

Financial Report for the Fiscal Year Ended December 31, 2013 (Consolidated) <under Japanese GAAP>

OTSUKA CORPORATION (URL: <http://www.otsuka-shokai.co.jp/>)

Listing: The First Section of Tokyo Stock Exchange, Code 4768

Representative: Yuji Otsuka, President & Chief Executive Officer

Contact: Yasuhiro Wakamatsu, Managing Director & Operating Officer (Tel: +81-3-3264-7111)

Scheduled date of Ordinary General Meeting of Shareholders: March 27, 2014

Scheduled date to commence dividend payments: March 28, 2014

Scheduled date to file Securities Report: March 27, 2014

Preparation of supplementary material on financial results: Yes

Holding of financial results presentation meeting: Yes (for analysts)

(All amounts less than one million yen are rounded down)

1. Financial Results for the Fiscal Year 2013 (From January 1, 2013 to December 31, 2013)

(1) Results of operations (Percentages indicate changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2013	564,595	9.5	33,901	20.0	33,505	15.2	20,271	24.5
Fiscal Year 2012	515,771	7.9	28,251	22.3	29,079	24.7	16,277	27.7

Notes) Comprehensive Income: Fiscal Year 2013: 22,158 million yen [31.3%]

Fiscal Year 2012: 16,873 million yen [32.4%]

	Net income per share	Diluted net income per share	Net income to equity	Ordinary income to total assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal Year 2013	641.49	—	14.9	12.6	6.0
Fiscal Year 2012	515.11	—	13.3	12.0	5.5

Reference) Equity in net income (loss) of unconsolidated subsidiaries and affiliates:

Fiscal Year 2013: (55) million yen;

Fiscal Year 2012: 343 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
As of December 31, 2013	279,589	145,066	51.6	4,561.60
December 31, 2012	253,158	129,268	50.7	4,065.43

Reference) Equity: As of December 31, 2013: 144,150 million yen; As of December 31, 2012: 128,471 million yen

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year 2013	18,780	(3,468)	(6,561)	76,863
Fiscal Year 2012	25,879	(4,894)	(5,190)	68,113

2. Dividends

	Annual dividends					Total dividend payments (total)	Dividend payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
	yen	yen	yen	yen	yen	Millions of yen	%	%
Fiscal Year 2012	–	0.00	–	200.00	200.00	6,320	38.8	5.2
Fiscal Year 2013	–	0.00	–	235.00	235.00	7,426	36.6	5.4
Fiscal Year 2014 (forecast)	–	0.00	–	240.00	240.00		36.5	

3. Financial Forecasts for the Fiscal Year 2014 (From January 1, 2014 to December 31, 2014)

(Percentages indicate changes from the same period of the previous year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Six months ending June 30, 2014	304,400	6.9	19,700	1.1	19,880	6.6	11,665	4.3	369.13
Full-Year	590,000	4.5	35,000	3.2	35,500	6.0	20,770	2.5	657.26

Note) The above forecasts are based on the information available as of the date of publication of this document.

Actual results are subject to change due to various future events and may differ from these figures.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatements

1) Changes in accounting policies due to revisions to accounting standards, etc.: Yes

2) Changes due to accounting policies other than 1): No

3) Changes in accounting estimates: Yes

4) Restatements: No

(3) Number of shares issued (common shares)

1) Number of shares issued at the end of the period (including treasury shares):

As of December 31, 2013: 31,667,020 shares

As of December 31, 2012: 31,667,020 shares

2) Number of shares of treasury shares at the end of the period:

As of December 31, 2013: 66,093 shares

As of December 31, 2012: 65,994 shares

3) Average number of shares during the period:

Fiscal Year 2013: 31,600,965 shares

Fiscal Year 2012: 31,601,092 shares

*** Indication regarding execution of audit procedures**

This financial report is not subject to the audit procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this financial report, the audit procedures are in progress.

*** This financial report is an abridged translation from the Japanese "Kessan Tanshin," which has been prepared in accordance with accounting principles generally accepted in Japan, for reference purpose only.**

Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2012	As of December 31, 2013
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Assets		
Current assets		
Cash and deposits	61,519	69,347
Notes and accounts receivable - trade	86,983	99,664
Securities	5,000	5,700
Merchandise	14,298	18,864
Work in process	1,271	934
Raw materials and supplies	924	843
Deferred tax assets	3,272	3,521
Other	15,963	17,225
Allowance for doubtful accounts	(300)	(160)
Total current assets	188,934	215,940
Non-current assets		
Property, plant and equipment		
Buildings and structures	65,309	65,862
Accumulated depreciation and impairment loss	(40,244)	(42,090)
Buildings and structures, net	25,065	23,772
Land	17,259	17,244
Other	14,335	13,786
Accumulated depreciation and impairment loss	(11,196)	(10,829)
Other, net	3,139	2,957
Total property, plant and equipment	45,464	43,974
Intangible assets		
Software	4,867	5,112
Other	113	59
Total intangible assets	4,980	5,172
Investments and other assets		
Investment securities	6,021	7,584
Guarantee deposits	2,507	2,437
Long-term prepaid expenses	1,525	1,719
Deferred tax assets	1,949	1,394
Other	3,498	2,866
Allowance for doubtful accounts	(1,723)	(1,501)
Total investments and other assets	13,779	14,502
Total non-current assets	64,223	63,648
Total assets	253,158	279,589

(Millions of yen)

	As of December 31, 2012	As of December 31, 2013
Liabilities		
Current liabilities		
Notes and accounts payable - trade	76,978	70,509
Electronically recorded obligations - operating	—	14,546
Short-term loans payable	7,150	6,950
Lease obligations	613	708
Income taxes payable	7,846	7,034
Advances received	8,462	9,990
Provision for bonuses	2,858	3,097
Other	14,774	16,066
Total current liabilities	118,682	128,903
Non-current liabilities		
Lease obligations	1,604	1,412
Deferred tax liabilities	60	499
Deferred tax liabilities for land revaluation	189	189
Provision for retirement benefits	2,146	2,288
Provision for directors' retirement benefits	522	535
Asset retirement obligations	230	227
Other	453	465
Total non-current liabilities	5,207	5,618
Total liabilities	123,890	134,522
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	115,688	129,640
Treasury shares	(126)	(127)
Total shareholders' equity	142,191	156,142
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	678	2,314
Revaluation reserve for land	(14,304)	(14,304)
Foreign currency translation adjustment	(93)	(0)
Total accumulated other comprehensive income	(13,719)	(11,991)
Minority interests	796	915
Total net assets	129,268	145,066
Total liabilities and net assets	253,158	279,589

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2012 (Year ended December 31, 2012)	Fiscal Year 2013 (Year ended December 31, 2013)
Net sales	515,771	564,595
Cost of sales	401,113	440,825
Gross profit	114,658	123,769
Selling, general and administrative expenses	86,407	89,868
Operating income	28,251	33,901
Non-operating income		
Interest income	53	47
Dividend income	66	76
House rent income	237	234
Income from recycling	81	104
Share of profit of entities accounted for using equity method	343	—
Other	169	337
Total non-operating income	952	799
Non-operating expenses		
Interest expenses	73	65
Foreign exchange losses	48	—
Provision of allowance for doubtful accounts	—	1,058
Share of loss of entities accounted for using equity method	—	55
Other	1	16
Total non-operating expenses	123	1,195
Ordinary income	29,079	33,505
Extraordinary income		
Gain on sales of investment securities	61	105
Gain on sales of shares of subsidiaries and associates	37	0
Compensation income	112	32
Total extraordinary income	210	138
Extraordinary losses		
Loss on retirement of non-current assets	208	166
Impairment loss	177	259
Loss on valuation of investment securities	18	54
Provision of allowance for doubtful accounts	485	94
Other	1	18
Total extraordinary losses	891	594
Income before income taxes and minority interests	28,399	33,049
Income taxes - current	12,353	12,767
Income taxes - deferred	(368)	(147)
Total income taxes	11,985	12,619
Income before minority interests	16,413	20,429
Minority interests in income	135	157
Net income	16,277	20,271

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2012 (Year ended December 31, 2012)	Fiscal Year 2013 (Year ended December 31, 2013)
Income before minority interests	16,413	20,429
Other comprehensive income		
Valuation difference on available-for-sale securities	383	1,628
Share of other comprehensive income of entities accounted for using equity method	75	99
Total other comprehensive income	459	1,728
Comprehensive income	16,873	22,158
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	16,736	22,000
Comprehensive income attributable to minority interests	136	157

Consolidated Statements of Changes in Net Assets

Fiscal Year 2012 (Year ended December 31, 2012)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	10,374	16,254	104,308	(125)	130,812
Changes of items during period					
Dividends of surplus			(4,898)		(4,898)
Net income			16,277		16,277
Change of scope of consolidation			(22)		(22)
Change of scope of equity method			23		23
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	11,380	(0)	11,379
Balance at the end of current period	10,374	16,254	115,688	(126)	142,191

(Millions of yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	291	(14,304)	(165)	(14,178)	752	117,385
Changes of items during period						
Dividends of surplus						(4,898)
Net income						16,277
Change of scope of consolidation						(22)
Change of scope of equity method						23
Purchase of treasury shares						(0)
Net changes of items other than shareholders' equity	386	—	71	458	44	503
Total changes of items during period	386	—	71	458	44	11,882
Balance at the end of current period	678	(14,304)	(93)	(13,719)	796	129,268

Fiscal Year 2013 (Year ended December 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of current period	10,374	16,254	115,688	(126)	142,191
Changes of items during period					
Dividends of surplus			(6,320)		(6,320)
Net income			20,271		20,271
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	13,951	(1)	13,950
Balance at the end of current period	10,374	16,254	129,640	(127)	156,142

(Millions of yen)

	Accumulated other comprehensive income				Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at the beginning of current period	678	(14,304)	(93)	(13,719)	796	129,268
Changes of items during period						
Dividends of surplus						(6,320)
Net income						20,271
Purchase of treasury shares						(1)
Net changes of items other than shareholders' equity	1,635	—	92	1,728	118	1,847
Total changes of items during period	1,635	—	92	1,728	118	15,797
Balance at the end of current period	2,314	(14,304)	(0)	(11,991)	915	145,066

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2012 (Year ended December 31, 2012)	Fiscal Year 2013 (Year ended December 31, 2013)
Cash flows from operating activities		
Income before income taxes and minority interests	28,399	33,049
Depreciation	5,766	5,454
Impairment loss	177	259
Increase (decrease) in allowance for doubtful accounts	469	756
Interest and dividend income	(120)	(123)
Interest expenses	73	65
Share of (profit) loss of entities accounted for using equity method	(343)	55
Loss (gain) on sales of shares of subsidiaries and associates	(36)	(0)
Compensation income	(112)	(32)
Loss on retirement of non-current assets	208	166
Decrease (increase) in notes and accounts receivable - trade	(7,491)	(12,377)
Decrease (increase) in inventories	1,125	(4,148)
Increase (decrease) in notes and accounts payable - trade	5,506	8,078
Loss (gain) on sales of investment securities	(60)	(105)
Loss (gain) on valuation of investment securities	18	54
Increase (decrease) in provision for retirement benefits	146	(48)
Other, net	1,848	1,201
Subtotal	35,574	32,305
Interest and dividend income received	162	171
Interest expenses paid	(73)	(65)
Proceeds from compensation	112	32
Income taxes paid	(9,897)	(13,663)
Net cash provided by (used in) operating activities	25,879	18,780
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,963)	(1,562)
Purchase of software	(2,654)	(3,014)
Purchase of investment securities	(1,078)	(166)
Proceeds from sales of investment securities	110	120
Proceeds from redemption of investment securities	—	1,000
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	50	—
Proceeds from sales of shares of subsidiaries and associates	615	9
Payments of long-term loans receivable	(279)	(219)
Collection of long-term loans receivable	44	81
Other, net	260	281
Net cash provided by (used in) investing activities	(4,894)	(3,468)

(Millions of yen)

	Fiscal Year 2012 (Year ended December 31, 2012)	Fiscal Year 2013 (Year ended December 31, 2013)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(250)	(200)
Repayment of long-term loans payable	(10)	—
Cash dividends paid	(4,898)	(6,320)
Other, net	(32)	(40)
Net cash provided by (used in) financing activities	(5,190)	(6,561)
Net increase (decrease) in cash and cash equivalents	15,793	8,750
Cash and cash equivalents at beginning of period	52,320	68,113
Cash and cash equivalents at end of period	68,113	76,863

Segment Information

1. Overview of reportable segments

The reportable segments of the Company are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The Company's 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 Company is composed of two reportable segments, "System Integration business" and "Service and Support business."

The details of the two segments are as follows. The "System Integration business" provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. The "Service and Support business" provides customers with total support for their business operations and installed systems encompassing supply provision, hardware and software maintenance, telephone support and outsourcing.

2. Information concerning net sales, income/loss, assets and other items by reportable segment

Fiscal Year 2012 (Year ended December 31, 2012)

(Millions of yen)

	Reportable segment			Other	Total	Adjustment	Amount recorded in consolidated financial statements
	System Integration business	Service and Support business	Total				
Net sales							
Outside customers	289,840	225,298	515,139	632	515,771	—	515,771
Inter-segment sales/transfers	131	497	629	2,066	2,695	(2,695)	—
Total	289,972	225,796	515,768	2,699	518,467	(2,695)	515,771
Segment profit	27,062	8,528	35,590	91	35,682	(7,431)	28,251
Segment assets	94,254	79,815	174,070	1,457	175,527	77,630	253,158
Other items							
Depreciation	3,093	2,113	5,206	36	5,243	522	5,766
Investments in associates accounted for using equity method	515	1,149	1,665	—	1,665	—	1,665
Increase in property, plant and equipment and intangible assets	2,484	1,643	4,128	9	4,137	481	4,618

Fiscal Year 2013 (Year ended December 31, 2013)

(Millions of yen)

	Reportable segment			Other	Total	Adjustment	Amount recorded in consolidated financial statements
	System Integration business	Service and Support business	Total				
Net sales							
Outside customers	332,067	231,868	563,936	658	564,595	—	564,595
Inter-segment sales/transfers	69	478	547	1,555	2,103	(2,103)	—
Total	332,137	232,347	564,484	2,214	566,698	(2,103)	564,595
Segment profit	31,599	10,000	41,599	59	41,659	(7,758)	33,901
Segment assets	111,802	82,063	193,866	1,402	195,268	84,320	279,589
Other items							
Depreciation	2,937	1,898	4,836	14	4,850	603	5,454
Investments in associates accounted for using equity method	623	1,037	1,661	—	1,661	—	1,661
Increase in property, plant and equipment and intangible assets	2,427	1,441	3,869	—	3,869	707	4,576