Financial Section

Three-year Financial Data

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**
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.

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

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2015	¥10,374	¥16,254	¥145,326	¥(135)	¥171,820
Cumulative effects of changes in accounting policies			(6,111)		(6,111)
Restated balance	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

Millions of yen

	Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance at January 1, 2015	¥2,974	¥(14,069)	¥52	¥2,499	¥(8,543)	¥1,070	¥164,347
Cumulative effects of changes in accounting policies						(9)	(6,121)
Restated balance	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

Millions of yen

	Shareholders' equity				
	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**

	Accumulated other comprehensive income						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	Non-controlling interests	Total net assets
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

	Shareholders' equity				Thousands of U.S. dollars
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
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					
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**

	Accumulated other comprehensive income						Thousands of U.S. dollars
	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	Non-controlling interests	Total net assets
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.

(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.

①Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)

②Category requirements for (Category 2) and (Category 3)

③Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)

④Treatment related to reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)

⑤Treatment 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 U.S. dollars
	2015	**2016**	**2016**
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 U.S. dollars
	2015	**2016**	**2016**
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 U.S. dollars
	2015	**2016**	**2016**
	¥(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 U.S. dollars
	2015	**2016**	**2016**
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
	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			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts Buy U.S. dollar	¥1,471	—	¥(9)	¥(9)

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

	Thousands of U.S. dollars			
	2016			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
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
①Components 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 2015	Millions of yen 2016	Thousands of U.S. dollars 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 2015	Millions of yen 2016	Thousands of U.S. dollars 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)	Consolidated total (Note 3)
Sales							
Net sales to third parties	¥353,170	¥255,490	¥608,660	¥385	¥609,045	—	¥609,045
Inter-segment sales/transfers	92	298	390	177	568	(568)	—
Total	¥353,262	¥255,788	¥609,050	¥563	¥609,613	¥ (568)	¥609,045
Segment profit or loss	¥ 33,864	¥ 10,925	¥ 44,790	¥ 67	¥ 44,857	¥ (7,545)	¥ 37,311
Segment assets	¥115,215	¥ 91,589	¥206,805	¥762	¥207,567	¥117,187	¥324,755
Other items							
Depreciation and amortization (Note 4)	¥ 2,913	¥ 2,338	¥ 5,251	¥ 12	¥ 5,264	¥ 499	¥ 5,764
Investments in 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

	Reportable segments						Millions of yen
							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

	Reportable segments						Thousands of U.S. dollars
							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	
Denominator:		
Number of shares of common stock outstanding	94,800	**94,800**

3. Basis for caluculation 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	
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

Ernst & Young ShinNihon LLC