

Financial Report for the Fiscal Year Ended 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 of Ordinary General Meeting of Shareholders: March 29, 2017

Scheduled date to commence dividend payments: March 30, 2017

Scheduled date to file Securities Report: March 29, 2017

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 2016 (From January 1, 2016 to December 31, 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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2016	643,417	5.6	39,684	6.4	40,780	6.6	26,675	12.5
Fiscal Year 2015	609,045	0.5	37,311	0.6	38,240	0.3	23,705	1.1

Notes) Comprehensive Income: Fiscal Year 2016: 26,305 million yen [6.2%]

Fiscal Year 2015: 24,771 million yen [0.6%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary income to total assets	Operating income to net sales
	yen	yen	%	%	%
Fiscal Year 2016	281.38	—	14.7	12.2	6.2
Fiscal Year 2015	250.06	—	14.1	12.1	6.1

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2016: 385 million yen

Fiscal Year 2015: 213 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	yen
December 31, 2016	343,821	191,173	55.2	2,002.64
December 31, 2015	324,755	174,402	53.3	1,827.30

Reference) Equity: As of December 31, 2016: 189,851 million yen

As of December 31, 2015: 173,229 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 2016	23,932	(5,823)	(9,532)	118,183
Fiscal Year 2015	27,621	(7,235)	(8,742)	109,587

2. Dividends

	Annual dividends					Total dividend payments (total) Millions of yen	Dividend payout ratio (consolidated) %	Ratio of dividends to net assets (consolidated) %
	First quarter	Second quarter	Third quarter	Year-end	Total			
Fiscal Year 2015	yen –	yen 0.00	yen –	yen 100.00	yen 100.00	9,480	40.0	5.6
Fiscal Year 2016	–	0.00	–	120.00	120.00	11,376	42.6	6.3
Fiscal Year 2017 (forecast)	–	0.00	–	120.00	120.00		41.7	

Note) The year-end dividend per share for the fiscal year ended December 31, 2016 consists of:

Ordinary dividend per share: 110 yen

Commemorative dividend per share to mark the 55th anniversary of the Company's establishment: 10 yen

3. Financial Forecasts for the Fiscal Year 2017 (From January 1, 2017 to December 31, 2017)

(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
Six months ending June 30, 2017	354,820	4.8	24,740	3.3	25,080	2.1	16,507	3.4	174.12
Full-Year	671,000	4.3	41,000	3.3	41,600	2.0	27,280	2.3	287.76

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 in 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, 2016: 95,001,060 shares

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

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

As of December 31, 2016: 200,227 shares

As of December 31, 2015: 200,104 shares

3) Average number of shares during the period:

Fiscal Year 2016: 94,800,894 shares

Fiscal Year 2015: 94,801,071 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 of 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, 2015	As of December 31, 2016
<hr/>		
Assets		
Current assets		
Cash and deposits	100,676	116,946
Notes and accounts receivable - trade	105,055	109,985
Securities	6,900	—
Merchandise	19,499	25,169
Work in process	744	642
Raw materials and supplies	780	827
Deferred tax assets	2,806	2,617
Other	19,353	19,168
Allowance for doubtful accounts	(135)	(119)
Total current assets	<hr/> 255,679	<hr/> 275,237
Non-current assets		
Property, plant and equipment		
Buildings and structures	63,157	60,748
Accumulated depreciation and impairment loss	(42,025)	(41,109)
Buildings and structures, net	<hr/> 21,131	<hr/> 19,639
Land	16,832	16,452
Other	13,694	12,302
Accumulated depreciation and impairment loss	(10,530)	(9,255)
Other, net	<hr/> 3,163	<hr/> 3,046
Total property, plant and equipment	<hr/> 41,127	<hr/> 39,137
Intangible assets		
Software	9,510	11,200
Other	59	59
Total intangible assets	<hr/> 9,569	<hr/> 11,260
Investments and other assets		
Investment securities	11,013	10,976
Guarantee deposits	2,516	2,367
Long-term prepaid expenses	191	206
Deferred tax assets	2,209	2,421
Other	2,631	2,402
Allowance for doubtful accounts	(185)	(188)
Total investments and other assets	<hr/> 18,377	<hr/> 18,185
Total non-current assets	<hr/> 69,075	<hr/> 68,583
Total assets	<hr/> 324,755	<hr/> 343,821

(Millions of yen)

	As of December 31, 2015	As of December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	74,542	76,783
Electronically recorded obligations - operating	17,095	16,891
Short-term loans payable	6,700	5,000
Lease obligations	1,043	909
Income taxes payable	7,916	6,569
Advances received	10,212	11,033
Provision for bonuses	3,184	3,267
Other	18,829	18,965
Total current liabilities	139,523	139,420
Non-current liabilities		
Long-term loans payable	—	1,700
Lease obligations	1,600	1,399
Deferred tax liabilities for land revaluation	129	122
Provision for directors' retirement benefits	588	646
Net defined benefit liability	7,640	8,456
Asset retirement obligations	217	215
Other	653	687
Total non-current liabilities	10,829	13,228
Total liabilities	150,352	152,648
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	154,389	170,572
Treasury shares	(136)	(137)
Total shareholders' equity	180,881	197,064
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,617	4,517
Revaluation reserve for land	(14,055)	(13,037)
Foreign currency translation adjustment	25	13
Remeasurements of defined benefit plans	1,759	1,293
Total accumulated other comprehensive income	(7,652)	(7,212)
Non-controlling interests	1,173	1,321
Total net assets	174,402	191,173
Total liabilities and net assets	324,755	343,821

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2015 (Year ended December 31, 2015)	Fiscal Year 2016 (Year ended December 31, 2016)
Net sales	609,045	643,417
Cost of sales	474,977	503,383
Gross profit	134,068	140,034
Selling, general and administrative expenses	96,756	100,350
Operating income	37,311	39,684
Non-operating income		
Interest income	44	30
Dividend income	96	98
House rent income	253	250
Income from recycling	122	124
Share of profit of entities accounted for using equity method	213	385
Other	255	267
Total non-operating income	986	1,156
Non-operating expenses		
Interest expenses	55	54
Other	3	5
Total non-operating expenses	58	59
Ordinary income	38,240	40,780
Extraordinary income		
Gain on sales of investment securities	130	—
Compensation income	34	—
Other	3	—
Total extraordinary income	168	—
Extraordinary losses		
Loss on sales of non-current assets	—	68
Loss on retirement of non-current assets	88	61
Impairment loss	2	316
Loss on valuation of investment securities	—	53
Total extraordinary losses	91	500
Profit before income taxes	38,316	40,280
Income taxes - current	13,796	12,945
Income taxes - deferred	639	449
Total income taxes	14,435	13,395
Profit	23,880	26,884
Profit attributable to non-controlling interests	174	209
Profit attributable to owners of parent	23,705	26,675

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2015 (Year ended December 31, 2015)	Fiscal Year 2016 (Year ended December 31, 2016)
Profit	23,880	26,884
Other comprehensive income		
Valuation difference on available-for-sale securities	1,639	(98)
Revaluation reserve for land	13	6
Remeasurements of defined benefit plans, net of tax	(738)	(473)
Share of other comprehensive income of entities accounted for using equity method	(23)	(13)
Total other comprehensive income	890	(578)
Comprehensive income	24,771	26,305
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	24,597	26,103
Comprehensive income attributable to non-controlling interests	174	202

Consolidated Statements of Changes in Net Assets

Fiscal Year 2015 (Year ended December 31, 2015)

(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	145,326	(135)	171,820
Cumulative effects of changes in accounting policies			(6,111)		(6,111)
Restated balance	10,374	16,254	139,215	(135)	165,709
Changes of items during period					
Dividends of surplus			(8,532)		(8,532)
Profit attributable to owners of parent			23,705		23,705
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	15,173	(1)	15,172
Balance at end of current period	10,374	16,254	154,389	(136)	180,881

	Accumulated other comprehensive income					Non-controlling 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	2,974	(14,069)	52	2,499	(8,543)	1,070	164,347
Cumulative effects of changes in accounting policies						(9)	(6,121)
Restated balance	2,974	(14,069)	52	2,499	(8,543)	1,061	158,226
Changes of items during period							
Dividends of surplus							(8,532)
Profit attributable to owners of parent							23,705
Purchase of treasury shares							(1)
Net changes of items other than shareholders' equity	1,643	13	(26)	(739)	891	111	1,002
Total changes of items during period	1,643	13	(26)	(739)	891	111	16,175
Balance at end of current period	4,617	(14,055)	25	1,759	(7,652)	1,173	174,402

Fiscal Year 2016 (Year ended December 31, 2016)

(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	154,389	(136)	180,881
Cumulative effects of changes in accounting policies					—
Restated balance	10,374	16,254	154,389	(136)	180,881
Changes of items during period					
Dividends of surplus			(9,480)		(9,480)
Profit attributable to owners of parent			26,675		26,675
Reversal of revaluation reserve for land			(1,011)		(1,011)
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	16,183	(0)	16,182
Balance at end of current period	10,374	16,254	170,572	(137)	197,064

	Accumulated other comprehensive income					Non-controlling 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	4,617	(14,055)	25	1,759	(7,652)	1,173	174,402
Cumulative effects of changes in accounting policies							—
Restated balance	4,617	(14,055)	25	1,759	(7,652)	1,173	174,402
Changes of items during period							
Dividends of surplus							(9,480)
Profit attributable to owners of parent							26,675
Reversal of revaluation reserve for land							(1,011)
Purchase of treasury shares							(0)
Net changes of items other than shareholders' equity	(99)	1,017	(12)	(466)	439	147	587
Total changes of items during period	(99)	1,017	(12)	(466)	439	147	16,770
Balance at end of current period	4,517	(13,037)	13	1,293	(7,212)	1,321	191,173

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2015 (Year ended December 31, 2015)	Fiscal Year 2016 (Year ended December 31, 2016)
Cash flows from operating activities		
Profit before income taxes	38,316	40,280
Depreciation	5,764	5,971
Impairment loss	2	316
Increase (decrease) in allowance for doubtful accounts	(21)	(13)
Interest and dividend income	(140)	(128)
Interest expenses	55	54
Share of (profit) loss of entities accounted for using equity method	(213)	(385)
Compensation income	(34)	—
Loss on retirement of non-current assets	88	61
Loss (gain) on sales of non-current assets	—	68
Decrease (increase) in notes and accounts receivable - trade	(6,974)	(4,935)
Decrease (increase) in inventories	(1,398)	(5,615)
Increase (decrease) in notes and accounts payable - trade	9,180	2,037
Loss (gain) on sales of investment securities	(130)	—
Loss (gain) on valuation of investment securities	—	53
Other, net	(3,160)	617
Subtotal	41,334	38,384
Interest and dividend income received	233	202
Interest expenses paid	(54)	(54)
Proceeds from compensation	34	—
Income taxes paid	(13,925)	(14,600)
Net cash provided by (used in) operating activities	27,621	23,932
Cash flows from investing activities		
Payments into time deposits	(800)	—
Purchase of property, plant and equipment	(1,488)	(1,411)
Proceeds from sales of property, plant and equipment	—	667
Purchase of software	(5,030)	(5,205)
Purchase of investment securities	(54)	(34)
Proceeds from sales of investment securities	140	—
Payments of long-term loans receivable	(73)	(5)
Collection of long-term loans receivable	18	28
Other, net	50	137
Net cash provided by (used in) investing activities	(7,235)	(5,823)

(Millions of yen)

	Fiscal Year 2015 (Year ended December 31, 2015)	Fiscal Year 2016 (Year ended December 31, 2016)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(150)	(1,700)
Proceeds from long-term loans payable	—	1,700
Cash dividends paid	(8,528)	(9,477)
Other, net	(63)	(55)
Net cash provided by (used in) financing activities	(8,742)	(9,532)
Effect of exchange rate change on cash and cash equivalents	—	19
Net increase (decrease) in cash and cash equivalents	11,643	8,596
Cash and cash equivalents at beginning of period	97,943	109,587
Cash and cash equivalents at end of period	109,587	118,183

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 2015 (Year ended December 31, 2015)

(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	353,170	255,490	608,660	385	609,045	—	609,045
Inter-segment sales/transfers	92	298	390	177	568	(568)	—
Total	353,262	255,788	609,050	563	609,613	(568)	609,045
Segment profit	33,864	10,925	44,790	67	44,857	(7,545)	37,311
Segment assets	115,215	91,589	206,805	762	207,567	117,187	324,755
Other items							
Depreciation	2,913	2,338	5,251	12	5,264	499	5,764
Investments in affiliates accounted for using equity method	707	1,234	1,942	—	1,942	—	1,942
Increase in property, plant and equipment and intangible assets	3,406	2,802	6,208	0	6,209	309	6,518

Fiscal Year 2016 (Year ended December 31, 2016)

(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	376,391	266,625	643,016	400	643,417	—	643,417
Inter-segment sales/transfers	59	264	324	132	456	(456)	—
Total	376,450	266,890	643,341	533	643,874	(456)	643,417
Segment profit	35,227	12,034	47,261	65	47,326	(7,642)	39,684
Segment assets	121,806	93,986	215,793	756	216,550	127,271	343,821
Other items							
Depreciation	2,856	2,499	5,356	12	5,368	602	5,971
Investments in affiliates accounted for using equity method	764	1,475	2,240	—	2,240	—	2,240
Increase in property, plant and equipment and intangible assets	2,834	3,639	6,473	5	6,478	137	6,616