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.

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

Thousands of U.S. dollars

	Shareholders' equity				
	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**

Thousands of U.S. dollars

	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	**$39,962**	**—**	**$(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.

	Thousands of U.S. dollars		
	2017		
	Carrying value	Fair value	Difference
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 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 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 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 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 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 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 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 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 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