

Financial Report for the Fiscal Year Ended December 31, 2021 (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: Hironobu Saito, Managing Director & Executive Operating Officer (Tel: +81-3-3264-7111)

Scheduled date of Ordinary General Meeting of Shareholders: March 29, 2022

Scheduled date to commence dividend payments: March 30, 2022

Scheduled date to file Securities Report: March 29, 2022

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 2021 (From January 1, 2021 to December 31, 2021)

(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 2021	851,894	1.9	55,827	(0.9)	57,567	0.0	39,927	1.6
Fiscal Year 2020	836,323	(5.7)	56,309	(9.5)	57,550	(9.7)	39,309	(9.6)

Note) Comprehensive Income: Fiscal Year 2021: 43,702 million yen [10.9%]

Fiscal Year 2020: 39,410 million yen [(14.7)%]

	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 2021	210.59	—	13.9	12.0	6.6
Fiscal Year 2020	207.33	—	14.6	12.3	6.7

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2021: 794 million yen

Fiscal Year 2020: 390 million yen

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	yen
December 31, 2021	486,254	301,774	61.4	1,575.64
December 31, 2020	471,292	280,035	58.8	1,462.80

Reference) Equity: As of December 31, 2021: 298,743 million yen

As of December 31, 2020: 277,348 million yen

(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 2021	57,873	(9,160)	(21,957)	205,746
Fiscal Year 2020	32,496	(8,716)	(20,988)	178,988

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 2020	—	0.00	—	115.00	115.00	21,804	55.5	8.1
Fiscal Year 2021	—	0.00	—	120.00	120.00	22,752	57.0	7.9
Fiscal Year 2022 (forecast)	—	0.00	—	125.00	125.00		64.7	

Note) The year-end dividend per share for the fiscal year 2021 includes commemorative dividend of 5 yen per share to mark the 60th anniversary of the Company's establishment.

3. Financial Forecasts for the Fiscal Year 2022 (From January 1, 2022 to December 31, 2022)

(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, 2022	435,800	(6.6)	30,900	(7.1)	31,400	(8.3)	21,590	(8.7)	113.87
Full-Year	828,000	(2.8)	53,600	(4.0)	54,500	(5.3)	36,650	(8.2)	193.30

Notes) 1. 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.

2. Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29), etc. are applying from the beginning of the fiscal year ending December 31, 2022, the above forecasts reflect the amounts after the application of the accounting standard, etc. However in the calculation for each of percentages, the accounting standard, etc. do not apply to the amounts in the same period of the previous year. Assuming that the accounting standard, etc. applied from the beginning of the fiscal year ending December 31, 2021, the rate of changes for Net sales to the same period of the previous year are as follows:

Six months ending June 30, 2022: (3.1)%

Full-Year: 1.2%

The application of the accounting standard, etc. have little impact on Operating profit, Ordinary profit, and Profit attributable to owners of parent.

*** 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, 2021:	190,002,120 shares
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As of December 31, 2020:	190,002,120 shares
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2) Number of treasury shares at the end of the period:

As of December 31, 2021:	400,930 shares
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As of December 31, 2020:	400,908 shares
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3) Average number of shares during the period:

Fiscal Year 2021:	189,601,208 shares
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Fiscal Year 2020:	189,601,212 shares
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*** 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, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	178,072	204,701
Notes and accounts receivable - trade	145,033	135,786
Merchandise	42,011	33,052
Work in process	1,409	1,235
Raw materials and supplies	776	740
Other	24,320	25,594
Allowance for doubtful accounts	(100)	(75)
Total current assets	391,523	401,034
Non-current assets		
Property, plant and equipment		
Buildings and structures	59,177	52,827
Accumulated depreciation and impairment	(42,738)	(37,405)
Buildings and structures, net	16,439	15,422
Land	15,345	15,092
Other	13,058	16,473
Accumulated depreciation and impairment	(8,613)	(9,277)
Other, net	4,444	7,195
Total property, plant and equipment	36,229	37,710
Intangible assets		
Software	15,072	15,771
Other	59	59
Total intangible assets	15,131	15,830
Investments and other assets		
Investment securities	16,895	22,366
Guarantee deposits	2,337	2,429
Deferred tax assets	7,087	5,336
Other	2,297	1,661
Allowance for doubtful accounts	(209)	(115)
Total investments and other assets	28,407	31,678
Total non-current assets	79,768	85,219
Total assets	471,292	486,254

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	96,437	91,938
Electronically recorded obligations - operating	18,822	17,901
Short-term borrowings	4,800	4,800
Income taxes payable	9,367	8,769
Advances received	16,253	15,746
Provision for bonuses	3,844	3,806
Other	27,314	27,319
Total current liabilities	176,839	170,282
Non-current liabilities		
Long-term borrowings	1,700	1,700
Lease obligations	1,519	1,485
Provision for retirement benefits for directors	762	698
Retirement benefit liability	9,336	9,210
Other	1,098	1,104
Total non-current liabilities	14,416	14,198
Total liabilities	191,256	184,480
Net assets		
Shareholders' equity		
Share capital	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	254,997	272,834
Treasury shares	(139)	(139)
Total shareholders' equity	281,487	299,323
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,527	8,734
Deferred gains or losses on hedges	(5)	8
Revaluation reserve for land	(11,402)	(10,987)
Foreign currency translation adjustment	15	151
Remeasurements of defined benefit plans	1,725	1,513
Total accumulated other comprehensive income	(4,139)	(580)
Non-controlling interests	2,687	3,030
Total net assets	280,035	301,774
Total liabilities and net assets	471,292	486,254

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2020 (Year ended December 31, 2020)	Fiscal Year 2021 (Year ended December 31, 2021)
Net sales	836,323	851,894
Cost of sales	662,598	675,003
Gross profit	173,725	176,890
Selling, general and administrative expenses	117,415	121,062
Operating profit	56,309	55,827
Non-operating income		
Interest income	10	14
Dividend income	181	225
Rental income from buildings	262	263
Income from recycling	126	157
Share of profit of entities accounted for using equity method	390	794
Foreign exchange gains	118	64
Other	205	325
Total non-operating income	1,296	1,845
Non-operating expenses		
Interest expenses	44	44
Donations	—	50
Other	10	11
Total non-operating expenses	55	105
Ordinary profit	57,550	57,567
Extraordinary income		
Gain on sale of non-current assets	—	886
Gain on sale of investment securities	225	19
Total extraordinary income	225	905
Extraordinary losses		
Loss on retirement of non-current assets	46	56
Impairment losses	143	220
Other	2	6
Total extraordinary losses	191	283
Profit before income taxes	57,584	58,190
Income taxes-current	17,786	17,142
Income taxes-deferred	(12)	576
Total Income taxes	17,774	17,718
Profit	39,809	40,471
Profit attributable to non-controlling interests	500	543
Profit attributable to owners of parent	39,309	39,927

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2020 (Year ended December 31, 2020)	Fiscal Year 2021 (Year ended December 31, 2021)
Profit	39,809	40,471
Other comprehensive income		
Valuation difference on available-for-sale securities	(553)	3,159
Deferred gains or losses on hedges	(9)	17
Revaluation reserve for land	—	126
Remeasurements of defined benefit plans, net of tax	155	(228)
Share of other comprehensive income of entities accounted for using equity method	8	155
Total other comprehensive income	(399)	3,230
Comprehensive income	39,410	43,702
(Breakdown)		
Comprehensive income attributable to owners of parent	38,875	43,199
Comprehensive income attributable to non-controlling interests	535	502

Consolidated Statements of Changes in Net Assets

Fiscal Year 2020 (Year ended December 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,374	16,254	236,544	(139)	263,034
Changes during period					
Dividends of surplus			(20,856)		(20,856)
Profit attributable to owners of parent			39,309		39,309
Net changes in items other than shareholders' equity					
Total changes during period	—	—	18,453	—	18,453
Balance at end of period	10,374	16,254	254,997	(139)	281,487

	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 period	6,117	2	(11,402)	7	1,569	(3,705)	2,293	261,622
Changes during period								
Dividends of surplus								(20,856)
Profit attributable to owners of parent								39,309
Net changes in items other than shareholders' equity	(590)	(7)	—	8	155	(434)	394	(39)
Total changes during period	(590)	(7)	—	8	155	(434)	394	18,413
Balance at end of period	5,527	(5)	(11,402)	15	1,725	(4,139)	2,687	280,035

Fiscal Year 2021 (Year ended December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	10,374	16,254	254,997	(139)	281,487
Changes during period					
Dividends of surplus			(21,804)		(21,804)
Profit attributable to owners of parent			39,927		39,927
Reversal of revaluation reserve for land			(287)		(287)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	17,836	(0)	17,836
Balance at end of period	10,374	16,254	272,834	(139)	299,323

	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 period	5,527	(5)	(11,402)	15	1,725	(4,139)	2,687	280,035
Changes during period								
Dividends of surplus								(21,804)
Profit attributable to owners of parent								39,927
Reversal of revaluation reserve for land								(287)
Purchase of treasury shares								(0)
Net changes in items other than shareholders' equity	3,206	14	414	135	(211)	3,559	342	3,901
Total changes during period	3,206	14	414	135	(211)	3,559	342	21,738
Balance at end of period	8,734	8	(10,987)	151	1,513	(580)	3,030	301,774

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2020 (Year ended December 31, 2020)	Fiscal Year 2021 (Year ended December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	57,584	58,190
Depreciation	7,603	7,982
Impairment losses	143	220
Increase (decrease) in allowance for doubtful accounts	(39)	(119)
Interest and dividend income	(191)	(239)
Interest expenses	44	44
Share of loss (profit) of entities accounted for using equity method	(390)	(794)
Loss on retirement of non-current assets	46	56
Loss (gain) on sale of non-current assets	—	(879)
Loss (gain) on sale of investment securities	(225)	(19)
Decrease (increase) in trade receivables	4,560	9,342
Decrease (increase) in inventories	(9,651)	9,169
Increase (decrease) in trade payables	(5,853)	(5,419)
Other, net	35	(2,272)
Subtotal	53,666	75,260
Interest and dividends received	344	454
Interest paid	(44)	(44)
Income taxes paid	(21,470)	(17,796)
Net cash provided by (used in) operating activities	32,496	57,873
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,970)	(5,203)
Proceeds from sale of property, plant and equipment	—	1,546
Purchase of software	(5,893)	(5,679)
Purchase of investment securities	(175)	(198)
Proceeds from sale of investment securities	299	38
Other, net	23	336
Net cash provided by (used in) investing activities	(8,716)	(9,160)
Cash flows from financing activities		
Dividends paid	(20,847)	(21,797)
Other, net	(140)	(159)
Net cash provided by (used in) financing activities	(20,988)	(21,957)
Effect of exchange rate change on cash and cash equivalents	(1)	2
Net increase (decrease) in cash and cash equivalents	2,789	26,758
Cash and cash equivalents at beginning of period	176,198	178,988
Cash and cash equivalents at end of period	178,988	205,746

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 services such as distributing supplies, hardware and software maintenance, telephone support and outsourcing to support the installed systems and their business operations, totally.

2. Information concerning net sales, segment profit/loss, segment assets and other items by reportable segments

Fiscal Year 2020 (Year ended December 31, 2020)

(Millions of yen)

	Reportable segments		Total	Adjustment	Amount recorded in consolidated financial statements
	System Integration business	Service and Support business			
Net sales					
Outside customers sales	526,613	309,710	836,323	—	836,323
Inter-segment sales/transfers	271	774	1,046	(1,046)	—
Total	526,885	310,484	837,370	(1,046)	836,323
Segment profit	50,965	14,443	65,409	(9,100)	56,309
Segment assets	172,178	116,977	289,155	182,136	471,292
Other items					
Depreciation	3,524	3,233	6,758	845	7,603
Investments in affiliates accounted for using equity method	979	5,435	6,414	—	6,414
Increase in property, plant and equipment and intangible assets	4,486	3,811	8,298	566	8,864

Fiscal Year 2021 (Year ended December 31, 2021)

(Millions of yen)

	Reportable segments		Total	Adjustment	Amount recorded in consolidated financial statements
	System Integration business	Service and Support business			
Net sales					
Outside customers sales	523,609	328,284	851,894	—	851,894
Inter-segment sales/transfers	56	745	802	(802)	—
Total	523,666	329,029	852,696	(802)	851,894
Segment profit	50,552	14,234	64,786	(8,958)	55,827
Segment assets	159,879	124,849	284,728	201,526	486,254
Other items					
Depreciation	3,782	3,368	7,150	831	7,982
Investments in affiliates accounted for using equity method	1,193	5,961	7,155	—	7,155
Increase in property, plant and equipment and intangible assets	5,540	5,078	10,618	264	10,882