

**Financial Report for the First Three Months of
the Fiscal Year Ending December 31, 2018 (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 to file Quarterly Securities Report: May 14, 2018

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 2018 (From January 1, 2018 to March 31, 2018)

(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	%
Three months ended								
March 31, 2018	191,225	6.1	11,851	0.9	12,222	0.8	8,064	0.2
March 31, 2017	180,278	5.3	11,744	17.1	12,131	17.1	8,045	23.8

Note) Comprehensive Income: Three months ended March 31, 2018: 8,569 million yen [(1.1)%]
Three months ended March 31, 2017: 8,666 million yen [48.8%]

	Basic earnings per share	Diluted earnings per share
Three months ended	yen	yen
March 31, 2018	42.53	—
March 31, 2017	42.43	—

* The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018. Accordingly, basic earnings per share stated above are calculated on the assumption that the stock split was implemented at the beginning of the previous fiscal year (Fiscal Year 2017). Basic earnings per share for the three months ended March 31, 2018 and the three months ended March 31, 2017, not considering the stock split, are 85.06 yen and 84.87 yen, respectively.

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
March 31, 2018	396,672	209,360	52.4
December 31, 2017	380,317	214,532	56.0

Reference) Equity: As of March 31, 2018: 207,707 million yen
As of December 31, 2017: 212,897 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal Year 2017	yen —	yen 0.00	yen —	yen 140.00	yen 140.00
Fiscal Year 2018	—				
Fiscal Year 2018 (forecast)		0.00	—	72.50	72.50

Note) Revision of the recently announced forecasts: No

* The annual dividends per share for Fiscal Year 2018 (forecast) stated above indicate amounts calculated in consideration of the stock split described in "1. Financial Results." 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

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.

* Basic earnings per share in Financial Forecasts for the Fiscal Year 2018 stated above indicate amounts calculated in consideration of the stock split described in "1. Financial Results." 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) 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, 2018:	190,002,120 shares
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As of December 31, 2017:	190,002,120 shares
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2) Number of treasury shares at the end of the period:

As of March 31, 2018:	400,516 shares
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As of December 31, 2017:	400,454 shares
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3) Average number of shares during the period:

Three months ended March 31, 2018:	189,601,645 shares
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Three months ended March 31, 2017:	189,601,666 shares
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* The number of shares stated above is calculated on the assumption that the stock split described in "1. Financial Results" was implemented at the beginning of the previous fiscal year (Fiscal Year 2017).

*** Quarterly financial reports are not subject to quarterly review procedures to be conducted by certified public accountants or an audit firm.**

*** 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, 2017	As of March 31, 2018
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Assets		
Current assets		
Cash and deposits	136,410	131,060
Notes and accounts receivable - trade	122,144	142,302
Merchandise	24,999	24,309
Work in process	762	830
Raw materials and supplies	837	785
Other	24,212	25,060
Allowance for doubtful accounts	(120)	(120)
Total current assets	<hr/> 309,245	<hr/> 324,228
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,255	17,899
Other, net	19,355	19,241
Total property, plant and equipment	<hr/> 37,610	<hr/> 37,140
Intangible assets	12,166	13,217
Investments and other assets		
Investment securities	15,306	16,075
Other	6,158	6,181
Allowance for doubtful accounts	(170)	(171)
Total investments and other assets	<hr/> 21,294	<hr/> 22,085
Total non-current assets	<hr/> 71,071	<hr/> 72,443
Total assets	<hr/> 380,317	<hr/> 396,672

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	83,107	102,943
Electronically recorded obligations - operating	17,887	18,585
Short-term loans payable	4,900	4,900
Income taxes payable	8,274	4,115
Provision for bonuses	3,379	8,403
Other	34,785	34,138
Total current liabilities	152,334	173,087
Non-current liabilities		
Long-term loans payable	1,700	1,700
Provision for directors' retirement benefits	647	651
Net defined benefit liability	8,533	9,119
Asset retirement obligations	214	214
Other	2,356	2,538
Total non-current liabilities	13,451	14,223
Total liabilities	165,785	187,311
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	189,816	184,243
Treasury shares	(137)	(137)
Total shareholders' equity	216,308	210,735
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,348	7,751
Deferred gains or losses on hedges	2	(2)
Revaluation reserve for land	(12,097)	(12,097)
Foreign currency translation adjustment	45	17
Remeasurements of defined benefit plans	1,289	1,302
Total accumulated other comprehensive income	(3,411)	(3,027)
Non-controlling interests	1,634	1,653
Total net assets	214,532	209,360
Total liabilities and net assets	380,317	396,672

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Net sales	180,278	191,225
Cost of sales	142,337	152,227
Gross profit	37,940	38,998
Selling, general and administrative expenses	26,195	27,147
Operating profit	11,744	11,851
Non-operating income		
Interest income	5	3
Dividend income	2	25
House rent income	57	62
Share of profit of entities accounted for using equity method	190	150
Other	148	147
Total non-operating income	403	390
Non-operating expenses		
Interest expenses	12	13
Other	3	5
Total non-operating expenses	16	18
Ordinary profit	12,131	12,222
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Total extraordinary losses	1	0
Profit before income taxes	12,130	12,222
Income taxes	3,959	4,030
Profit	8,170	8,192
Profit attributable to non-controlling interests	125	128
Profit attributable to owners of parent	8,045	8,064

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Profit	8,170	8,192
Other comprehensive income		
Valuation difference on available-for-sale securities	548	398
Deferred gains or losses on hedges	(11)	(5)
Remeasurements of defined benefit plans, net of tax	(47)	12
Share of other comprehensive income of entities accounted for using equity method	6	(29)
Total other comprehensive income	496	376
Comprehensive income	8,666	8,569
(Breakdown)		
Comprehensive income attributable to owners of parent	8,543	8,447
Comprehensive income attributable to non-controlling interests	123	121

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Three months ended March 31, 2017	Three months ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	12,130	12,222
Depreciation	1,474	1,487
Increase (decrease) in allowance for doubtful accounts	(2)	0
Interest and dividend income	(7)	(29)
Interest expenses	12	13
Share of (profit) loss of entities accounted for using equity method	(190)	(150)
Decrease (increase) in notes and accounts receivable - trade	(19,133)	(20,191)
Decrease (increase) in inventories	4,907	672
Increase (decrease) in notes and accounts payable - trade	16,616	20,548
Other, net	4,779	3,690
Subtotal	20,587	18,263
Interest and dividend income received	7	29
Interest expenses paid	(4)	(4)
Income taxes paid	(6,194)	(7,558)
Net cash provided by (used in) operating activities	14,396	10,729
Cash flows from investing activities		
Purchase of property, plant and equipment	(251)	(614)
Purchase of software	(1,075)	(2,100)
Other, net	(15)	(84)
Net cash provided by (used in) investing activities	(1,343)	(2,800)
Cash flows from financing activities		
Cash dividends paid	(11,376)	(13,273)
Other, net	(60)	(103)
Net cash provided by (used in) financing activities	(11,436)	(13,376)
Effect of exchange rate change on cash and cash equivalents	(23)	(2)
Net increase (decrease) in cash and cash equivalents	1,593	(5,449)
Cash and cash equivalents at beginning of period	118,183	137,545
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(31)
Cash and cash equivalents at end of period	119,777	132,064

Segment Information

Information concerning net sales and income/loss by reportable segment

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

Three months ended March 31, 2018

(Millions of yen)

	Reportable segment		Total	Adjustment	Amount recorded in quarterly consolidated statements of income
	System Integration business	Service and Support business			
Net sales					
Outside customers sales	117,273	73,952	191,225	—	191,225
Inter-segment sales/transfers	50	64	115	(115)	—
Total	117,323	74,016	191,340	(115)	191,225
Segment profit	10,434	3,679	14,113	(2,261)	11,851

Note) Because Otsuka Auto Service Co., LTD., which was one of the consolidated subsidiaries as of December 31, 2017, has little impact on total assets, net sales, profit (loss), retained earnings, etc. and its overall materiality has declined, it is excluded from scope of consolidation from the first quarter ended March 31, 2018. Consequently, "Other" column is not presented herein as this business segment has no actual results.