

**Financial Report for the First Six Months of
the Fiscal Year Ending December 31, 2019 (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: August 8, 2019

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 2019 (From January 1, 2019 to June 30, 2019)

(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	%
Six months ended								
June 30, 2019	450,154	15.5	33,880	24.7	34,710	24.6	23,522	25.2
June 30, 2018	389,863	9.0	27,178	1.3	27,868	1.8	18,791	1.3

Note) Comprehensive Income: Six months ended June 30, 2019: 25,759 million yen [39.9%]

Six months ended June 30, 2018: 18,414 million yen [(6.1)%]

	Basic earnings per share	Diluted earnings per share
Six months ended	yen	yen
June 30, 2019	124.06	—
June 30, 2018	99.11	—

* 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 2018).

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
June 30, 2019	455,615	241,194	52.5
December 31, 2018	406,732	231,664	56.5

Reference) Equity: As of June 30, 2019: 239,123 million yen

As of December 31, 2018: 229,726 million yen

2. Dividends

	Annual dividends				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal Year 2018	yen —	yen 0.00	yen —	yen 85.00	yen 85.00
Fiscal Year 2019	—	0.00			
Fiscal Year 2019 (forecast)			—	90.00	90.00

Note) Revision of the recently announced forecasts: No

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
Full-Year	840,000	10.5	55,800	16.1	57,000	15.7	38,450	14.4	202.79

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, 2019:	190,002,120 shares
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As of December 31, 2018:	190,002,120 shares
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2) Number of treasury shares at the end of the period:

As of June 30, 2019:	400,868 shares
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As of December 31, 2018:	400,868 shares
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3) Average number of shares during the period:

Six months ended June 30, 2019:	189,601,252 shares
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Six months ended June 30, 2018:	189,601,457 shares
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* Average number of shares during the period 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 2018).

*** 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, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	150,888	166,382
Notes and accounts receivable - trade	132,352	156,040
Merchandise	25,721	30,790
Work in process	957	866
Raw materials and supplies	828	788
Other	20,833	23,142
Allowance for doubtful accounts	(113)	(123)
Total current assets	331,468	377,886
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	17,376	17,058
Other, net	19,253	19,168
Total property, plant and equipment	36,629	36,226
Intangible assets	13,789	13,854
Investments and other assets		
Investment securities	14,609	17,650
Other	10,422	10,205
Allowance for doubtful accounts	(187)	(209)
Total investments and other assets	24,844	27,647
Total non-current assets	75,263	77,728
Total assets	406,732	455,615

(Millions of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	89,322	108,592
Electronically recorded obligations - operating	17,904	20,995
Short-term loans payable	4,800	4,800
Income taxes payable	9,326	11,554
Provision for bonuses	3,564	4,209
Other	36,408	48,622
Total current liabilities	161,327	198,774
Non-current liabilities		
Long-term loans payable	1,700	1,700
Provision for directors' retirement benefits	690	682
Net defined benefit liability	9,205	10,451
Other	2,144	2,811
Total non-current liabilities	13,740	15,645
Total liabilities	175,067	214,420
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	209,335	216,741
Treasury shares	(139)	(139)
Total shareholders' equity	235,825	243,231
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,544	6,459
Deferred gains or losses on hedges	(23)	(3)
Revaluation reserve for land	(11,650)	(11,650)
Foreign currency translation adjustment	3	(25)
Remeasurements of defined benefit plans	1,027	1,111
Total accumulated other comprehensive income	(6,098)	(4,108)
Non-controlling interests	1,938	2,071
Total net assets	231,664	241,194
Total liabilities and net assets	406,732	455,615

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	389,863	450,154
Cost of sales	307,912	359,271
Gross profit	81,951	90,882
Selling, general and administrative expenses	54,772	57,002
Operating profit	27,178	33,880
Non-operating income		
Interest income	7	5
Dividend income	96	114
House rent income	125	122
Share of profit of entities accounted for using equity method	178	295
Other	313	324
Total non-operating income	720	862
Non-operating expenses		
Interest expenses	25	24
Other	5	7
Total non-operating expenses	31	32
Ordinary profit	27,868	34,710
Extraordinary losses		
Loss on retirement of non-current assets	17	14
Other	—	2
Total extraordinary losses	17	16
Profit before income taxes	27,850	34,693
Income taxes	8,851	10,930
Profit	18,999	23,763
Profit attributable to non-controlling interests	207	241
Profit attributable to owners of parent	18,791	23,522

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Profit	18,999	23,763
Other comprehensive income		
Valuation difference on available-for-sale securities	(569)	1,915
Deferred gains or losses on hedges	(3)	24
Remeasurements of defined benefit plans, net of tax	25	84
Share of other comprehensive income of entities accounted for using equity method	(37)	(28)
Total other comprehensive income	(584)	1,995
Comprehensive income	18,414	25,759
(Breakdown)		
Comprehensive income attributable to owners of parent	18,158	25,512
Comprehensive income attributable to non-controlling interests	256	246

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	27,850	34,693
Depreciation	3,095	3,499
Increase (decrease) in allowance for doubtful accounts	10	31
Interest and dividend income	(103)	(120)
Interest expenses	25	24
Share of loss (profit) of entities accounted for using equity method	(178)	(295)
Loss on retirement of non-current assets	17	14
Decrease (increase) in notes and accounts receivable - trade	(13,554)	(23,709)
Decrease (increase) in inventories	(965)	(4,937)
Increase (decrease) in notes and accounts payable - trade	17,689	22,360
Increase (decrease) in accrued expenses	9,630	11,059
Other, net	439	1,338
Subtotal	43,955	43,958
Interest and dividend income received	102	119
Interest expenses paid	(25)	(24)
Income taxes paid	(7,567)	(8,819)
Net cash provided by (used in) operating activities	36,465	35,233
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,169)	(596)
Purchase of software	(3,498)	(2,743)
Other, net	(18)	(89)
Net cash provided by (used in) investing activities	(4,685)	(3,429)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(100)	—
Cash dividends paid	(13,262)	(16,104)
Other, net	(105)	(112)
Net cash provided by (used in) financing activities	(13,468)	(16,217)
Effect of exchange rate change on cash and cash equivalents	(2)	5
Net increase (decrease) in cash and cash equivalents	18,309	15,592
Cash and cash equivalents at beginning of period	137,545	151,585
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(31)	—
Cash and cash equivalents at end of period	155,823	167,178

Segment Information

Information concerning net sales and segment profit/loss by reportable segment

Six months ended June 30, 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	241,981	147,881	389,863	—	389,863
Inter-segment sales/transfers	56	202	258	(258)	—
Total	242,037	148,084	390,122	(258)	389,863
Segment profit	23,281	8,215	31,497	(4,319)	27,178

Six months ended June 30, 2019

(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	297,956	152,198	450,154	—	450,154
Inter-segment sales/transfers	38	261	299	(299)	—
Total	297,994	152,459	450,453	(299)	450,154
Segment profit	28,795	9,583	38,378	(4,498)	33,880