

**Financial Report for the Six Months of
the Fiscal Year Ending 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: August 9, 2017

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 2017 (From January 1, 2017 to June 30, 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	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2017	357,585	5.6	26,827	12.0	27,387	11.5	18,541	16.2
June 30, 2016	338,509	6.5	23,944	3.3	24,568	3.7	15,959	8.9

Note) Comprehensive Income: Six months ended June 30, 2017: 19,605 million yen [27.5%]

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

	Basic earnings per share	Diluted earnings per share
Six months ended	yen	yen
June 30, 2017	195.58	—
June 30, 2016	168.35	—

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
June 30, 2017	383,116	199,342	51.6
December 31, 2016	343,821	191,173	55.2

Reference) Equity: As of June 30, 2017: 197,877 million yen

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

2. Dividends

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

Note) Revision of the recently announced forecasts: 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
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 recently announced forecasts: 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 June 30, 2017: 95,001,060 shares

As of December 31, 2016: 95,001,060 shares

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

As of June 30, 2017: 200,227 shares

As of December 31, 2016: 200,227 shares

3) Average number of shares during the period:

Six months ended June 30, 2017: 94,800,833 shares

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

*** 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 June 30, 2017
<hr/>		
Assets		
Current assets		
Cash and deposits	116,946	142,509
Notes and accounts receivable - trade	109,985	120,203
Merchandise	25,169	24,240
Work in process	642	522
Raw materials and supplies	827	754
Other	21,785	25,549
Allowance for doubtful accounts	(119)	(125)
Total current assets	<hr/> 275,237	<hr/> 313,654
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	19,639	19,165
Other, net	19,498	19,426
Total property, plant and equipment	<hr/> 39,137	<hr/> 38,591
Intangible assets	11,260	11,430
Investments and other assets		
Investment securities	10,976	12,567
Other	7,397	7,028
Allowance for doubtful accounts	(188)	(157)
Total investments and other assets	<hr/> 18,185	<hr/> 19,438
Total non-current assets	<hr/> 68,583	<hr/> 69,461
Total assets	<hr/> 343,821	<hr/> 383,116

(Millions of yen)

	As of December 31, 2016	As of June 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	76,783	87,701
Electronically recorded obligations - operating	16,891	20,711
Short-term loans payable	5,000	5,000
Income taxes payable	6,569	9,267
Provision for bonuses	3,267	3,521
Other	30,908	43,088
Total current liabilities	139,420	169,290
Non-current liabilities		
Long-term loans payable	1,700	1,700
Provision for directors' retirement benefits	646	621
Net defined benefit liability	8,456	9,729
Asset retirement obligations	215	216
Other	2,209	2,215
Total non-current liabilities	13,228	14,483
Total liabilities	152,648	183,773
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	170,572	177,737
Treasury shares	(137)	(137)
Total shareholders' equity	197,064	204,229
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,517	5,457
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	1,198
Total accumulated other comprehensive income	(7,212)	(6,351)
Non-controlling interests	1,321	1,464
Total net assets	191,173	199,342
Total liabilities and net assets	343,821	383,116

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017
Net sales	338,509	357,585
Cost of sales	264,590	278,169
Gross profit	73,919	79,416
Selling, general and administrative expenses	49,974	52,588
Operating income	23,944	26,827
Non-operating income		
Interest income	17	11
Dividend income	41	48
House rent income	128	116
Share of profit of entities accounted for using equity method	242	174
Other	225	241
Total non-operating income	655	592
Non-operating expenses		
Interest expenses	29	27
Other	2	4
Total non-operating expenses	32	32
Ordinary income	24,568	27,387
Extraordinary losses		
Loss on retirement of non-current assets	6	16
Impairment loss	261	—
Other	0	—
Total extraordinary losses	267	16
Profit before income taxes	24,300	27,370
Income taxes	8,262	8,654
Profit	16,038	18,716
Profit attributable to non-controlling interests	78	174
Profit attributable to owners of parent	15,959	18,541

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017
Profit	16,038	18,716
Other comprehensive income		
Valuation difference on available-for-sale securities	(359)	965
Deferred gains or losses on hedges	(54)	11
Revaluation reserve for land	6	—
Remeasurements of defined benefit plans, net of tax	(153)	(95)
Share of other comprehensive income of entities accounted for using equity method	(104)	8
Total other comprehensive income	(665)	889
Comprehensive income	15,372	19,605
(Breakdown)		
Comprehensive income attributable to owners of parent	15,304	19,402
Comprehensive income attributable to non-controlling interests	68	203

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended June 30, 2016	Six months ended June 30, 2017
Cash flows from operating activities		
Profit before income taxes	24,300	27,370
Depreciation	2,897	3,040
Impairment loss	261	—
Increase (decrease) in allowance for doubtful accounts	(5)	(24)
Interest and dividend income	(58)	(60)
Interest expenses	29	27
Share of (profit) loss of entities accounted for using equity method	(242)	(174)
Loss on retirement of non-current assets	6	16
Decrease (increase) in notes and accounts receivable - trade	(6,614)	(10,186)
Decrease (increase) in inventories	(1,468)	1,121
Increase (decrease) in notes and accounts payable - trade	6,642	14,738
Increase (decrease) in accrued expenses	9,419	9,854
Other, net	639	779
Subtotal	35,806	46,502
Interest and dividend income received	58	59
Interest expenses paid	(30)	(27)
Income taxes paid	(7,833)	(6,201)
Net cash provided by (used in) operating activities	28,000	40,332
Cash flows from investing activities		
Purchase of property, plant and equipment	(597)	(465)
Purchase of software	(2,783)	(2,382)
Other, net	34	(86)
Net cash provided by (used in) investing activities	(3,346)	(2,934)
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	(9,478)	(11,364)
Other, net	(55)	(60)
Net cash provided by (used in) financing activities	(9,533)	(11,425)
Effect of exchange rate change on cash and cash equivalents	—	(22)
Net increase (decrease) in cash and cash equivalents	15,120	25,951
Cash and cash equivalents at beginning of period	109,587	118,183
Cash and cash equivalents at end of period	124,708	144,135

Segment Information

Information concerning net sales and income/loss by reportable segment

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 sales	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

Six months ended June 30, 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	216,604	140,789	357,393	191	357,585	—	357,585
Inter-segment sales/transfers	48	182	230	51	282	(282)	—
Total	216,652	140,971	357,624	243	357,867	(282)	357,585
Segment profit	22,827	8,094	30,922	24	30,946	(4,119)	26,827