

**Financial Report for the Nine 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: November 13, 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 Nine Months of the Fiscal Year 2018 (From January 1, 2018 to
September 30, 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	%
Nine months ended								
September 30, 2018	566,125	9.6	34,091	2.7	35,035	2.9	23,835	1.8
September 30, 2017	516,528	7.0	33,200	12.9	34,055	12.6	23,410	18.8

Note) Comprehensive Income: Nine months ended September 30, 2018: 24,005 million yen [(7.0)%]
Nine months ended September 30, 2017: 25,825 million yen [34.3%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	yen	yen
September 30, 2018	125.71	—
September 30, 2017	123.47	—

* 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 nine months ended September 30, 2018 and the nine months ended September 30, 2017, not considering the stock split, are 251.42 yen and 246.95 yen, respectively.

(2) Financial position

	Total assets	Net assets	Equity ratio
As of	Millions of yen	Millions of yen	%
September 30, 2018	392,839	224,795	56.7
December 31, 2017	380,317	214,532	56.0

Reference) Equity: As of September 30, 2018: 222,923 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	—	0.00	—		
Fiscal Year 2018 (forecast)				72.50	72.50

Note) Revision of the recently announced forecasts: No

* The annual dividends per share for Fiscal Year 2018 (forecast) stated above indicates 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 is 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
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 indicates amounts calculated in consideration of the stock split described in "1. Financial Results." Basic earnings per share in Financial Forecasts for the Fiscal Year 2018 not considering the stock split is 336.28 yen.

*** 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 September 30, 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 September 30, 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:

Nine months ended September 30, 2018:	189,601,388 shares
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Nine months ended September 30, 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 September 30, 2018
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Assets		
Current assets		
Cash and deposits	136,410	146,504
Notes and accounts receivable - trade	122,144	118,786
Merchandise	24,999	27,211
Work in process	762	943
Raw materials and supplies	837	764
Other	24,212	23,859
Allowance for doubtful accounts	(120)	(100)
Total current assets	<u>309,245</u>	<u>317,969</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,255	17,765
Other, net	19,355	19,403
Total property, plant and equipment	<u>37,610</u>	<u>37,168</u>
Intangible assets	12,166	13,730
Investments and other assets		
Investment securities	15,306	18,360
Other	6,158	5,790
Allowance for doubtful accounts	(170)	(179)
Total investments and other assets	<u>21,294</u>	<u>23,970</u>
Total non-current assets	<u>71,071</u>	<u>74,870</u>
Total assets	<u>380,317</u>	<u>392,839</u>

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable - trade	83,107	85,802
Electronically recorded obligations - operating	17,887	19,623
Short-term loans payable	4,900	4,800
Income taxes payable	8,274	4,218
Provision for bonuses	3,379	8,761
Other	34,785	32,089
Total current liabilities	152,334	155,295
Non-current liabilities		
Long-term loans payable	1,700	1,700
Provision for directors' retirement benefits	647	673
Net defined benefit liability	8,533	8,118
Asset retirement obligations	214	213
Other	2,356	2,042
Total non-current liabilities	13,451	12,748
Total liabilities	165,785	168,044
Net assets		
Shareholders' equity		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	189,816	199,568
Treasury shares	(137)	(139)
Total shareholders' equity	216,308	226,058
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	7,348	7,144
Deferred gains or losses on hedges	2	13
Revaluation reserve for land	(12,097)	(11,650)
Foreign currency translation adjustment	45	27
Remeasurements of defined benefit plans	1,289	1,330
Total accumulated other comprehensive income	(3,411)	(3,134)
Non-controlling interests	1,634	1,871
Total net assets	214,532	224,795
Total liabilities and net assets	380,317	392,839

Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net sales	516,528	566,125
Cost of sales	404,550	449,988
Gross profit	111,978	116,137
Selling, general and administrative expenses	78,778	82,045
Operating profit	33,200	34,091
Non-operating income		
Interest income	14	10
Dividend income	78	107
House rent income	174	186
Share of profit of entities accounted for using equity method	239	229
Other	392	452
Total non-operating income	899	986
Non-operating expenses		
Interest expenses	36	36
Other	8	6
Total non-operating expenses	44	43
Ordinary profit	34,055	35,035
Extraordinary income		
Gain on sales of non-current assets	107	96
Total extraordinary income	107	96
Extraordinary losses		
Loss on retirement of non-current assets	27	30
Other	5	2
Total extraordinary losses	32	33
Profit before income taxes	34,130	35,099
Income taxes	10,474	10,975
Profit	23,656	24,123
Profit attributable to non-controlling interests	245	288
Profit attributable to owners of parent	23,410	23,835

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Profit	23,656	24,123
Other comprehensive income		
Valuation difference on available-for-sale securities	2,283	(155)
Deferred gains or losses on hedges	11	13
Remeasurements of defined benefit plans, net of tax	(143)	38
Share of other comprehensive income of entities accounted for using equity method	17	(16)
Total other comprehensive income	2,168	(118)
Comprehensive income	25,825	24,005
(Breakdown)		
Comprehensive income attributable to owners of parent	25,536	23,665
Comprehensive income attributable to non-controlling interests	288	339

Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	34,130	35,099
Depreciation	4,584	4,747
Increase (decrease) in allowance for doubtful accounts	(46)	(10)
Interest and dividend income	(92)	(118)
Interest expenses	36	36
Share of (profit) loss of entities accounted for using equity method	(239)	(229)
Loss on retirement of non-current assets	27	30
Loss (gain) on sales of non-current assets	(107)	(94)
Decrease (increase) in notes and accounts receivable - trade	2,853	3,318
Decrease (increase) in inventories	(428)	(2,321)
Increase (decrease) in notes and accounts payable - trade	1,308	4,444
Other, net	2,756	2,508
Subtotal	44,782	47,410
Interest and dividend income received	164	148
Interest expenses paid	(27)	(28)
Income taxes paid	(12,614)	(14,448)
Net cash provided by (used in) operating activities	32,304	33,083
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	300	—
Purchase of property, plant and equipment	(1,094)	(2,098)
Proceeds from sales of property, plant and equipment	900	243
Purchase of software	(3,568)	(4,745)
Purchase of investment securities	(40)	(3,058)
Other, net	(141)	(18)
Net cash provided by (used in) investing activities	(3,643)	(9,676)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(100)
Cash dividends paid	(11,367)	(13,264)
Other, net	(60)	(105)
Net cash provided by (used in) financing activities	(11,427)	(13,470)
Effect of exchange rate change on cash and cash equivalents	(19)	(0)
Net increase (decrease) in cash and cash equivalents	17,213	9,935
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	135,397	147,449

Segment Information

Information concerning net sales and income/loss by reportable segment

Nine months ended September 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	306,921	209,329	516,250	277	516,528	—	516,528
Inter-segment sales/transfers	63	249	313	83	396	(396)	—
Total	306,985	209,579	516,564	361	516,925	(396)	516,528
Segment profit	28,996	10,212	39,208	38	39,247	(6,046)	33,200

Nine months ended September 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	346,213	219,912	566,125	—	566,125
Inter-segment sales/transfers	72	308	381	(381)	—
Total	346,286	220,221	566,507	(381)	566,125
Segment profit	29,649	10,736	40,386	(6,294)	34,091

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 first quarter ended March 31, 2018. Consequently, "Other" column is not presented herein as this business segment has no actual results.