



ANNUAL REPORT 2016

For the fiscal year ended December 31, 2016

Otsuka Corporation

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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, 2014, 2015 and 2016			Millions of yen	Thousands of U.S. dollars	%
	2014	2015	2016	2016	Change
Net sales	¥605,766	¥609,045	¥643,417	\$5,521,476	+5.6
System Integration business	362,068	353,170	376,391	3,229,994	+6.6
Service and Support business	243,316	255,490	266,625	2,288,041	+4.4
Other business	381	385	400	3,440	+3.9
Operating income	37,097	37,311	39,684	340,547	+6.4
Ordinary income	38,144	38,240	40,780	349,960	+6.6
Profit before income taxes	37,910	38,316	40,280	345,664	+5.1
Net income*	23,455	23,705	26,675	228,912	+12.5
Total assets	305,513	324,755	343,821	2,950,497	+5.9
Interest-bearing debt	9,584	9,344	9,008	77,307	-3.6
Equity	163,277	173,229	189,851	1,629,211	+9.6
Net income per share (EPS)* (Yen and U.S. dollars)	247.41	250.06	281.38	2.41	+12.5
Dividend per share of common stock (Yen and U.S. dollars)	90.00	100.00	120.00	1.03	+20.0
Cash flows from operating activities per share (Yen and U.S. dollars)	360.02	291.37	252.45	2.17	-13.4
Operating income to Net sales ratio (%)	6.12	6.13	6.17	—	
Net income to Net sales ratio* (%)	3.87	3.89	4.15	—	
Interest-bearing debt ratio (%)	3.14	2.88	2.62	—	
Equity ratio (%)	53.44	53.34	55.22	—	
Return on equity (ROE) (%)	15.26	14.09	14.69	—	

Notes:

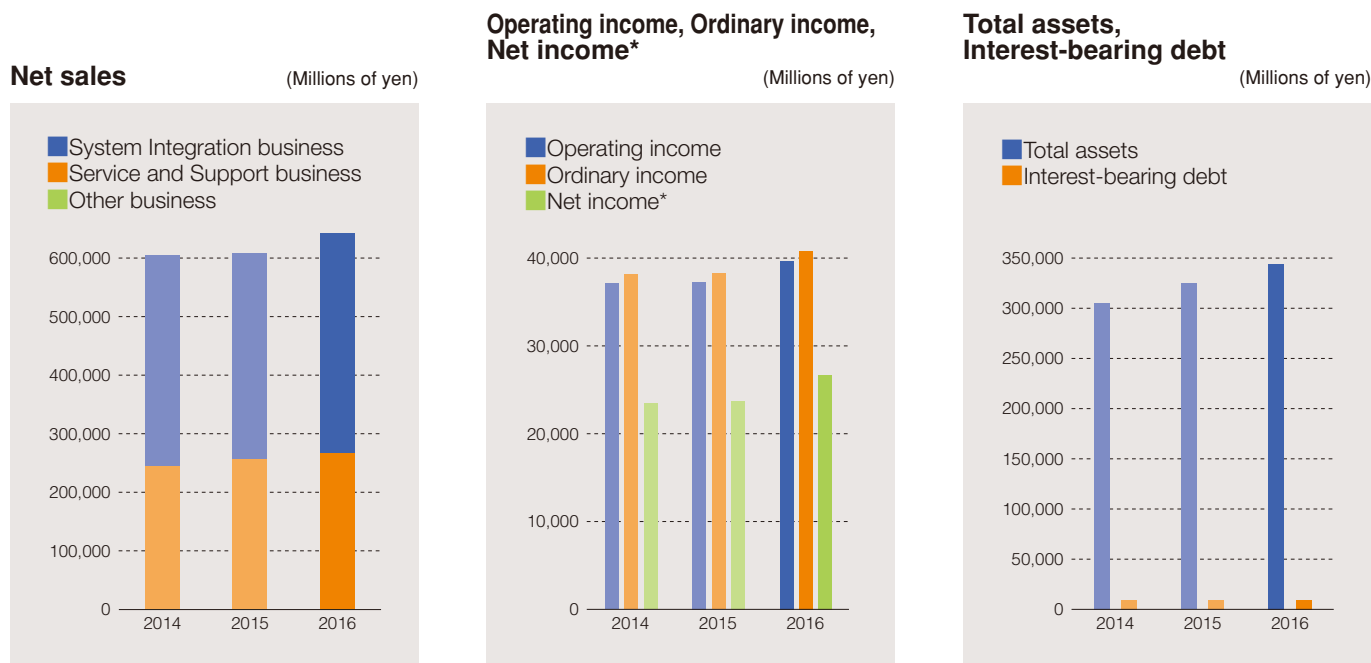
* Net income stands for Profit attributable to owners of parent

Equity = Total net assets - Share subscription rights - Non-controlling interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2016 exchange rate of ¥116.53 = 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 2014.



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, 2016 and to thank our shareholders and investors for their loyal support.

During the fiscal year, the Japanese economy achieved a moderate recovery amid cautious yet firm corporate IT investment. The OTSUKA Group worked to tap into corporate IT demand and provided solutions that lead to productivity improvements, cost reductions and power savings as well as focused on regional-based sales activities.

As a result, net sales increased 5.6% from the previous fiscal year to ¥643,417 million. At the earnings level, operating income increased 6.4% to ¥39,684 million, ordinary income increased 6.6% to ¥40,780 million and profit attributable to owners of parent increased 12.5% to ¥26,675 million. This marked the seventh consecutive year of increases in sales and profits.

Management has resolved to pay year-end dividends per share of ¥120, which includes an ordinary dividend of ¥110 in addition to a 55th anniversary commemorative dividend of ¥10, 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. Within this environment, we will further strengthen our regional-based solution proposals that solve issues faced by customers.

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 2017

Overview of Consolidated Operations

■ Japanese Economy Sustains a Moderate Recovery

During the fiscal year under review (January 1, 2016 to December 31, 2016), the Japanese economy sustained a moderate recovery despite visible areas of weakness such as cooling consumer sentiment. Additionally, business sentiment was noticeably cautious owing to uncertainties about the future direction of the global economy and exchange rates due to Britain's decision to exit the EU and to the U.S. presidential election.

Under these economic conditions, IT investments by domestic companies were cautious but firm against a background of solid corporate performance. During the fiscal year, the Social Security and Tax Number ("My Number") System began operation and the Personal Information Protection Law was revised, while threats such as increasingly active ransomware continued, which spurred growing interest in security countermeasures.

■ Focus on Regional-based Sales Activities

Within this environment, under the fiscal 2016 slogan "Vitalize office with solutions and live up to customer trust," we worked proactively to tap into corporate IT demand through initiatives such as strengthening security-related services and handling new electric power that helps reduce electricity costs along with our power savings solutions. Moreover, we also achieved positive results for initiatives to comprehensively support IT and networks in response to the needs of companies with multiple stores or multiple locations. We also focused on regional-based sales activities aimed at invigorating our sales activities.

Meanwhile, in August we commenced operation of our West Japan Logistics Center to strengthen our logistics capabilities in the western Japan area centering on the Kansai region.

**Solid corporate performance
IT investments trending firmly**

**Tap into corporate IT demand
Regional-based sales activities**

■ Sales and Profits Increase for the Seventh Consecutive Year and Profits Reach Record-high Levels

As a result of the above measures, net sales increased 5.6% from the previous fiscal year to ¥643,417 million. At the profit level, operating income rose 6.4% to ¥39,684 million. Ordinary income increased 6.6% to ¥40,780 million and profit attributable to owners of parent was up 12.5% to ¥26,675 million. This marks the seventh consecutive year of increases in sales and profits.

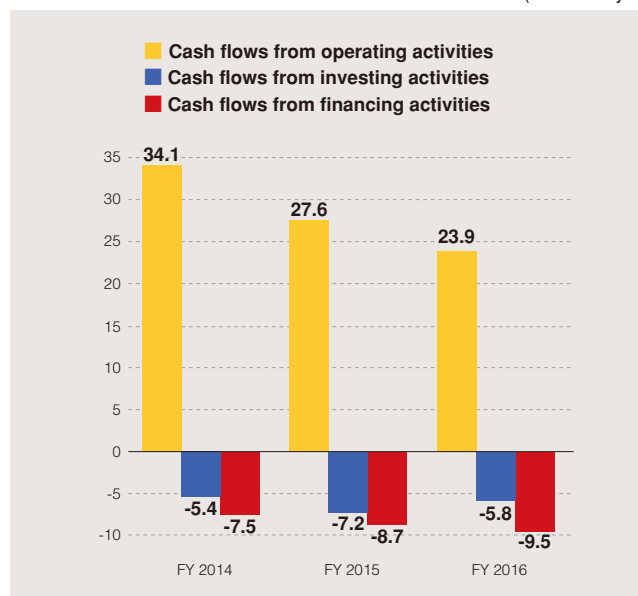
(Millions of yen)

	FY 2015	FY 2016	
	Amount	Amount	Change to Last Year
Net sales	609,045	643,417	+5.6%
Operating income	37,311	39,684	+6.4%
Ordinary income	38,240	40,780	+6.6%
Net income*	23,705	26,675	+12.5%

*Profit attributable to owners of parent

■ Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥23,932 million, a decrease of ¥3,689 million from the previous fiscal year due to a smaller increase in notes and accounts payable – trade.

Net cash used in investing activities amounted to ¥5,823 million, a decrease of ¥1,412 million from the previous fiscal year due to the absence of payments into time deposits in the previous fiscal year.

Net cash used in financing activities increased ¥789 million to ¥9,532 million due to an increase in cash dividends paid.

Overview of Results by Quarter

Net Sales

Net sales increased in all quarters of the fiscal year and the uptrend in net sales has continued since the second quarter (April-June) of the previous fiscal year.

Net sales in the first quarter (January-March) of 2016 amounted to ¥171,130 million, a 7.4% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2016 amounted to ¥167,379 million, an increase of 5.6% over the previous second quarter. Net sales in the third quarter (July-September) of 2016 amounted to ¥144,234 million, a 6.3% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2016 amounted to ¥160,673 million, an increase of 3.4% over the previous fourth quarter.

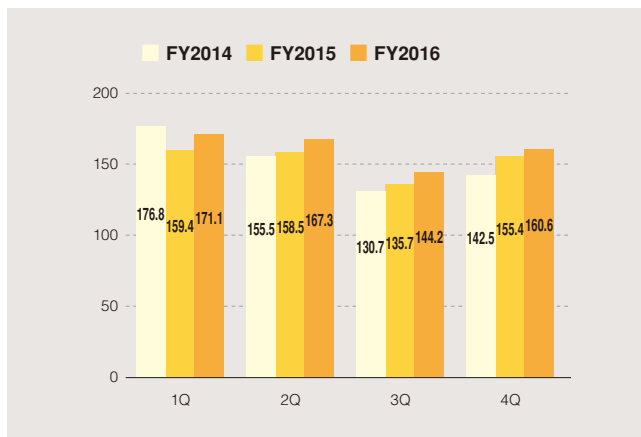
Ordinary Income

Ordinary income increased slightly in the second quarter (April-June), but growth in income recovered from the third quarter (July-September) onward.

Ordinary income in the first quarter (January-March) of 2016 amounted to ¥10,360 million, an increase of 9.0% from the previous first quarter. Ordinary income in the second quarter (April-June) of 2016 amounted to ¥14,207 million, an increase of 0.1% from the previous second quarter. Ordinary income in the third quarter (July-September) of 2016 amounted to ¥5,677 million, an increase of 15.8% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2016 amounted to ¥10,535 million, up 9.3% from the previous fourth quarter.

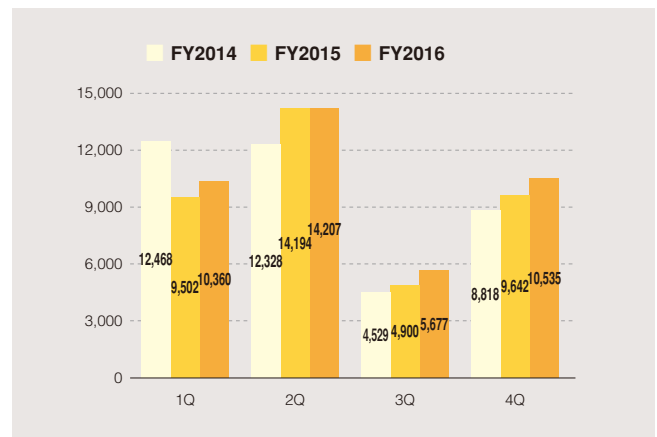
Quarterly Net Sales

(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 and recorded growth in unit sales of copiers, PCs and security-related devices, which led to a 6.6% increase in net sales from the previous fiscal year to ¥376,391 million.

■ Service and Support Business

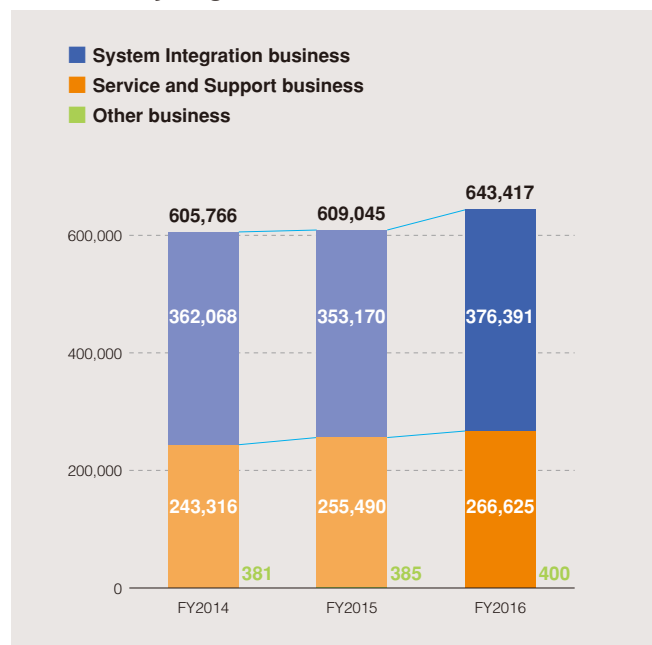
The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. In our “tanomail” office supply mail-order service business, we enhanced our product lineup including for tools and nursing care products and achieved a steady growth in sales, while sales for maintenance services also trended firmly. As a result, net sales for the Service and Support business increased 4.4% from the previous fiscal year to ¥266,625 million.

■ Other Business

In the Other business, net sales increased 3.9% from the previous fiscal year to ¥400 million.

Net Sales by Segments

(Millions of yen)



Focusing Efforts on the Accumulated Business

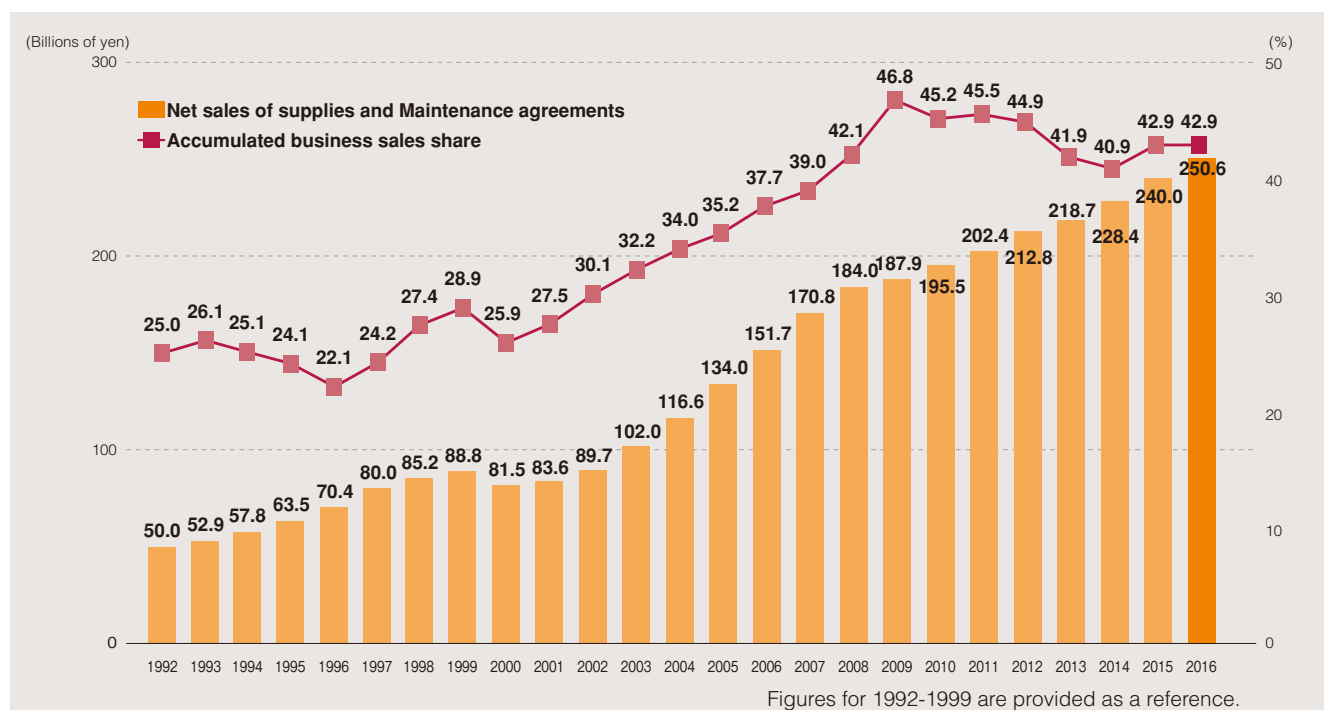
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

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 2016 as well, sales in the accumulated business grew steadily, increasing ¥10.6 billion, or 4.4%, to ¥250.6 billion and accounting for 42.9% of net sales (non-consolidated basis). Since our public listing in 2000, net sales have increased ¥169.1 billion, an approximately 210% increase.

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

■ Accumulated Business (Non-consolidated)



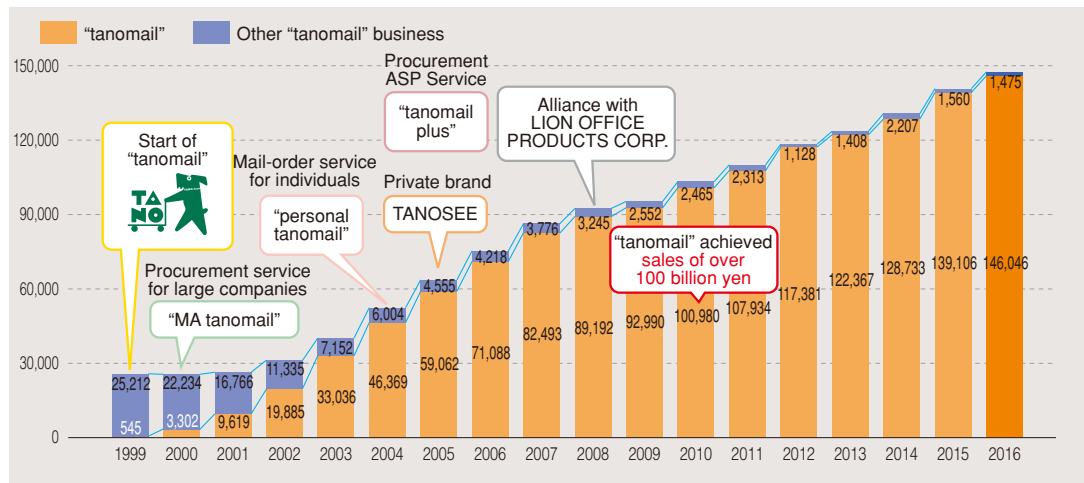
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

たのめーる “tanomail”

Net sales in our “tanomail” office supply mail-order service business are expanding steadily. In fiscal 2016, net sales increased 5.0% to ¥146,046 million.

Annual Sales of “tanomail” (Non-consolidated)

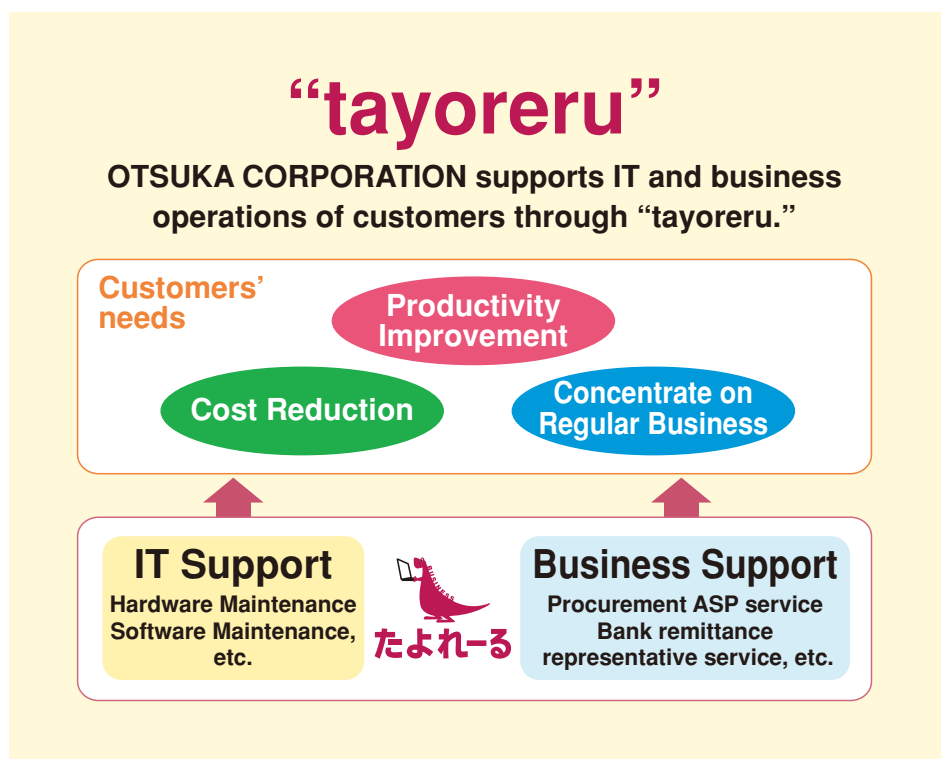
(Millions of yen)



たよれーる “tayoreru”

The “tayoreru” support service business supports customers’ IT and business operations.

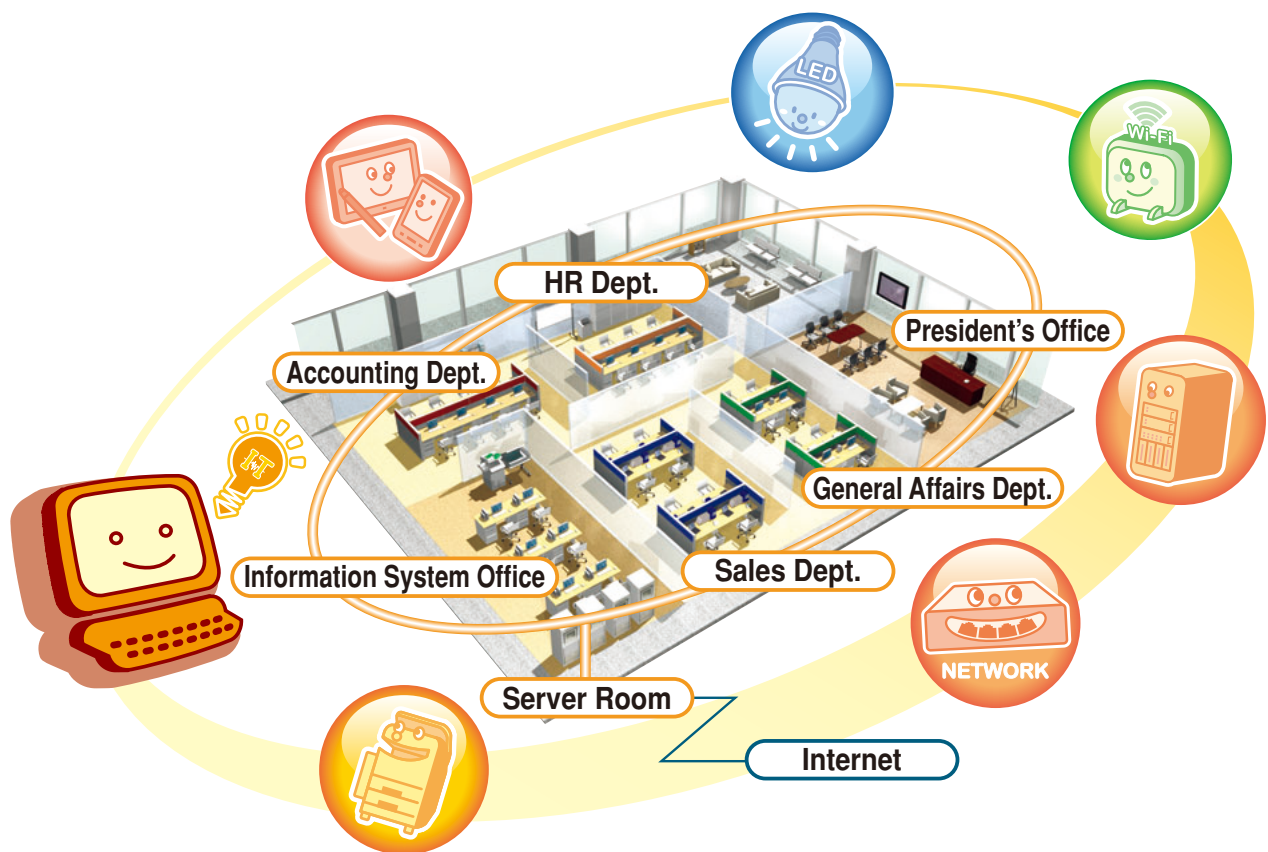
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



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.

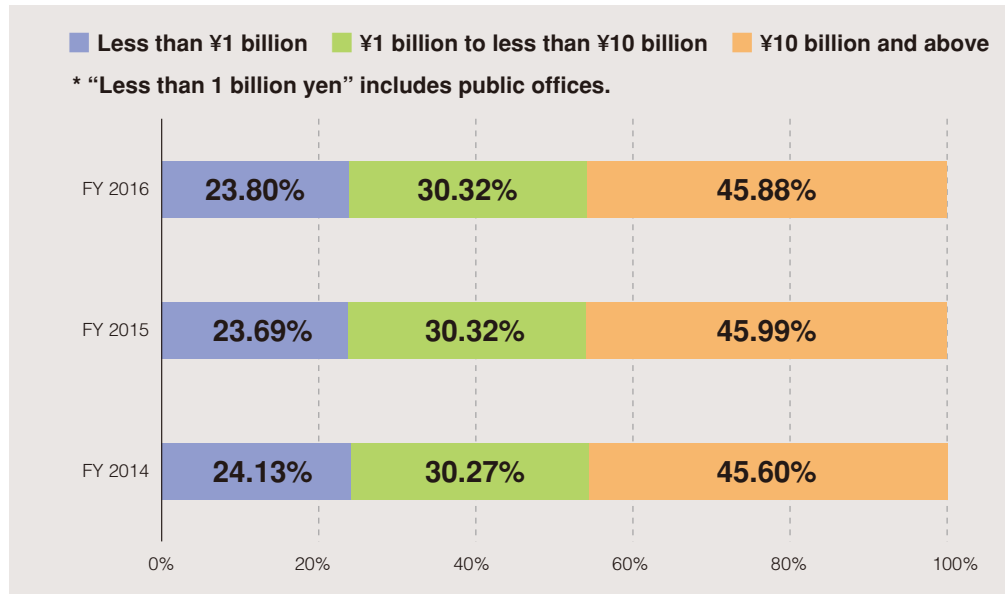


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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.

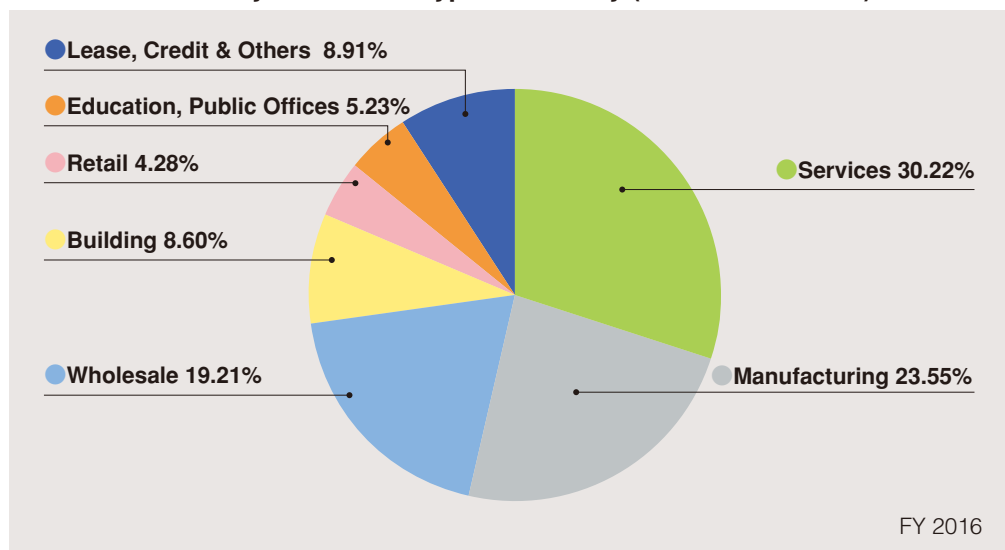
In terms of annual net sales, in fiscal 2016 the ratio of companies with sales of less than ¥1 billion increased, while the ratio of companies with sales of ¥10 billion and above decreased.

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 2016, 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 2014	FY 2015		FY 2016	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
"tanomail"	128,733	139,106	+8.1%	146,046	+5.0%
SMILE	11,673	10,479	-10.2%	9,774	-6.7%
ODS21	43,575	46,196	+6.0%	51,746	+12.0%
OSM	50,836	59,831	+17.7%	67,937	+13.5%

(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	37,392	41,384	+10.7%	44,583	+7.7%
(of which color copiers)	33,793	38,391	+13.6%	42,060	+9.6%
Servers	39,467	37,718	-4.4%	32,917	-12.7%
Personal computers	966,600	795,646	-17.7%	854,876	+7.4%
Client Total		847,320	-15.0%	904,393	+6.7%

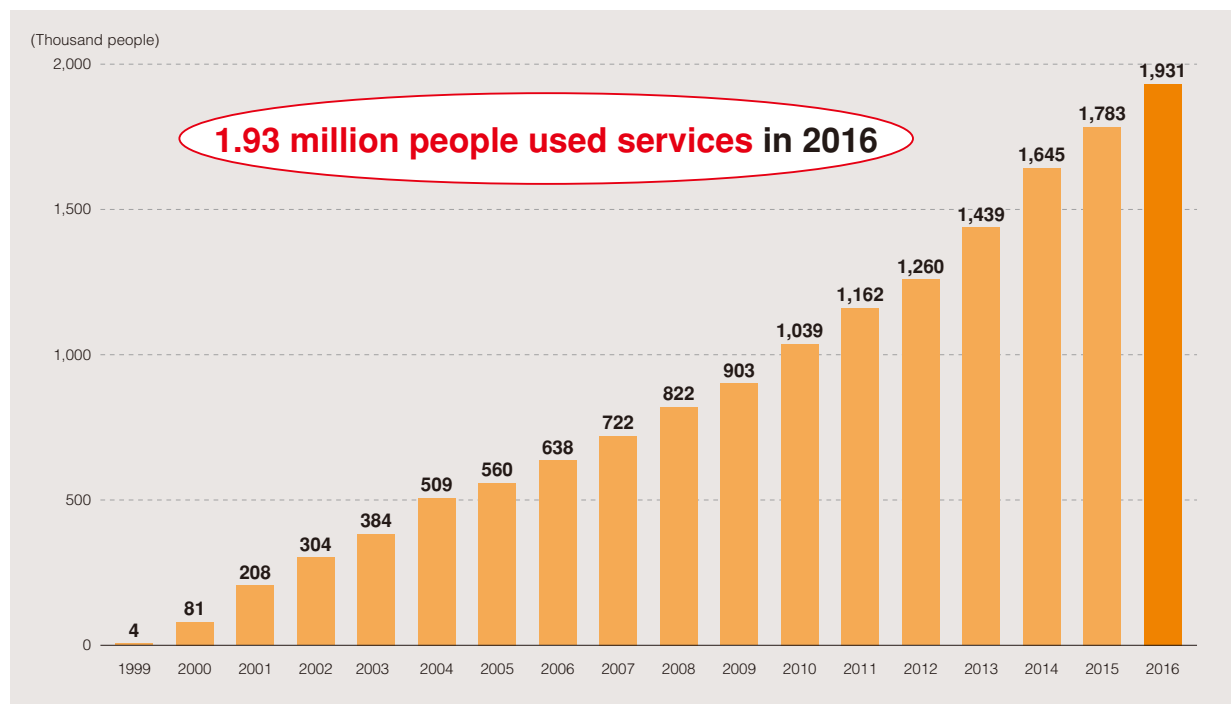
Otsuka Security Management (OSM), our security business, achieved strong results, while sales of copiers and PCs also trended favorably.

OTSUKA CORPORATION's Web Services (ASP)

■ Provision of services commenced in 1999. The number of users exceeded 1.93 million in 2016.

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 2016, the number reached 1.93 million.

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



Outlook for Fiscal 2017

■ Corporate IT Investments Expected to Remain Stable

In the future, the Japanese economy is expected to continue a modest recovery. Nevertheless, there are also reasons for concern such as the direction of U.S. policies, the movement of exchange rates, trends in the Chinese economy and geopolitical risk, thus cautious actions are forecast in some of these areas.

Under these economic conditions, domestic companies need to continue making aggressive IT investments for strengthening competitiveness. Moreover, there is a need for responding to the sophistication of security measures and to work style reform as well as a rising interest in new IT and IT application fields. Due to these factors, corporate IT investments are forecast to trend firmly in the future as well.

■ Proposing Regional-based Solutions

Given the above economic conditions and outlook for corporate IT investments, the Group will continue to utilize our wide range of products and services, which is OTSUKA CORPORATION's strength, and add more high-added-value services with the aim of further raising the level of our proposals while also securing new customers. To do so, we will step up the implementation of regional-led business management and utilize on-site capabilities to strengthen our regional-based solutions proposals that solve issues faced by customers. We will also bolster our lineup of appealing office supplies and develop a lineup of maintenance services that support a reduction of burdens from corporate activities as part of efforts to strengthen our accumulated business, build stable and long-term business relationships with customers and strengthen our earnings foundation.

Market Forecast in 2017

- Continued moderate growth despite uncertainty in Japan and overseas
- Demand for aggressive IT investment, raising productivity and cost reductions
- Rising interest in new IT and IT application fields
- Spread of work style reform
- Strong demand by companies for IT utilization and energy-saving

Policies and Measures in 2017

- "Solve customer troubles on all fronts and live up to customer trust"
- Strengthen on-site capabilities and customer contact points through business management led by local area sales groups
 - Expansion of business items with customers and cross-selling
 - Utilize IT to support work style reform
 - Respond to the sophistication of security
 - Strengthen initiatives for responding to new technologies
 - Strengthening of optical communication lines and proposal of network solutions

■ 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-related equipment as we strengthen our solutions proposals.

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 strengthen new services that are not reliant on hardware.

■ Forecast for Fiscal 2017

In fiscal 2017 the Company forecasts a 4.3% increase in consolidated net sales to ¥671,000 million, a 3.3% increase in operating income to ¥41,000 million, a 2.0% increase in ordinary income to ¥41,600 million and a 2.3% increase in profit attributable to owners of parent to ¥27,280 million.

By segment, we forecast a 4.1% increase in net sales to ¥391,730 million in the System Integration business, a 4.6% increase to ¥278,910 million in the Service and Support business and a 10.2% decrease to ¥360 million in the Other business.

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

	Fiscal 2016	Fiscal 2017 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	643,417	671,000	+4.3%
Operating income	39,684	41,000	+3.3%
Ordinary income	40,780	41,600	+2.0%
Net income*	26,675	27,280	+2.3%

*Profit attributable to owners of parent

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

	Fiscal 2016	Fiscal 2017 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	376,391	391,730	+4.1%
Service and Support business	266,625	278,910	+4.6%
Other business	400	360	-10.2%

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 2016 are introduced herein.

■ Foodbank Support Activities

The amount of “food loss” in Japan is believed to be between 5 million and 8 million tons annually. A food bank is an activity that provides this surplus food to persons in need. Our “tanomail” office supply mail-order service business inevitably handles some food and beverages that can no longer be sold to customers because the product freshness dates are nearing expiration. We previously disposed of such food and beverages as industrial waste. However, in May 2016 the East Japan Logistics Center began making food donations to the food bank Second Harvest Japan. The various items donated include retort pouch foods, beverages and confectionaries. These foods and beverages are delivered via governments and social welfare councils to persons requesting support.

In January 2017, we also formed an agreement with Food Bank Kansai and are making food donations to this food bank as well.



(Photo by Natsuki Yasuda / studio AFTERMODE)

■ Disaster Assistance Activities

● Great East Japan Earthquake

The Sendai Branch donated ¥10,460,000, equivalent to 1% of the System Integration business' sales from March 12 to June 30, 2016, to activities that support children orphaned by the earthquake disaster. Meanwhile, the “OTSUKA CORPORATION Heartful Fund,” an employee-company matching gift program, implemented the “3rd Rebuilding Support Project” and supported six projects during 2016. Also, we held a total of 15 in-house product fairs, which sell specialty products from the earthquake-devastated regions, at three business sites.



● Kumamoto Earthquakes

In response to the Kumamoto earthquakes that occurred in April 2016, we carried out fund raising utilizing “Happy Points” from our “tanomail” office supply mail-order service business. We converted the points requested by customers at a rate of ¥1 per one point and then added an equivalent amount and donated ¥1,681,200 to the Japanese Red Cross Society’s Kumamoto Earthquake Disaster Relief Fund. Moreover, the “OTSUKA CORPORATION Heartful Fund” donated ¥1,000,000 to Kumamoto Prefecture. Additionally, we loaned machines free of charge to replace machines damaged in the earthquakes.

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.

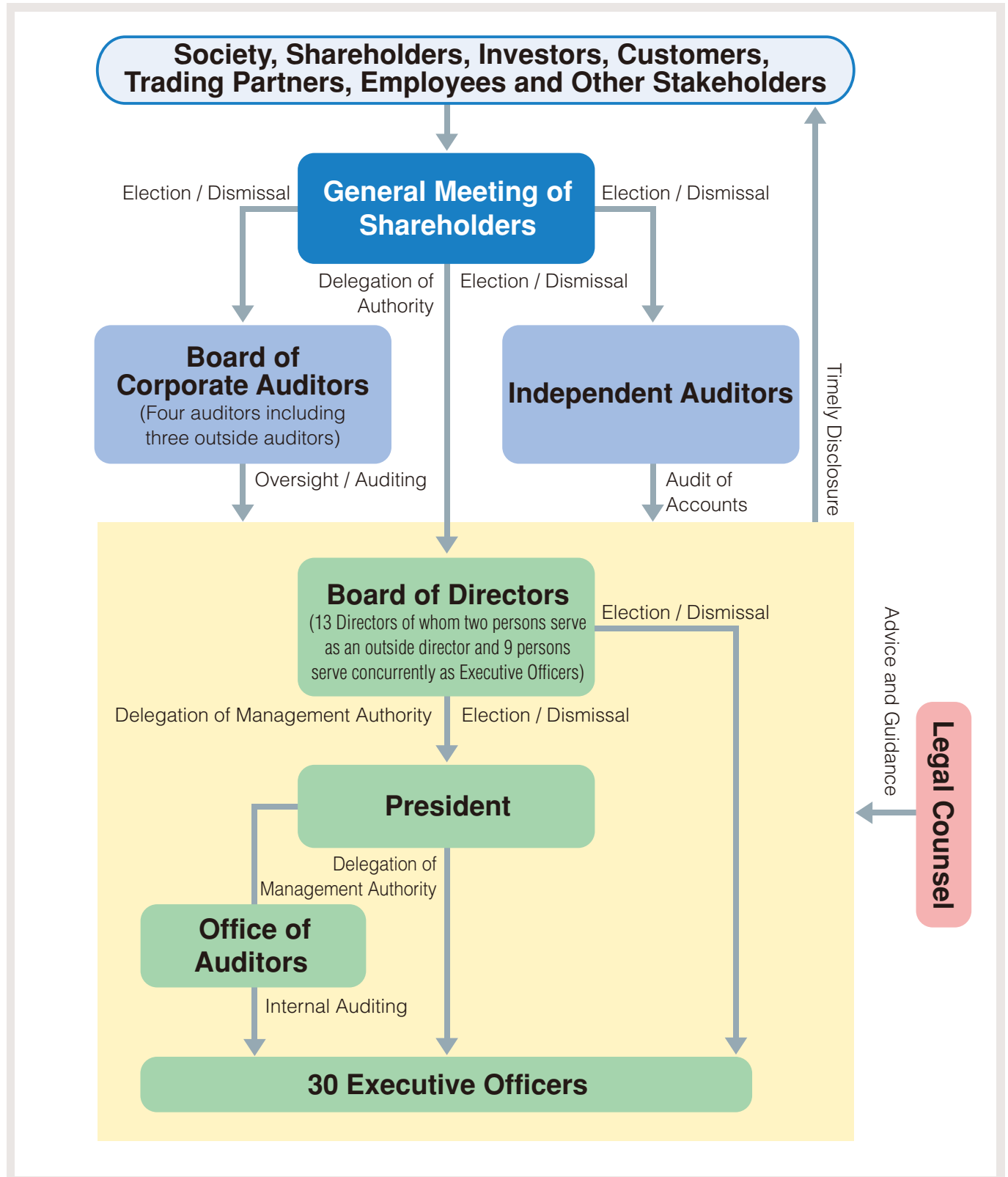
With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

The Board of Directors consists of 13 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.

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

At a meeting of the Board of Directors, the Company has determined the following basic policies for a system for ensuring that the execution of duties by Directors is in compliance with laws and the Articles of Incorporation as well as for a system deemed necessary as prescribed by an ordinance of the Ministry of Justice for ensuring appropriate operations of stock companies and of corporate groups consisting of stock companies and their subsidiaries.

- 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

- 1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries

Group Management Meetings are held and these clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans.

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries.

When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or the

Representative Directors on the state of the execution of duties.

2) Regulations and other systems concerning management of risk of losses at subsidiaries

The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

Information regarding recognized risk by consolidated subsidiaries shall be shared at Group Management Meetings and efforts shall be made for the early detection and prevention of risk.

In the event of unexpected contingencies, we shall set up a task force at the Company, collect risk information, collaborate with the relevant consolidated subsidiaries and devise quick and appropriate countermeasures.

3) System for ensuring the efficient execution of duties by directors of subsidiaries

Consolidated subsidiaries shall ensure the autonomy and independence of management and formulate an annual plan in accordance with the Group's policies. The targets and responsibilities of each company shall be clarified and efforts shall be made to attain the intended performance targets through the analyses of variances between budget estimates and actual results. Consolidated subsidiaries shall establish Board of Directors regulations and convene meetings of the Board of Directors to deliberate on and resolve important matters concerning management and monitor the state of the execution of duties. Moreover, details on the execution of duties shall be prescribed in the various types of internal company regulations and efficiency shall be raised.

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

Consolidated subsidiaries 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. Consolidated subsidiaries shall strive to enhance their compliance systems and ensure the execution of business operations is in compliance with laws and the Articles of Incorporation by taking such measures as raising awareness through continuous compliance education, setting up internal audit offices within each company to improve business operations, and properly applying the internal reporting system established by the Company and shared by consolidated subsidiaries.

5) Other systems for ensuring proper operations of the Group consisting of the Company and its subsidiaries

The Company's Office of Auditors shall receive reports on the results of internal audits implemented at each consolidated subsidiary by internal auditing offices established at each consolidated subsidiary. Additionally, it shall implement regular audits of consolidated subsidiaries as well as audit the state of compliance with laws and regulations and provide necessary guidance.

f) Matters regarding employees assisting Corporate Auditors when requested by Corporate Auditors

When a Corporate Auditor makes such a request, an appropriate employee shall be appointed from the Business Administration Headquarters and assigned to a concurrent position as an employee assisting the Corporate Auditor.

g) Matters concerning the independence of such employees from Directors as mentioned in the preceding item and matters related to ensuring the effectiveness of instructions from the Corporate Auditor to the relevant employees

Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee as mentioned in the previous item, the independence of such employees from Directors shall be ensured by obtaining the prior consent of the Corporate Auditor.

Effectiveness shall be ensured by establishing a structure under which the Corporate Auditor provides direct instructions to and receives reports from the relevant employee.

h) System regarding reporting to the Corporate Auditors

1) System for reporting to Corporate Auditors by Directors and employees

A system shall be established that enables Corporate Auditors to receive reports from Directors and employees on the state of the execution of duties. At the same time, collaboration and coordination with internal departments carrying out audits shall be strengthened.

2) System that enables directors, auditors, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, to report to the Corporate Auditors

Directors, auditors, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons shall, depending on the importance and urgency of the matters, report to the Corporate Auditors about any improprieties regarding the execution of duties by directors or employees of the Company or consolidated subsidiaries, about any actual matters in violation of laws and regulations or the Articles of Incorporation or regarding actual matters that could

cause significant damage to the Company.

- i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports
In accordance with employment regulations, persons reporting matters to the Corporate Auditors shall not be treated unfavorably as a result of such reports.
- j) 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 upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such auditors.
- k) Other systems for ensuring effective audits by Corporate Auditors
Representative Directors shall exchange opinions with Corporate Auditors on a timely basis. The Company's Office of Auditors shall maintain close relations with the Corporate Auditors and undertake inspections in accordance with the requests of Corporate Auditors.

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.

D. Summary of Details of Contract of Limited Liability

As prescribed by Article 427-1 of the Companies Act, the Company, each outside director and each auditor conclude a contract that limits liability under Article 423-1 of the Act. The amount limit of the liability based on these contracts shall be the amount prescribed by law.

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 (13 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. Accounting 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 13

Other individuals 25

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

4. Outside Directors and Outside Auditors

Although Outside Director Jiro Makino had no involvement in corporate management in the past other than serving as an outside officer, he has been appointed as an outside director because of his insights and experience as a lawyer and long years of involvement in 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., Diamond Dining 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 his qualifications as a certified public accountant and tax accountant 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 CPA Office, Kazuhiko Nakai Tax Accountant Office and Nippon Antenna Co., Ltd., in which Kazuhiko Nakai concurrently has key positions.

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 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 Auditor, as provided by the TSE.

Additionally, 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)	371	260	67	42	12
Corporate Auditors (except outside auditors)	18	16	–	1	2
Outside Auditors	39	39	–	–	6

Notes:

- The above includes two auditors (including one outside auditor) who resigned from the Company at the conclusion of the 55th regular General Meeting of Shareholders on March 29, 2016.
- Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
- 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).
- 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.
- 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	58
Total amount on balance sheet	¥7,849 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.	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

(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	5,439	To facilitate and maintain business relationship
ThreePro Group Co., Ltd.	360,000	323	Same as above
Daiwa House Industry Co., Ltd.	100,000	319	Same as above
Ricoh Company, Ltd.	310,088	306	Same as above
Daito Trust Construction Co., Ltd.	13,100	230	Same as above
Concordia Financial Group, Ltd.	382,204	215	Same as above
Uchida Esco Co., Ltd.	180,000	207	Same as above
Billing System Corporation	50,000	179	Same as above
Credit Saison Co., Ltd.	50,000	103	Same as above
Meiko Network Japan Co., Ltd.	60,000	65	Same as above
Zeon Corporation	31,511	36	Same as above
NAMCO BANDAI Holdings Inc.	9,504	30	Same as above
Mitsubishi Tanabe Pharma Corporation	13,300	30	Same as above
The Keiyo Bank, Ltd.	50,000	26	Same as above
Nippon Kayaku Co., Ltd.	17,466	25	Same as above
Mitsubishi UFJ Financial Group, Inc.	29,110	20	Same as above
Morinaga & Co., Ltd.	3,065	14	Same as above
Iino Kaiun Kaisha, Ltd.	31,034	14	Same as above
Kyowa Hakko Kirin Co., Ltd.	8,000	12	Same as above
J ESCOM HOLDINGS, INC.	150,000	12	Same as above
Iwabuchi Corporation	1,946	10	Same as above
The Dai-ichi Life Insurance Company, Limited	4,300	8	Same as above
HYPER Inc.	12,000	5	Same as above
Rengo Co., Ltd.	7,600	4	Same as above
Mizuho Financial Group, Inc.	21,520	4	Same as above
Autobacs Seven Co., Ltd.	1,500	2	Same as above
Maruzen Co., Ltd.	2,000	2	Same as above
Canon Marketing Japan Inc.	1,155	2	Same as above
Daikyo Incorporated	9,400	2	Same as above
Tsuchiya Holdings Co., Ltd.	10,036	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	—	65	—
Consolidated Subsidiaries	13	—	13	—
Total	79	—	79	—

2. Other Major Remuneration

Not applicable

3. Non-auditing Services by Independent Auditors for Otsuka Corporation

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, 2017)



President & Chief Executive Officer

Yuji Otsuka



Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura



Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi



Managing Director & Operating Officer

Katsuhiko Yano



Managing Director & Operating Officer

Hironobu Saito



Managing Director & Operating Officer

Hironobu Tsurumi



Managing Director & Operating Officer

Minoru Sakurai



Managing Director & Operating Officer

Norihiko Moriya

Director & Senior Managing Officers

Mitsuya Hirose

Osamu Tanaka

Directors

Yasuhiro Wakamatsu

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, 2017.

■ 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

	Millions of yen			Thousands of U.S. dollars
	2014	2015	2016	2016
OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2014, 2015 and 2016				
Net sales	¥605,766	¥609,045	¥643,417	\$5,521,476
System Integration business	362,068	353,170	376,391	3,229,994
Service and Support business	243,316	255,490	266,625	2,288,041
Other business	381	385	400	3,440
Operating income	37,097	37,311	39,684	340,547
Ordinary income	38,144	38,240	40,780	349,960
Profit before income taxes	37,910	38,316	40,280	345,664
Net income*	23,455	23,705	26,675	228,912
Total assets	305,513	324,755	343,821	2,950,497
Interest-bearing debt	9,584	9,344	9,008	77,307
Equity	163,277	173,229	189,851	1,629,211
Net income per share (EPS)* (Yen and U.S. dollars)	247.41	250.06	281.38	2.41
Dividend per share of common stock (Yen and U.S. dollars)	90.00	100.00	120.00	1.03
Cash flows from operating activities per share (Yen and U.S. dollars)	360.02	291.37	252.45	2.17
Operating income to Net sales ratio (%)	6.12	6.13	6.17	—
Net income to Net sales ratio* (%)	3.87	3.89	4.15	—
Interest-bearing debt ratio (%)	3.14	2.88	2.62	—
Equity ratio (%)	53.44	53.34	55.22	—
Return on equity (ROE) (%)	15.26	14.09	14.69	—

Notes:

* Net income stands for Profit attributable to owners of parent

Equity = Total net assets - Share subscription rights - Non-controlling interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2016 exchange rate of ¥116.53 = 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 2014.

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Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	Millions of yen			
	2015	2016	Difference to Last Year	% Change to Last Year
Net sales	¥609,045	¥643,417	+34,371	+5.6%
System Integration business	353,170	376,391	+23,221	+6.6
Service & Support business	255,490	266,625	+11,135	+4.4
Other business	385	400	+15	+3.9
Cost of sales	474,977	503,383	+28,405	+6.0
Gross profit	134,068	140,034	+5,966	+4.5
Selling, general and administrative expenses	96,756	100,350	+3,594	+3.7
Operating income	37,311	39,684	+2,372	+6.4
Ordinary income	38,240	40,780	+2,540	+6.6
Profit before income taxes	38,316	40,280	+1,963	+5.1
Income taxes				
Current	13,796	12,945	-851	-6.2
Deferred	639	449	-189	-29.6
Profit attributable to owners of parent	23,705	26,675	+2,969	+12.5

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥643,417 million, an increase of ¥34,371 million (5.6%) 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 and recorded growth in unit sales of copiers, PCs and security-related devices, which led to a 6.6% increase in net sales from the previous fiscal year to ¥376,391 million.

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. In our "tanomail" office supply mail-order service business, we enhanced our product lineup including for tools and nursing care products and achieved a steady growth in sales, while sales for maintenance services also trended firmly. As a result, net sales for the Service and Support business increased 4.4% from the previous fiscal year to ¥266,625 million.

Other Business

In the Other Business, net sales increased 3.9% from the previous fiscal year to ¥400 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 4.5% from the previous fiscal year to ¥140,034 million due to the growth in net sales.

Because the rise in gross profit exceeded the increase in selling, general and administrative (SG&A) expenses, operating income increased 6.4% to ¥39,684 million, ordinary income increased 6.6% to ¥40,780 million and profit attributable to owners of parent rose 12.5% to ¥26,675 million. Net income per share (EPS) amounted to ¥281.38.

Financial Position

	Millions of yen			
	2015	2016	Difference to Last Year	% Change to Last Year
Assets:	¥324,755	¥343,821	+19,066	+5.9%
Current assets	255,679	275,237	+19,557	+7.6
Non-current assets	69,075	68,583	-491	-0.7
Liabilities:	150,352	152,648	+2,295	+1.5
Current liabilities	139,523	139,420	-103	-0.1
Non-current liabilities	10,829	13,228	+2,399	+22.2
Net assets	174,402	191,173	+16,770	+9.6

Assets

Total assets at fiscal year-end increased ¥19,066 million from the previous fiscal year-end to ¥343,821 million.

Current assets increased ¥19,557 million from the previous fiscal year-end to ¥275,237 million due to such factors as an increase in cash and deposits. Non-current assets decreased ¥491 million from the previous fiscal year-end to ¥68,583 million.

Liabilities

Total liabilities at fiscal year-end increased ¥2,295 million from the previous fiscal year-end to ¥152,648 million.

Current liabilities decreased ¥103 million from the previous fiscal year-end to ¥139,420 million due to such factors as a decrease in short-term loans payable.

Non-current liabilities increased ¥2,399 million from the previous fiscal year-end to ¥13,228 million.

Net Assets

Total net assets at fiscal year-end increased ¥16,770 million from the previous fiscal year-end to ¥191,173 million due to an increase in retained earnings.

As a result, the equity ratio increased 1.9 percentage points from the previous fiscal year-end to 55.2%.

The interest coverage ratio was 738.85 times, the interest-bearing debt ratio was 2.62%, return on equity (ROE) was 14.69% and return on assets (ROA) was 12.02%.

	2015	2016
Interest coverage ratio (times)	683.24	738.85
Interest-bearing debt ratio (%)	2.88	2.62
ROE (%)	14.09	14.69
ROA (%)	11.95	12.02

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 + Share of profit (loss) of entities accounted for using equity method

Cash Flows

	Millions of yen	
	2015	2016
Cash flows from operating activities	¥27,621	¥23,932
Cash flows from investing activities	-7,235	-5,823
Cash flows from financing activities	-8,742	-9,532
Cash and cash equivalents at end of year	109,587	118,183

Cash and cash equivalents at end of year totalled ¥118,183 million, an increase of ¥8,596 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 ¥23,932 million, a decrease of ¥3,689 million from the previous fiscal year due to a smaller increase in notes and accounts payable – trade.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥5,823 million, a decrease of ¥1,412 million from the previous fiscal year due to the absence of payments into time deposits in the previous fiscal year.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥789 million to ¥9,532 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 ¥2,277 million to ¥18,108 million.

Forecast for Fiscal 2017

In fiscal 2017 the Company forecasts a 4.3% increase in consolidated net sales to ¥671,000 million, a 3.3% increase in operating income to ¥41,000 million, a 2.0% increase in ordinary income to ¥41,600 million and a 2.3% increase in profit attributable to owners of parent to ¥27,280 million.

By segment, we forecast a 4.1% increase in net sales to ¥391,730 million in the System Integration business, a 4.6% increase to ¥278,910 million in the Service and Support business and a 10.2% decrease to ¥360 million in the Other business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
ASSETS			
Current assets			
Cash and deposits (Note 2)	¥100,676	¥116,946	\$1,003,573
Notes and accounts receivable - trade (Note 4)	105,055	109,985	943,838
Securities	6,900	—	—
Merchandise	19,499	25,169	215,992
Work in process	744	642	5,514
Raw materials and supplies	780	827	7,097
Deferred tax assets	2,806	2,617	22,458
Other	19,353	19,168	164,495
Allowance for doubtful accounts	(135)	(119)	(1,023)
Total current assets	255,679	275,237	2,361,946
Non-current assets			
Property, plant and equipment			
Buildings and structures	63,157	60,748	521,315
Accumulated depreciation and impairment loss	(42,025)	(41,109)	(352,780)
Buildings and structures, net	21,131	19,639	168,534
Land (Note 3)	16,832	16,452	141,182
Other	13,694	12,302	105,571
Accumulated depreciation and impairment loss	(10,530)	(9,255)	(79,429)
Other, net	3,163	3,046	26,141
Total property, plant and equipment	41,127	39,137	335,858
Intangible assets			
Software	9,510	11,200	96,120
Other	59	59	513
Total intangible assets	9,569	11,260	96,633
Investments and other assets			
Investment securities (Note 1)	11,013	10,976	94,196
Guarantee deposits	2,516	2,367	20,313
Long-term prepaid expenses	191	206	1,768
Deferred tax assets	2,209	2,421	20,776
Other	2,631	2,402	20,618
Allowance for doubtful accounts	(185)	(188)	(1,616)
Total investments and other assets	18,377	18,185	156,057
Total non-current assets	69,075	68,583	588,550
Total assets	¥324,755	¥343,821	\$2,950,497

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Liabilities			
Current liabilities			
Notes and accounts payable – trade (Notes 2,4)	¥ 74,542	¥ 76,783	\$ 658,916
Electronically recorded obligations - operating	17,095	16,891	144,953
Short-term loans payable	6,700	5,000	42,907
Lease obligations	1,043	909	7,803
Income taxes payable	7,916	6,569	56,375
Advances received	10,212	11,033	94,685
Provision for bonuses	3,184	3,267	28,039
Other	18,829	18,965	162,749
Total current liabilities	139,523	139,420	1,196,430
Non-current liabilities			
Long-term loans payable	—	1,700	14,588
Lease obligations	1,600	1,399	12,008
Deferred tax liabilities for land revaluation (Note 3)	129	122	1,052
Provision for directors' retirement benefits	588	646	5,544
Net defined benefit liability	7,640	8,456	72,568
Asset retirement obligations	217	215	1,853
Other	653	687	5,902
Total non-current liabilities	10,829	13,228	113,518
Total liabilities	150,352	152,648	1,309,949
Net assets			
Shareholders' equity			
Capital stock	10,374	10,374	89,031
Capital surplus	16,254	16,254	139,489
Retained earnings	154,389	170,572	1,463,766
Treasury shares	(136)	(137)	(1,180)
Total shareholders' equity	180,881	197,064	1,691,107
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	4,617	4,517	38,768
Revaluation reserve for land (Note 3)	(14,055)	(13,037)	(111,884)
Foreign currency translation adjustment	25	13	115
Remeasurements of defined benefit plans	1,759	1,293	11,103
Total accumulated other comprehensive income	(7,652)	(7,212)	(61,896)
Non-controlling interests	1,173	1,321	11,336
Total net assets	174,402	191,173	1,640,548
Total liabilities and net assets	¥324,755	¥343,821	\$2,950,497

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Net sales	¥609,045	¥643,417	\$5,521,476
Cost of sales	474,977	503,383	4,319,773
Gross profit	134,068	140,034	1,201,703
Selling, general and administrative expenses			
Salaries, allowances and bonuses	40,103	40,797	350,104
Directors' compensations	574	568	4,876
Welfare expenses	6,455	6,588	56,541
Rent expenses	6,080	6,280	53,893
Transportation and warehousing expenses	16,812	17,948	154,027
Provision for bonuses	2,104	2,184	18,742
Retirement benefit expenses	1,725	2,097	17,999
Provision for directors' retirement benefits	71	66	569
Provision of allowance for doubtful accounts	77	61	531
Depreciation	4,003	4,334	37,192
Other	18,748	19,422	166,676
Total Selling, general and administrative expenses (Note 1)	96,756	100,350	861,155
Operating income	37,311	39,684	340,547
Non-operating income			
Interest income	44	30	258
Dividend income	96	98	848
House rent income	253	250	2,147
Income from recycling	122	124	1,071
Share of profit of entities accounted for using equity method	213	385	3,304
Other	255	267	2,293
Total non-operating income	986	1,156	9,923
Non-operating expenses			
Interest expenses	55	54	466
Other	3	5	43
Total non-operating expenses	58	59	510
Ordinary income	38,240	40,780	349,960
Extraordinary income			
Gain on sales of investment securities	130	—	—
Compensation income	34	—	—
Other	3	—	—
Total extraordinary income	168	—	—
Extraordinary losses			
Loss on sales of non-current assets (Note 2)	—	68	591
Loss on retirement of non-current assets (Note 3)	88	61	529
Impairment loss	2	316	2,717
Loss on valuation of investment securities	—	53	457
Total extraordinary losses	91	500	4,296
Profit before income taxes	38,316	40,280	345,664
Income taxes-current	13,796	12,945	111,095
Income taxes-deferred	639	449	3,861
Total income taxes	14,435	13,395	114,956
Profit	23,880	26,884	230,708
Profit attributable to non-controlling interests	174	209	1,796
Profit attributable to owners of parent	¥ 23,705	¥ 26,675	\$ 228,912

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Profit	¥23,880	¥26,884	\$230,708
Other comprehensive income			
Valuation difference on available-for-sale securities	1,639	(98)	(844)
Revaluation reserve for land	13	6	56
Remeasurements of defined benefit plans, net of tax	(738)	(473)	(4,060)
Share of other comprehensive income of entities accounted for using equity method	(23)	(13)	(116)
Total other comprehensive income (Note 1)	890	(578)	(4,964)
Comprehensive income	¥24,771	¥26,305	\$225,744
Comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	¥24,597	¥26,103	\$224,005
Comprehensive income attributable to non-controlling interests	174	202	1,738

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, 2015		Shareholders' equity				Millions of yen
		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		10,374	16,254	139,215	(135)	165,709
Dividends of surplus				(8,532)		(8,532)
Profit attributable to owners of parent				23,705		23,705
Purchase of treasury shares					(1)	(1)
Net changes of items other than shareholders' equity						
Total changes of items during period		—	—	15,173	(1)	15,172
Balance at December 31, 2015		¥10,374	¥16,254	¥154,389	¥(136)	¥180,881

		Accumulated other comprehensive income					Non-controlling interests	Total net assets	Millions of yen
		Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
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		2,974	(14,069)	52	2,499	(8,543)	1,061	158,226	
Dividends of surplus								(8,532)	
Profit attributable to owners of parent								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 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, 2016		Shareholders' equity				Millions of yen
		Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2016		¥10,374	¥16,254	¥154,389	¥(136)	¥180,881
Cumulative effects of changes in accounting policies						—
Restated balance		10,374	16,254	154,389	(136)	180,881
Dividends of surplus				(9,480)		(9,480)
Profit attributable to owners of parent				26,675		26,675
Reversal of revaluation reserve for land				(1,011)		(1,011)
Purchase of treasury shares					(0)	(0)
Net changes of items other than shareholders' equity						
Total changes of items during period		—	—	16,183	(0)	16,182
Balance at December 31, 2016		¥10,374	¥16,254	¥170,572	¥(137)	¥197,064

Millions of yen

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2016	¥4,617	¥(14,055)	¥25	¥1,759	¥(7,652)	¥1,173	¥174,402
Cumulative effects of changes in accounting policies							—
Restated balance	4,617	(14,055)	25	1,759	(7,652)	1,173	174,402
Dividends of surplus							(9,480)
Profit attributable to owners of parent							26,675
Reversal of revaluation reserve for land							(1,011)
Purchase of treasury shares							(0)
Net changes of items other than shareholders' equity	(99)	1,017	(12)	(466)	439	147	587
Total changes of items during period	(99)	1,017	(12)	(466)	439	147	16,770
Balance at December 31, 2016	¥4,517	¥(13,037)	¥13	¥1,293	¥(7,212)	¥1,321	¥191,173

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2016

Thousands of U.S. dollars

	Shareholders' equity					Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares		
Balance at January 1, 2016	\$89,031	\$139,489	\$1,324,886	\$(1,174)	\$1,552,233	—
Cumulative effects of changes in accounting policies						—
Restated balance	89,031	139,489	1,324,886	(1,174)	1,552,233	
Dividends of surplus			(81,353)		(81,353)	
Profit attributable to owners of parent			228,912		228,912	
Reversal of revaluation reserve for land			(8,679)		(8,679)	
Purchase of treasury shares				(5)	(5)	
Net changes of items other than shareholders' equity			138,879	(5)	138,874	
Total changes of items during period	—	—	138,879	(5)	138,874	
Balance at December 31, 2016	\$89,031	\$139,489	\$1,463,766	\$(1,180)	\$1,691,107	

Thousands of U.S. dollars

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at January 1, 2016	\$39,625	\$(120,620)	\$222	\$15,102	\$(65,669)	\$10,067	\$1,496,631
Cumulative effects of changes in accounting policies							—
Restated balance	39,625	(120,620)	222	15,102	(65,669)	10,067	1,496,631
Dividends of surplus							(81,353)
Profit attributable to owners of parent							228,912
Reversal of revaluation reserve for land							(8,679)
Purchase of treasury shares							(5)
Net changes of items other than shareholders' equity	(857)	8,735	(106)	(3,999)	3,772	1,269	5,042
Total changes of items during period	(857)	8,735	(106)	(3,999)	3,772	1,269	143,916
Balance at December 31, 2016	\$38,768	\$(111,884)	\$115	\$11,103	\$(61,896)	\$11,336	\$1,640,548

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, 2015 and 2016

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash flows from operating activities:			
Profit before income taxes	¥ 38,316	¥ 40,280	\$ 345,664
Depreciation	5,764	5,971	51,244
Impairment loss	2	316	2,717
Increase (decrease) in allowance for doubtful accounts	(21)	(13)	(114)
Interest and dividend income	(140)	(128)	(1,106)
Interest expenses	55	54	466
Share of (profit) loss of entities accounted for using equity method	(213)	(385)	(3,304)
Compensation income	(34)	—	—
Loss on retirement of non-current assets	88	61	529
Loss (gain) on sales of non-current assets	—	68	591
Decrease (increase) in notes and accounts receivable - trade	(6,974)	(4,935)	(42,349)
Decrease (increase) in inventories	(1,398)	(5,615)	(48,185)
Increase (decrease) in notes and accounts payable - trade	9,180	2,037	17,483
Loss (gain) on sales of investment securities	(130)	—	—
Loss (gain) on valuation of investment securities	—	53	457
Other, net	(3,160)	617	5,300
Subtotal	41,334	38,384	329,395
Interest and dividend income received	233	202	1,736
Interest expenses paid	(54)	(54)	(467)
Proceeds from compensation	34	—	—
Income taxes paid	(13,925)	(14,600)	(125,290)
Net cash provided by (used in) operating activities	27,621	23,932	205,374
Cash flows from investing activities:			
Payments into time deposits	(800)	—	—
Purchase of property, plant and equipment	(1,488)	(1,411)	(12,111)
Proceeds from sales of property, plant and equipment	—	667	5,728
Purchase of software	(5,030)	(5,205)	(44,668)
Purchase of investment securities	(54)	(34)	(298)
Proceeds from sales of investment securities	140	—	—
Payments of long-term loans receivable	(73)	(5)	(49)
Collection of long-term loans receivable	18	28	247
Other, net	50	137	1,177
Net cash provided by (used in) investing activities	(7,235)	(5,823)	(49,974)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(150)	(1,700)	(14,588)
Proceeds from long-term loans payable	—	1,700	14,588
Cash dividends paid	(8,528)	(9,477)	(81,328)
Other, net	(63)	(55)	(474)
Net cash provided by (used in) financing activities	(8,742)	(9,532)	(81,803)
Effect of exchange rate change on cash and cash equivalents	—	19	171
Net increase (decrease) in cash and cash equivalents	11,643	8,596	73,768
Cash and cash equivalents at beginning of period	97,943	109,587	940,423
Cash and cash equivalents at end of period (Note 1)	¥109,587	¥118,183	\$1,014,191

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

(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, 2015 and 2016 the number of subsidiaries and consolidated subsidiaries was as follows:

	2015	2016
Subsidiaries	8	8
(Consolidated subsidiaries)	(5)	(5)

The 5 subsidiaries which were consolidated in the year ended December 31, 2016 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, profit attributable to owners of parent and retained earnings, and have, therefore, been excluded from the scope of consolidation.

(2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2015 and 2016 the number of unconsolidated subsidiaries and affiliates was as follows:

	2015	2016
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 profit attributable to owners of parent and retained earnings in the consolidated financial statements.

The 2 investments in affiliate by the equity method as of December 31, 2016 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 consolidates its financial statements whose fiscal year-end are the nearest to that of the Company's and makes necessary adjustments to reflect any significant transaction which occurred between its closing dates and the Company's for equity accounting purpose.

(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

Derivatives are recognized at fair value.

(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, plant and equipment (excluding lease assets)

Depreciation is computed using the declining-balance method, at rates based on the estimated useful lives of assets. Buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated by 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) Intangible assets (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 following 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 and cost 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 to contracts of which the percentage of completion cannot be reliably estimated.

(13) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect at the balance sheet date, and the differences arising from the translation are recognized as gains/losses in the consolidated statements of income.

(14) Hedge accounting

(a) Hedge accounting method

Deferral hedge accounting method. Interest rate swap agreements are not recognized at fair value if the agreements meet the criteria for application of the exceptional treatment for the recognition of derivatives at fair value.

(b) Hedging instruments and hedged items

1. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

2. Hedging instruments: Interest rate swaps

Hedged items: Loans payable

(c) Hedge policy

The Companies utilize derivatives based on internal rules for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates.

(d) Evaluation of hedging effectiveness

The Companies assess its hedging effectiveness by comparing the accumulated changes in fair value of hedging instruments with the accumulated changes in fair value of hedged items. The assessment is omitted, if the substantial terms and conditions concerning hedging instruments and hedged items are same, and the fluctuations are expected to be offset perfectly.

In addition, the assessment of the effectiveness is omitted for interest rate swaps that meet the criteria for application of the exceptional treatment for the recognition of derivatives at fair value.

(15) 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.

(16) 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.

(17) 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 consumption tax for the sales by the one for the purchase, and the net balance is included in "Other" in current liabilities in the consolidated balance sheets.

(18) Changes in accounting policies

<Application of the accounting standard for business combinations, etc.>

The Companies adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), etc, effective from the current fiscal year.

As a result, the Company changed its accounting treatment to recognize in capital surplus the differences arising from the changes in the Company's ownership interest in subsidiaries when the Company retains control over the subsidiary and to recognize acquisition related costs as expenses incurred for corresponding the fiscal year.

In addition, the Company changed its accounting treatment to adjust the provisional amounts during measurement period recognized at the acquisition date to reflect the completion of the allocation of transferred consideration in the consolidated financial statements in which the business combination occurs.

The Company also changed presentation of "profit (loss) attributable to owners of parent", and "minority interests" was changed to "non-controlling interests". In order to reflect the changes, the consolidated statements of the previous fiscal year was amended.

The Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No.7 with application and prospectively applied the Business Combination Accounting Standards from the beginning of the fiscal year ended December 31, 2016.

In the fiscal year ended December 31, 2016, any payments and proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation is included in "Cash flows from financing activities", cash flow in relation to the cost incurred in purchase of shares of subsidiaries resulting in change in scope of consolidation and any changes in ownership interests in subsidiaries that do not result in change in scope of consolidation is included in "Cash flows from operating activities" in the consolidated statements of cash flows.

There was no effect on the consolidated financial statements and per share information.

<Changes in depreciation method>

Following the revision of the Corporation Tax Act, effective from the fiscal year ending December 31, 2016, The Company has applied "Practical Solution on a change in depreciation method due to the Tax Reform 2016 (Practical Issues Task Force No.32 of June 17, 2016)"

Accordingly, the depreciation method of facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from declining-balance method to straight-line method.

The impact on the consolidated financial statements was immaterial for the fiscal year.

(19) Accounting standards issued but not yet adopted

— Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 on March 28, 2016)

(1) Overview

Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No. 66 "Audit Treatment on Determining the Recoverability of Deferred Tax Assets," whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories.

- ① Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- ② Category requirements for (Category 2) and (Category 3)
- ③ Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
- ④ Treatment related to reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
- ⑤ Treatment in cases that companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2)Scheduled date of adoption

The Company expects to adopt the revised implementation guidance from the beginning of the fiscal year ending December 31, 2017.

(3)Impact of adoption revised implementation guidance

The Company is currently evaluating the effect of adopting this revised implementation guidance on its consolidated financial statements.

(20) 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 ¥116.53 = US\$1, the rate of exchange on December 31, 2016, 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, 2015 and 2016, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Investment securities (stocks)	¥2,426	¥2,724	\$23,379
Investment securities (capital)	217	217	1,863

*2. Pledged Assets

As of December 31, 2015 and 2016, assets pledged as collateral for notes and accounts payable-trade were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Time deposits	¥5	¥5	\$42

*3. Land Revaluation

Pursuant to the "Act on Revaluation of Land", and "Act on Partial Amendment to the Act on Revaluation of Land", the Company revalued land used for business activities.

The amount which is deducted deferred tax liabilities for land revaluation from revaluation difference was recorded as "Revaluation reserve for land", net assets in the accompanying consolidated balance sheets.

Revaluation method provided in article 3-3 of "Act on Revaluation of Land" The Company revalued land using the price of land which is determined based on article 2-4 of "Order for Enforcement of Act on Revaluation on Land" and assessed value of fixed assets provided in article 2-3 for land without price of land after making reasonable adjustments for land shape and so on.

The date of Land Revaluation December 31, 2001

As of December 31, 2015 and 2016, the excess of the book value after revaluation over the fair value were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
	¥(519)	¥(346)	\$(2,976)

*4. Notes maturing on December 31

December 31, 2015 and 2016 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, 2015 and 2016, notes matured on December 31 were as follows:

	Millions of yen		Thousands of
	2015	2016	U.S. dollars
Notes receivable	¥613	¥544	\$4,672
Notes payable	17	—	—

CONSOLIDATED STATEMENTS OF INCOME

*1. Research and development expenses

For the years ended December 31, 2015 and 2016, Research and development expenses included in general and administrative expenses and manufacturing costs were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Research and development expenses	¥561	¥792	\$6,800

*2. Loss on sales of non-current assets

For the years ended December 31, 2015 and 2016, Loss on sales of non-current assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Buildings and structures	—	¥38	\$330
Land	—	30	261
Loss on sales of non-current assets	—	¥68	\$591

*3. Loss on retirement of non-current assets

For the years ended December 31, 2015 and 2016, Loss on retirement of non-current assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Buildings and structures	¥53	¥33	\$288
Property, plant and equipment, etc.	19	27	237
Software	15	0	2
Loss on retirement of non-current assets	¥88	¥61	\$529

(CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

*1. Other comprehensive income

For the years ended December 31, 2015 and 2016, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrealized holding gain in securities			
Amount arising during the year	¥2,193	¥(301)	\$(2,584)
Reclassification adjustments	—	—	—
Amount before tax effect	2,193	(301)	(2,584)
Tax effect	(553)	202	1,740
Unrealized holding gain in securities	1,639	(98)	(844)
Deferred gains or losses on hedges			
Amount arising during the year	—	73	630
Reclassification adjustments	—	97	836
Adjustment to acquisition cost of inventory	—	(170)	(1,466)
Amount before tax effect	—	—	—
Tax effect	—	—	—
Deferred gains or losses on hedges	—	—	—
Revaluation reserve for land			
Amount arising during the year	—	—	—
Reclassification adjustments	—	—	—
Amount before tax effects	—	—	—
Tax effects	13	6	56
Revaluation reserve for land	13	6	56
Remeasurements of defined benefit plans			
Amount arising during the year	(294)	(348)	(2,990)
Reclassification adjustments	(989)	(394)	(3,382)
Amount before tax effects	(1,283)	(742)	(6,373)
Tax effects	544	269	2,312
Remeasurements of defined benefit plans	(738)	(473)	(4,060)
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	(23)	(15)	(132)
Reclassification adjustments	(0)	1	16
Share of other comprehensive income of entities accounted for using equity method	(23)	(13)	(116)
Total other comprehensive income	¥ 890	¥(578)	\$(4,964)

(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) should 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	
	2015	2016
Number of shares at the beginning of the fiscal year	95,001	95,001
Increase	—	—
Decrease	—	—
Number of shares at the end of the fiscal year	95,001	95,001

Type of all shares issued is Common Stock.

(2) Number of treasury stock shares

	Thousands of shares	
	2015	2016
Number of shares at the beginning of the fiscal year	199	200
Increase (*)	0	0
Decrease	—	—
Number of shares at the end of the fiscal year	200	200

Type of all shares issued is Common Stock.

* The shares increase in the number of treasury stock shares arise from the 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 dividend payments 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-15	¥ 8,532	\$73,218	¥ 90.00	\$0.77	31-Dec-14	30-Mar-15
29-Mar-16	¥ 9,480	\$81,353	¥100.00	\$0.86	31-Dec-15	30-Mar-16
29-Mar-17	¥11,376	\$97,623	¥120.00	\$1.03	31-Dec-16	30-Mar-17

Type of all shares issued is Common Stock.

Source of dividends is Retained earnings.

(CONSOLIDATED STATEMENTS OF CASH FLOWS)

*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2015 and 2016 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Cash and deposits	¥100,676	¥116,946	\$1,003,573
Time deposits with deposit terms of more than three months	(55)	(55)	(474)
Short-term investments with maturity or redemption dates within three months from acquisition date	6,900	—	—
Trust beneficiary interests included in other current assets with investment terms with three months or less	2,066	1,292	11,092
Cash and cash equivalents	¥109,587	¥118,183	\$1,014,191

(LEASE TRANSACTIONS)

*1. Operating Lease Transactions

The amounts of future lease payments on operating leases as of December 31, 2015 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Due within one year	¥475	¥377	\$3,235
Due after one year	404	147	1,268
Total	¥880	¥524	\$4,504

(FINANCIAL INSTRUMENTS)

1. Financial Instruments

(1) Policy for financial instruments

The Companies manage temporary surplus through low-risk financial instruments, and raise mainly short-term working capital 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 mainly the securities of the companies with which the Companies have operational relationships.

Although listed securities are exposed to the risk arising from fluctuations in the market, the Companies monitor and analyze fair 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. Short-term loans payable and long-term loans payable are mainly financing related to working capital.

Trade payables, short-term loans payable, income tax payables, and other payables are exposed to liquidity risk.

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

Long-term loans payable are exposed to interest rate fluctuation risk.

The Companies hedge this risk by using interest rate swap transactions.

Derivative transactions are interest rate swap agreements and 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 sheet as of December 31, 2015 and 2016 and estimated fair value were as follows.

	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.

	Millions of yen		
	2016		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	¥116,946	¥116,946	—
2) Notes and accounts receivable - trade	109,985	109,985	—
3) Investment securities			
Other securities	7,808	7,808	—
Investment in affiliates	1,158	2,665	1,506
Total assets	¥235,898	¥237,405	¥ 1,506
Liabilities			
4) Notes and accounts payable – trade	¥ 76,783	¥ 76,783	—
5) Electronically recorded obligations	16,891	16,891	—
6) Short-term loans payable	5,000	5,000	—
7) Income taxes payable	6,569	6,569	—
8) Long-term loans payable	1,700	1,706	6
Total liabilities	¥106,944	¥106,950	¥ 6
Derivative transaction (*)			
Derivative transaction to which hedge accounting is not applied	¥ 77	¥ 77	—
Derivative transaction to which hedge accounting is applied	170	170	—
Total derivative transaction	¥ 248	¥ 248	—

* 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		
	2016		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	\$1,003,573	\$1,003,573	—
2) Notes and accounts receivable - trade	943,838	943,838	—
3) Investment securities			
Other securities	67,006	67,006	—
Investment in affiliates	9,943	22,872	12,929
Total assets	\$2,024,361	\$2,037,291	\$ 12,929
Liabilities			
4) Notes and accounts payable – trade	\$ 658,916	\$ 658,916	—
5) Electronically recorded obligations	144,953	144,953	—
6) Short-term loans payable	42,907	42,907	—
7) Income taxes payable	56,375	56,375	—
8) Long-term loans payable	14,588	14,640	52
Total liabilities	\$ 917,741	\$ 917,793	\$ 52
Derivative transaction (*)			
Derivative transaction to which hedge accounting is not applied	\$ 664	\$ 664	—
Derivative transaction to which hedge accounting is applied	1,466	1,466	—
Total derivative transaction	\$ 2,130	\$ 2,130	—

* 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 investment securities and derivative transactions.

Assets

- 1) Cash and deposits 2) Notes and accounts receivable - trade
 Since these items are settled in a short term, their carrying value approximates fair value.
 3) Investment securities
 The fair value of stocks is based on quoted market prices.
 Please refer to SECURITIES, of Notes to Consolidated Financial Statements.

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 term, their carrying value approximates fair value.
 8) Long-term loans payable
 The fair value of Long-term loans payable are calculated by the present value based on the sum of principal and interest as discounted by the interest rates presumed in the case of new borrowings.

Derivative transaction

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

2 As of December 31, 2015 and 2016 financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unlisted stocks	¥1,802	¥1,991	\$17,089
Investments in investment business limited partnerships	24	18	157

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 schedules for receivables and marketable securities with maturities as of December 31, 2015 and 2016 are as follows:

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	—	—	—

Millions of yen				
2016				
	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	¥116,946	—	—	—
Notes and accounts receivable - trade	109,985	—	—	—
Total	¥226,931	—	—	—

Thousands of U.S. dollars				
2016				
	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	\$1,003,573	—	—	—
Notes and accounts receivable - trade	943,838	—	—	—
Total	\$1,947,412	—	—	—

4 Repayment schedules for bonds, long-term loans payable, lease obligations and other interest-bearing debt as of December 31, 2015 and 2016 are as follows:

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	—	—	—

Millions of yen				
2016				
	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	¥5,000	—	—	—
Long-term loans payable	—	—	1,700	—

Thousands of U.S. dollars				
2016				
	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	\$42,907	—	—	—
Long-term loans payable	—	—	14,588	—

(SECURITIES)

As of December 31, 2015 and 2016 investments in securities were as follows:

(1) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2015			2016			2016		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value									
Negotiable certificates of deposit	—	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—	—
Securities whose fair value does not exceed their carrying value									
Negotiable certificates of deposit	¥6,900	¥6,900	—	—	—	—	—	—	—
	¥6,900	¥6,900	—	—	—	—	—	—	—
Total	¥6,900	¥6,900	—	—	—	—	—	—	—

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

	Millions of yen						Thousands of U.S. dollars		
	2015			2016			2016		
	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	¥7,931	¥1,209	¥6,721	¥7,649	¥1,225	¥6,424	\$65,640	\$10,513	\$55,127
Bonds	—	—	—	—	—	—	—	—	—
Other securities	149	73	76	146	73	73	1,261	629	631
	¥8,080	¥1,282	¥6,797	¥7,796	¥1,298	¥6,497	\$66,902	\$11,142	\$55,759
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 3	¥ 4	¥ (0)	¥ 12	¥ 13	¥ (1)	\$ 104	\$ 115	\$ (11)
Bonds	—	—	—	—	—	—	—	—	—
Other securities	—	—	—	—	—	—	—	—	—
	¥ 3	¥ 4	¥ (0)	¥ 12	¥ 13	¥ (1)	\$ 104	\$ 115	\$ (11)
Total	¥8,084	¥1,287	¥6,797	¥7,808	¥1,311	¥6,496	\$67,006	\$11,258	\$55,747

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	
	2015	2016	2016	2016
	Carrying value	Carrying value	Carrying value	Carrying value
Available-for-sale securities				
Unlisted stocks		¥260	¥208	\$1,789
Investment in limited liability partnerships		24	18	157

(3) Available-for-sale securities sold in 2015 and 2016 (for the years ended December 31, 2015 and 2016)

	Millions of yen						Thousands of U.S. dollars		
	2015			2016			2016		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥140	¥130	—	—	—	—	—	—	—

(4) Securities impairment losses recognized in 2015 and 2016 (for the years ended December 31, 2015 and 2016)

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Stocks	—	¥53	\$457

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, 2015 and 2016, derivative transactions were as follows:

(1) Derivative transactions to which hedge accounting is not applied

Currency-related transactions

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

	Millions of yen			
	2016		Fair value	Valuation gain (loss)
	Contractual value or notional principal amount			
	Total	Over one year		
Forward foreign exchange contracts Buy U.S. dollar	¥1,217	—	¥77	¥77

	Thousands of U.S. dollars			
	2016		Fair value	Valuation gain (loss)
	Contractual value or notional principal amount			
	Total	Over one year		
Forward foreign exchange contracts Buy U.S. dollar	\$10,448	—	\$664	\$664

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

(2) Derivative transactions to which hedge accounting is applied

Currency-related transactions

	Millions of yen		
	2015		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	—	—	—

	Millions of yen		
	2016		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	¥1,186	—	¥170

	Thousands of U.S. dollars		
	2016		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	\$10,183	—	\$1,466

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

Interest rate-related transactions

	Millions of yen		
	2015		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Long-term loans payable Interest-rate swaps Pay/fixed and receive/floating	—	—	—

	Millions of yen		
	2016		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Long-term loans payable Interest-rate swaps Pay/fixed and receive/floating	¥1,700	¥1,700	Note

	Thousands of U.S. dollars		
	2016		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Long-term loans payable Interest-rate swaps Pay/fixed and receive/floating	\$14,588	\$14,588	Note

Note. The fair value of interest rate swaps which meet the criteria for application of the exceptional treatment for the recognition of derivatives is included in the fair value of long-term loans payable designated as the hedged item.

(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. Of the Companies as of December 31, 2016, 5 have enrolled in defined contribution pension plans, 3 in agreement type corporate pension plans and 5 in lump-sum plans.

The Companies that have lump-sum plans calculate net benefit liabilities and retirement benefit expenses using the simplified method.

1 consolidated subsidiary has multi-employer pension funds.

Because the plans cannot reasonably calculate 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 Kanto IT Software(ITS) Pension Fund (multi-employer pension funds), in which 1 consolidated subsidiary had participated, dissolved on July 1, 2016 with authorization from the Minister of Health, Labour and Welfare. As a result, the subsidiary migrated to Nihon IT Software Pension Fund (multi-employer pension funds) on the same day. Additional expense by the disperse of the fund is not expected.

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
	2015	2016	2016
Balance at the beginning of the year	¥36,522	¥48,411	\$415,442
Cumulative effects of changes in accounting policies	9,580	—	—
Restated balance	46,102	48,411	415,442
Service costs	2,454	2,541	21,806
Interest costs	277	243	2,093
Actuarial loss (gain)	260	385	3,310
Retirement benefits paid	(1,084)	(1,042)	(8,947)
Transfer from simplified method	399	—	—
Balance at the end of the year	¥48,411	¥50,539	\$433,705

(b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥40,370	¥41,433	\$355,557
Actuarial loss (gain)	(33)	37	319
Contribution paid by the employer	2,141	2,291	19,664
Retirement benefits paid	(1,045)	(996)	(8,553)
Balance at the end of the year	¥41,433	¥42,765	\$366,988

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Balance at the beginning of the year	¥992	¥661	\$5,678
Retirement benefit expenses	111	75	647
Retirement benefits paid	(41)	(55)	(474)
Transfer to principle method	(399)	—	—
Balance at the end of the year	¥661	¥681	\$5,851

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Funded retirement benefit obligations	¥46,457	¥48,307	\$414,553
Plan assets	(41,433)	(42,765)	(366,988)
	5,024	5,542	47,564
Unfunded retirement benefit obligations	2,615	2,913	25,004
Total net defined benefit liability and asset	7,640	8,456	72,568
Net defined benefit liability	7,640	8,456	72,568
Total net defined benefit liability and asset	¥7,640	¥8,456	\$72,568

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

(e) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Service costs	¥2,454	¥2,541	\$21,811
Interest costs	277	243	2,093
Amortization of actuarial differences	(197)	(115)	(991)
Amortization of prior service costs	(792)	(278)	(2,391)
Retirement benefit expenses calculated by simplified methods	111	75	647
Additional benefits for employees' early retirement	32	27	239
Retirement benefit expenses	¥1,886	¥2,494	\$21,409

(f) Adjustments of defined benefit plans included in other comprehensive income.

Components of items (before tax) were as follows.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Prior service cost	¥ (792)	¥(278)	\$ (2,391)
Actuarial difference	(491)	(464)	(3,982)
Total	¥(1,283)	¥(742)	\$ (6,373)

(g) Accumulated adjustments of defined benefit plans

Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Unrecognized prior service costs	¥ (924)	¥ (646)	\$ (5,543)
Unrecognized actuarial differences	(1,700)	(1,236)	(10,614)
Total	¥(2,625)	¥(1,882)	\$ (16,157)

(h) Items for plan assets

① Components of the major plan assets

The ratios of the major types of assets to the total plan assets were as follows.

	2015	2016
Cash and deposits	64%	88%
Life insurance company general accounts	—	12%
Bonds	36%	—
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 at the end of the fiscal years

	2015	2016
Discount rate	0.5%	0.2%
Long-term expected rate of return on plan assets	0.0%	0.0%
Salary increasing rate	8.4%	7.5%

* Salary increasing rate 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, 2015 and 2016 were ¥803 million, ¥807 million (\$6,926 thousand), respectively.

(4) Multi-employer pension funds

The contribution required to the employees' pension fund plan of the multi-employer welfare pension funds and company pension funds which were treated the same as the defined contribution plan for the years ended December 31, 2015 and 2016 were ¥58 million and ¥35 million (\$300 thousand), respectively.

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

1. The Kanto IT Software (ITS) Pension Fund

	Millions of yen		Thousands of U.S. dollars
	March 31, 2015	March 31, 2016	March 31, 2016
Plan assets	¥299,860	¥297,648	\$2,554,266
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	268,707	262,551	2,253,080
Unfunded obligations	¥ 31,153	¥ 35,097	\$ 301,185

2. Nihon IT Software Pension Fund

Since the subsidiary participated in the Fund from July 1, 2016 and the amount of the plan assets has not been confirmed yet, description is omitted.

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

1. The Kanto IT Software (ITS) Pension Fund

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

Fiscal year ended December 31, 2016. 0.6% (From April 1, 2015 To March 31, 2016)

2. Nihon IT Software Pension Fund

Since the subsidiary participated in the Fund from July 1, 2016 and the contribution ratio has not been confirmed yet, description is omitted.

(c) Supplementary information: The main factor of the unfunded obligations shown in above (a) 1.

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
General reserve	¥24,963	¥31,153	\$267,346
Surplus	6,190	3,943	33,839
Total	¥31,153	¥35,097	\$301,185

The ratio in above (b) 1. 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
	2015	2016	2016
Deferred tax assets:			
Allowance for doubtful accounts	¥ 85	¥ 94	\$ 808
Accrued enterprise taxes	638	549	4,714
Provision for bonuses	1,053	1,010	8,672
Net defined benefit liability	2,468	2,594	22,266
Provision for directors' retirement benefits	190	199	1,710
Impairment loss	788	743	6,383
Software development cost	1,230	1,175	10,090
Unrealized profit from non-current assets	282	262	2,254
Other	1,706	1,464	12,563
Subtotal	8,444	8,094	69,466
Less: Valuation allowance	(1,152)	(972)	(8,342)
Total deferred tax assets	7,291	7,122	61,124
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(2,175)	(1,973)	(16,931)
Other	(99)	(111)	(957)
Total deferred tax liabilities	(2,275)	(2,084)	(17,889)
Net deferred tax assets	¥5,015	¥5,038	\$43,234

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

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Current assets - Deferred tax assets	¥2,806	¥2,617	\$22,458
Noncurrent assets - Deferred tax assets	2,209	2,421	20,776

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

	2015	2016
Effective statutory tax rate	35.6%	—
(Adjustments)		
Expense not deductible 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 income tax rates	1.9%	—
Others	(0.2%)	—
Effective tax rate	37.7%	—

* Since the difference between the effective statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2016 is less than 5%, a reconciliation of the differences is omitted.

(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" and the "Act for partial amendment of the Local Tax Act, etc." were passed Parliament on March 29, 2016, and "Act for partial amendment of "Act for partial amendment of the Consumption Tax Act and others for the drastic reform of the taxation system for ensuring stable financial resources for social security."" and "Act for partial amendment of "Act for partial amendment of the Local Taxation Act and Local Allocation Tax Act and others for the drastic reform of the taxation system for ensuring stable financial resources for social security."" were passed Parliament on November 18, 2016. As a result, the effective statutory tax rate used to measure the Companies' deferred tax assets and liabilities was changed from 32.3% to 30.9% for the temporary differences expected to be realized or settled in the fiscal years beginning January 1, 2017 and 2018, and from 32.3% to 30.6% for the temporary differences expected to be realized or settled from the fiscal year beginning January 1, 2019.

The financial impact from this change for the current fiscal year is not material.

(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, 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 noted in "(18) Changes in accounting policies," following the Tax Reform 2016, the depreciation method of facilities attached to buildings and structures acquired on and after April 1, 2016 was changed from declining-balance method to straight-line method.

As a result, the Companies have changed the depreciation method 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						2015
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	
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 affiliates accounted for using equity method	707	1,234	1,942	—	1,942	—	1,942
Capital expenditure in property, plant and equipment and intangible assets (Note 4)	3,406	2,802	6,208	0	6,209	309	6,518

Millions of yen								
	Reportable segments						2016	
	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	¥376,391	¥266,625	¥643,016	¥400	¥643,417	—	¥643,417	
Inter-segment sales/transfers	59	264	324	132	456	(456)	—	
Total	¥376,450	¥266,890	¥643,341	¥533	¥643,874	¥ (456)	¥643,417	
Segment profit or loss	¥ 35,227	¥ 12,034	¥ 47,261	¥ 65	¥ 47,326	¥ (7,642)	¥ 39,684	
Segment assets	¥121,806	¥ 93,986	¥215,793	¥756	¥216,550	¥127,271	¥343,821	
Other items								
Depreciation and amortization (Note 4)	¥ 2,856	¥ 2,499	¥ 5,356	¥ 12	¥ 5,368	¥ 602	¥ 5,971	
Investments in affiliates accounted for using equity method	764	1,475	2,240	—	2,240	—	2,240	
Capital expenditure in property, plant and equipment and intangible assets (Note 4)	2,834	3,639	6,473	5	6,478	137	6,616	

Thousands of U.S. dollars								
	Reportable segments						2016	
	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	\$3,229,994	\$2,288,041	\$5,518,036	\$3,440	\$5,521,476	—	\$5,521,476	
Inter-segment sales/transfers	510	2,272	2,782	1,134	3,917	(3,917)	—	
Total	\$3,230,505	\$2,290,313	\$5,520,819	\$4,574	\$5,525,394	\$ (3,917)	\$5,521,476	
Segment profit or loss	\$ 302,305	\$ 103,271	\$ 405,576	\$ 558	\$ 406,134	\$ (65,586)	\$ 340,547	
Segment assets	\$1,045,282	\$ 806,545	\$1,851,827	\$6,494	\$1,858,322	\$1,092,175	\$2,950,497	
Other items								
Depreciation and amortization (Note 4)	\$ 24,515	\$ 21,452	\$ 45,967	\$ 104	\$ 46,071	\$ 5,172	\$ 51,244	
Investments in affiliates accounted for using equity method	6,560	12,665	19,225	—	19,225	—	19,225	
Capital expenditure in property, plant and equipment and intangible assets (Note 4)	24,325	31,228	55,554	43	55,597	1,182	56,780	

Notes 1. The "Other" segment refers to business other than those included in the reportable segments.

Other businesses include 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, 2015 and 2016 were ¥△7,558 million and ¥△7,662 million (\$△65,754 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, 2015 and 2016 were ¥117,745 million and ¥127,762 million (\$1,096,390 thousand), consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, investments in securities) 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, plant 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, plant and equipment and intangible assets" include relevant amount of Long-term prepaid expenses.

(PER SHARE INFORMATION)

Net assets per share as of December 31, 2015 and 2016 and basic earnings per share for the years ended December 31, 2015 and 2016 were summarized as follows:

	Yen		U.S. dollars
	2015	2016	2016
Net assets per share	¥1,827.30	¥2,002.64	\$17.19
Basic earnings per share	250.06	281.38	2.41

Notes 1. Diluted basic earnings per share for the years ended December 31, 2015 and 2016 are omitted, because the Companies have no dilutive shares.

2. Basis for calculation of net assets per share as of December 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Numerator:			
Net assets	¥174,402	¥191,173	\$1,640,548
Non-controlling interests in consolidated subsidiaries	(1,173)	(1,321)	(11,336)
Net assets attributable to common stock	¥173,229	¥189,851	\$1,629,211

	Thousands of shares	
	2015	2016
Denominator:		
Number of shares of common stock outstanding	94,800	94,800

3. Basis for calculation of basic earnings per share for the years ended December 31, 2015 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2016	2016
Numerator:			
Profit attributable to owners of parent	¥23,705	¥26,675	\$228,912
Amount not attributable to common shareholders	—	—	—
Profit attributable to owners of parent related to common shareholders	¥23,705	¥26,675	\$228,912

	Thousands of shares	
	2015	2016
Denominator:		
Weighted-average number of shares of common stock outstanding	94,801	94,800

Basic earnings per common share (excluding a treasury share) is based upon the weighted average number of common shares outstanding during each year.

(NOTES - SIGNIFICANT EVENTS AFTER REPORTING PERIOD)

None.

[CONSOLIDATED SUPPLEMENTARY STATEMENTS]

(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 2016 consisted of the following:

	Millions of yen	
	2016	
	Balance at the beginning of the year	Balance at the end of the year
Short-term loans payable	¥6,700	¥5,000
Current portion of long-term loans payable	—	—
Current portion of lease obligations	1,043	909
Long-term loans payable (excluding current portion)	—	1,700
Lease obligations (excluding current portion)	1,600	1,399
Other interest-bearing debt	—	—
Total	¥9,344	¥9,008

	Thousands of U.S. dollars	
	2016	
	Balance at the beginning of the year	Balance at the end of the year
Short-term loans payable	\$57,495	\$42,907
Current portion of long-term loans payable	—	—
Current portion of lease obligations	8,953	7,803
Long-term loans payable (excluding current portion)	—	14,588
Lease obligations (excluding current portion)	13,736	12,008
Other interest-bearing debt	—	—
Total	\$80,185	\$77,307

Notes 1. The annual weighted-average interest rate applicable to short-term and long-term bank loans as of December 31, 2016 were 0.64% and 0.66% respectively. 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, 2016 were as follows:

	Millions of yen			
	2016			
	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	¥717	¥429	¥174	¥74

	Thousands of U.S. dollars			
	2016			
	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	\$6,158	\$3,687	\$1,500	\$639

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, 2016, 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, 2016, 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, 2017
Tokyo, Japan



Principal Group Companies (As of December 31, 2016)

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 using 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, 2016)

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	6,985 (with consolidated subsidiaries: 8,538)
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, 2016)

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

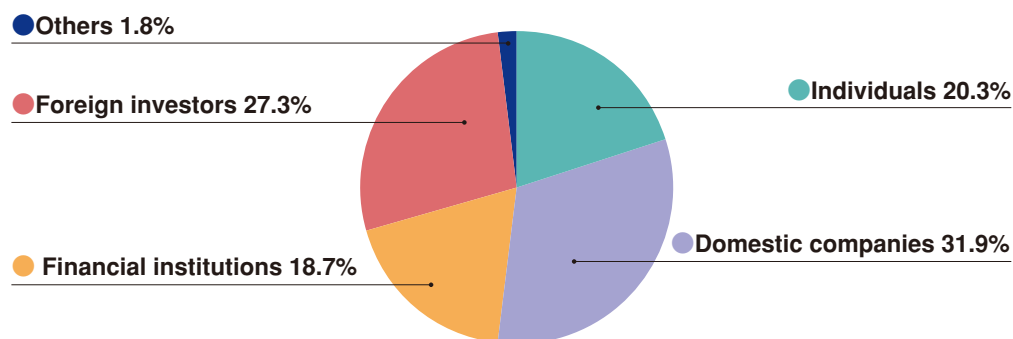
Stock Information (As of December 31, 2016)

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	4,938

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)	3,740,200	3.93	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	3,443,400	3.62	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	2,859,060	3.00	—	—
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	—	—
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,253,400	1.31	—	—
THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT	1,146,248	1.20	—	—

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

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