

**Financial Report for the Six Months of
the Fiscal Year Ending December 31, 2016 (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 to file Quarterly Securities Report: August 9, 2016

Scheduled date to commence dividend payments: —

Preparation of supplementary material on quarterly financial results: Yes

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

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

1. Financial Results for the Six Months of the Fiscal Year 2016 (From January 1, 2016 to June 30, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2016	338,509	6.5	23,944	3.3	24,568	3.7	15,959	8.9
June 30, 2015	317,933	(4.4)	23,173	(4.6)	23,697	(4.4)	14,649	(2.4)

Notes) Comprehensive Income: Six months ended June 30, 2016: 15,372 million yen [0.2%]

Six months ended June 30, 2015: 15,346 million yen [(0.8)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	yen	yen
June 30, 2016	168.35	—
June 30, 2015	154.53	—

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
June 30, 2016	349,795	180,240	51.2
December 31, 2015	324,755	174,402	53.3

Reference) Equity: As of June 30, 2016: 179,053 million yen; As of December 31, 2015: 173,229 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
	yen	yen	yen	yen	yen
Fiscal Year 2015	—	0.00	—	100.00	100.00
Fiscal Year 2016	—	0.00			
Fiscal Year 2016 (forecast)			—	105.00	105.00

Note) Revision of the forecasts from recently announced figures: No

3. Financial Forecasts for the Fiscal Year 2016 (From January 1, 2016 to December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full-Year	639,000	4.9	40,000	7.2	40,500	5.9	25,180	6.2	265.61

Notes) 1. Revision of the forecasts from recently announced figures: No
 2. 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) Application of specific accounting for preparing the quarterly consolidated financial statements: Yes

(3) 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 in accounting policies other than 1): No

3) Changes in accounting estimates: No

4) Restatements: No

(4) Number of shares issued (common shares)

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

As of June 30, 2016: 95,001,060 shares

As of December 31, 2015: 95,001,060 shares

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

As of June 30, 2016: 200,167 shares

As of December 31, 2015: 200,104 shares

3) Average number of shares during the period:

Six months ended June 30, 2016: 94,800,926 shares

Six months ended June 30, 2015: 94,801,115 shares

*** Indication regarding execution of quarterly review procedures**

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

Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
<hr/>		
Assets		
Current assets		
Cash and deposits	100,676	122,469
Notes and accounts receivable - trade	105,055	111,665
Securities	6,900	—
Merchandise	19,499	21,249
Work in process	744	478
Raw materials and supplies	780	765
Other	22,160	24,260
Allowance for doubtful accounts	(135)	(129)
Total current assets	<hr/> 255,679	<hr/> 280,759
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21,131	20,325
Other, net	19,996	20,072
Total property, plant and equipment	<hr/> 41,127	<hr/> 40,398
Intangible assets	9,569	10,595
Investments and other assets		
Investment securities	11,013	10,476
Other	7,548	7,752
Allowance for doubtful accounts	(185)	(185)
Total investments and other assets	<hr/> 18,377	<hr/> 18,043
Total non-current assets	<hr/> 69,075	<hr/> 69,036
Total assets	<hr/> 324,755	<hr/> 349,795

(Millions of yen)

	As of December 31, 2015	As of June 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	74,542	79,120
Electronically recorded obligations - operating	17,095	19,160
Short-term loans payable	6,700	5,000
Income taxes payable	7,916	8,512
Provision for bonuses	3,184	3,375
Other	30,085	40,599
Total current liabilities	139,523	155,767
Non-current liabilities		
Long-term loans payable	—	1,700
Provision for directors' retirement benefits	588	612
Net defined benefit liability	7,640	8,990
Asset retirement obligations	217	218
Other	2,383	2,266
Total non-current liabilities	10,829	13,787
Total liabilities	150,352	169,555
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	154,389	160,868
Treasury shares	(136)	(137)
Total shareholders' equity	180,881	187,361
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,617	4,249
Deferred gains or losses on hedges	—	(44)
Revaluation reserve for land	(14,055)	(14,049)
Foreign currency translation adjustment	25	(72)
Remeasurements of defined benefit plans	1,759	1,608
Total accumulated other comprehensive income	(7,652)	(8,307)
Non-controlling interests	1,173	1,186
Total net assets	174,402	180,240
Total liabilities and net assets	324,755	349,795

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Net sales	317,933	338,509
Cost of sales	246,542	264,590
Gross profit	71,390	73,919
Selling, general and administrative expenses	48,216	49,974
Operating income	23,173	23,944
Non-operating income		
Interest income	21	17
Dividend income	43	41
House rent income	126	128
Share of profit of entities accounted for using equity method	192	242
Other	167	225
Total non-operating income	551	655
Non-operating expenses		
Interest expenses	27	29
Other	0	2
Total non-operating expenses	27	32
Ordinary income	23,697	24,568
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	3	—
Total extraordinary income	3	—
Extraordinary losses		
Loss on retirement of non-current assets	19	6
Impairment loss	—	261
Other	—	0
Total extraordinary losses	19	267
Profit before income taxes	23,681	24,300
Income taxes	8,908	8,262
Profit	14,772	16,038
Profit attributable to non-controlling interests	122	78
Profit attributable to owners of parent	14,649	15,959

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Profit	14,772	16,038
Other comprehensive income		
Valuation difference on available-for-sale securities	720	(359)
Deferred gains or losses on hedges	—	(54)
Revaluation reserve for land	13	6
Remeasurements of defined benefit plans, net of tax	(202)	(153)
Share of other comprehensive income of entities accounted for using equity method	42	(104)
Total other comprehensive income	573	(665)
Comprehensive income	15,346	15,372
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	15,223	15,304
Comprehensive income attributable to non-controlling interests	122	68

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended June 30, 2015	Six months ended June 30, 2016
Cash flows from operating activities		
Profit before income taxes	23,681	24,300
Depreciation	2,845	2,897
Impairment loss	—	261
Increase (decrease) in allowance for doubtful accounts	(42)	(5)
Interest and dividend income	(65)	(58)
Interest expenses	27	29
Share of (profit) loss of entities accounted for using equity method	(192)	(242)
Loss (gain) on sales of shares of subsidiaries and associates	(3)	—
Loss on retirement of non-current assets	19	6
Decrease (increase) in notes and accounts receivable - trade	(7,694)	(6,614)
Decrease (increase) in inventories	(457)	(1,468)
Increase (decrease) in notes and accounts payable - trade	11,615	6,642
Increase (decrease) in accrued expenses	8,531	9,419
Other, net	(1,859)	639
Subtotal	36,406	35,806
Interest and dividend income received	64	58
Interest expenses paid	(27)	(30)
Income taxes paid	(7,793)	(7,833)
Net cash provided by (used in) operating activities	28,649	28,000
Cash flows from investing activities		
Purchase of property, plant and equipment	(856)	(597)
Purchase of software	(3,207)	(2,783)
Proceeds from sales of shares of subsidiaries and associates	21	—
Collection of long-term loans receivable	6	15
Other, net	18	19
Net cash provided by (used in) investing activities	(4,018)	(3,346)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(1,700)
Proceeds from long-term loans payable	—	1,700
Cash dividends paid	(8,525)	(9,478)
Other, net	(62)	(55)
Net cash provided by (used in) financing activities	(8,588)	(9,533)
Net increase (decrease) in cash and cash equivalents	16,042	15,120
Cash and cash equivalents at beginning of period	97,943	109,587
Cash and cash equivalents at end of period	113,986	124,708

Segment Information

Information concerning net sales and income/loss by reportable segment

Six months ended June 30, 2015

(Millions of yen)

	Reportable segment			Other	Total	Adjustment	Amount recorded in quarterly consolidated statements of income
	System Integration business	Service and Support business	Total				
Net sales							
Outside customers	190,720	127,034	317,755	178	317,933	—	317,933
Inter-segment sales/transfers	53	137	190	90	281	(281)	—
Total	190,774	127,171	317,945	268	318,214	(281)	317,933
Segment profit	20,520	6,513	27,033	31	27,065	(3,891)	23,173

Six months ended June 30, 2016

(Millions of yen)

	Reportable segment			Other	Total	Adjustment	Amount recorded in quarterly consolidated statements of income
	System Integration business	Service and Support business	Total				
Net sales							
Outside customers	203,919	134,387	338,307	202	338,509	—	338,509
Inter-segment sales/transfers	24	137	161	68	230	(230)	—
Total	203,943	134,525	338,469	271	338,740	(230)	338,509
Segment profit	20,720	7,196	27,917	29	27,946	(4,001)	23,944