

## Financial Report for the Fiscal Year Ended 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 of Ordinary General Meeting of Shareholders: March 27, 2020  
 Scheduled date to commence dividend payments: March 30, 2020  
 Scheduled date to file Securities Report: March 27, 2020  
 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 2019 (From January 1, 2019 to December 31, 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	%
Fiscal Year 2019	886,536	16.7	62,192	29.4	63,706	29.3	43,497	29.4
Fiscal Year 2018	759,871	9.9	48,058	8.3	49,285	8.4	33,601	6.5

Note) Comprehensive Income: Fiscal Year 2019: 46,186 million yen [49.6%]  
 Fiscal Year 2018: 30,874 million yen [(11.3)%]

	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 2019	229.42	—	17.8	14.7	7.0
Fiscal Year 2018	177.22	—	15.2	12.5	6.3

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2019: 572 million yen  
 Fiscal Year 2018: 259 million 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 is 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	Net assets per share
As of	Millions of yen	Millions of yen	%	yen
December 31, 2019	461,812	261,622	56.2	1,367.76
December 31, 2018	406,732	231,664	56.5	1,211.63

Reference) Equity: As of December 31, 2019: 259,328 million yen  
 As of December 31, 2018: 229,726 million yen

\* Net assets per share stated above is 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 2018).

### (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 2019	48,762	(7,934)	(16,221)	176,198
Fiscal Year 2018	38,646	(11,096)	(13,470)	151,585

### 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 2018	—	0.00	—	85.00	85.00	16,116	48.0	7.3
Fiscal Year 2019	—	0.00	—	110.00	110.00	20,856	47.9	8.5
Fiscal Year 2020 (forecast)	—	0.00	—	115.00	115.00		50.1	

\* The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018.

### 3. Financial Forecasts for the Fiscal Year 2020 (From January 1, 2020 to December 31, 2020)

(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, 2020	452,000	0.4	36,000	6.3	36,520	5.2	24,530	4.3	129.38
Full-Year	864,000	(2.5)	63,700	2.4	64,600	1.4	43,530	0.1	229.59

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, 2019:	190,002,120 shares
--------------------------	--------------------

As of December 31, 2018:	190,002,120 shares
--------------------------	--------------------

2) Number of treasury shares at the end of the period:

As of December 31, 2019:	400,908 shares
--------------------------	----------------

As of December 31, 2018:	400,868 shares
--------------------------	----------------

3) Average number of shares during the period:

Fiscal Year 2019:	189,601,242 shares
-------------------	--------------------

Fiscal Year 2018:	189,601,354 shares
-------------------	--------------------

\* 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).

**\* 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, 2018	As of December 31, 2019
<b>Assets</b>		
Current assets		
Cash and deposits	150,888	175,427
Notes and accounts receivable - trade	132,352	149,574
Merchandise	25,721	32,321
Work in process	957	1,470
Raw materials and supplies	828	754
Other	20,833	23,057
Allowance for doubtful accounts	(113)	(120)
Total current assets	331,468	382,485
Non-current assets		
Property, plant and equipment		
Buildings and structures	58,138	58,933
Accumulated depreciation and impairment loss	(40,761)	(42,183)
Buildings and structures, net	17,376	16,750
Land	15,604	15,351
Other	13,038	12,683
Accumulated depreciation and impairment loss	(9,389)	(8,838)
Other, net	3,649	3,845
Total property, plant and equipment	36,629	35,947
Intangible assets		
Software	13,729	14,452
Other	59	59
Total intangible assets	13,789	14,511
Investments and other assets		
Investment securities	14,609	17,358
Guarantee deposits	2,424	2,428
Deferred tax assets	6,144	6,895
Other	1,854	2,414
Allowance for doubtful accounts	(187)	(229)
Total investments and other assets	24,844	28,867
Total non-current assets	75,263	79,326
Total assets	406,732	461,812

(Millions of yen)

	As of December 31, 2018	As of December 31, 2019
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable - trade	89,322	102,006
Electronically recorded obligations - operating	17,904	19,105
Short-term loans payable	4,800	4,800
Income taxes payable	9,326	13,270
Advances received	14,350	14,742
Provision for bonuses	3,564	4,014
Other	22,058	28,176
<b>Total current liabilities</b>	<b>161,327</b>	<b>186,115</b>
<b>Non-current liabilities</b>		
Long-term loans payable	1,700	1,700
Lease obligations	1,058	1,583
Provision for retirement benefits for directors	690	713
Retirement benefit liability	9,205	8,999
Other	1,085	1,077
<b>Total non-current liabilities</b>	<b>13,740</b>	<b>14,074</b>
<b>Total liabilities</b>	<b>175,067</b>	<b>200,190</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	209,335	236,544
Treasury shares	(139)	(139)
<b>Total shareholders' equity</b>	<b>235,825</b>	<b>263,034</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	4,544	6,117
Deferred gains or losses on hedges	(23)	2
Revaluation reserve for land	(11,650)	(11,402)
Foreign currency translation adjustment	3	7
Remeasurements of defined benefit plans	1,027	1,569
<b>Total accumulated other comprehensive income</b>	<b>(6,098)</b>	<b>(3,705)</b>
<b>Non-controlling interests</b>	<b>1,938</b>	<b>2,293</b>
<b>Total net assets</b>	<b>231,664</b>	<b>261,622</b>
<b>Total liabilities and net assets</b>	<b>406,732</b>	<b>461,812</b>

## **Consolidated Statements of Income and Comprehensive Income**

### Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2018 (Year ended December 31, 2018)	Fiscal Year 2019 (Year ended December 31, 2019)
Net sales	759,871	886,536
Cost of sales	602,054	706,537
Gross profit	157,817	179,999
Selling, general and administrative expenses	109,758	117,806
Operating profit	48,058	62,192
Non-operating income		
Interest income	13	10
Dividend income	162	186
House rent income	248	253
Income from recycling	175	207
Share of profit of entities accounted for using equity method	259	572
Foreign exchange gains	179	151
Other	241	189
Total non-operating income	1,282	1,571
Non-operating expenses		
Interest expenses	47	47
Other	7	10
Total non-operating expenses	55	58
Ordinary profit	49,285	63,706
Extraordinary income		
Gain on sales of non-current assets	96	—
Gain on sales of investment securities	2	34
Other	7	—
Total extraordinary income	106	34
Extraordinary losses		
Loss on retirement of non-current assets	61	73
Impairment loss	227	967
Other	2	31
Total extraordinary losses	292	1,072
Profit before income taxes	49,100	62,668
Income taxes-current	15,744	20,331
Income taxes-deferred	(622)	(1,625)
Total Income taxes	15,122	18,706
Profit	33,977	43,962
Profit attributable to non-controlling interests	375	465
Profit attributable to owners of parent	33,601	43,497

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2018 (Year ended December 31, 2018)	Fiscal Year 2019 (Year ended December 31, 2019)
Profit	33,977	43,962
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,763)	1,565
Deferred gains or losses on hedges	(31)	31
Revaluation reserve for land	—	76
Remeasurements of defined benefit plans, net of tax	(263)	556
Share of other comprehensive income of entities accounted for using equity method	(45)	(5)
Total other comprehensive income	(3,103)	2,223
Comprehensive income	30,874	46,186
(Breakdown)		
Comprehensive income attributable to owners of parent	30,468	45,718
Comprehensive income attributable to non-controlling interests	406	467

## Consolidated Statements of Changes in Net Assets

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



Fiscal Year 2019 (Year ended December 31, 2019)

(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	209,335	(139)	235,825
Changes of items during period					
Dividends of surplus			(16,116)		(16,116)
Profit attributable to owners of parent			43,497		43,497
Reversal of revaluation reserve for land			(172)		(172)
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	27,208	(0)	27,208
Balance at end of current period	10,374	16,254	236,544	(139)	263,034

	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	4,544	(23)	(11,650)	3	1,027	(6,098)	1,938	231,664
Changes of items during period								
Dividends of surplus								(16,116)
Profit attributable to owners of parent								43,497
Reversal of revaluation reserve for land								(172)
Purchase of treasury shares								(0)
Net changes of items other than shareholders' equity	1,573	25	248	4	542	2,393	355	2,748
Total changes of items during period	1,573	25	248	4	542	2,393	355	29,957
Balance at end of current period	6,117	2	(11,402)	7	1,569	(3,705)	2,293	261,622

## Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2018 (Year ended December 31, 2018)	Fiscal Year 2019 (Year ended December 31, 2019)
Cash flows from operating activities		
Profit before income taxes	49,100	62,668
Depreciation	6,438	7,228
Impairment loss	227	967
Increase (decrease) in allowance for doubtful accounts	9	48
Interest and dividend income	(176)	(197)
Interest expenses	47	47
Share of loss (profit) of entities accounted for using equity method	(259)	(572)
Loss on retirement of non-current assets	61	73
Loss (gain) on sales of non-current assets	(94)	—
Decrease (increase) in notes and accounts receivable - trade	(10,255)	(17,263)
Decrease (increase) in inventories	(909)	(7,038)
Increase (decrease) in notes and accounts payable - trade	6,246	13,884
Other, net	2,540	5,246
Subtotal	52,976	65,093
Interest and dividend income received	207	276
Interest expenses paid	(48)	(47)
Income taxes paid	(14,489)	(16,559)
Net cash provided by (used in) operating activities	38,646	48,762
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,436)	(2,152)
Proceeds from sales of property, plant and equipment	243	—
Purchase of software	(5,864)	(5,707)
Purchase of investment securities	(3,065)	(43)
Proceeds from sales of investment securities	10	65
Other, net	13	(96)
Net cash provided by (used in) investing activities	(11,096)	(7,934)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(100)	—
Cash dividends paid	(13,265)	(16,109)
Other, net	(105)	(112)
Net cash provided by (used in) financing activities	(13,470)	(16,221)
Effect of exchange rate change on cash and cash equivalents	(7)	6
Net increase (decrease) in cash and cash equivalents	14,071	24,612
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	151,585	176,198

## **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 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

Fiscal Year 2019 (Year ended December 31, 2019)

(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	578,698	307,837	886,536	—	886,536
Inter-segment sales/transfers	95	549	644	(644)	—
Total	578,794	308,387	887,181	(644)	886,536
Segment profit	55,265	15,746	71,012	(8,819)	62,192
Segment assets	172,739	111,205	283,944	177,867	461,812
Other items					
Depreciation	3,452	2,870	6,322	905	7,228
Investments in affiliates accounted for using equity method	908	5,263	6,172	—	6,172
Increase in property, plant and equipment and intangible assets	3,448	4,341	7,790	70	7,860