

Financial Report for the Fiscal Year Ended 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 of Ordinary General Meeting of Shareholders: March 27, 2019

Scheduled date to commence dividend payments: March 28, 2019

Scheduled date to file Securities Report: March 27, 2019

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 2018 (From January 1, 2018 to December 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	%
Fiscal Year 2018	759,871	9.9	48,058	8.3	49,285	8.4	33,601	6.5
Fiscal Year 2017	691,166	7.4	44,386	11.9	45,460	11.5	31,560	18.3

Note) Comprehensive Income: Fiscal Year 2018: 30,874 million yen [(11.3)%]

Fiscal Year 2017: 34,795 million yen [32.3%]

	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 2018	177.22	—	15.2	12.5	6.3
Fiscal Year 2017	166.46	—	15.7	12.6	6.4

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2018: 259 million yen

Fiscal Year 2017: 264million yen

* 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 Fiscal Year 2018 and the Fiscal Year 2017 not considering the stock split are 354.45 yen and 332.91 yen, respectively.

(2) Financial position

As of	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	yen
December 31, 2018	406,732	231,664	56.5	1,211.63
December 31, 2017	380,317	214,532	56.0	1,122.87

Reference) Equity: As of December 31, 2018: 229,726 million yen

As of December 31, 2017: 212,897 million yen

* Net assets per share stated above are calculated on the assumption that the stock split described in (1) Results of operations was implemented at the beginning of the previous fiscal year (Fiscal Year 2017). Net assets per share as of December 31, 2018 and 2017 not considering the stock split are 2,423.26 yen and 2,245.73 yen, respectively.

(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 2018	38,646	(11,096)	(13,470)	151,585
Fiscal Year 2017	36,153	(5,243)	(11,528)	137,545

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 2017	—	0.00	—	140.00	140.00	13,272	42.1	6.6
Fiscal Year 2018	—	0.00	—	85.00	85.00	16,116	48.0	7.3
Fiscal Year 2019 (forecast)	—	0.00	—	90.00	90.00		49.9	

* The annual dividends per share for Fiscal Year 2018 and Fiscal year 2019 (forecast) stated above are calculated in consideration of the stock split described in "1. Financial Results." The annual dividends per share for Fiscal Year 2018 and Fiscal Year 2019 (forecast) not considering the stock split are 170.00 yen and 180.00 yen, respectively. Further, dividend payout ratio (consolidated) and the ratio of dividends to net assets (consolidated) for the fiscal year 2018 stated above are calculated on the assumption that the stock split was implemented at the beginning of the current fiscal year (Fiscal Year 2018).

3. Financial Forecasts for the Fiscal Year 2019 (From January 1, 2019 to December 31, 2019)

(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, 2019	413,500	6.1	28,500	4.9	28,940	3.8	19,280	2.6	101.69
Full-Year	803,000	5.7	50,400	4.9	51,200	3.9	34,210	1.8	180.43

Notes) 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.: 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, 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 December 31, 2018:	400,868 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:

Fiscal Year 2018:	189,601,354 shares
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Fiscal Year 2017:	189,601,666 shares
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* The number of shares stated above are 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).

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

Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2017	As of December 31, 2018
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Assets		
Current assets		
Cash and deposits	136,410	150,888
Notes and accounts receivable - trade	122,144	132,352
Merchandise	24,999	25,721
Work in process	762	957
Raw materials and supplies	837	828
Deferred tax assets	2,887	3,181
Other	21,324	20,833
Allowance for doubtful accounts	(120)	(113)
Total current assets	309,245	334,650
Non-current assets		
Property, plant and equipment		
Buildings and structures	58,754	58,138
Accumulated depreciation and impairment loss	(40,498)	(40,761)
Buildings and structures, net	18,255	17,376
Land	16,165	15,604
Other	12,618	13,038
Accumulated depreciation and impairment loss	(9,429)	(9,389)
Other, net	3,189	3,649
Total property, plant and equipment	37,610	36,629
Intangible assets		
Software	12,106	13,729
Other	59	59
Total intangible assets	12,166	13,789
Investments and other assets		
Investment securities	15,306	14,609
Guarantee deposits	2,605	2,424
Deferred tax assets	1,369	2,962
Other	2,183	1,854
Allowance for doubtful accounts	(170)	(187)
Total investments and other assets	21,294	21,662
Total non-current assets	71,071	72,081
Total assets	380,317	406,732

(Millions of yen)

As of December 31, 2017 As of December 31, 2018

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	83,107	89,322
Electronically recorded obligations - operating	17,887	17,904
Short-term loans payable	4,900	4,800
Income taxes payable	8,274	9,326
Advances received	12,361	14,350
Provision for bonuses	3,379	3,564
Other	22,424	22,058
Total current liabilities	152,334	161,327
Non-current liabilities		
Long-term loans payable	1,700	1,700
Lease obligations	1,408	1,058
Provision for directors' retirement benefits	647	690
Net defined benefit liability	8,533	9,205
Other	1,162	1,085
Total non-current liabilities	13,451	13,740
Total liabilities	165,785	175,067
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	189,816	209,335
Treasury shares	(137)	(139)
Total shareholders' equity	216,308	235,825
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,348	4,544
Deferred gains or losses on hedges	2	(23)
Revaluation reserve for land	(12,097)	(11,650)
Foreign currency translation adjustment	45	3
Remeasurements of defined benefit plans	1,289	1,027
Total accumulated other comprehensive income	(3,411)	(6,098)
Non-controlling interests	1,634	1,938
Total net assets	214,532	231,664
Total liabilities and net assets	380,317	406,732

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2017 (Year ended December 31, 2017)	Fiscal Year 2018 (Year ended December 31, 2018)
Net sales	691,166	759,871
Cost of sales	541,339	602,054
Gross profit	149,827	157,817
Selling, general and administrative expenses	105,440	109,758
Operating profit	44,386	48,058
Non-operating income		
Interest income	17	13
Dividend income	129	162
House rent income	233	248
Income from recycling	145	175
Share of profit of entities accounted for using equity method	264	259
Foreign exchange gains	133	179
Other	208	241
Total non-operating income	1,129	1,282
Non-operating expenses		
Interest expenses	47	47
Other	8	7
Total non-operating expenses	56	55
Ordinary profit	45,460	49,285
Extraordinary income		
Gain on sales of non-current assets	107	96
Other	70	10
Total extraordinary income	178	106
Extraordinary losses		
Loss on retirement of non-current assets	34	61
Impairment loss	234	227
Other	6	2
Total extraordinary losses	275	292
Profit before income taxes	45,363	49,100
Income taxes - current	13,853	15,744
Income taxes - deferred	(392)	(622)
Total income taxes	13,460	15,122
Profit	31,902	33,977
Profit attributable to non-controlling interests	342	375
Profit attributable to owners of parent	31,560	33,601

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2017 (Year ended December 31, 2017)	Fiscal Year 2018 (Year ended December 31, 2018)
Profit	31,902	33,977
Other comprehensive income		
Valuation difference on available-for-sale securities	2,857	(2,763)
Deferred gains or losses on hedges	3	(31)
Remeasurements of defined benefit plans, net of tax	(17)	(263)
Share of other comprehensive income of entities accounted for using equity method	50	(45)
Total other comprehensive income	2,893	(3,103)
Comprehensive income	34,795	30,874
(Breakdown)		
Comprehensive income attributable to owners of parent	34,421	30,468
Comprehensive income attributable to non-controlling interests	374	406

Consolidated Statements of Changes in Net Assets

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

Fiscal Year 2018 (Year ended December 31, 2018)

(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	189,816	(137)	216,308
Changes of items during period					
Dividends of surplus			(13,272)		(13,272)
Profit attributable to owners of parent			33,601		33,601
Reversal of revaluation reserve for land			(446)		(446)
Purchase of treasury shares				(2)	(2)
Change of scope of consolidation			(364)		(364)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	19,518	(2)	19,516
Balance at end of current period	10,374	16,254	209,335	(139)	235,825

	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	7,348	2	(12,097)	45	1,289	(3,411)	1,634	214,532
Changes of items during period								
Dividends of surplus								(13,272)
Profit attributable to owners of parent								33,601
Reversal of revaluation reserve for land								(446)
Purchase of treasury shares								(2)
Change of scope of consolidation								(364)
Net changes of items other than shareholders' equity	(2,804)	(25)	446	(41)	(261)	(2,687)	303	(2,384)
Total changes of items during period	(2,804)	(25)	446	(41)	(261)	(2,687)	303	17,132
Balance at end of current period	4,544	(23)	(11,650)	3	1,027	(6,098)	1,938	231,664

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2017 (Year ended December 31, 2017)	Fiscal Year 2018 (Year ended December 31, 2018)
Cash flows from operating activities		
Profit before income taxes	45,363	49,100
Depreciation	6,138	6,438
Impairment loss	234	227
Increase (decrease) in allowance for doubtful accounts	(16)	9
Interest and dividend income	(146)	(176)
Interest expenses	47	47
Share of loss (profit) of entities accounted for using equity method	(264)	(259)
Loss on retirement of non-current assets	34	61
Loss (gain) on sales of non-current assets	(107)	(94)
Decrease (increase) in notes and accounts receivable - trade	(12,119)	(10,255)
Decrease (increase) in inventories	39	(909)
Increase (decrease) in notes and accounts payable - trade	7,319	6,246
Other, net	2,080	2,540
Subtotal	48,605	52,976
Interest and dividend income received	218	207
Interest expenses paid	(46)	(48)
Income taxes paid	(12,622)	(14,489)
Net cash provided by (used in) operating activities	36,153	38,646
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	300	—
Purchase of property, plant and equipment	(1,476)	(2,436)
Proceeds from sales of property, plant and equipment	900	243
Purchase of software	(4,925)	(5,864)
Purchase of investment securities	(46)	(3,065)
Proceeds from sales of investment securities	140	10
Collection of long-term loans receivable	25	39
Other, net	(161)	(25)
Net cash provided by (used in) investing activities	(5,243)	(11,096)

(Millions of yen)

	Fiscal Year 2017 (Year ended December 31, 2017)	Fiscal Year 2018 (Year ended December 31, 2018)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(100)	(100)
Cash dividends paid	(11,367)	(13,265)
Other, net	(60)	(105)
Net cash provided by (used in) financing activities	(11,528)	(13,470)
Effect of exchange rate change on cash and cash equivalents	(19)	(7)
Net increase (decrease) in cash and cash equivalents	19,362	14,071
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	137,545	151,585

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 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

Fiscal Year 2018 (Year ended December 31, 2018)

(Millions of yen)

	Reportable segment		Total	Adjustment	Amount recorded in consolidated financial statements
	System Integration business	Service and Support business			
Net sales					
Outside customers sales	463,293	296,577	759,871	—	759,871
Inter-segment sales/transfers	124	429	553	(553)	—
Total	463,417	297,007	760,424	(553)	759,871
Segment profit	41,645	14,670	56,315	(8,257)	48,058
Segment assets	145,708	104,958	250,666	156,065	406,732
Other items					
Depreciation	2,956	2,727	5,684	754	6,438
Investments in affiliates accounted for using equity method	791	4,891	5,682	—	5,682
Increase in property, plant and equipment and intangible assets	3,356	4,188	7,544	755	8,300

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 was excluded from scope of consolidation from the Fiscal Year 2018. Consequently, "Other" column is not presented herein as this business segment has no actual results.