Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries
Years ended December 31, 2016, 2017 and 2018

	Millions of yen			Thousands of U.S. dollars
	2016	2017	**2018**	**2018**
Net sales	¥643,417	¥691,166	**¥759,871**	**$6,851,240**
System Integration business	376,391	408,718	**463,293**	**4,177,200**
Service and Support business	266,625	282,064	**296,577**	**2,674,039**
Other business	400	383	**—**	**—**
Operating income	39,684	44,386	**48,058**	**433,308**
Ordinary income	40,780	45,460	**49,285**	**444,372**
Profit before income taxes	40,280	45,363	**49,100**	**442,702**
Profit attributable to owners of parent	26,675	31,560	**33,601**	**302,965**
Total assets	343,821	380,317	**406,732**	**3,667,226**
Interest-bearing debt	9,008	8,873	**8,256**	**74,447**
Equity	189,851	212,897	**229,726**	**2,071,287**
Earnings per share (EPS) (Yen and U.S. dollars)	140.69	166.46	**177.22**	**1.60**
Dividend per share of common stock (Yen and U.S. dollars)	60.00	70.00	**85.00**	**0.77**
Cash flows from operating activities per share (Yen and U.S. dollars)	126.22	190.68	**203.83**	**1.84**
Operating income to Net sales ratio (%)	6.17	6.42	**6.32**	**—**
Net income to Net sales ratio* (%)	4.15	4.57	**4.42**	**—**
Interest-bearing debt ratio (%)	2.62	2.33	**2.03**	**—**
Equity ratio (%)	55.22	55.98	**56.48**	**—**
Return on equity (ROE) (%)	14.69	15.67	**15.18**	**—**

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, 2018 exchange rate of ¥110.91 = US$1.
Otsuka Auto Service Co., LTD., which was a consolidated subsidiary, was excluded from consolidation from the fiscal year 2018 due to its reduced impact on consolidated business results. Along with this, the Other business segment is not listed from the fiscal year 2018 due to the absence of business results.
The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2016.

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

			Millions of yen	
	2017	**2018**	Difference to Last Year	% Change to Last Year
Net sales	¥691,166	**¥759,871**	+68,704	+9.9%
System Integration business	408,718	**463,293**	+54,574	+13.4
Service and Support business	282,064	**296,577**	+14,513	+5.1
Other business	383	**—**	—	—
Cost of sales	541,339	**602,054**	+60,714	+11.2
Gross profit	149,827	**157,817**	+7,989	+5.3
Selling, general and administrative expenses	105,440	**109,758**	+4,318	+4.1
Operating income	44,386	**48,058**	+3,671	+8.3
Ordinary income	45,460	**49,285**	+3,825	+8.4
Profit before income taxes	45,363	**49,100**	+3,736	+8.2
Income taxes				
Current	13,853	**15,744**	+1,891	+13.7
Deferred	-392	**-622**	-229	—
Profit attributable to owners of parent	31,560	**33,601**	+2,041	+6.5

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥759,871 million, an increase of ¥68,704 million (9.9%) 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 achieved high growth in unit sales of PCs by meeting replacement demand. Moreover, we also recorded smooth growth in sales of packaged software and consigned software. As a result, net sales increased 13.4% from the previous fiscal year to ¥463,293 million. On the other hand, unit sales of copiers declined from 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 made efforts to strengthen the competitiveness of our "tanomail" office supply mail-order service business and together with the "tayoreru" support service business recorded steady growth in sales, which resulted in a 5.1% increase in net sales from the previous fiscal year to ¥296,577 million.

Otsuka Auto Service Co., LTD., which was a consolidated subsidiary, was excluded from consolidation from the fiscal year under review due to its reduced impact on consolidated business results. Along with this, the Other business segment is not listed from the fiscal year under review due to the absence of business results.

Summary of Income and Expenses

Regarding profits, gross profit increased 5.3% from the previous fiscal year to ¥157,817 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 8.3% to ¥48,058 million, ordinary income increased 8.4% to ¥49,285 million and profit attributable to owners of parent rose 6.5% to ¥33,601 million. Earnings per share (EPS) amounted to ¥177.22.

Financial Position

			Millions of yen	
	2017	**2018**	Difference to Last Year	% Change to Last Year
Assets:	¥380,317	**¥406,732**	+26,414	+6.9%
Current assets	309,245	**334,650**	+25,404	+8.2
Non-current assets	71,071	**72,081**	+1,009	+1.4
Liabilities:	165,785	**175,067**	+9,281	+5.6
Current liabilities	152,334	**161,327**	+8,992	+5.9
Non-current liabilities	13,451	**13,740**	+288	+2.1
Net assets	214,532	**231,664**	+17,132	+8.0

Assets

Total assets at fiscal year-end increased ¥26,414 million from the previous fiscal year-end to ¥406,732 million.

Current assets increased ¥25,404 million from the previous fiscal year-end to ¥334,650 million due to such factors as an increase in cash and deposits. Non-current assets increased ¥1,009 million from the previous fiscal year-end to ¥72,081 million.

Liabilities

Total liabilities at fiscal year-end increased ¥9,281 million from the previous fiscal year-end to ¥175,067 million.

Current liabilities increased ¥8,992 million from the previous fiscal year-end to ¥161,327 million due to such factors as an increase in notes and accounts payable – trade.

Non-current liabilities increased ¥288 million from the previous fiscal year-end to ¥13,740 million.

Net Assets

Total net assets at fiscal year-end increased ¥17,132 million from the previous fiscal year-end to ¥231,664 million due to an increase in retained earnings.

As a result, the equity ratio increased 0.5 percentage point from the previous fiscal year-end to 56.5%.

The interest coverage ratio was 1,013.55 times, the interest-bearing debt ratio was 2.03%, return on equity (ROE) was 15.18% and return on assets (ROA) was 12.32%.

	2017	**2018**
Interest coverage ratio (times)	951.53	**1,013.55**
Interest-bearing debt ratio (%)	2.33	**2.03**
ROE (%)	15.67	**15.18**
ROA (%)	12.37	**12.32**

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	
	2017	**2018**
Cash flows from operating activities	¥36,153	**¥38,646**
Cash flows from investing activities	-5,243	**-11,096**
Cash flows from financing activities	-11,528	**-13,470**
Cash and cash equivalents at end of year	137,545	**151,585**

Cash and cash equivalents at end of year totaled ¥151,585 million, an increase of ¥14,040 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 ¥38,646 million, an increase of ¥2,492 million from the previous fiscal year due to an increase in profit before income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥11,096 million, an increase of ¥5,853 million from the previous fiscal year due to the purchase of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥1,942 million to ¥13,470 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, decreased ¥3,360 million to ¥27,549 million.

Forecast for Fiscal 2019

In fiscal 2019 the Company forecasts a 5.7% increase in consolidated net sales to ¥803,000 million, a 4.9% increase in operating income to ¥50,400 million, a 3.9% increase in ordinary income to ¥51,200 million and a 1.8% increase in profit attributable to owners of parent to ¥34,210 million.

By segment, we forecast a 6.0% increase in net sales to ¥491,150 million in the System Integration business and a 5.1% increase to ¥311,850 million in the Service and Support business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Assets			
Current assets			
Cash and deposits (Note 2)	¥136,410	**¥150,888**	**$1,360,456**
Notes and accounts receivable - trade (Note 4)	122,144	**132,352**	**1,193,332**
Merchandise	24,999	**25,721**	**231,909**
Work in process	762	**957**	**8,634**
Raw materials and supplies	837	**828**	**7,473**
Deferred tax assets	2,887	**3,181**	**28,688**
Other	21,324	**20,833**	**187,841**
Allowance for doubtful accounts	(120)	**(113)**	**(1,022)**
Total current assets	309,245	**334,650**	**3,017,315**
Non-current assets			
Property, plant and equipment			
Buildings and structures	58,754	**58,138**	**524,194**
Accumulated depreciation and impairment loss	(40,498)	**(40,761)**	**(367,521)**
Buildings and structures, net	18,255	**17,376**	**156,673**
Land (Note 3)	16,165	**15,604**	**140,691**
Other	12,618	**13,038**	**117,555**
Accumulated depreciation and impairment loss	(9,429)	**(9,389)**	**(84,654)**
Other, net	3,189	**3,649**	**32,901**
Total property, plant and equipment	37,610	**36,629**	**330,266**
Intangible assets			
Software	12,106	**13,729**	**123,790**
Other	59	**59**	**535**
Total intangible assets	12,166	**13,789**	**124,326**
Investments and other assets			
Investment securities (Note 1)	15,306	**14,609**	**131,723**
Guarantee deposits	2,605	**2,424**	**21,855**
Deferred tax assets	1,369	**2,962**	**26,712**
Other	2,183	**1,854**	**16,719**
Allowance for doubtful accounts	(170)	**(187)**	**(1,693)**
Total investments and other assets	21,294	**21,662**	**195,318**
Total non-current assets	71,071	**72,081**	**649,910**
Total assets	¥380,317	**¥406,732**	**$3,667,226**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Liabilities			
Current liabilities			
Notes and accounts payable – trade (Note 2)	¥ 83,107	**¥ 89,322**	**$ 805,363**
Electronically recorded obligations - operating	17,887	**17,904**	**161,434**
Short-term loans payable	4,900	**4,800**	**43,278**
Income taxes payable	8,274	**9,326**	**84,087**
Advances received	12,361	**14,350**	**129,387**
Provision for bonuses	3,379	**3,564**	**32,139**
Other	22,424	**22,058**	**198,886**
Total current liabilities	152,334	**161,327**	**1,454,577**
Non-current liabilities			
Long-term loans payable	1,700	**1,700**	**15,327**
Lease obligations	1,408	**1,058**	**9,544**
Provision for directors' retirement benefits	647	**690**	**6,224**
Net defined benefit liability	8,533	**9,205**	**82,999**
Other	1,162	**1,085**	**9,790**
Total non-current liabilities	13,451	**13,740**	**123,887**
Total liabilities	165,785	**175,067**	**1,578,464**
Net assets			
Shareholders' equity			
Capital stock	10,374	**10,374**	**93,542**
Capital surplus	16,254	**16,254**	**146,558**
Retained earnings	189,816	**209,335**	**1,887,435**
Treasury shares	(137)	**(139)**	**(1,259)**
Total shareholders' equity	216,308	**235,825**	**2,126,276**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	7,348	**4,544**	**40,974**
Deferred gains or losses on hedges	2	**(23)**	**(210)**
Revaluation reserve for land (Note 3)	(12,097)	**(11,650)**	**(105,048)**
Foreign currency translation adjustment	45	**3**	**29**
Remeasurements of defined benefit plans	1,289	**1,027**	**9,264**
Total accumulated other comprehensive income	(3,411)	**(6,098)**	**(54,989)**
Non-controlling interests	1,634	**1,938**	**17,474**
Total net assets	214,532	**231,664**	**2,088,761**
Total liabilities and net assets	¥380,317	**¥406,732**	**$3,667,226**

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, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Net sales	¥691,166	**¥759,871**	**$6,851,240**
Cost of sales	541,339	**602,054**	**5,428,311**
Gross profit	149,827	**157,817**	**1,422,928**
Selling, general and administrative expenses			
Salaries, allowances and bonuses	42,178	**42,549**	**383,639**
Directors' compensations	584	**580**	**5,237**
Welfare expenses	6,921	**7,094**	**63,964**
Rent expenses	6,439	**6,699**	**60,403**
Transportation and warehousing expenses	19,043	**20,812**	**187,649**
Provision for bonuses	2,252	**2,383**	**21,488**
Retirement benefit expenses	2,132	**2,299**	**20,730**
Provision for directors' retirement benefits	67	**65**	**591**
Provision of allowance for doubtful accounts	72	**73**	**663**
Depreciation	4,787	**5,126**	**46,223**
Other	20,959	**22,074**	**199,026**
Total Selling, general and administrative expenses (Note 1)	105,440	**109,758**	**989,619**
Operating profit	44,386	**48,058**	**433,308**
Non-operating income			
Interest income	17	**13**	**122**
Dividend income	129	**162**	**1,469**
House rent income	233	**248**	**2,240**
Income from recycling	145	**175**	**1,584**
Share of profit of entities accounted for using equity method	264	**259**	**2,342**
Foreign exchange gains	133	**179**	**1,620**
Other	208	**241**	**2,179**
Total non-operating income	1,129	**1,282**	**11,560**
Non-operating expenses			
Interest expenses	47	**47**	**431**
Other	8	**7**	**64**
Total non-operating expenses	56	**55**	**496**
Ordinary profit	45,460	**49,285**	**444,372**
Extraordinary income			
Gain on sales of non-current assets (Note 2)	107	**96**	**874**
Other	70	**10**	**90**
Total extraordinary income	178	**106**	**964**
Extraordinary losses			
Loss on retirement of non-current assets (Note 3)	34	**61**	**556**
Impairment loss	234	**227**	**2,052**
Other	6	**2**	**24**
Total extraordinary losses	275	**292**	**2,634**
Profit before income taxes	45,363	**49,100**	**442,702**
Income taxes-current	13,853	**15,744**	**141,957**
Income taxes-deferred	(392)	**(622)**	**(5,609)**
Total income taxes	13,460	**15,122**	**136,348**
Profit	31,902	**33,977**	**306,353**
Profit attributable to non-controlling interests	342	**375**	**3,387**
Profit attributable to owners of parent	¥ 31,560	**¥ 33,601**	**$ 302,965**

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, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Profit	¥31,902	**¥33,977**	**$306,353**
Other comprehensive income			
Valuation difference on available-for-sale securities	2,857	**(2,763)**	**(24,914)**
Deferred gains or losses on hedges	3	**(31)**	**(285)**
Remeasurements of defined benefit plans, net of tax	(17)	**(263)**	**(2,371)**
Share of other comprehensive income of entities accounted for using equity method	50	**(45)**	**(408)**
Total other comprehensive income (Note 1)	2,893	**(3,103)**	**(27,979)**
Comprehensive income	¥34,795	**¥30,874**	**$278,374**
(Breakdown)			
Comprehensive income attributable to owners of parent	¥34,421	**¥30,468**	**$274,709**
Comprehensive income attributable to non-controlling interests	374	**406**	**3,664**

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, 2017

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of 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 as of 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, 2018

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2018	**¥10,374**	**¥16,254**	**¥189,816**	**¥(137)**	**¥216,308**
Dividends of surplus			**(13,272)**		**(13,272)**
Profit attributable to owners of parent			**33,601**		**33,601**
Reversal of revaluation reserve for land			**(446)**		**(446)**
Purchase of treasury shares				**(2)**	**(2)**
Change of scope of consolidation			**(364)**		**(364)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**—**	**19,518**	**(2)**	**19,516**
Balance as of December 31, 2018	**¥10,374**	**¥16,254**	**¥209,335**	**¥(139)**	**¥235,825**

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 as of January 1, 2018	**¥7,348**	**¥ 2**	**¥(12,097)**	**¥45**	**¥1,289**	**¥(3,411)**	**¥1,634**	**¥214,532**
Dividends of surplus								**(13,272)**
Profit attributable to owners of parent								**33,601**
Reversal of revaluation reserve for land								**(446)**
Purchase of treasury shares								**(2)**
Change of scope of consolidation								**(364)**
Net changes of items other than shareholders' equity	**(2,804)**	**(25)**	**446**	**(41)**	**(261)**	**(2,687)**	**303**	**(2,384)**
Total changes of items during the period	**(2,804)**	**(25)**	**446**	**(41)**	**(261)**	**(2,687)**	**303**	**17,132**
Balance as of December 31, 2018	**¥4,544**	**¥(23)**	**¥(11,650)**	**¥ 3**	**¥1,027**	**¥(6,098)**	**¥1,938**	**¥231,664**

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2018

	Shareholders' equity (Thousands of U.S. dollars)				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2018	**$93,542**	**$146,558**	**$1,711,445**	**$(1,239)**	**$1,950,307**
Dividends of surplus			**(119,665)**		**(119,665)**
Profit attributable to owners of parent			**302,965**		**302,965**
Reversal of revaluation reserve for land			**(4,023)**		**(4,023)**
Purchase of treasury shares				**(19)**	**(19)**
Change of scope of consolidation			**(3,287)**		**(3,287)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**—**	**175,989**	**(19)**	**175,969**
Balance as of December 31, 2018	**$93,542**	**$146,558**	**$1,887,435**	**$(1,259)**	**$2,126,276**

	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 as of January 1, 2018	**$66,258**	**$ 22**	**$(109,072)**	**$407**	**$11,626**	**$(30,757)**	**$14,740**	**$1,934,290**
Dividends of surplus								**(119,665)**
Profit attributable to owners of parent								**302,965**
Reversal of revaluation reserve for land								**(4,023)**
Purchase of treasury shares								**(19)**
Change of scope of consolidation								**(3,287)**
Net changes of items other than shareholders' equity	**(25,283)**	**(232)**	**4,023**	**(377)**	**(2,361)**	**(24,232)**	**2,733**	**(21,498)**
Total changes of items during the period	**(25,283)**	**(232)**	**4,023**	**(377)**	**(2,361)**	**(24,232)**	**2,733**	**154,471**
Balance as of December 31, 2018	**$40,974**	**$(210)**	**$(105,048)**	**$ 29**	**$ 9,264**	**$(54,989)**	**$17,474**	**$2,088,761**

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, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Cash flows from operating activities:			
Profit before income taxes	¥ 45,363	**¥ 49,100**	**$ 442,702**
Depreciation	6,138	**6,438**	**58,055**
Impairment loss	234	**227**	**2,052**
Increase (decrease) in allowance for doubtful accounts	(16)	**9**	**87**
Interest and dividend income	(146)	**(176)**	**(1,591)**
Interest expenses	47	**47**	**431**
Share of loss (profit) of entities accounted for using equity method	(264)	**(259)**	**(2,342)**
Loss on retirement of non-current assets	34	**61**	**556**
Loss (gain) on sales of non-current assets	(107)	**(94)**	**(849)**
Decrease (increase) in notes and accounts receivable - trade	(12,119)	**(10,255)**	**(92,470)**
Decrease (increase) in inventories	39	**(909)**	**(8,201)**
Increase (decrease) in notes and accounts payable - trade	7,319	**6,246**	**56,320**
Other, net	2,080	**2,540**	**22,904**
Subtotal	48,605	**52,976**	**477,655**
Interest and dividend income received	218	**207**	**1,867**
Interest expenses paid	(46)	**(48)**	**(433)**
Income taxes paid	(12,622)	**(14,489)**	**(130,638)**
Net cash provided by (used in) operating activities	36,153	**38,646**	**348,450**
Cash flows from investing activities:			
Proceeds from withdrawal of time deposits	300	**—**	**—**
Purchase of property, plant and equipment	(1,476)	**(2,436)**	**(21,964)**
Proceeds from sales of property, plant and equipment	900	**243**	**2,199**
Purchase of software	(4,925)	**(5,864)**	**(52,873)**
Purchase of investment securities	(46)	**(3,065)**	**(27,636)**
Proceeds from sales of investment securities	140	**10**	**96**
Collection of long-term loans receivable	25	**39**	**358**
Other, net	(161)	**(25)**	**(233)**
Net cash provided by (used in) investing activities	(5,243)	**(11,096)**	**(100,052)**
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(100)	**(100)**	**(901)**
Cash dividends paid	(11,367)	**(13,265)**	**(119,605)**
Other, net	(60)	**(105)**	**(949)**
Net cash provided by (used in) financing activities	(11,528)	**(13,470)**	**(121,457)**
Effect of exchange rate change on cash and cash equivalents	(19)	**(7)**	**(67)**
Net increase (decrease) in cash and cash equivalents	19,362	**14,071**	**126,873**
Cash and cash equivalents at beginning of period	118,183	**137,545**	**1,240,158**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	**(31)**	**(283)**
Cash and cash equivalents at end of period (Note 1)	¥137,545	**¥151,585**	**$1,366,747**

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, 2017 and 2018 the numbers of subsidiaries and consolidated subsidiaries were as follows:

	2017	2018
Subsidiaries	8	8
(Consolidated subsidiaries)	(5)	(4)

The 4 subsidiaries which were consolidated in the year ended December 31, 2018 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%
Networld Corporation	81.5%

The Company and its consolidated subsidiaries are hereinafter referred to as "the Companies".
Because Otsuka Auto Service Co., LTD., which was one of the consolidated subsidiaries as of December 31, 2017, has less impact on total assets, net sales, profit (loss), retained earnings, etc. and its overall materiality has declined, it was excluded from the scope of consolidation from the year ended December 31, 2018.
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 unconsolidated subsidiaries had little impact on total assets, net sales, profit (loss) attributable to owners of parent and retained earnings in the consolidated financial statements.

(2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2017 and 2018 the numbers of unconsolidated subsidiaries and affiliates were as follows:

	2017	2018
Unconsolidated subsidiaries	3	4
Affiliates	7	7
(Affiliates accounted for using equity method)	(2)	(3)

Investments in unconsolidated subsidiaries and affiliates not accounted for using equity method were carried at cost, since they had little impact on profit (loss) attributable to owners of parent and retained earnings and their overall materiality did not exist in the consolidated financial statements as well.

The 3 investments in affiliates accounted for using equity method as of December 31, 2018 are listed below:

	A ratio of voting rights held by the Company
Otsuka Information Technology Corp.	37.8%
LION OFFICE PRODUCTS CORP.	40.4%
RO Holdings, Inc.	33.4%

RO Holdings, Inc. is accounted for using equity method since it became an affiliate through stock acquisition by the Company during the year ended December 31, 2018.
As for affiliates accounted for using equity method whose fiscal year-end are 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 calculated 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 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 amortized as incurred by the straight-line method over periods (12 years), which are shorter than the average remaining years of service of the employees.
Actuarial gain or loss is amortized in the following year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 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 for 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) Accounting pronouncement not yet adopted

– Accounting Standard for Revenue Recognition (ASBJ Statement No.29 on March 30, 2018)

– Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 on March 30, 2018)

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the impact of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

(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 ¥110.91 = US$1, exchange rates on December 31, 2018, 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, 2017 and 2018, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Investment securities (stock)	¥2,953	**¥6,214**	**$56,029**
Investment securities (capital)	217	**217**	**1,958**

*2. Pledged Assets

As of December 31, 2017 and 2018, pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Time deposits	¥5	**¥5**	**$45**

Liabilities corresponding to above assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Notes and accounts payable - trade	¥5	**¥5**	**$45**

*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, 2017 and 2018, the differences between fair value and carrying value after revaluation were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
The differences between fair value and carrying value after revaluation	¥(210)	**¥73**	**$658**

*4. Notes matured at the balance sheet date

December 31, 2017 and 2018 were a bank holiday, and notes matured at the balance sheet date were accounted for as if they were settled on the maturity dates.

As of December 31, 2017 and 2018, notes matured at the balance sheet date were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Notes receivable	¥418	**¥555**	**$5,004**

CONSOLIDATED STATEMENTS OF INCOME

*1. Research and development expenses

For the years ended December 31, 2017 and 2018, Research and development expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Research and development expenses included in general and administrative expenses and manufacturing costs	¥1,207	**¥1,004**	**$9,055**

*2. Gain on sales of non-current assets

For the years ended December 31, 2017 and 2018, Gain on sales of non-current assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Buildings and structures	¥ 96	**¥59**	**$533**
Land	11	**37**	**335**
Other property, plant and equipment	—	**0**	**5**
Gain on sales of non-current assets	¥107	**¥96**	**$874**

*3. Loss on retirement of non-current assets

For the years ended December 31, 2017 and 2018, Loss on retirement of non-current assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Buildings and structures	¥19	**¥27**	**$251**
Other property, plant and equipment	14	**33**	**305**
Software	0	**—**	**—**
Loss on retirement of non-current assets	¥34	**¥61**	**$556**

(CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

*1. Other comprehensive income

For the years ended December 31, 2017 and 2018, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Valuation difference on available-for-sale securities			
Amount arising during the year	¥4,119	**¥(3,993)**	**$(36,010)**
Reclassification adjustments	(0)	**(2)**	**(18)**
Amount before tax effect	4,119	**(3,996)**	**(36,029)**
Tax effect	(1,261)	**1,232**	**11,114**
Valuation difference on available-for-sale securities	2,857	**(2,763)**	**(24,914)**
Deferred gains or losses on hedges			
Amount arising during the year	21	**(22)**	**(204)**
Reclassification adjustments	(17)	**(23)**	**(207)**
Amount before tax effect	4	**(45)**	**(411)**
Tax effect	(1)	**13**	**126**
Deferred gains or losses on hedges	3	**(31)**	**(285)**
Remeasurements of defined benefit plans			
Amount arising during the year	250	**(452)**	**(4,083)**
Reclassification adjustments	(276)	**74**	**668**
Amount before tax effects	(25)	**(378)**	**(3,415)**
Tax effects	7	**115**	**1,043**
Remeasurements of defined benefit plans	(17)	**(263)**	**(2,371)**
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	48	**(47)**	**(423)**
Reclassification adjustments	1	**1**	**15**
Share of other comprehensive income of entities accounted for using equity method	50	**(45)**	**(408)**
Total other comprehensive income	¥2,893	**¥(3,103)**	**$(27,979)**

(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	
	2017	**2018**
Number of shares at the beginning of the fiscal year	95,001	**95,001**
Increase (*)	—	**95,001**
Decrease	—	**—**
Number of shares as of the end of the fiscal year	95,001	**190,002**

Type of all shares outstanding is common stock.

* The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018.
The shares increase in the number of shares outstanding arise from the stock split.

(2) Number of treasury shares

	Thousands of shares	
	2017	**2018**
Number of shares at the beginning of the fiscal year	200	**200**
Increase (*)	—	**200**
Decrease	—	**—**
Number of shares as of the end of the fiscal year	200	**400**

Type of all treasury shares is common stock.

* The increase in the number of treasury shares consists of 200 thousand of shares by the stock split with an effective date of April 1, 2018 and 0 thousand of shares by purchase 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-17	¥11,376	$102,570	¥120.00	$1.08	31-Dec-16	30-Mar-17
28-Mar-18	**¥13,272**	**$119,665**	**¥140.00**	**$1.26**	31-Dec-17	29-Mar-18
27-Mar-19	**¥16,116**	**$145,307**	**(*) ¥85.00**	**$0.77**	31-Dec-18	28-Mar-19

Type of all shares outstanding is common stock.
Source of dividends is Retained earnings.

* The dividend per share whose record date is December 31, 2018 stated above is calculated in consideration of the stock split with an effective date of April 1, 2018.
The dividend per share whose record date is December 31, 2018 not considering the stock split is ¥ 170.00.

(CONSOLIDATED STATEMENTS OF CASH FLOWS)

*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2017 and 2018 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash and deposits	¥136,410	**¥150,888**	**$1,360,456**
Time deposits with deposit terms of more than three months	(55)	**(55)**	**(495)**
Trust beneficiary interests included in other current assets with investment terms with three months or less	1,190	**752**	**6,786**
Cash and cash equivalents	¥137,545	**¥151,585**	**$1,366,747**

(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, 2017 and 2018.

2. Operating Lease Transactions

The amounts of future lease payments on noncancelable operating leases as of December 31, 2017 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Due within one year	¥336	**¥614**	**$5,537**
Due after one year	264	**149**	**1,351**
Total	¥601	**¥764**	**$6,888**

(FINANCIAL INSTRUMENTS)

1. Financial Instruments

(1) Policy for financial instruments

The Companies manage temporary surplus through low-risk financial instruments, and raise 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 almost 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 one of the consolidated subsidiaries.

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, 2017 and 2018 and estimated fair value were as follows:

	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) Investments securities			
Other securities	11,984	11,984	—
Investments 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 – operating	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.

	Millions of yen		
	2018		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	**¥150,888**	**¥150,888**	**—**
2) Notes and accounts receivable - trade	**132,352**	**132,352**	**—**
3) Investments securities			
Other securities	**8,021**	**8,021**	**—**
Investments in affiliates	**1,185**	**1,755**	**569**
Total assets	**¥292,447**	**¥293,017**	**¥ 569**
Liabilities			
4) Notes and accounts payable – trade	**¥ 89,322**	**¥ 89,322**	**—**
5) Electronically recorded obligations – operating	**17,904**	**17,904**	**—**
6) Short-term loans payable	**4,800**	**4,800**	**—**
7) Income taxes payable	**9,326**	**9,326**	**—**
8) Long-term loans payable	**1,700**	**1,702**	**2**
Total liabilities	**¥123,053**	**¥123,056**	**¥ 2**
Derivative transaction (*)			
Derivative transaction which hedge accounting is not applied	**¥ (12)**	**¥ (12)**	**—**
Derivative transaction which hedge accounting is applied	**(41)**	**(41)**	**—**
Total derivative transaction	**¥ (53)**	**¥ (53)**	**—**

* 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 2018		
Assets			
1) Cash and deposits	**$1,360,456**	**$1,360,456**	**—**
2) Notes and accounts receivable - trade	**1,193,332**	**1,193,332**	**—**
3) Investments securities			
Other securities	**72,326**	**72,326**	**—**
Investments in affiliates	**10,688**	**15,823**	**5,135**
Total assets	**$2,636,803**	**$2,641,939**	**$ 5,135**
Liabilities			
4) Notes and accounts payable – trade	**$ 805,363**	**$ 805,363**	**—**
5) Electronically recorded obligations – operating	**161,434**	**161,434**	**—**
6) Short-term loans payable	**43,278**	**43,278**	**—**
7) Income taxes payable	**84,087**	**84,087**	**—**
8) Long-term loans payable	**15,327**	**15,350**	**22**
Total liabilities	**$1,109,491**	**$1,109,514**	**$ 22**
Derivative transaction (*)			
Derivative transaction which hedge accounting is not applied	**$ (108)**	**$ (108)**	**—**
Derivative transaction which hedge accounting is applied	**(372)**	**(372)**	**—**
Total derivative transaction	**$ (480)**	**$ (480)**	**—**

* 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.

For information on securities classified by holding purpose, please refer to SECURITIES, of Notes to Consolidated Financial Statements.

Liabilities

4) Notes and accounts payable - trade 5) Electronically recorded obligations - operating 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 is based on the present value of the total of principal and interest discounted by the interest rate presumed in the case of new borrowings.

Derivative transaction

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

2. As of December 31, 2017 and 2018, financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unlisted stocks	¥2,140	**¥5,372**	**$48,441**
Investments in investment business limited partnerships	24	**29**	**267**

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, 2017 and 2018 are as follows:

	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	—	—	—

	Millions of yen			
	2018			
	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	**¥150,888**	**—**	**—**	**—**
Notes and accounts receivable - trade	**132,352**	**—**	**—**	**—**
Total	**¥283,240**	**—**	**—**	**—**

	Thousands of U.S. dollars			
	2018			
	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	**$1,360,456**	**—**	**—**	**—**
Notes and accounts receivable - trade	**1,193,332**	**—**	**—**	**—**
Total	**$2,553,789**	**—**	**—**	**—**

4. Repayment schedules for long-term loans payable and other interest-bearing debt as of December 31, 2017 and 2018 are as follows:

	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	—

	Millions of yen			
	2018			
	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	**¥4,800**	**—**	**—**	**—**
Long-term loans payable	**—**	**¥1,700**	**—**	**—**

	Thousands of U.S. dollars			
	2018			
	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	**$43,278**	**—**	**—**	**—**
Long-term loans payable	**—**	**$15,327**	**—**	**—**

(SECURITIES)

As of December 31, 2017 and 2018, securities were as follows:

(1) Available-for-sale securities with fair value as of December 31, 2017 and 2018

	Millions of yen						Thousands of U.S. dollars		
	2017			**2018**			**2018**		
	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	¥11,775	¥1,279	¥10,496	**¥7,826**	**¥1,272**	**¥6,554**	**$70,563**	**$11,469**	**$59,094**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	208	89	119	**170**	**102**	**67**	**1,540**	**928**	**612**
	¥11,984	¥1,368	¥10,615	**¥7,997**	**¥1,375**	**¥6,622**	**$72,104**	**$12,397**	**$59,706**
Securities whose carrying value does not exceed their acquisition costs									
Stocks	—	—	—	**¥ 24**	**¥ 26**	**¥ (2)**	**$ 221**	**$ 243**	**$ (21)**
Bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	—	—	—	**¥ 24**	**¥ 26**	**¥ (2)**	**$ 221**	**$ 243**	**$ (21)**
Total	¥11,984	¥1,368	¥10,615	**¥8,021**	**¥1,402**	**¥6,619**	**$72,326**	**$12,641**	**$59,684**

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
	2017	**2018**	**2018**
	Carrying value	Carrying value	Carrying value
Available-for-sale securities			
Unlisted stocks	¥126	**¥126**	**$1,142**
Investment in limited liability partnerships	24	**29**	**267**

(2) Available-for-sale securities sold for the years ended December 31, 2017 and 2018

	Millions of yen						Thousands of U.S. dollars		
	2017			**2018**			**2018**		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥140	¥70	—	**¥2**	**¥2**	**—**	**$25**	**$18**	**—**

(3) Securities impairment losses recognized for the years ended December 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Stocks	¥6	**—**	**—**

Note. As for securities whose fair value as of the year-end are on or less than 50% of the acquisition costs or more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

(DERIVATIVES)

As of December 31, 2017 and 2018, derivative transactions were as follows:

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

Currency-related transactions

	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

	Millions of yen			
	2018			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts Buy U.S. dollar	**¥817**	**—**	**¥(12)**	**¥(12)**

	Thousands of U.S. dollars			
	2018			
	Contractual value or notional principal amount			
	Total	Over one year	Fair value	Valuation gain (loss)
Forward foreign exchange contracts Buy U.S. dollar	**$7,373**	**—**	**$(108)**	**$(108)**

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		
	2017		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	¥1,235	—	¥4

	Millions of yen		
	2018		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	**¥2,008**	**—**	**¥(41)**

	Thousands of U.S. dollars		
	2018		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Forward foreign exchange contracts Buy U.S. dollar	**$18,110**	**—**	**$(372)**

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		
	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

	Millions of yen		
	2018		
	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		
	2018		
	Contractual value or notional principal amount		
	Total	Over one year	Fair value
Long-term loans payable Interest-rate swaps Pay/fixed and receive/floating	**$15,327**	**$15,327**	**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 plans

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, 2018, 4 have enrolled in defined contribution pension plans, 3 in agreement type corporate pension plans and 4 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 participates in multi-employer pension plan.

Because the plan cannot be reasonably calculated the amount of plan assets attributed to the company's contribution, it is accounted for in the same way as the defined contribution plans.

The company may pay premium benefits for employees' retirement.

(2) Defined benefit pension plans

(a) Changes in retirement benefit obligations (excluding plans that apply the simplified method)

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at the beginning of the year	¥50,539	**¥51,763**	**$466,718**
Service costs	2,562	**2,536**	**22,872**
Interest costs	103	**105**	**954**
Actuarial loss (gain)	(206)	**474**	**4,277**
Retirement benefits paid	(1,235)	**(1,261)**	**(11,375)**
Balance as of the end of the year	¥51,763	**¥53,619**	**$483,446**

(b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at the beginning of the year	¥42,765	**¥43,925**	**$396,042**
Actuarial loss (gain)	44	**21**	**193**
Contribution paid by the employer	2,265	**2,276**	**20,528**
Retirement benefits paid	(1,149)	**(1,168)**	**(10,537)**
Balance as of the end of the year	¥43,925	**¥45,054**	**$406,226**

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

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Balance at the beginning of the year	¥681	**¥694**	**$6,260**
Retirement benefit expenses	87	**77**	**695**
Retirement benefits paid	(75)	**(97)**	**(875)**
Deconsolidation of subsidiaries	—	**(33)**	**(302)**
Balance as of the end of the year	¥694	**¥640**	**$5,778**

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

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Funded retirement benefit obligations	¥49,447	**¥51,211**	**$461,739**
Plan assets	(43,925)	**(45,054)**	**(406,226)**
	5,522	**6,157**	**55,513**
Unfunded retirement benefit obligations	3,010	**3,048**	**27,485**
Total net defined benefit liability and asset	8,533	**9,205**	**82,999**
Net defined benefit liability	8,533	**9,205**	**82,999**
Total net defined benefit liability and asset	¥ 8,533	**¥ 9,205**	**$ 82,999**

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

(e) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Service costs	¥2,562	**¥2,536**	**$22,872**
Interest costs	103	**105**	**954**
Amortization of actuarial differences	(168)	**181**	**1,637**
Amortization of prior service costs	(107)	**(107)**	**(969)**
Retirement benefit expenses calculated by simplified methods	87	**77**	**695**
Additional benefits for employees' retirement	50	**15**	**138**
Retirement benefit expenses	¥2,527	**¥2,809**	**$25,328**

(f) Remeasurements 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
	2017	**2018**	**2018**
Prior service cost	¥(107)	**¥(107)**	**$ (969)**
Actuarial difference	82	**(271)**	**(2,446)**
Total	¥ (25)	**¥(378)**	**$(3,415)**

(g) Remeasurements of defined benefit plans included in accumulated other comprehensive income
Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unrecognized prior service costs	¥ (538)	**¥ (431)**	**$ (3,886)**
Unrecognized actuarial differences	(1,319)	**(1,048)**	**(9,449)**
Total	¥(1,857)	**¥(1,479)**	**$(13,335)**

(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:

	2017	**2018**
Cash and deposits	86%	**86%**
Life insurance company general accounts	14%	**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

	2017	**2018**
Discount rate	0.2%	**0.1%**
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 pension plans
Required contributions to defined contribution pension plans of the Companies for the years ended December 31, 2017 and 2018 were ¥808 million, ¥805 million ($7,263 thousand), respectively.

(4) Multi-employer pension plan
Required contributions to the multi-employer pension plan which was treated the same as the defined contribution plans for the years ended December 31, 2017 and 2018 were ¥20 million and ¥22 million ($201 thousand), respectively.

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2017	**March 31, 2018**	**March 31, 2018**
Plan assets	¥27,094	**¥28,441**	**$256,440**
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	26,532	**27,649**	**249,299**
Difference	¥ 562	**¥ 792**	**$ 7,141**

(b) The contribution ratio of the Companies to the multi-employer pension plan
Fiscal year ended December 31, 2017. 1.2% (As of March 31, 2017)
Fiscal year ended December 31, 2018. 1.2% (As of March 31, 2018)

(c) Supplementary information:
The main factor of the difference shown in above (a)

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
General reserve	—	**¥562**	**$5,068**
Surplus	562	**229**	**2,073**
Total	¥562	**¥792**	**$7,141**

The ratio in above (b) 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
	2017	**2018**	**2018**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 89	**¥ 92**	**$ 831**
Accrued enterprise taxes	556	**635**	**5,729**
Provision for bonuses	1,045	**1,093**	**9,859**
Net defined benefit liability	2,617	**2,822**	**25,449**
Provision for directors' retirement benefits	199	**212**	**1,914**
Impairment loss	814	**853**	**7,691**
Software development cost	1,209	**1,331**	**12,008**
Unrealized profit from non-current assets	267	**300**	**2,707**
Other	1,690	**1,812**	**16,345**
Subtotal	8,489	**9,154**	**82,537**
Less: Valuation allowance	(1,013)	**(946)**	**(8,530)**
Total deferred tax assets	7,476	**8,208**	**74,007**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(3,234)	**(2,001)**	**(18,047)**
Other	(66)	**(62)**	**(559)**
Total deferred tax liabilities	(3,301)	**(2,063)**	**(18,606)**
Net deferred tax assets	¥4,175	**¥6,144**	**$55,401**

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

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Current assets - Deferred tax assets	¥2,887	**¥3,181**	**$28,688**
Non-current assets - Deferred tax assets	1,369	**2,962**	**26,712**
Non-current liabilities - Deferred tax liabilities	81	**—**	**—**

(2) A reconciliation of the material differences between the normal effective statutory tax rates and burden ratio of income taxes after application of tax effect accounting

Since the differences between the normal effective statutory tax rates and the burden ratio of income taxes after application of tax effect accounting are less than 5% of the normal 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 net sales, segment profit or loss, segment assets and other items

Millions of yen

	Reportable segments						
							2017
	System integration business	Service and Support business	Subtotal	Other (Note 1)	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
Net 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

Millions of yen

	Reportable segments				2018
	System integration business	Service and Support business	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
Net sales					
Outside customers sales	¥463,293	¥296,577	¥759,871	—	¥759,871
Inter-segment sales/transfers	124	429	553	(553)	—
Total	¥463,417	¥297,007	¥760,424	¥ (553)	¥759,871
Segment profit	¥ 41,645	¥ 14,670	¥ 56,315	¥ (8,257)	¥ 48,058
Segment assets	¥145,708	¥104,958	¥250,666	¥156,065	¥406,732
Other items					
Depreciation (Note 4)	¥ 2,956	¥ 2,727	¥ 5,684	¥ 754	¥ 6,438
Investments in affiliates accounted for using equity method	791	4,891	5,682	—	5,682
Increase in property, plant and equipment and intangible assets	3,356	4,188	7,544	755	8,300

Thousands of U.S. dollars

	Reportable segments				2018
	System integration business	Service and Support business	Total	Adjustment (Note 2)	Amount recorded in consolidated financial statements (Note 3)
Net sales					
Outside customers sales	$4,177,200	$2,674,039	$6,851,240	—	$6,851,240
Inter-segment sales/transfers	1,120	3,871	4,992	(4,992)	—
Total	$4,178,320	$2,677,911	$6,856,232	$ (4,992)	$6,851,240
Segment profit	$ 375,488	$ 132,270	$ 507,759	$ (74,450)	$ 433,308
Segment assets	$1,313,750	$ 946,335	$2,260,085	$1,407,140	$3,667,226
Other items					
Depreciation (Note 4)	$ 26,656	$ 24,595	$ 51,251	$ 6,803	$ 58,055
Investments in affiliates accounted for using equity method	7,133	44,101	51,235	—	51,235
Increase in property, plant and equipment and intangible assets	30,267	37,760	68,028	6,809	74,837

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.
Because Otsuka Auto Service Co., LTD., which was one of the consolidated subsidiaries as of December 31, 2017, has less impact on total assets, net sales, profit (loss), retained earnings, etc. and its overall materiality has declined, it was excluded from scope of consolidation from the year ended December 31, 2018. Consequently, “Other” column is not presented herein as this business segment has no actual results.
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, 2017 and 2018 were ¥ -7,958 million and ¥-8,270 million ($-74,573 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, 2017 and 2018 were ¥143,497 million and ¥156,743 million ($1,413,246 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” refers to increase 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, 2017 and 2018.

(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, 2017 and 2018.

2. Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan as of December 31, 2017 and 2018.

(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, 2017 and 2018.

【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, 2017 and 2018.

【Amortization and unamortized balance of goodwill by reportable segment】

For the years ended December 31, 2017 and 2018, not applicable.

【Gain on negative goodwill by reportable segment】

For the years ended December 31, 2017 and 2018, not applicable.

【Related Party Transactions】

For the years ended December 31, 2017 and 2018, not applicable.

(PER SHARE INFORMATION)

Net assets per share as of December 31, 2017 and 2018 and basic earnings per share for the years ended December 31, 2017 and 2018 were summarized as follows:

	Yen		U.S. dollars
	2017	**2018**	**2018**
Net assets per share	¥1,122.87	**¥1,211.63**	**$10.92**
Basic earnings per share	166.46	**177.22**	**1.60**

Notes 1. Diluted earnings per share for the years ended December 31, 2017 and 2018 are omitted, because the Companies have no dilutive shares.

2. The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018.
Accordingly, net assets per share and basic earnings per share stated above are calculated on the assumption that the stock split was implemented at the beginning of the previous year (the year ended December 31, 2017).

3. Basis for calculation of net assets per share as of December 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Numerator:			
Net assets	¥214,532	**¥231,664**	**$2,088,761**
Non-controlling interests in consolidated subsidiaries	(1,634)	**(1,938)**	**(17,474)**
Net assets attributable to common stock	¥212,897	**¥229,726**	**$2,071,287**

	Thousands of shares	
Denominator:		
Number of shares of common stock outstanding	189,601	**189,601**

4. Basis for caluculation of basic earnings per share for the years ended December 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Numerator:			
Profit attributable to owners of parent	¥31,560	**¥33,601**	**$302,965**
Amount not attributable to common shareholders	—	**—**	**—**
Profit attributable to owners of parent related to common shareholders	¥31,560	**¥33,601**	**$302,965**

	Thousands of shares	
Denominator:		
Weighted-average number of shares of common stock outstanding	189,601	**189,601**

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

【CONSOLIDATED SUPPLEMENTARY STATEMENTS】

(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 2018 consisted of the following:

	Millions of yen	
	2018	
	Balance at the beginning of the year	Balance as of the end of the year
Short-term loans payable at the average interest rate of 0.75%	**¥4,900**	**¥4,800**
Current portion of long-term loans payable	**—**	**—**
Current portion of lease obligations	**865**	**698**
Long-term loans payable due 2023 at the average interest rate of 0.66%	**1,700**	**1,700**
Lease obligations due 2020 through 2024	**1,408**	**1,058**
Other interest-bearing debt	**—**	**—**
Total	**¥8,873**	**¥8,256**

	Thousands of U.S. dollars	
	2018	
	Balance at the beginning of the year	Balance as of the end of the year
Short-term loans payable at the average interest rate of 0.75%	**$44,179**	**$43,278**
Current portion of long-term loans payable	**—**	**—**
Current portion of lease obligations	**7,800**	**6,296**
Long-term loans payable due 2023 at the average interest rate of 0.66%	**15,327**	**15,327**
Lease obligations due 2020 through 2024	**12,696**	**9,544**
Other interest-bearing debt	**—**	**—**
Total	**$80,004**	**$74,447**

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 contractual maturities of long-term loans payable and lease obligations as of December 31, 2018 were as follows:

	Millions of yen			
	2018			
	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
Long-term loans payable	**—**	**—**	**—**	**¥1,700**
Lease obligations	**446**	**358**	**193**	**57**

	Thousands of U.S. dollars			
	2018			
	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
Long-term loans payable	**—**	**—**	**—**	**$15,327**
Lease obligations	**4,024**	**3,233**	**1,745**	**515**

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, 2018, 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, 2018, 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 27, 2019
Tokyo, Japan

Ernst & Young ShinNihon LLC