

**Financial Report for the First Three Months of
the Fiscal Year Ended December 31, 2017 (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: Norihiko Moriya, Managing Director & Operating Officer (Tel: +81-3-3264-7111)

Scheduled date to file Quarterly Securities Report: May 12, 2017

Scheduled date to commence dividend payments: —

Preparation of supplementary material on quarterly financial results: Yes

Holding of quarterly financial results presentation meeting: No

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

1. Financial Results for the First Three Months of the Fiscal Year 2017 (From January 1, 2017 to March 31, 2017)

(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	
Three months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2017	180,278	5.3	11,744	17.1	12,131	17.1	8,045	23.8
March 31, 2016	171,130	7.4	10,031	8.7	10,360	9.0	6,496	13.6

Notes) Comprehensive Income: Three months ended March 31, 2017: 8,666 million yen [48.8%]

Three months ended March 31, 2016: 5,825 million yen [(6.1)%]

	Basic earnings per share	Diluted earnings per share
Three months ended	yen	yen
March 31, 2017	84.87	—
March 31, 2016	68.52	—

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
March 31, 2017	361,730	188,403	51.7
December 31, 2016	343,821	191,173	55.2

Reference) Equity: As of March 31, 2017: 187,019 million yen

As of December 31, 2016: 189,851 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal Year 2016	yen —	yen 0.00	yen —	yen 120.00	yen 120.00
Fiscal Year 2017	—				
Fiscal Year 2017 (forecast)		0.00	—	120.00	120.00

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

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

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.: No

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 March 31, 2017:	95,001,060 shares
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As of December 31, 2016:	95,001,060 shares
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2) Number of treasury shares at the end of the period:

As of March 31, 2017:	200,227 shares
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As of December 31, 2016:	200,227 shares
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3) Average number of shares during the period:

Three months ended March 31, 2017:	94,800,833 shares
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Three months ended March 31, 2016:	94,800,956 shares
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*** Indication regarding execution of quarterly review procedures**

Quarterly financial reports are not subject to quarterly review procedures.

*** 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.**

Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2016	As of March 31, 2017
Assets		
Current assets		
Cash and deposits	116,946	118,510
Notes and accounts receivable - trade	109,985	129,133
Merchandise	25,169	20,258
Work in process	642	683
Raw materials and supplies	827	789
Other	21,785	22,859
Allowance for doubtful accounts	(119)	(130)
Total current assets	275,237	292,104
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,639	19,388
Other, net	19,498	19,552
Total property, plant and equipment	39,137	38,941
Intangible assets	11,260	11,276
Investments and other assets		
Investment securities	10,976	11,977
Other	7,397	7,605
Allowance for doubtful accounts	(188)	(174)
Total investments and other assets	18,185	19,407
Total non-current assets	68,583	69,625
Total assets	343,821	361,730

(Millions of yen)

	As of December 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	76,783	90,293
Electronically recorded obligations - operating	16,891	19,997
Short-term loans payable	5,000	5,000
Income taxes payable	6,569	4,162
Provision for bonuses	3,267	8,433
Other	30,908	31,268
Total current liabilities	139,420	159,155
Non-current liabilities		
Long-term loans payable	1,700	1,700
Provision for directors' retirement benefits	646	605
Net defined benefit liability	8,456	9,093
Asset retirement obligations	215	216
Other	2,209	2,556
Total non-current liabilities	13,228	14,171
Total liabilities	152,648	173,327
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	170,572	167,242
Treasury shares	(137)	(137)
Total shareholders' equity	197,064	193,734
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,517	5,065
Deferred gains or losses on hedges	—	(9)
Revaluation reserve for land	(13,037)	(13,037)
Foreign currency translation adjustment	13	20
Remeasurements of defined benefit plans	1,293	1,246
Total accumulated other comprehensive income	(7,212)	(6,714)
Non-controlling interests	1,321	1,383
Total net assets	191,173	188,403
Total liabilities and net assets	343,821	361,730

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Net sales	171,130	180,278
Cost of sales	136,191	142,337
Gross profit	34,939	37,940
Selling, general and administrative expenses	24,907	26,195
Operating income	10,031	11,744
Non-operating income		
Interest income	10	5
Dividend income	2	2
House rent income	64	57
Share of profit of entities accounted for using equity method	172	190
Other	93	148
Total non-operating income	343	403
Non-operating expenses		
Interest expenses	13	12
Other	1	3
Total non-operating expenses	14	16
Ordinary income	10,360	12,131
Extraordinary losses		
Impairment loss	261	—
Loss on retirement of non-current assets	0	1
Total extraordinary losses	261	1
Profit before income taxes	10,099	12,130
Income taxes	3,552	3,959
Profit	6,547	8,170
Profit attributable to non-controlling interests	51	125
Profit attributable to owners of parent	6,496	8,045

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Profit	6,547	8,170
Other comprehensive income		
Valuation difference on available-for-sale securities	(573)	548
Deferred gains or losses on hedges	—	(11)
Revaluation reserve for land	6	—
Remeasurements of defined benefit plans, net of tax	(115)	(47)
Share of other comprehensive income of entities accounted for using equity method	(40)	6
Total other comprehensive income	(722)	496
Comprehensive income	5,825	8,666
(Breakdown)		
Comprehensive income attributable to owners of parent	5,773	8,543
Comprehensive income attributable to non-controlling interests	51	123

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended March 31, 2016	Three months ended March 31, 2017
Cash flows from operating activities		
Profit before income taxes	10,099	12,130
Depreciation	1,406	1,474
Impairment loss	261	—
Increase (decrease) in allowance for doubtful accounts	5	(2)
Interest and dividend income	(13)	(7)
Interest expenses	13	12
Share of (profit) loss of entities accounted for using equity method	(172)	(190)
Decrease (increase) in notes and accounts receivable - trade	(15,999)	(19,133)
Decrease (increase) in inventories	(736)	4,907
Increase (decrease) in notes and accounts payable - trade	15,617	16,616
Other, net	3,434	4,779
Subtotal	13,917	20,587
Interest and dividend income received	14	7
Interest expenses paid	(2)	(4)
Income taxes paid	(7,818)	(6,194)
Net cash provided by (used in) operating activities	6,110	14,396
Cash flows from investing activities		
Purchase of property, plant and equipment	(222)	(251)
Purchase of software	(984)	(1,075)
Other, net	(3)	(15)
Net cash provided by (used in) investing activities	(1,210)	(1,343)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	569	—
Cash dividends paid	(9,480)	(11,376)
Other, net	(54)	(60)
Net cash provided by (used in) financing activities	(8,965)	(11,436)
Effect of exchange rate change on cash and cash equivalents	—	(23)
Net increase (decrease) in cash and cash equivalents	(4,065)	1,593
Cash and cash equivalents at beginning of period	109,587	118,183
Cash and cash equivalents at end of period	105,521	119,777

Segment Information

Information concerning net sales and income/loss by reportable segment

Three months ended March 31, 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 sales	103,079	67,950	171,029	100	171,130	—	171,130
Inter-segment sales/transfers	10	65	75	36	112	(112)	—
Total	103,089	68,015	171,105	137	171,242	(112)	171,130
Segment profit	8,772	3,344	12,116	17	12,133	(2,101)	10,031

Three months ended March 31, 2017

(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 sales	109,387	70,795	180,182	95	180,278	—	180,278
Inter-segment sales/transfers	7	102	109	27	137	(137)	—
Total	109,394	70,897	180,292	123	180,415	(137)	180,278
Segment profit	10,159	3,718	13,877	13	13,890	(2,145)	11,744