

Financial Report for the Fiscal Year Ended December 31, 2017 (Consolidated) <Under Japanese GAAP>

OTSUKA CORPORATION (URL: <https://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 of Ordinary General Meeting of Shareholders: March 28, 2018

Scheduled date to commence dividend payments: March 29, 2018

Scheduled date to file Securities Report: March 28, 2018

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 2017 (From January 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year 2017	691,166	7.4	44,386	11.9	45,460	11.5	31,560	18.3
Fiscal Year 2016	643,417	5.6	39,684	6.4	40,780	6.6	26,675	12.5

Note) Comprehensive Income: Fiscal Year 2017: 34,795 million yen [32.3%]

Fiscal Year 2016: 26,305 million yen [6.2%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	yen	yen	%	%	%
Fiscal Year 2017	332.91	—	15.7	12.6	6.4
Fiscal Year 2016	281.38	—	14.7	12.2	6.2

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2017: 264 million yen

Fiscal Year 2016: 385 million yen

(2) Financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
December 31, 2017	380,317	214,532	56.0	2,245.73
December 31, 2016	343,821	191,173	55.2	2,002.64

Reference) Equity: As of December 31, 2017: 212,897 million yen

As of December 31, 2016: 189,851 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 2017	36,153	(5,243)	(11,528)	137,545
Fiscal Year 2016	23,932	(5,823)	(9,532)	118,183

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 2016	–	0.00	–	120.00	120.00	11,376	42.6	6.3
Fiscal Year 2017	–	0.00	–	140.00	140.00	13,272	42.1	6.6
Fiscal Year 2018 (forecast)	–	0.00	–	72.50	72.50		43.1	

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

* At the Board of Directors meeting held February 1, 2018, the Company resolved to implement a two-for-one stock split of its common stock with an effective date of April 1, 2018. The annual dividends per share for Fiscal Year 2018 (forecast) stated above indicate amounts calculated in consideration of the stock split. The annual dividends per share for Fiscal Year 2018 (forecast) not considering the stock split are 145.00 yen.

3. Financial Forecasts for the Fiscal Year 2018 (From January 1, 2018 to December 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		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, 2018	372,350	4.1	28,120	4.8	28,474	4.0	18,844	1.6	99.39
Full-Year	720,000	4.2	47,300	6.6	48,000	5.6	31,880	1.0	168.14

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.

* Basic earnings per share for Fiscal Year 2018 (forecast) stated above indicate an amount calculated in consideration of the stock split described in "2. Dividends." Basic earnings per share for the six months ending June 30, 2018 and the full-year of Fiscal Year 2018, not considering the stock split, are 198.77 yen and 336.28 yen, respectively.

*** 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.: No

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, 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 December 31, 2017: 200,227 shares

As of December 31, 2016: 200,227 shares

3) Average number of shares during the period:

Fiscal Year 2017: 94,800,833 shares

Fiscal Year 2016: 94,800,894 shares

*** Financial reports are not subject to audit procedures.**

*** At the Board of Directors meeting held February 1, 2018, the Company resolved to implement a two-for-one stock split of its common stock with an effective date of April 1, 2018.**

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, 2016	As of December 31, 2017
<hr/>		
Assets		
Current assets		
Cash and deposits	116,946	136,410
Notes and accounts receivable - trade	109,985	122,144
Merchandise	25,169	24,999
Work in process	642	762
Raw materials and supplies	827	837
Deferred tax assets	2,617	2,887
Other	19,168	21,324
Allowance for doubtful accounts	(119)	(120)
Total current assets	<u>275,237</u>	<u>309,245</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures	60,748	58,754
Accumulated depreciation and impairment loss	(41,109)	(40,498)
Buildings and structures, net	<u>19,639</u>	<u>18,255</u>
Land	16,452	16,165
Other	12,302	12,618
Accumulated depreciation and impairment loss	(9,255)	(9,429)
Other, net	<u>3,046</u>	<u>3,189</u>
Total property, plant and equipment	<u>39,137</u>	<u>37,610</u>
Intangible assets		
Software	11,200	12,106
Other	59	59
Total intangible assets	<u>11,260</u>	<u>12,166</u>
Investments and other assets		
Investment securities	10,976	15,306
Guarantee deposits	2,367	2,605
Long-term prepaid expenses	206	96
Deferred tax assets	2,421	1,369
Other	2,402	2,087
Allowance for doubtful accounts	(188)	(170)
Total investments and other assets	<u>18,185</u>	<u>21,294</u>
Total non-current assets	<u>68,583</u>	<u>71,071</u>
Total assets	<u>343,821</u>	<u>380,317</u>

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	76,783	83,107
Electronically recorded obligations - operating	16,891	17,887
Short-term loans payable	5,000	4,900
Lease obligations	909	865
Income taxes payable	6,569	8,274
Advances received	11,033	12,361
Provision for bonuses	3,267	3,379
Other	18,965	21,558
Total current liabilities	139,420	152,334
Non-current liabilities		
Long-term loans payable	1,700	1,700
Lease obligations	1,399	1,408
Deferred tax liabilities	–	81
Deferred tax liabilities for land revaluation	122	122
Provision for directors' retirement benefits	646	647
Net defined benefit liability	8,456	8,533
Asset retirement obligations	215	214
Other	687	744
Total non-current liabilities	13,228	13,451
Total liabilities	152,648	165,785
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	170,572	189,816
Treasury shares	(137)	(137)
Total shareholders' equity	197,064	216,308
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,517	7,348
Deferred gains or losses on hedges	–	2
Revaluation reserve for land	(13,037)	(12,097)
Foreign currency translation adjustment	13	45
Remeasurements of defined benefit plans	1,293	1,289
Total accumulated other comprehensive income	(7,212)	(3,411)
Non-controlling interests	1,321	1,634
Total net assets	191,173	214,532
Total liabilities and net assets	343,821	380,317

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2016 (Year ended December 31, 2016)	Fiscal Year 2017 (Year ended December 31, 2017)
Net sales	643,417	691,166
Cost of sales	503,383	541,339
Gross profit	140,034	149,827
Selling, general and administrative expenses	100,350	105,440
Operating profit	39,684	44,386
Non-operating income		
Interest income	30	17
Dividend income	98	129
House rent income	250	233
Income from recycling	124	145
Share of profit of entities accounted for using equity method	385	264
Foreign exchange gains	71	133
Other	195	208
Total non-operating income	1,156	1,129
Non-operating expenses		
Interest expenses	54	47
Other	5	8
Total non-operating expenses	59	56
Ordinary profit	40,780	45,460
Extraordinary income		
Gain on sales of non-current assets	-	107
Gain on sales of investment securities	-	70
Total extraordinary income	-	178
Extraordinary losses		
Loss on sales of non-current assets	68	-
Loss on retirement of non-current assets	61	34
Impairment loss	316	234
Loss on valuation of investment securities	53	6
Total extraordinary losses	500	275
Profit before income taxes	40,280	45,363
Income taxes - current	12,945	13,853
Income taxes - deferred	449	(392)
Total income taxes	13,395	13,460
Profit	26,884	31,902
Profit attributable to non-controlling interests	209	342
Profit attributable to owners of parent	26,675	31,560

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2016 (Year ended December 31, 2016)	Fiscal Year 2017 (Year ended December 31, 2017)
Profit	26,884	31,902
Other comprehensive income		
Valuation difference on available-for-sale securities	(98)	2,857
Deferred gains or losses on hedges	–	3
Revaluation reserve for land	6	–
Remeasurements of defined benefit plans, net of tax	(473)	(17)
Share of other comprehensive income of entities accounted for using equity method	(13)	50
Total other comprehensive income	(578)	2,893
Comprehensive income	26,305	34,795
(Breakdown)		
Comprehensive income attributable to owners of parent	26,103	34,421
Comprehensive income attributable to non-controlling interests	202	374

Consolidated Statements of Changes in Net Assets

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
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
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

Fiscal Year 2017 (Year ended December 31, 2017)

(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	170,572	(137)	197,064
Changes of items during period					
Dividends of surplus			(11,376)		(11,376)
Profit attributable to owners of parent			31,560		31,560
Reversal of revaluation reserve for land			(940)		(940)
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	19,243	–	19,243
Balance at end of current period	10,374	16,254	189,816	(137)	216,308

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	4,517	–	(13,037)	13	1,293	(7,212)	1,321	191,173
Changes of items during period								
Dividends of surplus								(11,376)
Profit attributable to owners of parent								31,560
Reversal of revaluation reserve for land								(940)
Net changes of items other than shareholders' equity	2,831	2	940	31	(4)	3,801	313	4,115
Total changes of items during period	2,831	2	940	31	(4)	3,801	313	23,359
Balance at end of current period	7,348	2	(12,097)	45	1,289	(3,411)	1,634	214,532

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2016 (Year ended December 31, 2016)	Fiscal Year 2017 (Year ended December 31, 2017)
Cash flows from operating activities		
Profit before income taxes	40,280	45,363
Depreciation	5,971	6,138
Impairment loss	316	234
Increase (decrease) in allowance for doubtful accounts	(13)	(16)
Interest and dividend income	(128)	(146)
Interest expenses	54	47
Share of (profit) loss of entities accounted for using equity method	(385)	(264)
Loss on retirement of non-current assets	61	34
Loss (gain) on sales of non-current assets	68	(107)
Decrease (increase) in notes and accounts receivable - trade	(4,935)	(12,119)
Decrease (increase) in inventories	(5,615)	39
Increase (decrease) in notes and accounts payable - trade	2,037	7,319
Loss (gain) on sales of investment securities	–	(70)
Loss (gain) on valuation of investment securities	53	6
Other, net	617	2,145
Subtotal	38,384	48,605
Interest and dividend income received	202	218
Interest expenses paid	(54)	(46)
Income taxes paid	(14,600)	(12,622)
Net cash provided by (used in) operating activities	23,932	36,153
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	300
Purchase of property, plant and equipment	(1,411)	(1,476)
Proceeds from sales of property, plant and equipment	667	900
Purchase of software	(5,205)	(4,925)
Purchase of investment securities	(34)	(46)
Proceeds from sales of investment securities	–	140
Payments of long-term loans receivable	(5)	(2)
Collection of long-term loans receivable	28	25
Other, net	137	(158)
Net cash provided by (used in) investing activities	(5,823)	(5,243)

(Millions of yen)

	Fiscal Year 2016 (Year ended December 31, 2016)	Fiscal Year 2017 (Year ended December 31, 2017)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,700)	(100)
Proceeds from long-term loans payable	1,700	–
Cash dividends paid	(9,477)	(11,367)
Other, net	(55)	(60)
Net cash provided by (used in) financing activities	(9,532)	(11,528)
Effect of exchange rate change on cash and cash equivalents	19	(19)
Net increase (decrease) in cash and cash equivalents	8,596	19,362
Cash and cash equivalents at beginning of period	109,587	118,183
Cash and cash equivalents at end of period	118,183	137,545

Segment Information

1. Overview of reportable segments

The reportable segments of the Companies are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results. The Companies' 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 Companies are 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 service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing.

2. Information concerning net sales, income/loss, assets and other items by reportable segment

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 sales	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

Fiscal Year 2017 (Year ended December 31, 2017)

(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 sales	408,718	282,064	690,783	383	691,166	–	691,166
Inter-segment sales/transfers	98	329	427	108	536	(536)	–
Total	408,817	282,393	691,211	491	691,702	(536)	691,166
Segment profit	38,566	13,695	52,262	63	52,325	(7,939)	44,386
Segment assets	135,017	102,083	237,100	736	237,836	142,480	380,317
Other items							
Depreciation	2,806	2,733	5,539	12	5,552	586	6,138
Investments in affiliates accounted for using equity method	761	1,721	2,483	–	2,483	–	2,483
Increase in property, plant and equipment and intangible assets	2,644	3,500	6,144	9	6,153	247	6,401