

Financial Report for the Fiscal Year Ended December 31, 2014 (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, 2015

Scheduled date to commence dividend payments: March 30, 2015

Scheduled date to file Securities Report: March 27, 2015

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 2014 (From January 1, 2014 to December 31, 2014)

(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 2014	605,766	7.3	37,097	9.4	38,144	13.8	23,455	15.7
Fiscal Year 2013	564,595	9.5	33,901	20.0	33,505	15.2	20,271	24.5

Notes) Comprehensive Income: Fiscal Year 2014: 24,612 million yen [11.1%]

Fiscal Year 2013: 22,158 million yen [31.3%]

	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 2014	247.41	—	15.3	13.0	6.1
Fiscal Year 2013	213.83	—	14.9	12.6	6.0

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

Fiscal Year 2014: 174 million yen; Fiscal Year 2013: (55) million yen

* The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amount of net income per share is calculated based on the assumption that the share split was conducted at the beginning of the previous fiscal year (fiscal year 2013). The net income per share, calculated without considering the share split, are 742.23 yen for the fiscal year 2014 and 641.49 yen for the fiscal year 2013.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	yen
December 31, 2014	305,513	164,347	53.4	1,722.31
December 31, 2013	279,589	145,066	51.6	1,520.53

Reference) Equity: As of December 31, 2014: 163,277 million yen; As of December 31, 2013: 144,150 million yen

* The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amount of net assets per share is calculated based on the assumption that the share split was conducted at the beginning of the previous fiscal year (fiscal year 2013). The net assets per share, calculated without considering the share split, are 5,166.94 yen for the fiscal year 2014 and 4,561.60 yen for the fiscal year 2013.

(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 2014	34,130	(5,410)	(7,580)	97,943
Fiscal Year 2013	18,780	(3,468)	(6,561)	76,863

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 2013	–	0.00	–	235.00	235.00	7,426	36.6	5.4
Fiscal Year 2014	–	0.00	–	90.00	90.00	8,532	36.4	5.6
Fiscal Year 2015 (forecast)	–	0.00	–	95.00	95.00		38.2	

* The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the amounts calculated after the share split are stated for the year-end dividends per share for the fiscal year 2014 and the year-end dividends per share for the fiscal year 2015 (forecast). The year-end dividends per share, calculated without considering the share split, are 270 yen for the fiscal year 2014 and 285 yen for the fiscal year 2015 (forecast). Further, figures for the dividend payout ratio (consolidated) and the ratio of dividends to net assets (consolidated) for the fiscal year 2014 are calculated based on the assumption that the share split was conducted at the beginning of the current fiscal year.

3. Financial Forecasts for the Fiscal Year 2015 (From January 1, 2015 to December 31, 2015)

(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, 2015	324,640	(2.3)	23,020	(5.2)	23,385	(5.7)	14,465	(3.7)	152.58
Full-Year	618,000	2.0	37,600	1.4	38,300	0.4	23,600	0.6	248.94

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: No

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, 2014: 95,001,060 shares

As of December 31, 2013: 95,001,060 shares

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

As of December 31, 2014: 199,910 shares

As of December 31, 2013: 198,279 shares

3) Average number of shares during the period:

Fiscal Year 2014: 94,801,994 shares

Fiscal Year 2013: 94,802,895 shares

* The Company conducted a 3-for-1 stock split for shares of common stock of the Company with July 1, 2014 as the effective date. Accordingly, the number of shares is calculated based on the assumption that the share split was conducted at the beginning of the previous fiscal year (fiscal year 2013).

*** 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, 2013	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	69,347	90,234
Notes and accounts receivable - trade	99,664	98,066
Securities	5,700	5,900
Merchandise	18,864	17,822
Work in process	934	993
Raw materials and supplies	843	810
Deferred tax assets	3,521	2,969
Other	17,225	18,282
Allowance for doubtful accounts	(160)	(146)
Total current assets	215,940	234,931
Non-current assets		
Property, plant and equipment		
Buildings and structures	65,862	63,351
Accumulated depreciation and impairment loss	(42,090)	(41,080)
Buildings and structures, net	23,772	22,270
Land	17,244	16,832
Other	13,786	13,553
Accumulated depreciation and impairment loss	(10,829)	(10,294)
Other, net	2,957	3,259
Total property, plant and equipment	43,974	42,363
Intangible assets		
Software	5,112	8,133
Other	59	59
Total intangible assets	5,172	8,192
Investments and other assets		
Investment securities	7,584	8,671
Guarantee deposits	2,437	2,553
Long-term prepaid expenses	1,719	291
Deferred tax assets	1,394	1,338
Net defined benefit asset	—	5,389
Other	2,866	1,977
Allowance for doubtful accounts	(1,501)	(196)
Total investments and other assets	14,502	20,025
Total non-current assets	63,648	70,581
Total assets	279,589	305,513

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	70,509	67,066
Electronically recorded obligations - operating	14,546	15,389
Short-term loans payable	6,950	6,850
Lease obligations	708	960
Income taxes payable	7,034	8,007
Advances received	9,990	10,845
Provision for bonuses	3,097	3,126
Other	16,066	21,036
Total current liabilities	128,903	133,282
Non-current liabilities		
Lease obligations	1,412	1,774
Deferred tax liabilities	499	2,059
Deferred tax liabilities for land revaluation	189	142
Provision for retirement benefits	2,288	—
Provision for directors' retirement benefits	535	582
Net defined benefit liability	—	2,533
Asset retirement obligations	227	215
Other	465	575
Total non-current liabilities	5,618	7,882
Total liabilities	134,522	141,165
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	129,640	145,326
Treasury shares	(127)	(135)
Total shareholders' equity	156,142	171,820
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,314	2,974
Revaluation reserve for land	(14,304)	(14,069)
Foreign currency translation adjustment	(0)	52
Remeasurements of defined benefit plans	—	2,499
Total accumulated other comprehensive income	(11,991)	(8,543)
Minority interests	915	1,070
Total net assets	145,066	164,347
Total liabilities and net assets	279,589	305,513

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2013 (Year ended December 31, 2013)	Fiscal Year 2014 (Year ended December 31, 2014)
Net sales	564,595	605,766
Cost of sales	440,825	474,176
Gross profit	123,769	131,589
Selling, general and administrative expenses	89,868	94,492
Operating income	33,901	37,097
Non-operating income		
Interest income	47	42
Dividend income	76	78
House rent income	234	238
Income from recycling	104	212
Share of profit of entities accounted for using equity method	—	174
Foreign exchange gains	45	140
Other	291	223
Total non-operating income	799	1,112
Non-operating expenses		
Interest expenses	65	62
Provision of allowance for doubtful accounts	1,058	—
Share of loss of entities accounted for using equity method	55	—
Other	16	3
Total non-operating expenses	1,195	65
Ordinary income	33,505	38,144
Extraordinary income		
Gain on sales of non-current assets	—	56
Gain on liquidation of subsidiaries and associates	—	223
Gain on sales of investment securities	105	29
Compensation income	32	52
Other	0	—
Total extraordinary income	138	363
Extraordinary losses		
Loss on sales of non-current assets	—	393
Loss on retirement of non-current assets	166	118
Impairment loss	259	6
Loss on valuation of investment securities	54	77
Provision of allowance for doubtful accounts	94	—
Other	18	0
Total extraordinary losses	594	597
Income before income taxes and minority interests	33,049	37,910
Income taxes - current	12,767	13,886
Income taxes - deferred	(147)	359
Total income taxes	12,619	14,246
Income before minority interests	20,429	23,663
Minority interests in income	157	208
Net income	20,271	23,455

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2013 (Year ended December 31, 2013)	Fiscal Year 2014 (Year ended December 31, 2014)
Income before minority interests	20,429	23,663
Other comprehensive income		
Valuation difference on available-for-sale securities	1,628	662
Share of other comprehensive income of entities accounted for using equity method	99	51
Revaluation reserve for land	—	235
Total other comprehensive income	1,728	948
Comprehensive income	22,158	24,612
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	22,000	24,403
Comprehensive income attributable to minority interests	157	208

Consolidated Statements of Changes in Net Assets

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 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 end of current period	10,374	16,254	129,640	(127)	156,142

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at 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 end of current period	2,314	(14,304)	(0)	—	(11,991)	915	145,066

Fiscal Year 2014 (Year ended December 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	10,374	16,254	129,640	(127)	156,142
Changes of items during period					
Dividends of surplus			(7,426)		(7,426)
Net income			23,455		23,455
Change of scope of consolidation			(107)		(107)
Reversal of revaluation reserve for land			(235)		(235)
Purchase of treasury shares				(8)	(8)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	15,686	(8)	15,678
Balance at end of current period	10,374	16,254	145,326	(135)	171,820

	Accumulated other comprehensive income					Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	2,314	(14,304)	(0)	—	(11,991)	915	145,066
Changes of items during period							
Dividends of surplus							(7,426)
Net income							23,455
Change of scope of consolidation							(107)
Reversal of revaluation reserve for land							(235)
Purchase of treasury shares							(8)
Net changes of items other than shareholders' equity	660	235	53	2,499	3,447	155	3,602
Total changes of items during period	660	235	53	2,499	3,447	155	19,281
Balance at end of current period	2,974	(14,069)	52	2,499	(8,543)	1,070	164,347

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2013 (Year ended December 31, 2013)	Fiscal Year 2014 (Year ended December 31, 2014)
Cash flows from operating activities		
Income before income taxes and minority interests	33,049	37,910
Depreciation	5,454	5,286
Impairment loss	259	6
Increase (decrease) in allowance for doubtful accounts	756	(253)
Interest and dividend income	(123)	(121)
Interest expenses	65	62
Share of (profit) loss of entities accounted for using equity method	55	(174)
Loss (gain) on liquidation of subsidiaries and associates	—	(223)
Compensation income	(32)	(52)
Loss on retirement of non-current assets	166	118
Loss (gain) on sales of non-current assets	—	337
Decrease (increase) in notes and accounts receivable - trade	(12,377)	1,664
Decrease (increase) in inventories	(4,148)	1,002
Increase (decrease) in notes and accounts payable - trade	8,078	(2,558)
Loss (gain) on sales of investment securities	(105)	(29)
Loss (gain) on valuation of investment securities	54	77
Other, net	1,152	3,827
Subtotal	32,305	46,879
Interest and dividend income received	171	190
Interest expenses paid	(65)	(63)
Proceeds from compensation	32	52
Income taxes paid	(13,663)	(12,929)
Net cash provided by (used in) operating activities	18,780	34,130
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,562)	(1,907)
Proceeds from sales of property, plant and equipment	—	494
Purchase of software	(3,014)	(5,180)
Purchase of investment securities	(166)	(22)
Proceeds from sales of investment securities	120	30
Proceeds from redemption of investment securities	1,000	—
Proceeds from liquidation of subsidiaries	—	1,273
Payments of long-term loans receivable	(219)	(7)
Collection of long-term loans receivable	81	26
Other, net	291	(117)
Net cash provided by (used in) investing activities	(3,468)	(5,410)

(Millions of yen)

	Fiscal Year 2013 (Year ended December 31, 2013)	Fiscal Year 2014 (Year ended December 31, 2014)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(200)	(100)
Cash dividends paid	(6,320)	(7,425)
Other, net	(40)	(55)
Net cash provided by (used in) financing activities	(6,561)	(7,580)
Net increase (decrease) in cash and cash equivalents	8,750	21,140
Cash and cash equivalents at beginning of period	68,113	76,863
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(60)
Cash and cash equivalents at end of period	76,863	97,943

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 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

Fiscal Year 2014 (Year ended December 31, 2014)

(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	362,068	243,316	605,384	381	605,766	—	605,766
Inter-segment sales/transfers	97	398	496	140	637	(637)	—
Total	362,166	243,714	605,880	522	606,403	(637)	605,766
Segment profit	34,284	10,387	44,672	57	44,729	(7,631)	37,097
Segment assets	111,392	88,461	199,853	784	200,638	104,874	305,513
Other items							
Depreciation	2,732	1,989	4,722	13	4,736	550	5,286
Investments in associates accounted for using equity method	711	1,101	1,812	—	1,812	—	1,812
Increase in property, plant and equipment and intangible assets	3,710	2,834	6,545	5	6,550	537	7,088