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

Millions of yen

	2014	**2015**	Difference to Last Year	% Change to Last Year
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**

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, 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

Thousands of U.S. dollars

	Shareholders' equity				
	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**

Thousands of U.S. dollars

	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, 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

	Reportable segments						Millions of yen
							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

	Reportable segments						Thousands of U.S. dollars
							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