# ANNUAL REPORT 2017

For the fiscal year ended December 31, 2017

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.

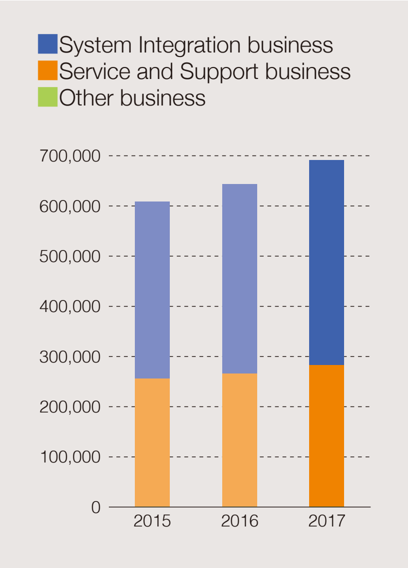
*Otsuka Corporation*

# Consolidated Financial Highlights

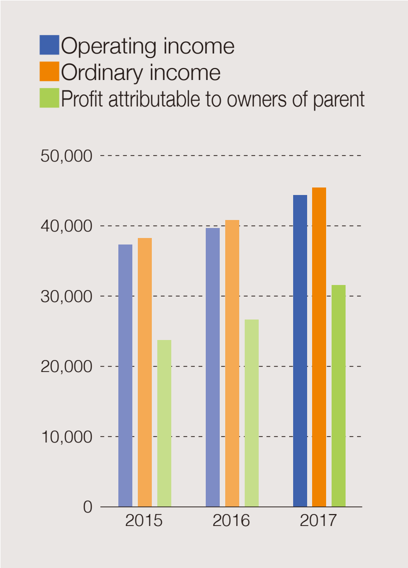
| OTSUKA CORPORATION and Consolidated Subsidiaries<br>Years ended December 31, 2015, 2016 and 2017 | | | Millions of yen | Thousands of U.S. dollars | % |
|---|---|---|---|---|---|
| | 2015 | 2016 | **2017** | **2017** | Change |
| Net sales | ¥609,045 | ¥643,417 | **¥691,166** | **$6,113,813** | +7.4 |
| System Integration business | 353,170 | 376,391 | **408,718** | **3,615,380** | +8.6 |
| Service and Support business | 255,490 | 266,625 | **282,064** | **2,495,043** | +5.8 |
| Other business | 385 | 400 | **383** | **3,389** | -4.4 |
| Operating income | 37,311 | 39,684 | **44,386** | **392,628** | +11.9 |
| Ordinary income | 38,240 | 40,780 | **45,460** | **402,125** | +11.5 |
| Profit before income taxes | 38,316 | 40,280 | **45,363** | **401,270** | +12.6 |
| Profit attributable to owners of parent | 23,705 | 26,675 | **31,560** | **279,173** | +18.3 |
| Total assets | 324,755 | 343,821 | **380,317** | **3,364,155** | +10.6 |
| Interest-bearing debt | 9,344 | 9,008 | **8,873** | **78,490** | -1.5 |
| Equity | 173,229 | 189,851 | **212,897** | **1,883,213** | +12.1 |
| Earnings per share (EPS) (Yen and U.S. dollars) | 250.06 | 281.38 | **332.91** | **2.94** | +18.3 |
| Dividend per share of common stock (Yen and U.S. dollars) | 100.00 | 120.00 | **140.00** | **1.24** | +16.7 |
| Cash flows from operating activities per share (Yen and U.S. dollars) | 291.37 | 252.45 | **381.36** | **3.37** | +51.1 |
| Operating income to Net sales ratio (%) | 6.13 | 6.17 | **6.42** | **—** | |
| Net income to Net sales ratio* (%) | 3.89 | 4.15 | **4.57** | **—** | |
| Interest-bearing debt ratio (%) | 2.88 | 2.62 | **2.33** | **—** | |
| Equity ratio (%) | 53.34 | 55.22 | **55.98** | **—** | |
| Return on equity (ROE) (%) | 14.09 | 14.69 | **15.67** | **—** | |

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, 2017 exchange rate of ¥113.05 = US$1.

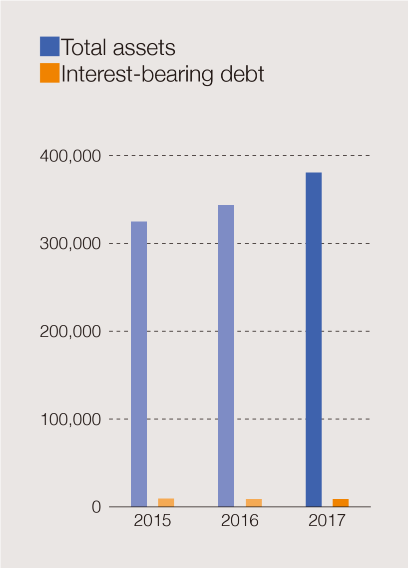
**Net sales** (Millions of yen)




**Operating income, Ordinary income, Profit attributable to owners of parent** (Millions of yen)




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




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

# To Our Shareholders and Investors

I am pleased to announce the results for the fiscal year ended December 31, 2017 and to thank our shareholders and investors for their loyal support.

During the fiscal year, the Japanese economy continued a moderate recovery and corporate IT investments trended firmly. The OTSUKA Group worked to strengthen relationships with customers through its regional-led business management structure.

As a result, net sales increased 7.4% from the previous fiscal year to ¥691,166 million. At the earnings level, operating income increased 11.9% to ¥44,386 million, ordinary income increased 11.5% to ¥45,460 million and profit attributable to owners of parent increased 18.3% to ¥31,560 million. This marked the eighth consecutive year of increases in sales and profits.

Management has resolved to pay year-end dividend per share of ¥140 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 be firm. Within this environment, we will implement regional-led business management and further strengthen our solution proposals that resolve issues faced by customers and ensure their satisfaction.

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 2018

# Overview of Consolidated Operations

## Japanese Economy on a Moderate Recovery

During the fiscal year under review (January 1, 2017 to December 31, 2017), the Japanese economy continued a moderate recovery amid a pickup in capital investments and exports accompanying a mild recovery in the global economy centering on Europe and the United States.

Under these economic conditions, corporate business sentiment also improved against a backdrop of solid business results. Additionally, there was rising interest in IT investments due to such factors as government efforts to promote work style reform, and corporate IT investments trended firmly.

## Continuing Regional-led Business Management

Within this environment, under the fiscal 2017 slogan "Solve customer troubles on all fronts and live up to customer trust," the OTSUKA Group continued to implement regional-led business management and strived to strengthen relationships with customers in accordance with the characteristics of each region, although these efforts are still at the midpoint. Regarding work style reform, numerous proposals made by the Company in the past aimed at raising productivity and reducing costs have served as solutions. The Company worked toward formulating even more specific proposals by deploying its own previously implemented case examples and drawing on its abundant solutions as a competitive advantage.

Besides undertaking these activities, the Company also identified the IT needs of both large companies and medium-sized companies in responding to emerging replacement demand for IT infrastructure.

**Promotion of work style reform by government**

**IT investments trending firmly**

**Strengthening relationships with customers through regional-led business management**

**Specific proposals through the Company's case examples**

## Sales and Profits Increase for the Eighth Consecutive Year and Sales, Operating Income, Ordinary Income and Net Income Reach Record-high Levels

As a result of the above measures, net sales increased 7.4% from the previous fiscal year to ¥691,166 million. At the profit level, operating income rose 11.9% to ¥44,386 million. Ordinary income increased 11.5% to ¥45,460 million and profit attributable to owners of parent was up 18.3% to ¥31,560 million. This marks the eighth consecutive year of increases in sales and profits.

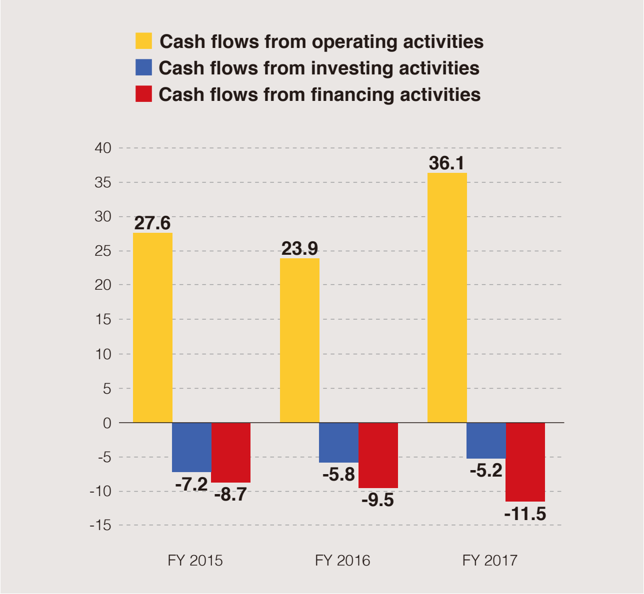
(Millions of yen)

| | FY 2016 | FY 2017 | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| Net sales | 643,417 | **691,166** | **+7.4%** |
| Operating income | 39,684 | **44,386** | **+11.9%** |
| Ordinary income | 40,780 | **45,460** | **+11.5%** |
| Net income* | 26,675 | **31,560** | **+18.3%** |

*Profit attributable to owners of parent

## Cash Flows

(Billions of yen)




Net cash provided by operating activities amounted to ¥36,153 million, an increase of ¥12,221 million from the previous fiscal year due to a decrease in inventories, denoting a turnaround from an increase in the previous fiscal year.

Net cash used in investing activities amounted to ¥5,243 million, a decrease of ¥580 million from the previous fiscal year due to proceeds from withdrawal of time deposits in the fiscal year.

Net cash used in financing activities increased ¥1,995 million to ¥11,528 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.

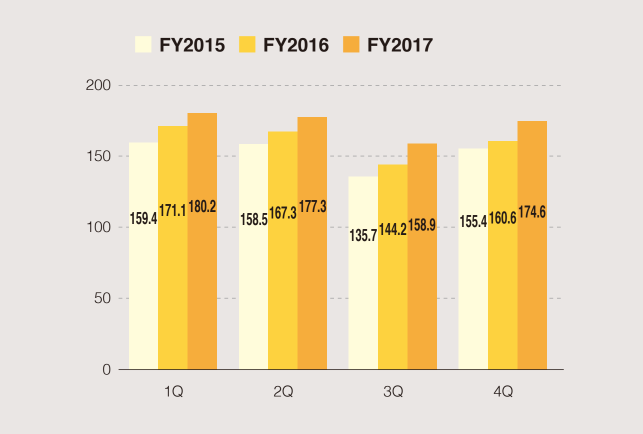
Net sales in the first quarter (January-March) of 2017 amounted to ¥180,278 million, a 5.3% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2017 amounted to ¥177,307 million, a 5.9% increase from the previous second quarter. Net sales in the third quarter (July-September) of 2017 amounted to ¥158,943 million, a 10.2% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2017 amounted to ¥174,637 million, an increase of 8.7% over the previous fourth quarter.

### Ordinary Income

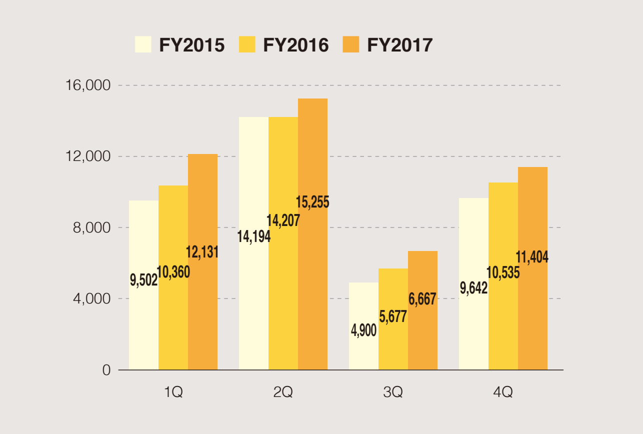
Ordinary income increased in all four quarters as profits continued to grow.

Ordinary income in the first quarter (January-March) of 2017 amounted to ¥12,131 million, an increase of 17.1% from the previous first quarter. Ordinary income in the second quarter (April-June) of 2017 amounted to ¥15,255 million, an increase of 7.4% from the previous second quarter. Ordinary income in the third quarter (July-September) of 2017 amounted to ¥6,667 million, an increase of 17.5% from the previous third quarter. Ordinary income in the fourth quarter (October-December) of 2017 amounted to ¥11,404 million, up 8.3% 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 worked to propose solutions such as measures to reduce costs and strengthen competitiveness through the introduction of IT and proposed IT usage methods that lead to work style reforms. Additionally, we recorded growth in sales of packaged software and in unit sales of PCs, while sales of consolidated subsidiaries were also solid. As a result, net sales increased 8.6% from the previous fiscal year to ¥408,718 million. On the other hand, unit sales of copiers declined due to the absence of large orders that were received in the previous fiscal year.

## Service and Support Business

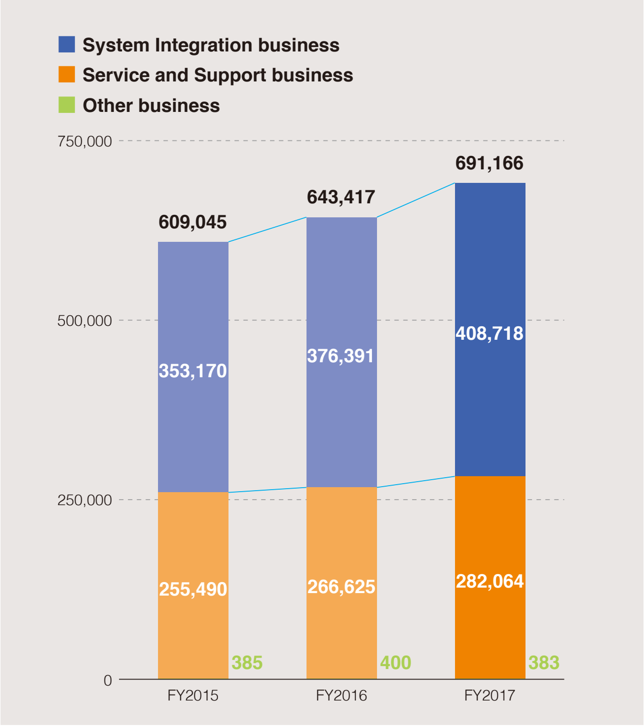
The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We worked to strengthen the competiveness of our “tanomail” office supply mail-order service business and also recorded steady growth in sales of maintenance services, which led to a 5.8% increase in net sales from the previous fiscal year to ¥282,064 million.

## Other Business

In the Other business, net sales decreased 4.4% from the previous fiscal year to ¥383 million.

### Net Sales by Segments

(Millions of yen)



# Focusing Efforts on the Accumulated Business

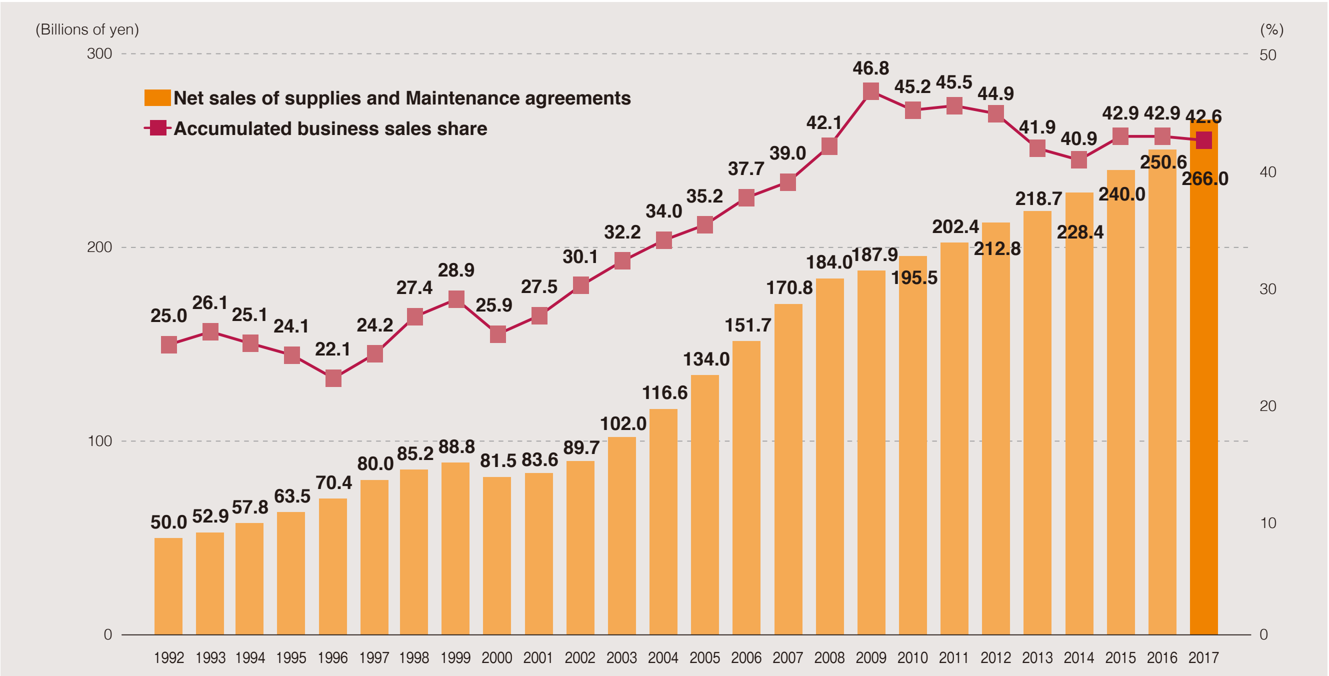
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the "accumulated business" within the Service and Support business.

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 2017 as well, sales in the accumulated business grew steadily, increasing ¥15.4 billion, or 6.2%, to ¥266.0 billion and accounting for 42.6% of net sales (non-consolidated basis). Since our public listing in 2000, net sales have increased ¥184.5 billion, an approximately 230% 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)




Figures for 1992-1999 are provided as a reference.

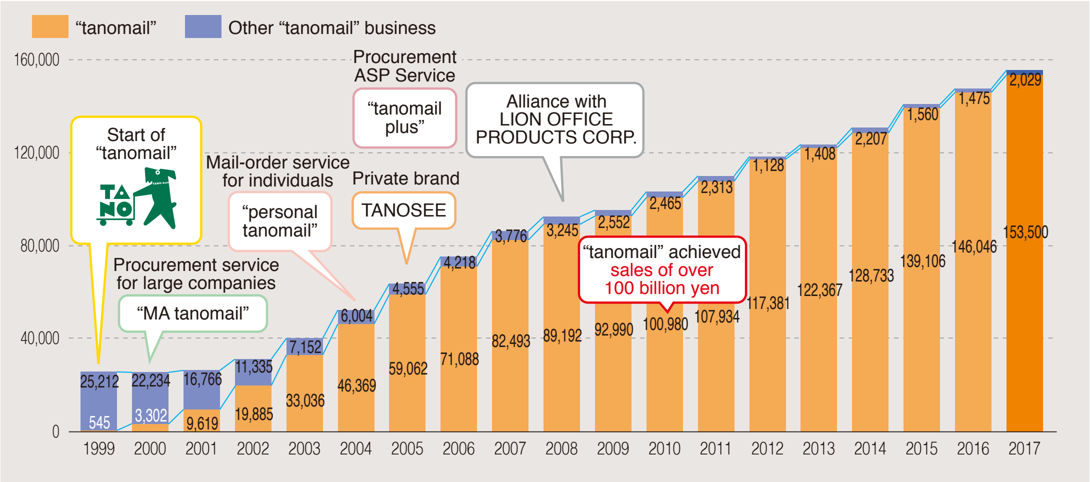
"tanomail" and "tayoreru" are the core pillars of the accumulated business.

# たのめーる "tanomail"

Net sales in our "tanomail" office supply mail-order service business are expanding steadily. In fiscal 2017, net sales increased 5.1% to ¥153,500 million.

## Annual Sales of "tanomail" (Non-consolidated)

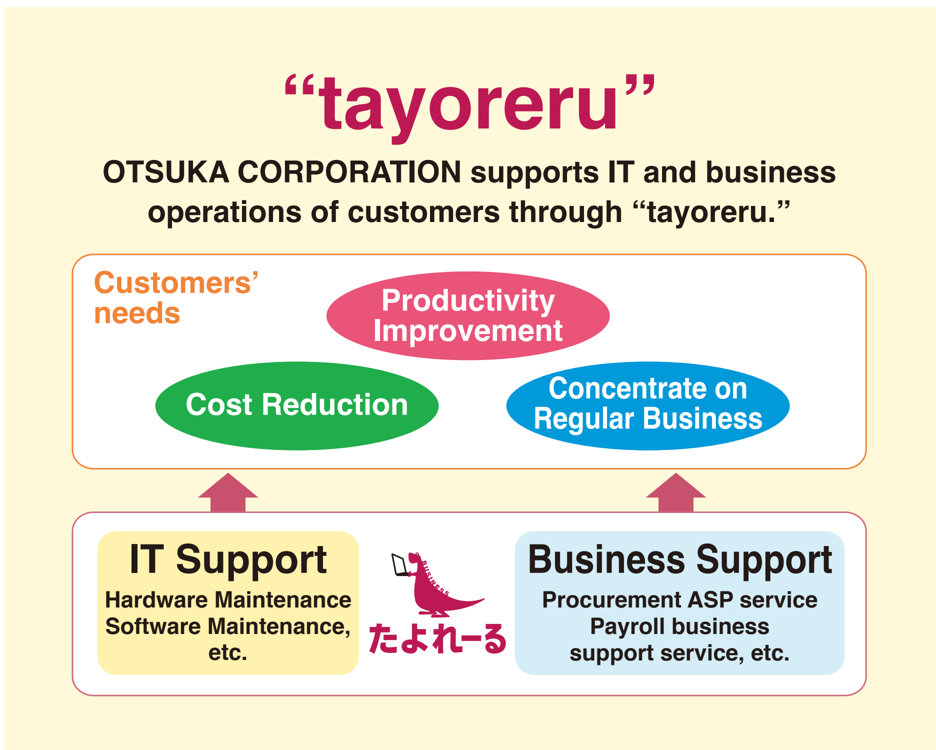
(Millions of yen)



# たよれーる “tayoreru”

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

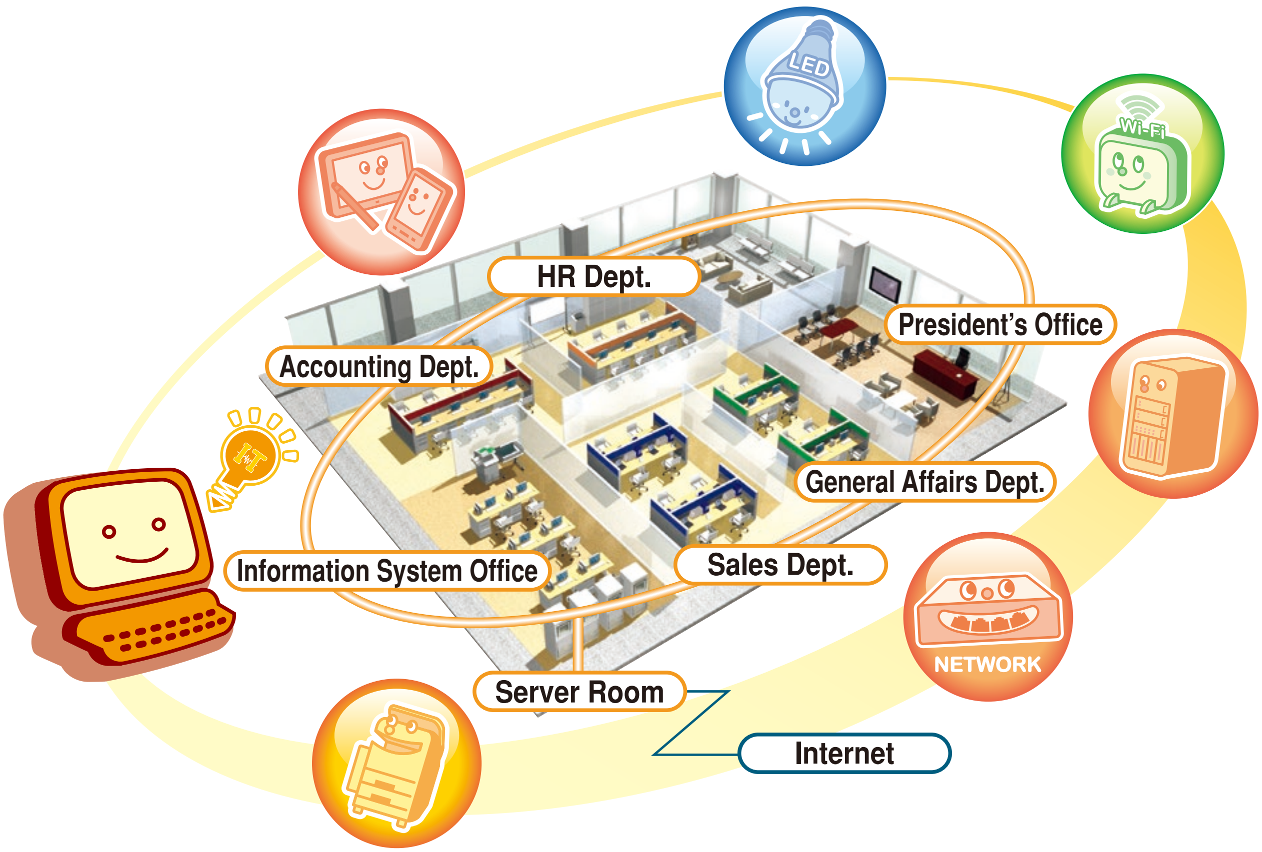
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



# 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.

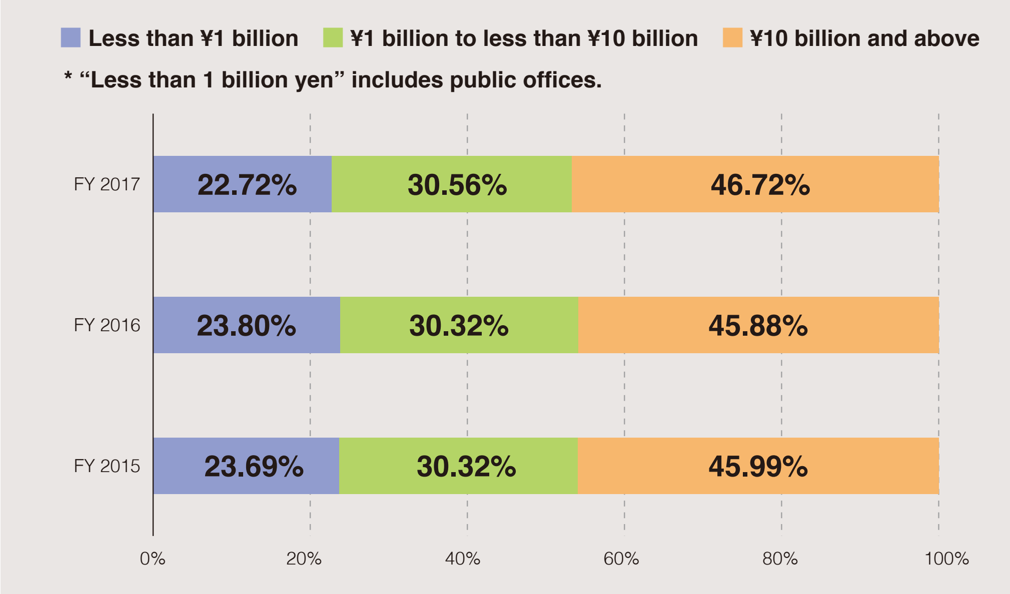


# OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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.

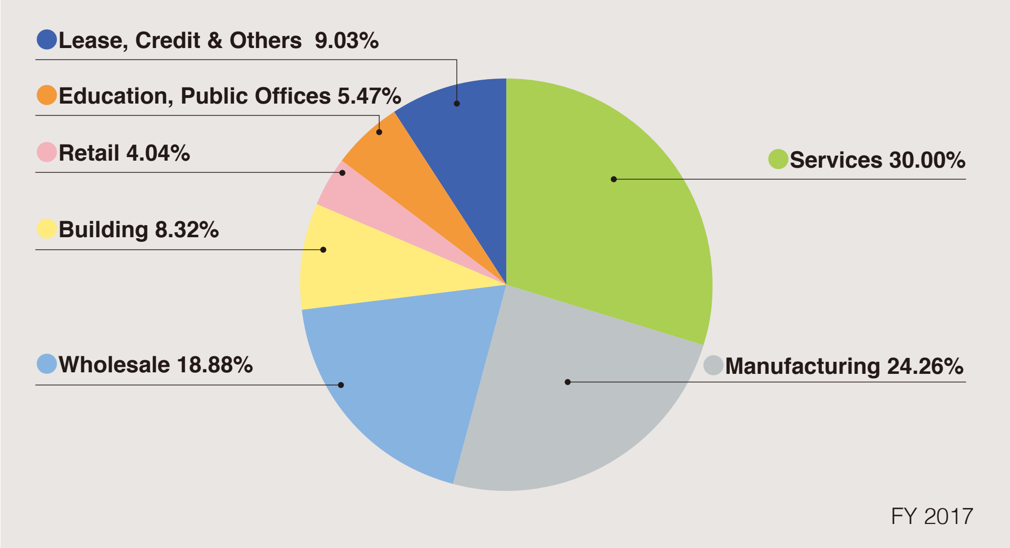
In terms of annual net sales, in fiscal 2017 the ratio of companies with sales of ¥10 billion and above, and ¥1 billion to less than ¥10 billion increased, while the ratio of companies with sales of less than ¥1 billion decreased.

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




We also have a well-balanced customer base by customers' type of industry. In fiscal 2017, 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 2015 | FY 2016 | | **FY 2017** | |
|---|---|---|---|---|---|
| | Amount | Amount | Change to Last Year | **Amount** | **Change to Last Year** |
| "tanomail" | 139,106 | 146,046 | +5.0% | **153,500** | **+5.1%** |
| SMILE | 10,479 | 9,774 | −6.7% | **10,817** | **+10.7%** |
| ODS21 | 46,196 | 51,746 | +12.0% | **55,997** | **+8.2%** |
| OSM | 59,831 | 67,937 | +13.5% | **67,514** | **−0.6%** |

(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 | 41,384 | 44,583 | +7.7% | **43,807** | **−1.7%** |
| (of which color copiers) | 38,391 | 42,060 | +9.6% | **41,942** | **−0.3%** |
| Servers | 37,718 | 32,917 | −12.7% | **31,232** | **−5.1%** |
| Personal computers | 795,646 | 854,876 | +7.4% | **887,640** | **+3.8%** |
| Client Total | 847,320 | 904,393 | +6.7% | **927,835** | **+2.6%** |

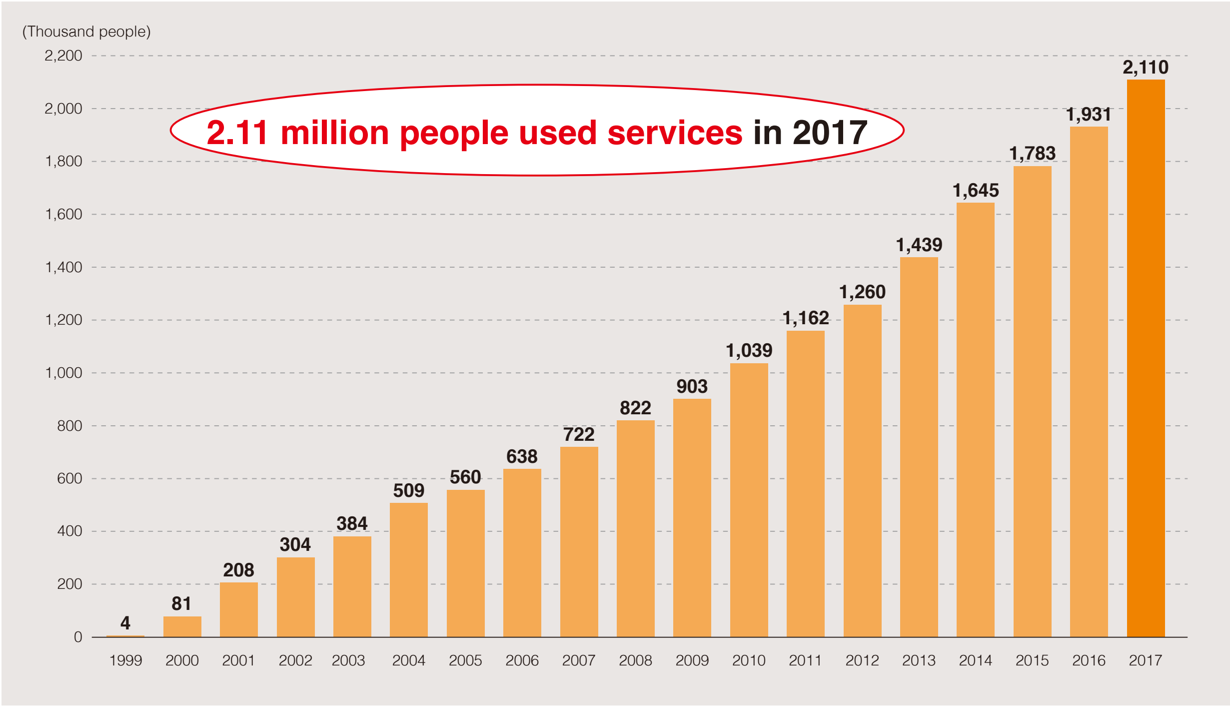
Sales of Otsuka Security Management (OSM), our security business, and sales of copiers both declined slightly from the previous year due to the impact of high growth in the previous fiscal year.

# OTSUKA CORPORATION's Web Services (ASP)

## Provision of services commenced in 1999. The number of users exceeded 2.11 million in 2017.

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 2017, the number reached 2.11 million.

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



# Outlook for Fiscal 2018

## 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 abrupt changes in financial markets, inward-looking policies in the United States and geopolitical risk, and thus cautious actions are anticipated in some areas.

Under these conditions, amid strengthened economic measures in addition to strong business results by Japanese companies as well as the establishment of an infrastructure for the Tokyo Olympics, there is expected to be demand for responding to work style reform and labor shortages and also rising interest in utilizing new technologies such as artificial intelligence (AI) and the Internet of Things (IoT). Due to such factors, corporate IT investments are forecast to continue to trend firmly.

## Proposing Solutions by Strengthening On-site Capabilities

Given the above economic conditions and outlook for corporate IT investments, the Company will provide specific and easy-to-understand proposals that utilize our wide range of products and services, which is OTSUKA CORPORATION's strength. In conjunction, we will promote efforts to secure new customers. To do so, we will further promote regional-led business management and strengthen on-site capabilities to ensure we can propose solutions that earn the trust and satisfaction of customers. We will also continue to strengthen our lineup of office supplies and develop a lineup of maintenance services to bolster the accumulated business and enhance our earnings foundation based on stable and long-term business relationships with customers.

### Market Forecast in 2018

- Continued moderate growth in Japan and overseas
- Demand for aggressive IT investment, raising productivity and cost reductions
- Demand for responding to labor shortages and for labor-savings
- Rising interest in new IT such as AI and IoT
- Further progression of work style reform
- Strong demand by companies for IT utilization and energy-saving

### Policies and Measures in 2018

"Leverage solutions 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
- Promote and support work style reform
- Strengthen initiatives such as for AI and IoT
- Strengthening of proposal of network solutions

## Strategies by Segment

In the System Integration business, we will focus closely on replacement demand trends, mainly for PCs, as well as on needs in work style reform, improving productivity and reducing costs. We will also further promote comprehensive proposals and combined system proposals that combine copiers, computers, tablets and other mobile devices, optical lines and Wi-Fi-based communication environments and security-related equipment as we strengthen our solutions proposals.

In the Service and Support business, the OTSUKA Group will continue to 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. In our "tayoreru" support service business, we will develop comprehensive operational agent-type services and other services that can help compensate for our customers' shortages of IT personnel. Moreover, we will enhance schemes, centering on "Customer Personalized Pages" that support the building of relationships with customers.

## Forecast for Fiscal 2018

In fiscal 2018 the Company forecasts a 4.2% increase in consolidated net sales to ¥720,000 million, a 6.6% increase in operating income to ¥47,300 million, a 5.6% increase in ordinary income to ¥48,000 million and a 1.0% increase in profit attributable to owners of parent to ¥31,880 million.

By segment, we forecast a 4.3% increase in net sales to ¥426,420 million in the System Integration business a 4.1% increase to ¥293,580 million in the Service and Support business.

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

| | Fiscal 2017 | **Fiscal 2018 (Forecast)** | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| Net sales | 691,166 | **720,000** | **+4.2%** |
| Operating income | 44,386 | **47,300** | **+6.6%** |
| Ordinary income | 45,460 | **48,000** | **+5.6%** |
| Net income* | 31,560 | **31,880** | **+1.0%** |

*Profit attributable to owners of parent

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

| | Fiscal 2017 | **Fiscal 2018 (Forecast)** | |
|---|---|---|---|
| | Amount | **Amount** | **Change to Last Year** |
| System Integration business | 408,718 | **426,420** | **+4.3%** |
| Service and Support business | 282,064 | **293,580** | **+4.1%** |
| Other business | 383 | – | – |

# Social Contribution and Environmental Protection Activities

We undertake social contribution activities and environmental protection activities in aiming "to demonstrate harmonious coexistence and growth with nature and society," which is one of the goals prescribed in our Mission Statement. Here we introduce noteworthy topics in 2017.

## ■ Excellence Award Received from Chiyoda Ward for Actions That Consider Global Warming

Chiyoda Ward, the location of OTSUKA CORPORATION's Head Office, is implementing the System for Action Plans Considering Global Warming in Chiyoda Ward. This system promotes initiatives giving consideration to global warming at business offices within the ward. Under the system, the state of implementation and plans regarding actions taking into account global warming that are carried out at business offices are reported to the ward each year and these initiatives are made public. At the same time, by commending excellent initiatives, the system aims to promote initiatives taken in view of global warming by business operators and spread outstanding initiatives.

In fiscal 2017, OTSUKA CORPORATION earned the Excellence Award in recognition of its evenly distributed initiatives in the fields of energy conservation, environmental education and community contributions. Here we introduce some of the initiatives undertaken by OTSUKA CORPORATION.

### ● Initiatives for "energy conservation"

We are raising employee awareness of saving energy by continually displaying electric power consumption in real time.

### ● Initiatives for "environmental education"

We introduced environmental e-learning through self-learning using PCs and require all employees to attend an environmental course once a year.

### ● Initiatives for "community contributions"

Every month we engage in community cleanup activities jointly with nearby companies and also accept local junior high school students for company visits and provide them with environmental education.


Right: Masami Ishikawa, Mayor of Chiyoda Ward

## Environmental Protection Activities through Tree Planting in Brazil

As a program commemorating OTSUKA CORPORATION’s 50th anniversary in 2011, we are planting Tasmanian blue gum trees to be used as a raw material for paper across 150 hectares in Macapá, Amapa State, Brazil, and have named this program “Tanokun No Mori (TANO-kun Forest).” We have expanded this forest every year and it reached 500 hectares in 2017.

Tree felling began for the trees planted the first year and plans call for these resources to be used for creating original “tanomail” copy paper.

2011

2016

2017 (Tree felling commenced.)

* There are expectations that Tasmanian blue gum trees will serve as a renewable resource for responding to large increases in pulp and paper demand due to their strong adaptability and ability to grow in just six years.

## Great East Japan Earthquake

OTSUKA CORPORATION is continuing to support victims of the Great East Japan Earthquake seven years after the quake.

- **Through the “OTSUKA CORPORATION Heartful Fund,” an employee-company matching gift program, we provided support by donating ¥500,000 respectively to six nonprofit organizations engaging in support activities in the earthquake-stricken region.**
- **The Sendai Branch participated in the Japanese Red Cross Society’s “We Will Never Forget Campaign.”**
- **We held a total of six in-house product fairs, which sell specialty products from the earthquake-devastated regions.**

# 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, Audit & Supervisory Board Members and Audit & Supervisory Board and Independent Auditors. An Audit & Supervisory Board Members System has therefore been adopted. Additionally, the Company appoints outside directors and outside auditors with the aim of strengthening the monitoring of the execution of duties.

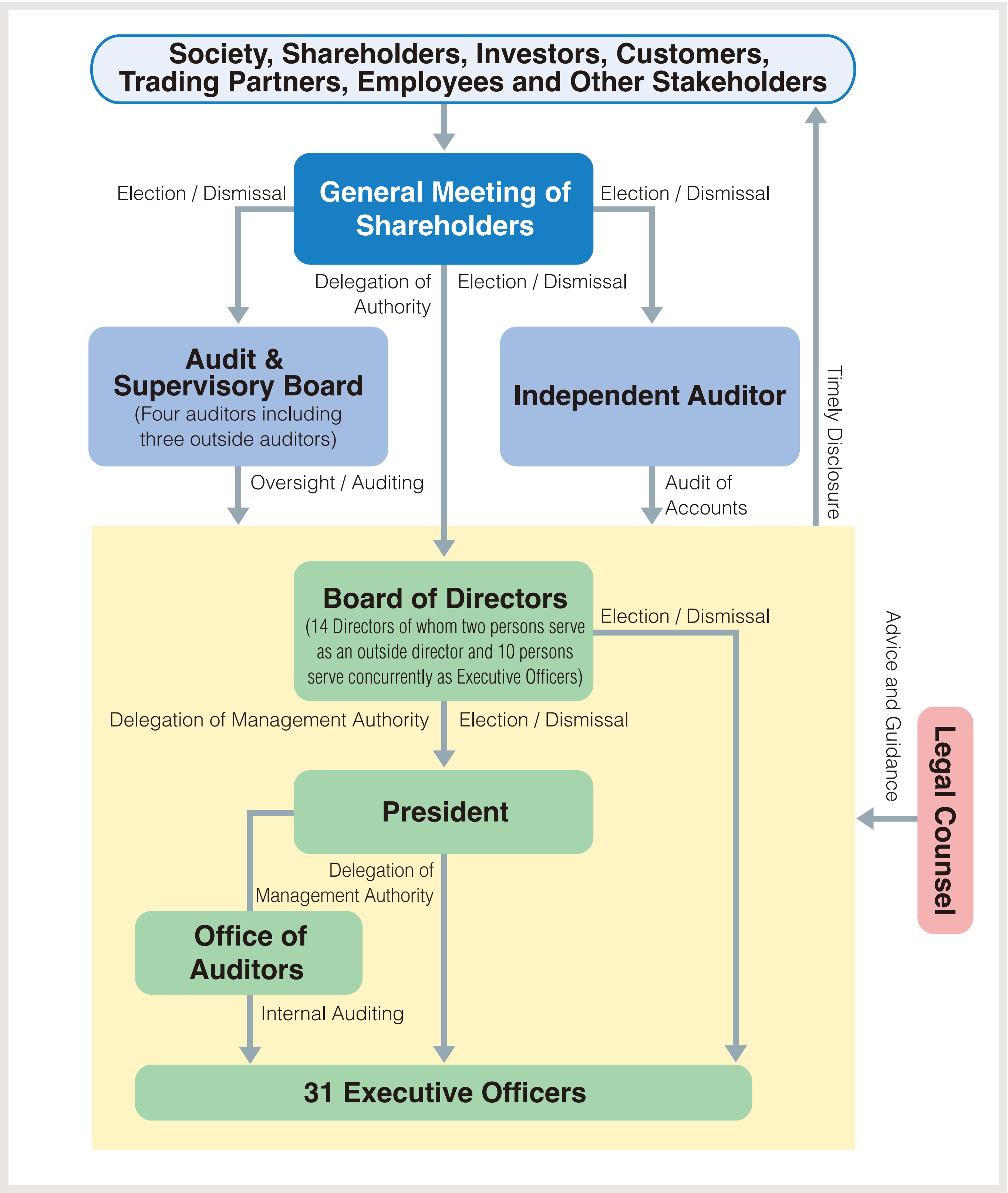
With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

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

The Audit & Supervisory Board is comprised of four auditors, including three outside auditors. The Audit & Supervisory Board Members 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. An Audit & Supervisory Board Members 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 Audit & Supervisory Board, 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 Audit & Supervisory Board Members when requested by Audit & Supervisory Board Members
When a Audit & Supervisory Board Member 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 Audit & Supervisory Board Member.

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 Audit & Supervisory Board Member 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 Audit & Supervisory Board Member.

Effectiveness shall be ensured by establishing a structure under which the Audit & Supervisory Board Member provides direct instructions to and receives reports from the relevant employee.

h) System regarding reporting to the Audit & Supervisory Board Members

1) System for reporting to Audit & Supervisory Board Members by Directors and employees
A system shall be established that enables Audit & Supervisory Board Members 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, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, to report to the Audit & Supervisory Board Members

Directors, Audit & Supervisory Board Members, 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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members 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 Audit & Supervisory Board Members

In the case Audit & Supervisory Board Members 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 Audit & Supervisory Board Members.

k) Other systems for ensuring effective audits by Audit & Supervisory Board Members

Representative Directors shall exchange opinions with Audit & Supervisory Board Members on a timely basis. The Company's Office of Auditors shall maintain close relations with the Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

**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 Audit & Supervisory Board Member 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 Audit & Supervisory Board Members

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 Audit & Supervisory Board formulates auditing policies and assigns relevant duties regarding audits. Each Audit & Supervisory Board Member complies with the standards set by the Audit & Supervisory Board 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. Audit & Supervisory Board Members 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.

Audit & Supervisory Board Members 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.

Audit & Supervisory Board Members 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 | 9 |
| Other individuals | 21 |

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

## 4. Outside Directors and Outside Auditors

The Company has two outside directors and three 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., DD Holdings Co., Ltd., Career Design Center Co., Ltd., and DM SOLUTIONS 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, 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 Audit & Supervisory Board, 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. Also, they exchange information and opinions with the Finance and Accounting Dept. and Compliance Office at their discretion. Additionally, outside auditors exchange information and opinions with the Independent Auditor and internal auditing departments, beginning with the Office of Auditors, at their discretion and work to share auditing information.

## 5. Remuneration of Directors and Audit & Supervisory Board Members

### 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) | 374 | 249 | 76 | 47 | 12 |
| Audit & Supervisory Board Members (except outside auditors) | 18 | 16 | – | 1 | 1 |
| Outside Auditors | 42 | 42 | – | – | 5 |

Notes:

1. The above includes one director who resigned from the Company at the conclusion of the 56th regular General Meeting of Shareholders on March 29, 2017.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation).
4. The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005.
5. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

### B. Total Consolidated Remuneration by Director and Audit & Supervisory Board Member

Not disclosed since there are no Directors or Audit & Supervisory Board Members that receive consolidated remuneration of ¥100 million or more.

**C. Policy for Determination of Remuneration Policy and Its Calculation Method for Directors and Audit & Supervisory Board Members**

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 Audit & Supervisory Board Members is determined based on deliberation by Audit & Supervisory Board Members 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 | ¥11,663 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 | 5,439 | 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 |
| Dai-ichi Life Holdings, Inc. | 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 |

(Current Fiscal Year)

Specified investment stocks

| Name | Number of Shares | Amount on Balance Sheet (Millions of yen) | Purpose for Holding |
|---|---|---|---|
| PERSOL HOLDINGS CO., LTD. | 3,000,000 | 8,472 | To facilitate and maintain business relationship |
| Billing System Corporation | 50,000 | 632 | Same as above |
| Daiwa House Industry Co, Ltd. | 100,000 | 432 | Same as above |
| ThreePro Group Co., Ltd. | 360,000 | 357 | Same as above |
| Ricoh Company, Ltd. | 326,949 | 342 | Same as above |
| Daito Trust Construction Co., Ltd. | 13,100 | 300 | Same as above |
| Concordia Financial Group, Ltd. | 382,204 | 259 | Same as above |
| Uchida Esco Co., Ltd. | 180,000 | 215 | Same as above |
| Credit Saison Co., Ltd. | 50,000 | 102 | Same as above |
| Meiko Network Japan Co., Ltd. | 60,000 | 80 | Same as above |
| Zeon Corporation | 32,283 | 52 | Same as above |
| NAMUCO BANDAI Holdings Inc. | 9,504 | 35 | Same as above |
| Mitsubishi Tanabe Pharma Corporation | 13,300 | 31 | Same as above |
| Nippon Kayaku Co., Ltd. | 17,983 | 30 | Same as above |
| The Keiyo Bank, Ltd. | 50,000 | 25 | Same as above |
| Mitsubishi UFJ Financial Group, Inc. | 29,110 | 24 | Same as above |
| J ESCOM HOLDINGS, INC. | 150,000 | 21 | Same as above |
| Iino Kaiun Kaisha, Ltd. | 32,213 | 20 | Same as above |
| Morinaga & Co., Ltd. | 3,104 | 17 | Same as above |
| Kyowa Hakko Kirin Co., Ltd. | 8,000 | 17 | Same as above |
| Iwabuchi Corporation | 2,083 | 13 | Same as above |
| HYPER Inc. | 12,000 | 12 | Same as above |
| Dai-ichi Life Holdings, Inc. | 4,300 | 9 | Same as above |
| Rengo Co., Ltd. | 7,600 | 6 | Same as above |
| Maruzen Co., Ltd. | 2,000 | 4 | Same as above |
| Mizuho Financial Group, Inc. | 21,520 | 4 | Same as above |
| Canon Marketing Japan Inc. | 1,155 | 3 | Same as above |
| Autobacs Seven Co., Ltd. | 1,500 | 3 | Same as above |
| Tsuchiya Holdings Co., Ltd. | 10,818 | 2 | Same as above |
| Daikyo Incorporated | 940 | 2 | 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 Auditor

1. Breakdown of Remuneration for Independent Auditor

| 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 | — | 66 | — |
| Consolidated Subsidiaries | 13 | — | 14 | — |
| Total | 79 | — | 80 | — |

2. Other Major Remuneration

Not applicable

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

Not applicable

4. Audit Remuneration Policy

The Company determines with an agreement of the Audit & Supervisory Board 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.

# Directors and Audit & Supervisory Board Members (As of March 28, 2018)

President & Chief Executive Officer

Yuji Otsuka

Managing Director
& Senior Executive Operating Officer

Kazuyuki Katakura

Managing Director
& Senior Executive Operating Officer

Toshiyasu Takahashi

Managing Director
& Senior Operating Officer

Hironobu Saito

Managing Director
& Senior Operating Officer

Hironobu Tsurumi

Managing Director
& Operating Officer

Katsuhiro Yano

Managing Director
& Operating Officer

Minoru Sakurai

Managing Director
& Operating Officer

Norihiko Moriya

Managing Director
& Operating Officer

Takuo Fujino

Director & Senior Managing Officers

Mitsuya Hirose
Osamu Tanaka

Directors

Yasuhiro Wakamatsu
Jiro Makino
Tetsuo Saito

Standing Audit & Supervisory Board Member

Naoto Minai

Audit & Supervisory Board Members

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 28, 2018.

## 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 Company 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 Company 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 Company has its employees take a pledge of confidentiality as well as works to prevent information leakage outside of the Company and raises awareness of information management through its proprietary educational "CP (Compliance Program) License System" and other measures.

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

# Financial Section

## Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2015, 2016 and 2017

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | 2015 | 2016 | **2017** | **2017** |
| Net sales | ¥609,045 | ¥643,417 | **¥691,166** | **$6,113,813** |
| System Integration business | 353,170 | 376,391 | **408,718** | **3,615,380** |
| Service and Support business | 255,490 | 266,625 | **282,064** | **2,495,043** |
| Other business | 385 | 400 | **383** | **3,389** |
| Operating income | 37,311 | 39,684 | **44,386** | **392,628** |
| Ordinary income | 38,240 | 40,780 | **45,460** | **402,125** |
| Profit before income taxes | 38,316 | 40,280 | **45,363** | **401,270** |
| Profit attributable to owners of parent | 23,705 | 26,675 | **31,560** | **279,173** |
| Total assets | 324,755 | 343,821 | **380,317** | **3,364,155** |
| Interest-bearing debt | 9,344 | 9,008 | **8,873** | **78,490** |
| Equity | 173,229 | 189,851 | **212,897** | **1,883,213** |
| Earnings per share (EPS) (Yen and U.S. dollars) | 250.06 | 281.38 | **332.91** | **2.94** |
| Dividend per share of common stock (Yen and U.S. dollars) | 100.00 | 120.00 | **140.00** | **1.24** |
| Cash flows from operating activities per share (Yen and U.S. dollars) | 291.37 | 252.45 | **381.36** | **3.37** |
| Operating income to Net sales ratio (%) | 6.13 | 6.17 | **6.42** | **—** |
| Net income to Net sales ratio* (%) | 3.89 | 4.15 | **4.57** | **—** |
| Interest-bearing debt ratio (%) | 2.88 | 2.62 | **2.33** | **—** |
| Equity ratio (%) | 53.34 | 55.22 | **55.98** | **—** |
| Return on equity (ROE) (%) | 14.09 | 14.69 | **15.67** | **—** |

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, 2017 exchange rate of ¥113.05 = US$1.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# Management's Analysis of Operating Results and Financial Position

## Summary of Sales and Profits

| | | | Millions of yen | |
|---|---|---|---|---|
| | 2016 | **2017** | Difference to Last Year | % Change to Last Year |
| Net sales | ¥643,417 | **¥691,166** | +47,748 | +7.4% |
| System Integration business | 376,391 | **408,718** | +32,327 | +8.6 |
| Service & Support business | 266,625 | **282,064** | +15,439 | +5.8 |
| Other business | 400 | **383** | -17 | -4.4 |
| Cost of sales | 503,383 | **541,339** | +37,956 | +7.5 |
| Gross profit | 140,034 | **149,827** | +9,792 | +7.0 |
| Selling, general and administrative expenses | 100,350 | **105,440** | +5,089 | +5.1 |
| Operating income | 39,684 | **44,386** | +4,702 | +11.9 |
| Ordinary income | 40,780 | **45,460** | +4,679 | +11.5 |
| Profit before income taxes | 40,280 | **45,363** | +5,083 | +12.6 |
| Income taxes | | | | |
| Current | 12,945 | **13,853** | +907 | +7.0 |
| Deferred | 449 | **-392** | -842 | — |
| Profit attributable to owners of parent | 26,675 | **31,560** | +4,885 | +18.3 |

### Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥691,166 million, an increase of ¥47,748 million (7.4%) 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 worked to propose solutions such as measures to reduce costs and strengthen competitiveness through the introduction of IT and proposed IT usage methods that lead to work style reforms. Additionally, we recorded growth in sales of packaged software and in unit sales of PCs, while sales of consolidated subsidiaries were also solid. As a result, net sales increased 8.6% from the previous fiscal year to ¥408,718 million. On the other hand, unit sales of copiers declined due to the absence of large orders that were received in the previous fiscal year.

### Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We worked to strengthen the competiveness of our “tanomail” office supply mail-order service business and also recorded steady growth in sales of maintenance services, which led to a 5.8% increase in net sales from the previous fiscal year to ¥282,064 million.

### Other Business

In the Other business, net sales decreased 4.4% from the previous fiscal year to ¥383 million.

### Summary of Income and Expenses

Regarding profits, gross profit increased 7.0% from the previous fiscal year to ¥149,827 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 11.9% to ¥44,386 million, ordinary income increased 11.5% to ¥45,460 million and profit attributable to owners of parent rose 18.3% to ¥31,560 million. Earnings per share (EPS) amounted to ¥332.91.

## Financial Position

| | | | Millions of yen | |
|---|---|---|---|---|
| | 2016 | **2017** | Difference to Last Year | % Change to Last Year |
| Assets: | ¥343,821 | **¥380,317** | +36,496 | +10.6% |
| Current assets | 275,237 | **309,245** | +34,008 | +12.4 |
| Non-current assets | 68,583 | **71,071** | +2,488 | +3.6 |
| Liabilities: | 152,648 | **165,785** | +13,137 | +8.6 |
| Current liabilities | 139,420 | **152,334** | +12,914 | +9.3 |
| Non-current liabilities | 13,228 | **13,451** | +223 | +1.7 |
| Net assets | 191,173 | **214,532** | +23,359 | +12.2 |

**Assets**

Total assets at fiscal year-end increased ¥36,496 million from the previous fiscal year-end to ¥380,317 million.

Current assets increased ¥34,008 million from the previous fiscal year-end to ¥309,245 million due to such factors as an increase in cash and deposits. Non-current assets increased ¥2,488 million from the previous fiscal year-end to ¥71,071 million.

**Liabilities**

Total liabilities at fiscal year-end increased ¥13,137 million from the previous fiscal year-end to ¥165,785 million.

Current liabilities increased ¥12,914 million from the previous fiscal year-end to ¥152,334 million due to such factors as an increase in notes and accounts payable – trade.

Non-current liabilities increased ¥223 million from the previous fiscal year-end to ¥13,451 million.

**Net Assets**

Total net assets at fiscal year-end increased ¥23,359 million from the previous fiscal year-end to ¥214,532 million due to an increase in retained earnings.

As a result, the equity ratio increased 0.8 percentage points from the previous fiscal year-end to 56.0%.

The interest coverage ratio was 951.53 times, the interest-bearing debt ratio was 2.33%, return on equity (ROE) was 15.67% and return on assets (ROA) was 12.37%.

| | 2016 | **2017** |
|---|---|---|
| Interest coverage ratio (times) | 738.85 | **951.53** |
| Interest-bearing debt ratio (%) | 2.62 | **2.33** |
| ROE (%) | 14.69 | **15.67** |
| ROA (%) | 12.02 | **12.37** |

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 | |
|---|---|---|
| | 2016 | **2017** |
| Cash flows from operating activities | ¥23,932 | **¥36,153** |
| Cash flows from investing activities | -5,823 | **-5,243** |
| Cash flows from financing activities | -9,532 | **-11,528** |
| Cash and cash equivalents at end of year | 118,183 | **137,545** |

Cash and cash equivalents at end of year totalled ¥137,545 million, an increase of ¥19,362 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 ¥36,153 million, an increase of ¥12,221 million from the previous fiscal year due to a decrease in inventories, denoting a turnaround from an increase in the previous fiscal year.

**Cash Flows from Investing Activities**

Net cash used in investing activities amounted to ¥5,243 million, a decrease of ¥580 million from the previous fiscal year due to proceeds from withdrawal of time deposits in the fiscal year.

**Cash Flows from Financing Activities**

Net cash used in financing activities increased ¥1,995 million to ¥11,528 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, increased ¥12,801 million to ¥30,910 million.

## Forecast for Fiscal 2018

In fiscal 2018 the Company forecasts a 4.2% increase in consolidated net sales to ¥720,000 million, a 6.6% increase in operating income to ¥47,300 million, a 5.6% increase in ordinary income to ¥48,000 million and a 1.0% increase in profit attributable to owners of parent to ¥31,880 million.

By segment, we forecast a 4.3% increase in net sales to ¥426,420 million in the System Integration business, a 4.1% increase to ¥293,580 million in the Service and Support business.

## Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| ASSETS | | | |
| Current assets | | | |
| Cash and deposits (Note 2) | ¥116,946 | **¥136,410** | **$1,206,636** |
| Notes and accounts receivable - trade (Note 4) | 109,985 | **122,144** | **1,080,450** |
| Merchandise | 25,169 | **24,999** | **221,137** |
| Work in process | 642 | **762** | **6,743** |
| Raw materials and supplies | 827 | **837** | **7,408** |
| Deferred tax assets | 2,617 | **2,887** | **25,542** |
| Other | 19,168 | **21,324** | **188,628** |
| Allowance for doubtful accounts | (119) | **(120)** | **(1,068)** |
| Total current assets | 275,237 | **309,245** | **2,735,478** |
| Non-current assets | | | |
| Property, plant and equipment | | | |
| Buildings and structures | 60,748 | **58,754** | **519,717** |
| Accumulated depreciation and impairment loss | (41,109) | **(40,498)** | **(358,234)** |
| Buildings and structures, net | 19,639 | **18,255** | **161,483** |
| Land (Note 3) | 16,452 | **16,165** | **142,997** |
| Other | 12,302 | **12,618** | **111,618** |
| Accumulated depreciation and impairment loss | (9,255) | **(9,429)** | **(83,408)** |
| Other, net | 3,046 | **3,189** | **28,210** |
| Total property, plant and equipment | 39,137 | **37,610** | **332,691** |
| Intangible assets | | | |
| Software | 11,200 | **12,106** | **107,093** |
| Other | 59 | **59** | **528** |
| Total intangible assets | 11,260 | **12,166** | **107,622** |
| Investments and other assets | | | |
| Investment securities (Note 1) | 10,976 | **15,306** | **135,394** |
| Guarantee deposits | 2,367 | **2,605** | **23,051** |
| Long-term prepaid expenses | 206 | **96** | **853** |
| Deferred tax assets | 2,421 | **1,369** | **12,111** |
| Other | 2,402 | **2,087** | **18,462** |
| Allowance for doubtful accounts | (188) | **(170)** | **(1,511)** |
| Total investments and other assets | 18,185 | **21,294** | **188,361** |
| Total non-current assets | 68,583 | **71,071** | **628,676** |
| Total assets | ¥343,821 | **¥380,317** | **$3,364,155** |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Liabilities | | | |
| Current liabilities | | | |
| Notes and accounts payable – trade (Note 2) | ¥ 76,783 | **¥ 83,107** | **$ 735,137** |
| Electronically recorded obligations - operating | 16,891 | **17,887** | **158,223** |
| Short-term loans payable | 5,000 | **4,900** | **43,343** |
| Lease obligations | 909 | **865** | **7,653** |
| Income taxes payable | 6,569 | **8,274** | **73,194** |
| Advances received | 11,033 | **12,361** | **109,349** |
| Provision for bonuses | 3,267 | **3,379** | **29,890** |
| Other | 18,965 | **21,558** | **190,701** |
| Total current liabilities | 139,420 | **152,334** | **1,347,493** |
| Non-current liabilities | | | |
| Long-term loans payable | 1,700 | **1,700** | **15,037** |
| Lease obligations | 1,399 | **1,408** | **12,455** |
| Deferred tax liabilities | — | **81** | **722** |
| Deferred tax liabilities for land revaluation (Note 3) | 122 | **122** | **1,085** |
| Provision for directors' retirement benefits | 646 | **647** | **5,726** |
| Net defined benefit liability | 8,456 | **8,533** | **75,480** |
| Asset retirement obligations | 215 | **214** | **1,893** |
| Other | 687 | **744** | **6,584** |
| Total non-current liabilities | 13,228 | **13,451** | **118,987** |
| Total liabilities | 152,648 | **165,785** | **1,466,480** |
| Net assets | | | |
| Shareholders' equity | | | |
| Capital stock | 10,374 | **10,374** | **91,772** |
| Capital surplus | 16,254 | **16,254** | **143,783** |
| Retained earnings | 170,572 | **189,816** | **1,679,048** |
| Treasury shares | (137) | **(137)** | **(1,216)** |
| Total shareholders' equity | 197,064 | **216,308** | **1,913,388** |
| Accumulated other comprehensive income | | | |
| Valuation difference on available-for-sale securities | 4,517 | **7,348** | **65,004** |
| Deferred gains or losses on hedges | — | **2** | **21** |
| Revaluation reserve for land (Note 3) | (13,037) | **(12,097)** | **(107,007)** |
| Foreign currency translation adjustment | 13 | **45** | **399** |
| Remeasurements of defined benefit plans | 1,293 | **1,289** | **11,406** |
| Total accumulated other comprehensive income | (7,212) | **(3,411)** | **(30,174)** |
| Non-controlling interests | 1,321 | **1,634** | **14,461** |
| Total net assets | 191,173 | **214,532** | **1,897,674** |
| Total liabilities and net assets | ¥343,821 | **¥380,317** | **$3,364,155** |

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, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Net sales | ¥643,417 | **¥691,166** | **$6,113,813** |
| Cost of sales | 503,383 | **541,339** | **4,788,496** |
| Gross profit | 140,034 | **149,827** | **1,325,317** |
| Selling, general and administrative expenses | | | |
| Salaries, allowances and bonuses | 40,797 | **42,178** | **373,096** |
| Directors' compensations | 568 | **584** | **5,174** |
| Welfare expenses | 6,588 | **6,921** | **61,223** |
| Rent expenses | 6,280 | **6,439** | **56,961** |
| Transportation and warehousing expenses | 17,948 | **19,043** | **168,449** |
| Provision for bonuses | 2,184 | **2,252** | **19,923** |
| Retirement benefit expenses | 2,097 | **2,132** | **18,866** |
| Provision for directors' retirement benefits | 66 | **67** | **600** |
| Provision of allowance for doubtful accounts | 61 | **72** | **645** |
| Depreciation | 4,334 | **4,787** | **42,348** |
| Other | 19,422 | **20,959** | **185,399** |
| Total Selling, general and administrative expenses (Note 1) | 100,350 | **105,440** | **932,688** |
| Operating profit | 39,684 | **44,386** | **392,628** |
| Non-operating income | | | |
| Interest income | 30 | **17** | **151** |
| Dividend income | 98 | **129** | **1,142** |
| House rent income | 250 | **233** | **2,061** |
| Income from recycling | 124 | **145** | **1,282** |
| Share of profit of entities accounted for using equity method | 385 | **264** | **2,336** |
| Foreign exchange gains | 71 | **133** | **1,176** |
| Other | 195 | **208** | **1,840** |
| Total non-operating income | 1,156 | **1,129** | **9,992** |
| Non-operating expenses | | | |
| Interest expenses | 54 | **47** | **416** |
| Other | 5 | **8** | **79** |
| Total non-operating expenses | 59 | **56** | **495** |
| Ordinary profit | 40,780 | **45,460** | **402,125** |
| Extraordinary income | | | |
| Gain on sales of non-current assets (Note 2) | — | **107** | **954** |
| Gain on sales of investment securities | — | **70** | **625** |
| Total extraordinary income | — | **178** | **1,579** |
| Extraordinary losses | | | |
| Loss on sales of non-current assets (Note 3) | 68 | **—** | **—** |
| Loss on retirement of non-current assets (Note 4) | 61 | **34** | **307** |
| Impairment loss | 316 | **234** | **2,072** |
| Loss on valuation of investment securities | 53 | **6** | **53** |
| Total extraordinary losses | 500 | **275** | **2,434** |
| Profit before income taxes | 40,280 | **45,363** | **401,270** |
| Income taxes-current | 12,945 | **13,853** | **122,542** |
| Income taxes-deferred | 449 | **(392)** | **(3,471)** |
| Total income taxes | 13,395 | **13,460** | **119,070** |
| Profit | 26,884 | **31,902** | **282,199** |
| Profit attributable to non-controlling interests | 209 | **342** | **3,025** |
| Profit attributable to owners of parent | ¥ 26,675 | **¥ 31,560** | **$ 279,173** |

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, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Profit | ¥26,884 | **¥31,902** | **$282,199** |
| Other comprehensive income | | | |
| Valuation difference on available-for-sale securities | (98) | **2,857** | **25,280** |
| Deferred gains or losses on hedges | — | **3** | **26** |
| Revaluation reserve for land | 6 | **—** | **—** |
| Remeasurements of defined benefit plans, net of tax | (473) | **(17)** | **(158)** |
| Share of other comprehensive income of entities accounted for using equity method | (13) | **50** | **443** |
| Total other comprehensive income (Note 1) | (578) | **2,893** | **25,592** |
| Comprehensive income | ¥26,305 | **¥34,795** | **$307,791** |
| (Breakdown) | | | |
| Comprehensive income attributable to owners of parent | ¥26,103 | **¥34,421** | **$304,479** |
| Comprehensive income attributable to non-controlling interests | 202 | **374** | **3,312** |

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, 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 |
| 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 the period | — | — | 16,183 | (0) | 16,182 |
| Balance as of December 31, 2016 | ¥10,374 | ¥16,254 | ¥170,572 | ¥(137) | ¥197,064 |

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, 2016 | ¥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 the period | (99) | 1,017 | (12) | (466) | 439 | 147 | 16,770 |
| Balance as of 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, 2017

Millions of yen

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at January 1, 2017 | **¥10,374** | **¥16,254** | **¥170,572** | **¥(137)** | **¥197,064** |
| Dividends of surplus | | | **(11,376)** | | **(11,376)** |
| Profit attributable to owners of parent | | | **31,560** | | **31,560** |
| Reversal of revaluation reserve for land | | | **(940)** | | **(940)** |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | **—** | **—** | **19,243** | **—** | **19,243** |
| Balance as of December 31, 2017 | **¥10,374** | **¥16,254** | **¥189,816** | **¥(137)** | **¥216,308** |

Millions of yen

| | Accumulated other comprehensive income | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | 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, 2017 | **¥4,517** | **—** | **¥(13,037)** | **¥13** | **¥1,293** | **¥(7,212)** | **¥1,321** | **¥191,173** |
| Dividends of surplus | | | | | | | | **(11,376)** |
| Profit attributable to owners of parent | | | | | | | | **31,560** |
| Reversal of revaluation reserve for land | | | | | | | | **(940)** |
| Net changes of items other than shareholders' equity | **2,831** | **2** | **940** | **31** | **(4)** | **3,801** | **313** | **4,115** |
| Total changes of items during the period | **2,831** | **2** | **940** | **31** | **(4)** | **3,801** | **313** | **23,359** |
| Balance as of December 31, 2017 | **¥7,348** | **¥2** | **¥(12,097)** | **¥45** | **¥1,289** | **¥(3,411)** | **¥1,634** | **¥214,532** |

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2017

| | Shareholders' equity (Thousands of U.S. dollars) | | | | |
|---|---|---|---|---|---|
| | Capital stock | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at January 1, 2017 | **$91,772** | **$143,783** | **$1,508,824** | **$(1,216)** | **$1,743,164** |
| Dividends of surplus | | | **(100,628)** | | **(100,628)** |
| Profit attributable to owners of parent | | | **279,173** | | **279,173** |
| Reversal of revaluation reserve for land | | | **(8,320)** | | **(8,320)** |
| Net changes of items other than shareholders' equity | | | | | |
| Total changes of items during the period | **—** | **—** | **170,223** | **—** | **170,223** |
| Balance as of December 31, 2017 | **$91,772** | **$143,783** | **$1,679,048** | **$(1,216)** | **$1,913,388** |

| | Accumulated other comprehensive income (Thousands of U.S. dollars) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedges | 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, 2017 | **$39,962** | **—** | **$(115,328)** | **$119** | **$11,445** | **$(63,801)** | **$11,685** | **$1,691,048** |
| Dividends of surplus | | | | | | | | **(100,628)** |
| Profit attributable to owners of parent | | | | | | | | **279,173** |
| Reversal of revaluation reserve for land | | | | | | | | **(8,320)** |
| Net changes of items other than shareholders' equity | **25,042** | **21** | **8,320** | **280** | **(39)** | **33,626** | **2,775** | **36,402** |
| Total changes of items during the period | **25,042** | **21** | **8,320** | **280** | **(39)** | **33,626** | **2,775** | **206,626** |
| Balance as of December 31, 2017 | **$65,004** | **$21** | **$(107,007)** | **$399** | **$11,406** | **$(30,174)** | **$14,461** | **$1,897,674** |

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, 2016 and 2017

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| **Cash flows from operating activities:** | | | |
| Profit before income taxes | ¥ 40,280 | **¥ 45,363** | **$ 401,270** |
| Depreciation | 5,971 | **6,138** | **54,300** |
| Impairment loss | 316 | **234** | **2,072** |
| Increase (decrease) in allowance for doubtful accounts | (13) | **(16)** | **(141)** |
| Interest and dividend income | (128) | **(146)** | **(1,294)** |
| Interest expenses | 54 | **47** | **416** |
| Share of (profit) loss of entities accounted for using equity method | (385) | **(264)** | **(2,336)** |
| Loss on retirement of non-current assets | 61 | **34** | **307** |
| Loss (gain) on sales of non-current assets | 68 | **(107)** | **(954)** |
| Decrease (increase) in notes and accounts receivable - trade | (4,935) | **(12,119)** | **(107,200)** |
| Decrease (increase) in inventories | (5,615) | **39** | **351** |
| Increase (decrease) in notes and accounts payable - trade | 2,037 | **7,319** | **64,746** |
| Loss (gain) on sales of investment securities | — | **(70)** | **(625)** |
| Loss (gain) on valuation of investment securities | 53 | **6** | **53** |
| Other, net | 617 | **2,145** | **18,975** |
| Subtotal | 38,384 | **48,605** | **429,943** |
| Interest and dividend income received | 202 | **218** | **1,931** |
| Interest expenses paid | (54) | **(46)** | **(415)** |
| Income taxes paid | (14,600) | **(12,622)** | **(111,656)** |
| Net cash provided by (used in) operating activities | 23,932 | **36,153** | **319,802** |
| **Cash flows from investing activities:** | | | |
| Proceeds from withdrawal of time deposits | — | **300** | **2,653** |
| Purchase of property, plant and equipment | (1,411) | **(1,476)** | **(13,058)** |
| Proceeds from sales of property, plant and equipment | 667 | **900** | **7,967** |
| Purchase of software | (5,205) | **(4,925)** | **(43,569)** |
| Purchase of investment securities | (34) | **(46)** | **(412)** |
| Proceeds from sales of investment securities | — | **140** | **1,238** |
| Payments of long-term loans receivable | (5) | **(2)** | **(25)** |
| Collection of long-term loans receivable | 28 | **25** | **225** |
| Other, net | 137 | **(158)** | **(1,398)** |
| Net cash provided by (used in) investing activities | (5,823) | **(5,243)** | **(46,379)** |
| **Cash flows from financing activities:** | | | |
| Net increase (decrease) in short-term loans payable | (1,700) | **(100)** | **(884)** |
| Proceed from long-term loans payable | 1,700 | **—** | **—** |
| Cash dividends paid | (9,477) | **(11,367)** | **(100,555)** |
| Other, net | (55) | **(60)** | **(536)** |
| Net cash provided by (used in) financing activities | (9,532) | **(11,528)** | **(101,976)** |
| Effect of exchange rate change on cash and cash equivalents | 19 | **(19)** | **(174)** |
| Net increase (decrease) in cash and cash equivalents | 8,596 | **19,362** | **171,271** |
| Cash and cash equivalents at beginning of period | 109,587 | **118,183** | **1,045,411** |
| **Cash and cash equivalents at end of period (Note 1)** | ¥118,183 | **¥137,545** | **$1,216,682** |

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, 2016 and 2017 the numbers of subsidiaries and consolidated subsidiaries were as follows:

| | 2016 | 2017 |
|---|---|---|
| Subsidiaries | 8 | 8 |
| (Consolidated subsidiaries) | (5) | (5) |

The 5 subsidiaries which were consolidated in the year ended December 31, 2017 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, 2016 and 2017 the numbers of unconsolidated subsidiaries and affiliates were as follows:

| | 2016 | 2017 |
|---|---|---|
| Unconsolidated subsidiaries | 3 | 3 |
| Affiliates | 8 | 7 |
| (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, 2017 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 as follows:

- 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 (Carrying 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 assets**

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 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) Additional Information**

(Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Companies adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the beginning of the fiscal year ended December 31, 2017.

**(19) Rounding of amounts**

Amounts of less than a million yen have been omitted.

## 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥113.05 = US$1, the rate of exchange on December 31, 2017, 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, 2016 and 2017, principal items related to unconsolidated subsidiaries and affiliates were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Investment securities (stocks) | ¥2,724 | **¥2,953** | **$26,122** |
| Investment securities (capital) | 217 | **217** | **1,921** |

### *2. Pledged Assets

As of December 31, 2016 and 2017, pledged assets were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Time deposits | ¥5 | **¥5** | **$44** |

Liabilities corresponding to above assets were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Notes and accounts payable - trade | ¥5 | **¥5** | **$44** |

### *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, 2016 and 2017, the excess of Carrying value after revaluation over the fair value were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| | ¥(346) | **¥(210)** | **$(1,866)** |

### *4. Notes maturing on December 31

December 31, 2016 and 2017 were a bank holiday, and notes maturing on December 31 were accounted for as if they were settled on the maturity dates.

As of December 31, 2016 and 2017, notes maturing on December 31 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Notes receivable | ¥544 | **¥418** | **$3,700** |

## CONSOLIDATED STATEMENTS OF INCOME

### *1. Research and development expenses

For the years ended December 31, 2016 and 2017, Research and development expenses included in general and administrative expenses and manufacturing costs were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Research and development expenses | ¥792 | **¥1,207** | **$10,684** |

### *2. Gain on sales of non-current assets

For the years ended December 31, 2016 and 2017, Gain on sales of non-current assets were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Buildings and structures | — | **¥ 96** | **$852** |
| Land | — | **11** | **101** |
| Gain on sales of non-current assets | — | **¥107** | **$954** |

### *3. Loss on sales of non-current assets

For the years ended December 31, 2016 and 2017, Loss on sales of non-current assets were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Buildings and structures | ¥38 | **—** | **—** |
| Land | 30 | **—** | **—** |
| Loss on sales of non-current assets | ¥68 | **—** | **—** |

### *4. Loss on retirement of non-current assets

For the years ended December 31, 2016 and 2017, Loss on retirement of non-current assets were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Buildings and structures | ¥33 | **¥19** | **$173** |
| Property, plant and equipment (excluding buildings and structures) | 27 | **14** | **131** |
| Software | 0 | **0** | **1** |
| Loss on retirement of non-current assets | ¥61 | **¥34** | **$307** |

## (CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

### *1. Other comprehensive income

For the years ended December 31, 2016 and 2017, reclassification adjustments and tax effects related to other comprehensive income were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Unrealized holding gain in securities | | | |
| Amount arising during the year | ¥(301) | **¥4,119** | **$36,437** |
| Reclassification adjustments | — | **(0)** | **(0)** |
| Amount before tax effect | (301) | **4,119** | **36,437** |
| Tax effect | 202 | **(1,261)** | **(11,157)** |
| Unrealized holding gain in securities | (98) | **2,857** | **25,280** |
| Deferred gains or losses on hedges | | | |
| Amount arising during the year | 73 | **21** | **193** |
| Reclassification adjustments | 97 | **(17)** | **(154)** |
| Adjustment to acquisition cost of inventory | (170) | **—** | **—** |
| Amount before tax effect | — | **4** | **38** |
| Tax effect | — | **(1)** | **(11)** |
| Deferred gains or losses on hedges | — | **3** | **26** |
| Revaluation reserve for land | | | |
| Tax effects | 6 | **—** | **—** |
| Remeasurements of defined benefit plans | | | |
| Amount arising during the year | (348) | **250** | **2,220** |
| Reclassification adjustments | (394) | **(276)** | **(2,441)** |
| Amount before tax effects | (742) | **(25)** | **(221)** |
| Tax effects | 269 | **7** | **62** |
| Remeasurements of defined benefit plans | (473) | **(17)** | **(158)** |
| Share of other comprehensive income of entities accounted for using equity method | | | |
| Amount arising during the year | (15) | **48** | **425** |
| Reclassification adjustments | 1 | **1** | **17** |
| Share of other comprehensive income of entities accounted for using equity method | (13) | **50** | **443** |
| Total other comprehensive income | ¥(578) | **¥2,893** | **$25,592** |

## (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 outstanding**

| | Thousands of shares | |
|---|---|---|
| | 2016 | **2017** |
| 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 outstanding is common stock.

**(2) Number of treasury shares**

| | Thousands of shares | |
|---|---|---|
| | 2016 | **2017** |
| Number of shares at the beginning of the fiscal year | 200 | **200** |
| Increase (*) | 0 | **—** |
| Decrease | — | **—** |
| Number of shares at the end of the fiscal year | 200 | **200** |

Type of all shares outstanding is common stock.

* The shares increase in the number of treasury shares arise from the purchase of shares of less than standard unit.

**(3) Items related to subscription rights to shares and own stock 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) | | |
| 29-Mar-16 | ¥ 9,480 | $ 83,857 | ¥100.00 | $0.88 | 31-Dec-15 | 30-Mar-16 |
| 29-Mar-17 | **¥11,376** | **$100,628** | **¥120.00** | **$1.06** | 31-Dec-16 | 30-Mar-17 |
| 28-Mar-18 | **¥13,272** | **$117,400** | **¥140.00** | **$1.24** | 31-Dec-17 | 29-Mar-18 |

Type of all shares outstanding 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, 2016 and 2017 consisted of:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Cash and deposits | ¥116,946 | **¥136,410** | **$1,206,636** |
| Time deposits with deposit terms of more than three months | (55) | **(55)** | **(489)** |
| Trust beneficiary interests included in other current assets with investment terms with three months or less | 1,292 | **1,190** | **10,534** |
| Cash and cash equivalents | ¥118,183 | **¥137,545** | **$1,216,682** |

## (LEASE TRANSACTIONS)

### 1. Finance Lease Transactions(lessee)

The disclosure is omitted because finance lease transaction was immaterial in the consolidated financial statements as of December 31, 2016 and 2017.

### 2. Operating Lease Transactions

The amounts of future lease payments on operating leases as of December 31, 2016 and 2017 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Due within one year | ¥377 | **¥336** | **$2,978** |
| Due after one year | 147 | **264** | **2,339** |
| Total | ¥524 | **¥601** | **$5,317** |

## (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, 2016 and 2017 and estimated fair value were as follows:

| | 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 which hedge accounting is not applied | ¥ 77 | ¥ 77 | — |
| Derivative transaction 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.

| | Millions of yen | | |
|---|---|---|---|
| | **2017** | | |
| | Carrying value | Fair value | Difference |
| Assets | | | |
| 1) Cash and deposits | **¥136,410** | **¥136,410** | **—** |
| 2) Notes and accounts receivable - trade | **122,144** | **122,144** | **—** |
| 3) Investment securities | | | |
| Other securities | **11,984** | **11,984** | **—** |
| Investment in affiliates | **1,156** | **2,108** | **952** |
| Total assets | **¥271,695** | **¥272,648** | **¥ 952** |
| Liabilities | | | |
| 4) Notes and accounts payable – trade | **¥ 83,107** | **¥ 83,107** | **—** |
| 5) Electronically recorded obligations | **17,887** | **17,887** | **—** |
| 6) Short-term loans payable | **4,900** | **4,900** | **—** |
| 7) Income taxes payable | **8,274** | **8,274** | **—** |
| 8) Long-term loans payable | **1,700** | **1,704** | **4** |
| Total liabilities | **¥115,869** | **¥115,873** | **¥ 4** |
| Derivative transaction (*) | | | |
| Derivative transaction which hedge accounting is not applied | **¥ 6** | **¥ 6** | **—** |
| Derivative transaction which hedge accounting is applied | **4** | **4** | **—** |
| Total derivative transaction | **¥ 11** | **¥ 11** | **—** |

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

| | Carrying value | Fair value | Difference |
|---|---|---|---|
| | Thousands of U.S. dollars | | |
| | 2017 | | |
| Assets | | | |
| 1) Cash and deposits | **$1,206,636** | **$1,206,636** | **—** |
| 2) Notes and accounts receivable - trade | **1,080,450** | **1,080,450** | **—** |
| 3) Investment securities | | | |
| Other securities | **106,010** | **106,010** | **—** |
| Investment in affiliates | **10,226** | **18,654** | **8,427** |
| Total assets | **$2,403,324** | **$2,411,752** | **$ 8,427** |
| Liabilities | | | |
| 4) Notes and accounts payable – trade | **$ 735,137** | **$ 735,137** | **—** |
| 5) Electronically recorded obligations | **158,223** | **158,223** | **—** |
| 6) Short-term loans payable | **43,343** | **43,343** | **—** |
| 7) Income taxes payable | **73,194** | **73,194** | **—** |
| 8) Long-term loans payable | **15,037** | **15,075** | **37** |
| Total liabilities | **$1,024,936** | **$1,024,974** | **$ 37** |
| Derivative transaction (*) | | | |
| Derivative transaction which hedge accounting is not applied | **$ 60** | **$ 60** | **—** |
| Derivative transaction which hedge accounting is applied | **38** | **38** | **—** |
| Total derivative transaction | **$ 99** | **$ 99** | **—** |

* 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, 2016 and 2017 financial instruments for which it is extremely difficult to determine the fair value were as follows:**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Unlisted stocks | ¥1,991 | **¥2,140** | **$18,938** |
| Investments in investment business limited partnerships | 18 | **24** | **219** |

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

**3. Redemption schedule for receivables as of December 31, 2016 and 2017 are as follows:**

| | 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 | — | — | — |

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | 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 | **¥136,410** | **—** | **—** | **—** |
| Notes and accounts receivable - trade | **122,144** | **—** | **—** | **—** |
| Total | **¥258,555** | **—** | **—** | **—** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | 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 | **$1,206,636** | **—** | **—** | **—** |
| Notes and accounts receivable - trade | **1,080,450** | **—** | **—** | **—** |
| Total | **$2,287,087** | **—** | **—** | **—** |

**4. Repayment schedules for long-term loans payable and other interest-bearing debt as of December 31, 2016 and 2017 are as follows:**

| | 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 | — |

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | 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 | **¥4,900** | **—** | **—** | **—** |
| Long-term loans payable | **—** | **—** | **1,700** | **—** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | 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 | **$43,343** | **—** | **—** | **—** |
| Long-term loans payable | **—** | **—** | **15,037** | **—** |

## (SECURITIES)

**(1) Available-for-sale securities with fair value as of December 31, 2016 and 2017**

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2017 | | | 2017 | | |
| | 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 | ¥7,649 | ¥1,225 | ¥6,424 | **¥11,775** | **¥1,279** | **¥10,496** | **$104,164** | **$11,318** | **$92,846** |
| Bonds | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Other securities | 146 | 73 | 73 | **208** | **89** | **119** | **1,845** | **790** | **1,055** |
| | ¥7,796 | ¥1,298 | ¥6,497 | **¥11,984** | **¥1,368** | **¥10,615** | **$106,010** | **$12,108** | **$93,902** |
| Securities whose carrying value does not exceed their acquisition costs | | | | | | | | | |
| Stocks | ¥ 12 | ¥ 13 | ¥ (1) | **—** | **—** | **—** | **—** | **—** | **—** |
| Bonds | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| Other securities | — | — | — | **—** | **—** | **—** | **—** | **—** | **—** |
| | ¥ 12 | ¥ 13 | ¥ (1) | **—** | **—** | **—** | **—** | **—** | **—** |
| Total | ¥7,808 | ¥1,311 | ¥6,496 | **¥11,984** | **¥1,368** | **¥10,615** | **$106,010** | **$12,108** | **$93,902** |

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 |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| | Carrying value | Carrying value | Carrying value |
| Available-for-sale securities | | | |
| Unlisted stocks | ¥208 | **¥126** | **$1,121** |
| Investment in limited liability partnerships | 18 | **24** | **219** |

**(2) Available-for-sale securities sold for the years ended December 31, 2016 and 2017**

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2016 | | | 2017 | | | 2017 | | |
| | Sales proceeds | Aggregate gains | Aggregate losses | Sales proceeds | Aggregate gains | Aggregate losses | Sales proceeds | Aggregate gains | Aggregate losses |
| Stocks | — | — | — | **¥140** | **¥70** | **—** | **$1,238** | **$625** | **—** |

**(3) Securities impairment losses recognized for the years ended December 31, 2016 and 2017**

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Stocks | ¥53 | **¥6** | **$53** |

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, 2016 and 2017, derivative transactions were as follows:

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

Currency-related transactions

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

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | Contractual value or notional principal amount | | | |
| | Total | Over one year | Fair value | Valuation gain (loss) |
| Forward foreign exchange contracts<br>Buy U.S. dollar | **¥1,493** | **—** | **¥6** | **¥6** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2017** | | | |
| | Contractual value or notional principal amount | | | |
| | Total | Over one year | Fair value | Valuation gain (loss) |
| Forward foreign exchange contracts<br>Buy U.S. dollar | **$13,210** | **—** | **$60** | **$60** |

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 | | |
|---|---|---|---|
| | **2016** | | |
| | Contractual value or notional principal amount | | |
| | Total | Over one year | Fair value |
| Forward foreign exchange contracts<br>Buy U.S. dollar | ¥1,186 | — | ¥170 |

| | Millions of yen | | |
|---|---|---|---|
| | **2017** | | |
| | Contractual value or notional principal amount | | |
| | Total | Over one year | Fair value |
| Forward foreign exchange contracts<br>Buy U.S. dollar | **¥1,235** | **—** | **¥4** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2017** | | |
| | Contractual value or notional principal amount | | |
| | Total | Over one year | Fair value |
| Forward foreign exchange contracts<br>Buy U.S. dollar | **$10,927** | **—** | **$38** |

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

| | Millions of yen | | |
|---|---|---|---|
| | **2017** | | |
| | Contractual value or notional principal amount | | |
| | Total | Over one year | Fair value |
| Long-term loans payable Interest-rate swaps<br>Pay/fixed and receive/floating | **¥1,700** | **¥1,700** | **Note** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | **2017** | | |
| | Contractual value or notional principal amount | | |
| | Total | Over one year | Fair value |
| Long-term loans payable Interest-rate swaps<br>Pay/fixed and receive/floating | **$15,037** | **$15,037** | **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, 2017, 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 company may pay premium benefits for employees' 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 |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Balance at the beginning of the year | ¥48,411 | **¥50,539** | **$447,056** |
| Service costs | 2,541 | **2,562** | **22,665** |
| Interest costs | 243 | **103** | **913** |
| Actuarial loss (gain) | 385 | **(206)** | **(1,825)** |
| Retirement benefits paid | (1,042) | **(1,235)** | **(10,926)** |
| Balance as of the end of the year | ¥50,539 | **¥51,763** | **$457,883** |

(b) Changes in plan assets

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Balance at the beginning of the year | ¥41,433 | **¥42,765** | **$378,285** |
| Actuarial loss (gain) | 37 | **44** | **395** |
| Contribution paid by the employer | 2,291 | **2,265** | **20,035** |
| Retirement benefits paid | (996) | **(1,149)** | **(10,170)** |
| Balance as of the end of the year | ¥42,765 | **¥43,925** | **$388,545** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Balance at the beginning of the year | ¥661 | **¥681** | **$6,031** |
| Retirement benefit expenses | 75 | **87** | **778** |
| Retirement benefits paid | (55) | **(75)** | **(667)** |
| Balance as of the end of the year | ¥681 | **¥694** | **$6,142** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Funded retirement benefit obligations | ¥48,307 | **¥49,447** | **$437,398** |
| Plan assets | (42,765) | **(43,925)** | **(388,545)** |
| | 5,542 | **5,522** | **48,853** |
| Unfunded retirement benefit obligations | 2,913 | **3,010** | **26,627** |
| Total net defined benefit liability and asset | 8,456 | **8,533** | **75,480** |
| | | | |
| Net defined benefit liability | 8,456 | **8,533** | **75,480** |
| Total net defined benefit liability and asset | ¥ 8,456 | **¥ 8,533** | **$ 75,480** |

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

(e) Components of retirement benefit expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Service costs | ¥2,541 | **¥2,562** | **$22,665** |
| Interest costs | 243 | **103** | **913** |
| Amortization of actuarial differences | (115) | **(168)** | **(1,490)** |
| Amortization of prior service costs | (278) | **(107)** | **(950)** |
| Retirement benefit expenses calculated by simplified methods | 75 | **87** | **778** |
| Additional benefits for employees' retirement | 27 | **50** | **444** |
| Retirement benefit expenses | ¥2,494 | **¥2,527** | **$22,360** |

(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 |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Prior service cost | ¥(278) | **¥(107)** | **$(950)** |
| Actuarial difference | (464) | **82** | **729** |
| Total | ¥(742) | **¥ (25)** | **$(221)** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Unrecognized prior service costs | ¥ (646) | **¥ (538)** | **$ (4,763)** |
| Unrecognized actuarial differences | (1,236) | **(1,319)** | **(11,670)** |
| Total | ¥(1,882) | **¥(1,857)** | **$(16,433)** |

(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:

| | 2016 | **2017** |
|---|---|---|
| Cash and deposits | 88% | **86%** |
| Life insurance company general accounts | 12% | **14%** |
| Total | 100% | **100%** |

2. Method 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

| | 2016 | **2017** |
|---|---|---|
| Discount rate | 0.2% | **0.2%** |
| Long-term expected rate of return on plan assets | 0.0% | **0.0%** |
| Salary increasing rate | 7.5% | **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, 2016 and 2017 were ¥807 million, ¥808 million ($ 7,149 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, 2016 and 2017 were ¥35 million and ¥20 million ($181 thousand), respectively.
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 dispersion of the fund is not expected.

(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, 2016 | **March 31, 2017** | **March 31, 2017** |
| Plan assets | ¥297,648 | — | — |
| Actuarial liability based on pension plan finance calculation and minimum actuarial reserve | 262,551 | — | — |
| Unfunded obligations | ¥ 35,097 | — | — |

2. Nihon IT Software Pension Fund

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | March 31, 2016 | **March 31, 2017** | **March 31, 2017** |
| Plan assets | — | **¥27,094** | **$239,668** |
| Actuarial liability based on pension plan finance calculation and minimum actuarial reserve | — | **26,532** | **234,696** |
| Unfunded obligations | — | **¥ 562** | **$ 4,972** |

(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, 2016. 0.6% (As of March 31, 2016)

2. Nihon IT Software Pension Fund
Fiscal year ended December 31, 2017. 1.2% (As of March 31, 2017)

(c) Supplementary information:

The main factor of the unfunded obligations shown in above (a) 1.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| General reserve | ¥31,153 | — | — |
| Surplus | 3,943 | — | — |
| Total | ¥35,097 | — | — |

The ratio in above (b) 1. has not presented the actual ratio of the Companies.

The main factor of the unfunded obligations shown in above (a)2.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Surplus | — | **¥562** | **$4,972** |
| Total | — | **¥562** | **$4,972** |

The ratio in above (b) 2. have 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 |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Deferred tax assets: | | | |
| Allowance for doubtful accounts | ¥ 94 | **¥ 89** | **$ 790** |
| Accrued enterprise taxes | 549 | **556** | **4,921** |
| Provision for bonuses | 1,010 | **1,045** | **9,243** |
| Net defined benefit liability | 2,594 | **2,617** | **23,156** |
| Provision for directors' retirement benefits | 199 | **199** | **1,765** |
| Impairment loss | 743 | **814** | **7,203** |
| Software development cost | 1,175 | **1,209** | **10,695** |
| Unrealized profit from non-current assets | 262 | **267** | **2,363** |
| Other | 1,464 | **1,690** | **14,953** |
| Subtotal | 8,094 | **8,489** | **75,093** |
| Less: Valuation allowance | (972) | **(1,013)** | **(8,961)** |
| Total deferred tax assets | 7,122 | **7,476** | **66,131** |
| Deferred tax liabilities: | | | |
| Valuation difference on available-for-sale securities | (1,973) | **(3,234)** | **(28,610)** |
| Other | (111) | **(66)** | **(590)** |
| Total deferred tax liabilities | (2,084) | **(3,301)** | **(29,200)** |
| Net deferred tax assets | ¥5,038 | **¥4,175** | **$36,930** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | 2017 | 2017 |
| Current assets - Deferred tax assets | ¥2,617 | **¥2,887** | **$25,542** |
| Non-current assets - Deferred tax assets | 2,421 | **1,369** | **12,111** |
| Non-current liabilities - Deferred tax liabilities | — | **81** | **722** |

**(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**

Since the difference between the effective statutory tax rates and the effective tax rates for the fiscal year ended December 31, 2016 and 2017 is less than 5% of the effective statutory tax rates, a reconciliation of the differences is omitted.

## (ASSET RETIREMENT OBLIGATIONS)

The disclosure is omitted because asset retirement obligations were immaterial in the consolidated financial statements.

## (INVESTMENT AND RENTAL PROPERTIES)

The disclosure is omitted because investment and rental properties were immaterial in the consolidated financial statements.

## (SEGMENT INFORMATION)

**【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”, whose business fields encompass the construction of information systems and their cutover, and “Service and Support”, 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 service and support for their business operations and installed systems encompassing supplies, 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 profit.

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

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

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 | | | | | | | |
| Outside customers sales | ¥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 | ¥ 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 (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 |
| Increase in property, plant and equipment and intangible assets (Note 4) | 2,834 | 3,639 | 6,473 | 5 | 6,478 | 137 | 6,616 |

| | Reportable segments | | | | | | Millions of yen |
|---|---|---|---|---|---|---|---|
| | | | | | | | 2017 |
| | System integration business | Service and Support business | Subtotal | Other (Note 1) | Total | Adjustment (Note 2) | Consolidated total (Note 3) |
| Sales | | | | | | | |
| Outside customers sales | ¥408,718 | ¥282,064 | ¥690,783 | ¥383 | ¥691,166 | — | ¥691,166 |
| Inter-segment sales/transfers | 98 | 329 | 427 | 108 | 536 | (536) | — |
| Total | ¥408,817 | ¥282,393 | ¥691,211 | ¥491 | ¥691,702 | ¥ (536) | ¥691,166 |
| Segment profit | ¥ 38,566 | ¥ 13,695 | ¥ 52,262 | ¥ 63 | ¥ 52,325 | ¥ (7,939) | ¥ 44,386 |
| Segment assets | ¥135,017 | ¥102,083 | ¥237,100 | ¥736 | ¥237,836 | ¥142,480 | ¥380,317 |
| Other items | | | | | | | |
| Depreciation (Note 4) | ¥ 2,806 | ¥ 2,733 | ¥ 5,539 | ¥ 12 | ¥ 5,552 | ¥ 586 | ¥ 6,138 |
| Investments in affiliates accounted for using equity method | 761 | 1,721 | 2,483 | — | 2,483 | — | 2,483 |
| Increase in property, plant and equipment and intangible assets (Note 4) | 2,644 | 3,500 | 6,144 | 9 | 6,153 | 247 | 6,401 |

| | Reportable segments | | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|---|
| | | | | | | | 2017 |
| | System integration business | Service and Support business | Subtotal | Other (Note 1) | Total | Adjustment (Note 2) | Consolidated total (Note 3) |
| Sales | | | | | | | |
| Outside customers sales | $3,615,380 | $2,495,043 | $6,110,424 | $3,389 | $6,113,813 | — | $6,113,813 |
| Inter-segment sales/transfers | 871 | 2,912 | 3,783 | 958 | 4,741 | (4,741) | — |
| Total | $3,616,251 | $2,497,956 | $6,114,207 | $4,347 | $6,118,555 | $ (4,741) | $6,113,813 |
| Segment profit | $ 341,144 | $ 121,147 | $ 462,292 | $ 561 | $ 462,854 | $ (70,225) | $ 392,628 |
| Segment assets | $1,194,312 | $ 902,990 | $2,097,302 | $6,518 | $2,103,821 | $1,260,334 | $3,364,155 |
| Other items | | | | | | | |
| Depreciation (Note 4) | $ 24,823 | $ 24,178 | $ 49,002 | $ 109 | $ 49,111 | $ 5,189 | $ 54,300 |
| Investments in affiliates accounted for using equity method | 6,739 | 15,224 | 21,963 | — | 21,963 | — | 21,963 |
| Increase in property, plant and equipment and intangible assets (Note 4) | 23,391 | 30,963 | 54,354 | 80 | 54,435 | 2,192 | 56,628 |

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 for the years ended December 31, 2016 and 2017 were ¥-7,662 million and ¥-7,958 million ($-70,399 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, 2016 and 2017 were ¥127,762 million and ¥143,497 million ($1,269,328 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” adjustment refers to depreciation expenses related to companywide assets.
The “Increase in property, plant and equipment and intangible assets” related to companywide assets.
3. The “Segment profit” is reconciled with “Operating profit” in Consolidated Statements of Income.
4. “Depreciation” and “Increase in property, plant and equipment and intangible assets” include relevant amount of Long-term prepaid expenses.

**【Related Information】**

**(1) Products and services**

The disclosure is omitted because similar information is disclosed in segment information for the years ended December 31, 2016 and 2017.

**(2) Geographical area**

1. Net Sales

The disclosure is omitted because outside customers sales in Japan constituted more than 90% of total net sales for the years ended December 31, 2016 and 2017.

2. Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan as of December 31, 2016 and 2017.

**(3) Major customer**

The disclosure is omitted because there was no outside customer whose net sales amount was more than 10% of net sales in the consolidated statements of income for the years ended December 31, 2016 and 2017.

**【Impairment loss on fixed assets by reportable segment】**

The disclosure is omitted because impairment loss on fixed assets by reportable segment is immaterial in the consolidated financial statements for the years ended December 31, 2016 and 2017.

**【Amortization and unamortized balance of goodwill by reportable segment】**

For the years ended December 31, 2016 and 2017, not applicable.

**【Gain on negative goodwill by reportable segment】**

For the years ended December 31, 2016 and 2017, not applicable.

**【Related Party Transactions】**

For the years ended December 31, 2016 and 2017, not applicable.

## (PER SHARE INFORMATION)

Net assets per share as of December 31, 2016 and 2017 and basic earnings per share for the years ended December 31, 2016 and 2017 were summarized as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Net assets per share | ¥2,002.64 | **¥2,245.73** | **$19.86** |
| Basic earnings per share | 281.38 | **332.91** | **2.94** |

Notes 1. Diluted basic earnings per share for the years ended December 31, 2016 and 2017 are omitted, because the Companies have no dilutive shares.

2. Basis for calculation of net assets per share as of December 31, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Numerator: | | | |
| Net assets | ¥191,173 | **¥214,532** | **$1,897,674** |
| Non-controlling interests in consolidated subsidiaries | (1,321) | **(1,634)** | **(14,461)** |
| Net assets attributable to common stock | ¥189,851 | **¥212,897** | **$1,883,213** |

| | 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, 2016 and 2017 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Numerator: | | | |
| Profit attributable to owners of parent | ¥26,675 | **¥31,560** | **$279,173** |
| Amount not attributable to common shareholders | — | **—** | **—** |
| Profit attributable to owners of parent related to common shareholders | ¥26,675 | **¥31,560** | **$279,173** |

| | Thousands of shares | |
|---|---|---|
| Denominator: | | |
| Weighted-average number of shares of common stock outstanding | 94,800 | **94,800** |

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

## (NOTES - SIGNIFICANT EVENTS AFTER REPORTING PERIOD)

**【Stock split】**

The Board of Directors' meeting held on February 1, 2018 resolved stock split as below.

**(1) Purpose of stock split**

The stock split will be conducted with the aim of increasing the liquidity of the Company's stock and expanding the investor base by reducing the price of share-trading units.

**(2) Overview of stock split**

1. Method of stock split

Each share of common stock held by shareholders listed or recorded in the latest Registry of Shareholders as of record date, March 31, 2018, will be split into two.

2. Number of increase in shares by stock split

| | Shares |
|---|---|
| 1) Total number of shares outstanding before stock split | 95,001,060 |
| 2) Number of increase in shares by stock split | 95,001,060 |
| 3) Total number of shares outstanding after stock split | 190,002,120 |
| 4) Total number of authorized shares after stock split | 677,160,000 |

3. Schedule

| | |
|---|---|
| 1) Public notice date of the record date | March 17, 2018 |
| 2) Record date | March 31, 2018 |
| 3) Effective date | April 1, 2018 |

**(3) Impact on per share information**

Per share information as of December 31, 2016 and 2017 on the assumption that the stock split was conducted on January 1, 2016 was as follows:

| | Thousands of shares | |
|---|---|---|
| | 2016 | **2017** |
| Number of shares of common stock outstanding (excluding treasury shares) | 189,601 | **189,601** |

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Net assets per share | ¥1,001.32 | **¥1,122.87** | **$9.93** |

| | Thousands of shares | |
|---|---|---|
| | 2016 | **2017** |
| Weighted-average number of shares of common stock outstanding (excluding treasury shares) | 189,601 | **189,601** |

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2016 | **2017** | **2017** |
| Basic earnings per share | ¥140.69 | **¥166.46** | **$1.47** |
| Dividend per share | 60.00 | **70.00** | **0.62** |

## 【CONSOLIDATED SUPPLEMENTARY STATEMENTS】

### (ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 2017 consisted of the following:

| | Millions of yen | |
|---|---|---|
| | 2017 | |
| | Balance at the beginning of the year | Balance at the end of the year |
| Short-term loans payable at the average interest rate of 0.66% | ¥5,000 | ¥4,900 |
| Current portion of long-term loans payable | — | — |
| Current portion of lease obligations | 909 | 865 |
| Long-term loans payable due 2023 at the average interest rate of 0.66% | 1,700 | 1,700 |
| Lease obligations due 2019 through 2024 | 1,399 | 1,408 |
| Other interest-bearing debt | — | — |
| Total | ¥9,008 | ¥8,873 |

| | Thousands of U.S. dollars | |
|---|---|---|
| | 2017 | |
| | Balance at the beginning of the year | Balance at the end of the year |
| Short-term loans payable at the average interest rate of 0.66% | $44,228 | $43,343 |
| Current portion of long-term loans payable | — | — |
| Current portion of lease obligations | 8,043 | 7,653 |
| Long-term loans payable due 2023 at the average interest rate of 0.66% | 15,037 | 15,037 |
| Lease obligations due 2019 through 2024 | 12,378 | 12,455 |
| Other interest-bearing debt | — | — |
| Total | $79,687 | $78,490 |

Notes 1. 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, 2017 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | 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 | ¥629 | ¥364 | ¥273 | ¥110 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2017 | | | |
| | 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 | $5,568 | $3,221 | $2,418 | $974 |

## 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, 2017, 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, 2017, 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 28, 2018
Tokyo, Japan

Ernst & Young ShinNihon LLC

# Principal Group Companies (As of December 31, 2017)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 8 subsidiaries, including 5 consolidated subsidiaries as well as 7 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, 2017)

| | |
|---|---|
| **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** | 7,080 (with consolidated subsidiaries: 8,658) |
| **Business** | System Integration business:<br>Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities<br>Service and Support business:<br>Supplies, maintenance and educational support, other activities |
| **Main Banks** | The Bank of Yokohama, Ltd.<br>The Bank of Tokyo-Mitsubishi UFJ, Ltd.<br>Mizuho Bank, Ltd. |

## Bases (As of December 31, 2017)

| | | | |
|---|---|---|---|
| **Head Office** | 2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573<br>TEL 03-3264-7111 | | |
| **Kansai Office** | 6-14-1 Fukushima, Fukushima-ku, Osaka-shi, Osaka 553-8558 | | |
| **Local Area Sales Departments** | Chuo Sales Dept. 1 | Chuo Sales Dept. 2 | Kanagawa Sales Dept. |
| | Josai Sales Dept. | Tama Sales Dept. | Johoku Sales Dept. |
| | Northern Kanto Sales Dept. | Keiyo Sales Dept. | Osaka Northern Sales Dept. |
| | Osaka Southern Sales Dept. | | |
| **Regional Offices** | Sapporo Branch | Sendai Branch | Utsunomiya Branch |
| | Takasaki Branch | Chubu Branch | Kyoto Branch |
| | Kobe Branch | Hiroshima Branch | Kyushu Branch |

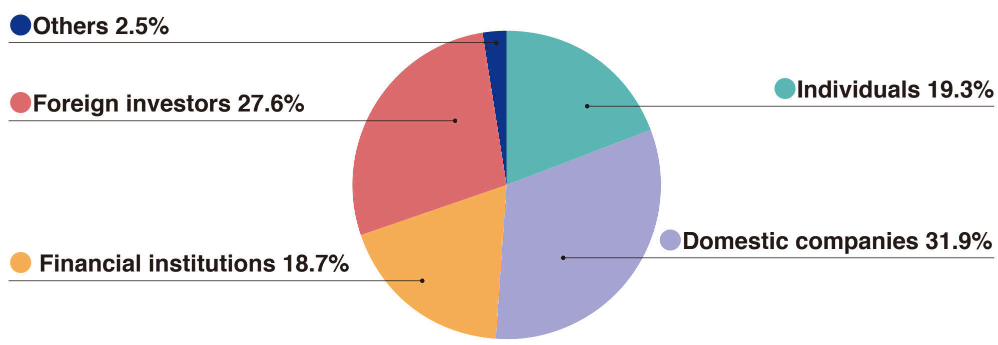
# Stock Information (As of December 31, 2017)

| | |
|---|---|
| **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** | **4,245** |

## 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 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 4,264,600 | 4.48 | — | — |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 3,658,000 | 3.85 | — | — |
| Yuji Otsuka | 2,840,940 | 2.99 | — | — |
| Minoru Otsuka | 2,836,470 | 2.98 | — | — |
| OTSUKA CORPORATION Employee Stock-Sharing Plan | 2,754,460 | 2.89 | — | — |
| Atsushi Otsuka | 2,547,850 | 2.68 | — | — |
| Terue Otsuka | 1,936,500 | 2.03 | — | — |
| STATE STREET BANK WEST CLIENT - TREATY 505234 | 1,383,789 | 1.45 | — | — |
| Japan Trustee Services Bank, Ltd. (Trust Account 5) | 1,124,800 | 1.18 | — | — |

## Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

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