —
5) Electronically recorded obligations	15,389	15,389	—
6) Short-term loans payable	6,850	6,850	—
7) Income taxes payable	8,007	8,007	—
Total liabilities	¥ 97,313	¥ 97,313	¥ —
Derivative transaction (*)	¥ 123	¥ 123	¥ —

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

	Millions of yen		
	2015		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	¥100,676	¥100,676	¥ —
2) Notes and accounts receivable - trade	105,055	105,055	—
3) Investment securities			
Held-to-maturity debt securities	6,900	6,900	—
Other securities	8,084	8,084	—
Investment in affiliates	1,101	2,156	1,055
Total assets	¥221,817	¥222,873	¥ 1,055
Liabilities			
4) Notes and accounts payable – trade	¥ 74,542	¥ 74,542	¥ —
5) Electronically recorded obligations	17,095	17,095	—
6) Short-term loans payable	6,700	6,700	—
7) Income taxes payable	7,916	7,916	—
Total liabilities	¥106,253	¥106,253	¥ —
Derivative transaction (*)	¥ (9)	¥ (9)	¥ —

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

	Thousands of U.S. dollars		
	2015		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	$ 835,209	$ 835,209	$ —
2) Notes and accounts receivable - trade	871,536	871,536	—
3) Investment securities			
Held-to-maturity debt securities	57,242	57,242	—
Other securities	67,072	67,072	—
Investment in affiliates	9,141	17,894	8,753
Total assets	$1,840,201	$1,848,954	$ 8,753
Liabilities			
4) Notes and accounts payable – trade	$ 618,401	$ 618,401	$ —
5) Electronically recorded obligations	141,823	141,823	—
6) Short-term loans payable	55,583	55,583	—
7) Income taxes payable	65,671	65,671	—
Total liabilities	$ 881,479	$ 881,479	$ —
Derivative transaction (*)	$ (80)	$ (80)	$ —

* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

Notes:

1 Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions.

Assets

1) Cash and deposits 2) Notes and accounts receivable - trade

Since these items are settled in a short period of time, their carrying value approximates fair value.

3) Investment securities

The fair value of stocks is based on quoted market prices. Since debt securities are settled in a short period of time, the carrying value of debt securities approximates fair value.

Liabilities

4) Notes and accounts payable - trade 5) Electronically recorded obligations 6) Short-term loans payable 7) Income taxes payable

Since these items are settled in a short period of time, their carrying value approximates fair value.

Derivative transaction

Please refer to DERIVATIVES, of Notes to Consolidated Financial Statements.

2 As of December 31, 2014 and 2015 financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Unlisted stocks	¥1,675	**¥1,802**	**$14,952**
Investments in investment business limited partnerships	20	**24**	**205**

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included "3) Investment securities" in the above table.

3 Redemption schedule for receivables and marketable securities with maturities as of December 31, 2014 and 2015 are as follows:

	Millions of yen			
	2014			
	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 deposits	¥ 90,234	—	—	—
Notes and accounts receivable - trade	98,066	—	—	—
Investment securities				
Held-to-maturity debt securities	5,900	—	—	—
Total	¥194,200	—	—	—

	Millions of yen			
	2015			
	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 deposits	**¥100,676**	**—**	**—**	**—**
Notes and accounts receivable - trade	**105,055**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**6,900**	**—**	**—**	**—**
Total	**¥212,631**	**—**	**—**	**—**

	Thousands of U.S. dollars			
	2015			
	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 deposits	**$ 835,209**	**—**	**—**	**—**
Notes and accounts receivable - trade	**871,536**	**—**	**—**	**—**
Investment securities				
Held-to-maturity debt securities	**57,242**	**—**	**—**	**—**
Total	**$1,763,988**	**—**	**—**	**—**

4 Repayment schedule for bonds, long-term loans payable, lease obligations and other interest-bearing debt as of December 31, 2014 and 2015 are as follows:

	Millions of yen			
	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans payable	¥6,850	—	—	—

	Millions of yen			
	2015			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans payable	**¥6,700**	**—**	**—**	**—**

	Thousands of U.S. dollars			
	2015			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans payable	**$55,583**	**—**	**—**	**—**

(SECURITIES)

As of December 31, 2014 and 2015 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2014			**2015**			**2015**		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their fair value									
Negotiable certificates of deposit	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Securities whose carrying value does not exceed their fair value									
Negotiable certificates of deposit	¥5,900	¥5,900	—	**¥6,900**	**¥6,900**	**—**	**$57,242**	**$57,242**	**—**
	¥5,900	¥5,900	—	**¥6,900**	**¥6,900**	**—**	**$57,242**	**$57,242**	**—**
Total	¥5,900	¥5,900	—	**¥6,900**	**¥6,900**	**—**	**$57,242**	**$57,242**	**—**

(2) Available-for-sale securities with fair value

	Millions of yen						Thousands of U.S. dollars		
	2014			**2015**			**2015**		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs									
Stocks	¥5,714	¥1,164	¥4,550	**¥7,931**	**¥1,209**	**¥6,721**	**$65,799**	**$10,034**	**$55,764**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	130	73	57	**149**	**73**	**76**	**1,240**	**608**	**631**
	¥5,845	¥1,237	¥4,607	**¥8,080**	**¥1,282**	**¥6,797**	**$67,039**	**$10,643**	**$56,395**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 23	¥ 26	¥ (2)	**¥ 3**	**¥ 4**	**¥ (0)**	**$ 32**	**$ 35**	**$ (2)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 23	¥ 26	¥ (2)	**¥ 3**	**¥ 4**	**¥ (0)**	**$ 32**	**$ 35**	**$ (2)**
Total	¥5,868	¥1,264	¥4,604	**¥8,084**	**¥1,287**	**¥6,797**	**$67,072**	**$10,678**	**$56,393**

Note. The following other securities are not included in the above table because these were no quoted market price available and it is extremely difficult to determine their fair value:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥249	**¥260**	**$2,163**
Investment in limited liability partnerships	20	**24**	**205**

(3) Available-for-sale securities sold in 2014 and 2015 (for the years ended December 31, 2014 and 2015)

	Millions of yen						Thousands of U.S. dollars		
	2014			**2015**			**2015**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥30	¥29	—	**¥140**	**¥130**	**—**	**$1,167**	**$1,080**	**—**

(4) Securities impairment losses are recognized in 2014 and 2015 (for the years ended December 31, 2014 and 2015)

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Stocks	¥77	**—**	**—**

Note. As for securities whose fair value at the year end are less than 50% of the acquisition costs, or are more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

(DERIVATIVES)

As of December 31, 2014 and 2015, derivatives for which hedge accounting have not been applied, were as follows:

Currency-related transactions

	Millions of yen			
	2014			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S. dollar	¥2,245	—	¥123	¥123

	Millions of yen			
	2015			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S. dollar	**¥1,471**	**—**	**¥(9)**	**¥(9)**

	Thousands of U.S. dollars			
	2015			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts purchasing U.S. dollar	**$12,210**	**—**	**$(80)**	**$(80)**

Note. Fair value calculation: Fair value is estimated on the basis of mainly prices quoted from counterparty financial institutions.

(RETIREMENT BENEFITS)

(1) Retirement benefit plan

The Companies have defined contribution pension plans, agreement type corporate pension plans and lump-sum plans as retirement benefit plans. As of December 31, 2015, 5 companies have enrolled in defined contribution pension plans, 3 companies in agreement type corporate pension plans and 5 companies in lump-sum plans.
The Companies that have lump-sum plans calculate net defined benefit liabilities and retirement benefit expenses using the simplified method.
1 consolidated subsidiary has multi-employer welfare pension fund plans.
Because the plans can not be reasonably calculated the amount of plan assets attributed to the company's contribution, the plan is accounted for in the same way as the defined contribution plan.
The company may pay premium benefits for employees' early retirement.

(2) Defined benefit plans

(a) Changes in retirement benefit obligations (excluding plans that apply the simplified method)

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Balance at the beginning of the year	¥35,078	**¥36,522**	**$302,986**
Cumulative effects of changes in accounting policies	—	**9,580**	**79,483**
Restated balance	35,078	**46,102**	**382,469**
Service costs	2,037	**2,454**	**20,360**
Interest costs	526	**277**	**2,301**
Actuarial loss (gain)	(178)	**260**	**2,165**
Retirement benefits paid	(942)	**(1,084)**	**(8,993)**
Transfer from simplified method	—	**399**	**3,318**
Balance at the end of the year	¥36,522	**¥48,411**	**$401,622**

(b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Balance at the beginning of the year	¥39,372	**¥40,370**	**$334,915**
Expected return on plan assets	196	**—**	**—**
Actuarial loss (gain)	473	**(33)**	**(276)**
Contribution paid by the employer	1,225	**2,141**	**17,767**
Retirement benefits paid	(897)	**(1,045)**	**(8,676)**
Balance at the end of the year	¥40,370	**¥41,433**	**$343,729**

(c) Changes in net defined benefit liability of the plans that apply the simplified method

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Balance at the beginning of the year	¥932	**¥992**	**$8,230**
Retirement benefit expenses	112	**111**	**924**
Retirement benefits paid	(52)	**(41)**	**(347)**
Transfer to principle method	—	**(399)**	**(3,318)**
Balance at the end of the year	¥992	**¥661**	**$5,489**

(d) Reconciliation between the funded status of the plans and the amounts recognized in the consolidated balance sheets (net defined liabilities and net defined benefit assets) as of current fiscal year

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Funded retirement benefit obligations	¥34,980	**¥46,457**	**$385,409**
Plan assets	(40,370)	**(41,433)**	**(343,729)**
	(5,389)	**5,024**	**41,680**
Unfunded retirement benefit obligations	2,533	**2,615**	**21,702**
Total net defined benefit liability and asset	(2,856)	**7,640**	**63,382**
Net defined benefit liability	2,533	**7,640**	**63,382**
Net defined benefit asset	(5,389)	**—**	**—**
Total net defined benefit liability and asset	¥(2,856)	**¥7,640**	**$63,382**

Note: Plans to which simplified methods are applied are included.

(e) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Service costs	¥2,037	**¥2,454**	**$20,359**
Interest costs	526	**277**	**2,301**
Expected return on plan assets	(196)	**—**	**—**
Amortization of actuarial differences	60	**(197)**	**(1,636)**
Amortization of prior service costs	(792)	**(792)**	**(6,570)**
Retirement benefit expenses calculated by simplified methods	112	**111**	**924**
Additional benefits for employees' early retirement	328	**32**	**268**
Retirement benefit expenses	¥2,076	**¥1,886**	**$15,647**

(f) Adjustments of defined benefit plans included in other comprehensive income.
Components of items (before tax) is as follows.

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Prior service cost	—	**¥ (792)**	**$ (6,570)**
Actuarial difference gains and losses	—	**(491)**	**(4,078)**
Total	—	**¥(1,283)**	**$(10,649)**

(g) Accumulated adjustments of defined benefit plans
Components of items (before tax) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Unrecognized prior service costs	¥(1,716)	**¥ (924)**	**$ (7,670)**
Unrecognized actuarial differences	(2,192)	**(1,700)**	**(14,110)**
Total	¥(3,909)	**¥(2,625)**	**$(21,781)**

(h) Items for plan assets
①Components of the major plan assets
The ratios of the major types of assets to the total plan assets were as follows:

	2014	**2015**
Bonds	37%	**36%**
Cash and deposits	63%	**64%**
Total	100%	**100%**

②Method of determining the long-term expected rate of return on plan assets
Current and target asset allocations, and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return on plan assets.

(i) Items related to actuarial assumptions
The major actuarial assumptions used in accounting for the defined benefit plans at the end of the current fiscal year

	2014	**2015**
Discount rate	1.5%	**0.5%**
Long-term expected rate of return on plan assets	0.5%	**0.0%**
Expected rate of salary	8.4%	**8.4%**

* Expected rate of salary is calculated based on a point based plan.

(3) Defined contribution plan

Required contributions to defined contribution pension plans of the Companies for the years ended December 31, 2014 and 2015 were ¥798 million, ¥803 million ($6,666 thousand), respectively.

(4) Multi-employer welfare pension funds

The contribution required to the employees' pension fund plan of the multi-employer welfare pension funds which was treated the same as the defined contribution plan for the years ended December 31, 2014 and 2015 were ¥53 million and ¥58 million ($481 thousand), respectively.

(a) The most recent funded status related to multi-employer pension plans.

	Millions of yen		Thousands of U.S. dollars
	March 31, 2014	**March 31, 2015**	**March 31, 2015**
Plan assets	¥252,293	**¥299,860**	**$2,487,647**
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve *	227,330	**268,707**	**2,229,194**
Unfunded obligations	¥ 24,963	**¥ 31,153**	**$ 258,453**

* It was stated as "Benefit obligations calculated under pension financing" for the year ended December 31, 2014.

(b) The contribution ratio of the Companies to the multi-employer pension plans.

Fiscal year ended December 31, 2014. 0.4% (From April 1, 2013 To March 31, 2014)

Fiscal year ended December 31, 2015. 0.6% (From April 1, 2014 To March 31, 2015)

(c) Supplementary information: The main factor of the unfunded obligations shown in above (a)

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
General reserve	¥19,332	**¥24,963**	**$207,093**
Surplus	5,630	**6,190**	**51,359**
Total	¥24,963	**¥31,153**	**$258,453**

The ratio in above (b) has not presented the actual ratio of the Companies.

(DEFERRED TAX)

(1) Significant components of the Companies' deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 84	**¥ 85**	**$ 707**
Accrued enterprise taxes	685	**638**	**5,295**
Provision for bonuses	1,115	**1,053**	**8,743**
Net defined benefit liability	910	**2,468**	**20,478**
Provision for directors' retirement benefits	208	**190**	**1,582**
Impairment loss	891	**788**	**6,538**
Software development cost	1,263	**1,230**	**10,205**
Unrealized profit from non-current assets	297	**282**	**2,345**
Other	1,827	**1,706**	**14,154**
Subtotal	7,284	**8,444**	**70,052**
Less: Valuation allowance	(1,389)	**(1,152)**	**(9,562)**
Total deferred tax assets	5,894	**7,291**	**60,489**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(1,622)	**(2,175)**	**(18,051)**
Net defined benefit asset	(1,922)	**—**	**—**
Other	(103)	**(99)**	**(827)**
Total deferred tax liabilities	(3,647)	**(2,275)**	**(18,879)**
Net deferred tax assets	¥2,246	**¥5,015**	**$41,610**

Net deferred tax assets are included in the following items of Consolidated Balance Sheets.

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Current assets - Deferred tax assets	¥2,969	**¥2,806**	**$23,283**
Noncurrent assets - Deferred tax assets	1,338	**2,209**	**18,327**
Current liabilities - Other	(1)	**—**	**—**
Noncurrent liabilities - Deferred tax liabilities	(2,059)	**—**	**—**

(2) A reconciliation between the effective statutory tax rate and the effective tax rate reflected in the accompanying consolidated statements of income.

	2014	**2015**
Effective statutory tax rate	—	**35.6%**
(Adjustments)		
Non-temporary difference for tax purposes	—	**0.5%**
Per capita inhabitants' tax	—	**0.3%**
Tax credit for research and development	—	**(0.2%)**
Valuation allowance	—	**(0.2%)**
Adjustment of deferred tax asset due to changes in statutory tax rate	—	**1.9%**
Others	—	**(0.2%)**
Effective tax rate	—	**37.7%**

* Information for the year ended December 31, 2014 was not provided because the difference between the statutory tax rate and the effective income tax rate was less than 5% of the statutory tax rate.

(3) Amendments to the amount of deferred tax assets and liabilities due to changes to the effective tax rate

The "Act for Partial Amendment of the Income Tax Act" (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015.

As a result, the effective statutory tax rate used to measure the Companies' deferred tax assets and liabilities was changed from 35.6% to 33.1% and 32.3% for the temporary differences expected to be realized or settled in the fiscal year beginning January 1st, 2016 and for the temporary difference expected to be realized or settled from the fiscal years beginning January 1st, 2017.

The financial impact from this change for the current fiscal year is immaterial.

(SEGMENT INFORMATION)

(1) Overview of reportable segments

The reportable segments of the Companies are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The Companies' main businesses are "System Integration business", whose business fields encompass the construction of information systems and their cutover, and "Service and Support business", which has support following the cutover of systems as its business field.

Therefore, the Companies are composed of two reportable segments, "System Integration business" and "Service and Support business."

The details of the two segments are as follows. The "System Integration business" provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. The "Service and Support business" provides customers with total support for their business operations and installed systems encompassing supply provision, hardware and software maintenance, telephone support and outsourcing.

(2) Basis of measurement for reportable segment net sales, segment profit or loss, segment assets and other items

The accounting method for the Companies' reported business segments is substantially the same as "FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS".

Also, segment profit or loss is evaluated based on operating income.

The prices of inter-segment transactions are determined by price after taking market conditions into account.

As described in "(FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS) 2. Summary of Significant Accounting Policies (16) Changes in accounting policies," following the change in the calculation method for the retirement benefit obligation and service cost effective from the beginning of the fiscal year ended December 31, 2015, the Companies have changed the calculation method for these items for each business segment in the same manner.

The impact of this change on each reportable segment and others is immaterial.

(3) Information about reportable segment sales, segment profit or loss, segment assets and other items

Millions of yen

	Reportable segments						
							2014
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Sales							
Net sales to third parties	¥362,068	¥243,316	¥605,384	¥381	¥605,766	¥ —	¥605,766
Inter-segment sales/transfers	97	398	496	140	637	(637)	—
Total	¥362,166	¥243,714	¥605,880	¥522	¥606,403	¥ (637)	¥605,766
Segment profit or loss	¥ 34,284	¥ 10,387	¥ 44,672	¥ 57	¥ 44,729	¥ (7,631)	¥ 37,097
Segment assets	¥111,392	¥ 88,461	¥199,853	¥784	¥200,638	¥104,874	¥305,513
Other items							
Depreciation and amortization (Note 4)	¥ 2,732	¥ 1,989	¥ 4,722	¥ 13	¥ 4,736	¥ 550	¥ 5,286
Investments in associates accounted for using equity method	711	1,101	1,812	—	1,812	—	1,812
Capital expenditure in property and equipment and intangible assets (Note 4)	3,710	2,834	6,545	5	6,550	537	7,088

Millions of yen

	Reportable segments						2015
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Sales							
Net sales to third parties	¥353,170	¥255,490	¥608,660	¥385	¥609,045	¥ —	¥609,045
Inter-segment sales/transfers	92	298	390	177	568	(568)	—
Total	¥353,262	¥255,788	¥609,050	¥563	¥609,613	¥ (568)	¥609,045
Segment profit or loss	¥ 33,864	¥ 10,925	¥ 44,790	¥ 67	¥ 44,857	¥ (7,545)	¥ 37,311
Segment assets	¥115,215	¥ 91,589	¥206,805	¥762	¥207,567	¥117,187	¥324,755
Other items							
Depreciation and amortization (Note 4)	¥ 2,913	¥ 2,338	¥ 5,251	¥ 12	¥ 5,264	¥ 499	¥ 5,764
Investments in associates accounted for using equity method	707	1,234	1,942	—	1,942	—	1,942
Capital expenditure in property and equipment and intangible assets (Note 4)	3,406	2,802	6,208	0	6,209	309	6,518

Thousands of U.S. dollars

	Reportable segments						2015
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Consolidated total (Note 3)
Sales							
Net sales to third parties	$2,929,899	$2,119,545	$5,049,444	$3,199	$5,052,644	$ —	$5,052,644
Inter-segment sales/transfers	765	2,476	3,241	1,472	4,713	(4,713)	—
Total	$2,930,664	$2,122,021	$5,052,686	$4,671	$5,057,358	$ (4,713)	$5,052,644
Segment profit or loss	$ 280,943	$ 90,635	$ 371,578	$ 561	$ 372,140	$ (62,600)	$ 309,540
Segment assets	$ 955,828	$ 759,829	$1,715,658	$6,322	$1,721,981	$972,187	$2,694,169
Other items							
Depreciation and amortization (Note 4)	$ 24,169	$ 19,397	$ 43,567	$ 105	$ 43,673	$ 4,146	$ 47,819
Investments in associates accounted for using equity method	5,870	10,241	16,112	—	16,112	—	16,112
Capital expenditure in property and equipment and intangible assets (Note 4)	28,260	23,247	51,508	3	51,512	2,567	54,079

Notes 1. Other represents repair of automobiles and insurance businesses.
2. Below is a description of adjustment.
(1) The companywide expenses (not allocated to the reportable segments) included in the "Segment profit" adjustment line as of December 31, 2014 and 2015 were ¥△7,647 million and ¥△7,558 million ($△62,704 thousand), consisting mainly of expenses related to administrative operations.
(2) The companywide assets (not allocated to the reportable segments) included in the "Segment assets" adjustment line as of December 31, 2014 and 2015 were ¥104,924 million and ¥117,745 million ($ 976,820 thousand), consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, investments in securities, etc.) and assets related to administrative operations.
(3) The "Depreciation and amortization" adjustment refers to depreciation expenses related to companywide assets.
The "Capital expenditure in property and equipment and intangible assets" refers to capital expenditure related to companywide assets.
3. The "Segment profit or loss" is reconciled with "Operating income" in Consolidated Statements of Income.
4. Depreciation and amortization and Capital expenditure in property and equipment and intangible assets include relevant amount of Long-term prepaid expenses.

(PER SHARE INFORMATION)

Net assets per share as of December 31, 2014 and 2015 and net income per share for the years ended December 31, 2014 and 2015 were summarized as follows:

	Yen		U.S. dollars
	2014	**2015**	**2015**
Net assets per share	¥1,722.31	**¥1,827.30**	**$15.16**
Net income per share	247.41	**250.06**	**2.07**

Notes 1. Diluted net income per share for the years ended December 31, 2014 and 2015 are omitted, because the Companies have no dilutive shares.

2. The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amount of net income per share for the fiscal year 2014 and net assets per share as of December 31, 2014 are calculated based on the assumption that the share split was conducted at the beginning of the previous year (fiscal year 2014).

3. As shown in "(FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS) 2. Summary of Significant Accounting Policies (16)Changes in accounting policies," the "Accounting Standard for Retirement Benefits" is being applied, as per the transitional treatment stipulated in Article 37.
As a result, net assets per share as of December 31, 2015 decreased by ¥64.47 ($ 0.53).
However, the impact of this change on net income per share for the fiscal year ended December 31, 2015 is immaterial.

4. Basis for calculation of net assets per share as of December 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Numerator:			
Net assets	¥164,347	**¥174,402**	**$1,446,843**
Minority interests in consolidated subsidiaries	(1,070)	**(1,173)**	**(9,732)**
Net assets attributable to common stock	¥163,277	**¥173,229**	**$1,437,110**

	Thousands of shares	
Denominator:		
Number of shares of common stock outstanding	94,801	**94,800**

5. Basis for caluculation of net income per share for the years ended December 31, 2014 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	**2015**	**2015**
Numerator:			
Net income	¥23,455	**¥23,705**	**$196,664**
Net income not attributable to common shareholders	—	**—**	**—**
Net income attributable to common shareholders	¥23,455	**¥23,705**	**$196,664**

	Thousands of shares	
Denominator:		
Weighted-average number of shares of common stock outstanding	94,801	**94,801**

Net income per common share is based upon the weighted average number of common shares outstanding (excluding treasury stock) during each year.

(NOTES - SIGNIFICANT EVENTS AFTER REPORTING PERIOD)

None.

(CONSOLIDATED SUPPLEMENTARY STATEMENTS)

(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 2015 consisted of the following:

	Millions of yen	
	2015	
	Balance at the beginning of the year	Balance at the end of the year
Short-term loans payable	¥6,850	¥6,700
Current portion of long-term loans payable	—	—
Current portion of lease obligations	960	1,043
Long-term loans payable(excluding current portion)	—	—
Lease obligations(excluding current portion)	1,774	1,600
Other interest-bearing debt	—	—
Total	¥9,584	¥9,344

	Thousands of U.S. dollars	
	2015	
	Balance at the beginning of the year	Balance at the end of the year
Short-term loans payable	$56,827	$55,583
Current portion of long-term loans payable	—	—
Current portion of lease obligations	7,965	8,655
Long-term loans payable(excluding current portion)	—	—
Lease obligations(excluding current portion)	14,717	13,279
Other interest-bearing debt	—	—
Total	$79,510	$77,518

Notes 1. The annual weighted-average interest rate applicable to short-term bank loans as of December 31, 2015 was 0.78%.
The annual average interest rate represents the weighted-average rate applicable to the ending balance.

2. The annual average interest rate is not shown for lease obligations because the amounts in the consolidated balance sheets include the amounts corresponding to interest paid from total lease payment.

3. The annual maturities of lease obligations except for current portion as of December 31, 2015 were as follows:

	Millions of yen			
	2015			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Lease obligations	¥734	¥533	¥287	¥43

	Thousands of U.S. dollars			
	2015			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Lease obligations	$6,095	$4,427	$2,386	$363

Independent Auditor's Report

The Board of Directors
OTSUKA CORPORATION

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its consolidated subsidiaries as at December 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

March 29, 2016
Tokyo, Japan

Ernst & Young ShinNihon LLC

Principal Group Companies (As of December 31, 2015)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 8 subsidiaries, including 5 consolidated subsidiaries as well as 8 affiliated companies, including 2 affiliates accounted for by the equity method that carry out the System Integration business, Service and Support business and Other business. The 5 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	Ratio of Voting Rights	Scope of Business
System Integration business				
OSK Co., LTD.	1984	400	100.0%	• Development and sale of packaged software, IT consulting, and consigned software development
Networld Corporation	1990	585	81.5%	• Sales and technical support for network related equipment
Service and Support business				
Alpha Techno Co., LTD.	1996	50	100.0%	• Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., LTD.	1997	400	100.0%	• Comprehensive service and support for network systems
Other business				
Otsuka Auto Service Co., LTD.	1987	50	100.0%	• Maintenance and body work for automobiles, and commissioned sales of insurance

Corporate Data (As of December 31, 2015)

Name	OTSUKA CORPORATION
Founded	July 17, 1961 (registered as joint-stock company on December 13, 1961)
Capital Stock	¥10,374,851,000
Number of Employees	6,837 (with consolidated subsidiaries: 8,387)
Business	System Integration Business: Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities Service and Support Business: Supplies, maintenance and educational support, other activities
Main Banks	The Bank of Yokohama, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. Mizuho Bank, Ltd.

Bases (As of December 31, 2015)

Head Office	2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573 TEL 03-3264-7111		
Kansai Office	6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-8558 TEL 06-6456-2711		
Local Area Sales Groups	Chuo Sales Group 1 Josai Sales Group Northern Kanto Sales Group Osaka Southern Sales Group	Chuo Sales Group 2 Tama Sales Group Keiyo Sales Group	Kanagawa Sales Group Johoku Sales Group Osaka Northern Sales Group
Regional Offices	Sapporo Branch Chubu Branch Hiroshima Branch	Sendai Branch Kyoto Branch Kyushu Branch	Utsunomiya Branch Kobe Branch

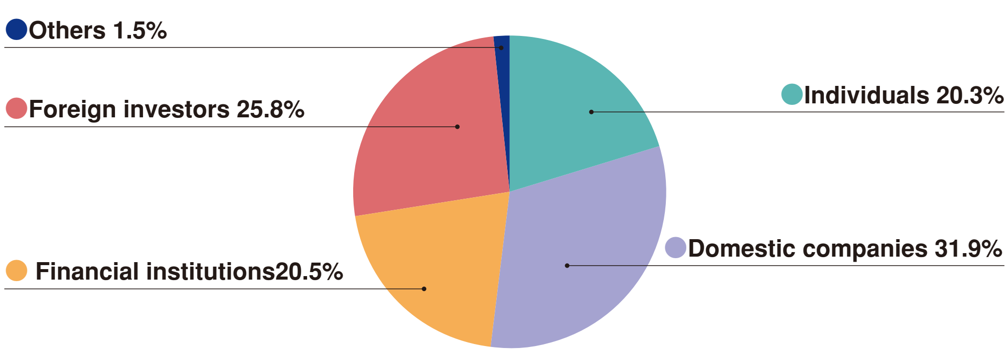
Stock Information (As of December 31, 2015)

Authorized Common Stock	**338,580,000 shares**
Issued Common Stock	**95,001,060 shares**
Number of Shares of Unit Stock	**100 shares**
Number of Shareholders	**4,907**

Major Shareholders

Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares held	Equity Ownership (%)	Number of Shares held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	29,364,990	30.91	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,649,200	4.89	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	4,163,800	4.38	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	2,893,460	3.04	—	—
Yuji Otsuka	2,840,940	2.99	—	—
Atsushi Otsuka	2,837,850	2.98	—	—
Minoru Otsuka	2,836,470	2.98	—	—
Terue Otsuka	1,936,500	2.03	—	—
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	1,875,638	1.97	—	—
SAJAP	1,212,900	1.27	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

http://www.otsuka-shokai.co.jp

Otsuka Corporation

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