

Financial Report for the Fiscal Year Ended December 31, 2022 (Consolidated) <Under Japanese GAAP>

OTSUKA CORPORATION (URL: <https://www.otsuka-shokai.co.jp/>)

Listing: 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, 2023

Scheduled date to commence dividend payments: March 30, 2023

Scheduled date to file Securities Report: March 29, 2023

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 2022 (From January 1, 2022 to December 31, 2022)

(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 2022	861,022	1.1	54,768	(1.9)	56,639	(1.6)	40,022	0.2
Fiscal Year 2021	851,894	1.9	55,827	(0.9)	57,567	0.0	39,927	1.6

Note) Comprehensive Income: Fiscal Year 2022: 43,911 million yen [0.5%]

Fiscal Year 2021: 43,702 million yen [10.9%]

	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 2022	211.09	—	13.0	11.2	6.4
Fiscal Year 2021	210.59	—	13.9	12.0	6.6

Reference) Share of profit (loss) of entities accounted for using equity method: Fiscal Year 2022: 661 million yen

Fiscal Year 2021: 794 million yen

Note) Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 on March 31, 2020), etc. are applying from the beginning of the fiscal year ended December 31, 2022, the above results of operations for fiscal year 2022 reflect the amounts after the application of the accounting standard, etc. Comparing the conventional method, net sales and cost of sales for fiscal year 2022 decreased 36,544 million yen and 36,077 million yen, respectively. Operating profit, ordinary profit and profit attributable to owners of parent for fiscal year 2022 decreased 0 million yen, respectively. Assuming that the accounting standard, etc. applied from the beginning of the fiscal year 2021, the rate of change for net sales to the same period of the previous year is 5.2%.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	yen
December 31, 2022	523,016	322,732	61.1	1,684.53
December 31, 2021	486,254	301,774	61.4	1,575.64

Reference) Equity: As of December 31, 2022: 319,388 million yen

As of December 31, 2021: 298,743 million yen

Note) Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 on March 31, 2020), etc. are applying from the beginning of the fiscal year ended December 31, 2022, the above financial position as of December 31, 2022 reflects the amounts after the application of the accounting standard, etc.

(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 2022	29,196	(8,355)	(23,307)	203,274
Fiscal Year 2021	57,873	(9,160)	(21,957)	205,746

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 2021	—	0.00	—	120.00	120.00	22,752	57.0	7.9
Fiscal Year 2022	—	0.00	—	125.00	125.00	23,700	59.2	7.7
Fiscal Year 2023 (forecast)	—	0.00	—	130.00	130.00		61.4	

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 2023 (From January 1, 2023 to December 31, 2023)

(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, 2023	468,600	5.2	33,200	7.9	33,900	6.8	22,890	0.2	120.73
Full-Year	901,000	4.6	58,600	7.0	59,600	5.2	40,170	0.4	211.87

Note) 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.: Yes

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, 2022: 190,002,120 shares

As of December 31, 2021: 190,002,120 shares

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

As of December 31, 2022: 401,081 shares

As of December 31, 2021: 400,930 shares

3) Average number of shares during the period:

Fiscal Year 2022: 189,601,138 shares

Fiscal Year 2021: 189,601,208 shares

*** 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, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and deposits	204,701	202,288
Notes and accounts receivable - trade	135,786	—
Notes and accounts receivable - trade, and contract assets	—	152,405
Merchandise	33,052	42,636
Work in process	1,235	1,435
Raw materials and supplies	740	759
Other	25,594	35,670
Allowance for doubtful accounts	(75)	(83)
Total current assets	401,034	435,113
Non-current assets		
Property, plant and equipment		
Buildings and structures	52,827	52,879
Accumulated depreciation and impairment	(37,405)	(38,010)
Buildings and structures, net	15,422	14,868
Land	15,092	14,797
Other	16,473	16,482
Accumulated depreciation and impairment	(9,277)	(10,313)
Other, net	7,195	6,169
Total property, plant and equipment	37,710	35,835
Intangible assets		
Software	15,771	15,711
Other	59	59
Total intangible assets	15,830	15,770
Investments and other assets		
Investment securities	22,366	22,678
Guarantee deposits	2,429	2,335
Deferred tax assets	5,336	6,859
Deferred tax assets for land revaluation	—	2,833
Other	1,661	1,730
Allowance for doubtful accounts	(115)	(140)
Total investments and other assets	31,678	36,296
Total non-current assets	85,219	87,902
Total assets	486,254	523,016

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	91,938	99,517
Electronically recorded obligations - operating	17,901	19,443
Short-term borrowings	4,800	4,400
Current portion of long-term borrowings	—	1,700
Income taxes payable	8,769	9,077
Advances received	15,746	—
Contract liabilities	—	16,139
Provision for bonuses	3,806	3,885
Other	27,319	36,520
Total current liabilities	170,282	190,683
Non-current liabilities		
Long-term borrowings	1,700	—
Lease liabilities	1,485	1,413
Provision for retirement benefits for directors	698	721
Retirement benefit liability	9,210	6,360
Other	1,104	1,105
Total non-current liabilities	14,198	9,600
Total liabilities	184,480	200,283
Net assets		
Shareholders' equity		
Share capital	10,374	10,374
Capital surplus	16,254	16,254
Retained earnings	272,834	288,660
Treasury shares	(139)	(140)
Total shareholders' equity	299,323	315,149
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,734	6,835
Deferred gains or losses on hedges	8	(26)
Revaluation reserve for land	(10,987)	(6,141)
Foreign currency translation adjustment	151	200
Remeasurements of defined benefit plans	1,513	3,371
Total accumulated other comprehensive income	(580)	4,239
Non-controlling interests	3,030	3,343
Total net assets	301,774	322,732
Total liabilities and net assets	486,254	523,016

Consolidated Statements of Income and Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year 2021 (Year ended December 31, 2021)	Fiscal Year 2022 (Year ended December 31, 2022)
Net sales	851,894	861,022
Cost of sales	675,003	676,853
Gross profit	176,890	184,169
Selling, general and administrative expenses	121,062	129,400
Operating profit	55,827	54,768
Non-operating income		
Interest income	14	17
Dividend income	225	253
Rental income from buildings	263	227
Income from recycling	157	230
Share of profit of entities accounted for using equity method	794	661
Foreign exchange gains	64	335
Other	325	295
Total non-operating income	1,845	2,022
Non-operating expenses		
Interest expenses	44	43
Donations	50	100
Other	11	7
Total non-operating expenses	105	151
Ordinary profit	57,567	56,639
Extraordinary income		
Gain on sale of non-current assets	886	460
Gain on sale of investment securities	19	687
Total extraordinary income	905	1,147
Extraordinary losses		
Loss on retirement of non-current assets	56	65
Impairment losses	220	1,120
Loss on valuation of investment securities	—	91
Other	6	—
Total extraordinary losses	283	1,277
Profit before income taxes	58,190	56,509
Income taxes-current	17,142	16,840
Income taxes-deferred	576	(842)
Total Income taxes	17,718	15,998
Profit	40,471	40,511
Profit attributable to non-controlling interests	543	488
Profit attributable to owners of parent	39,927	40,022

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year 2021 (Year ended December 31, 2021)	Fiscal Year 2022 (Year ended December 31, 2022)
Profit	40,471	40,511
Other comprehensive income		
Valuation difference on available-for-sale securities	3,159	(1,924)
Deferred gains or losses on hedges	17	(43)
Revaluation reserve for land	126	3,449
Remeasurements of defined benefit plans, net of tax	(228)	1,830
Share of other comprehensive income of entities accounted for using equity method	155	88
Total other comprehensive income	3,230	3,400
Comprehensive income	43,702	43,911
(Breakdown)		
Comprehensive income attributable to owners of parent	43,199	43,445
Comprehensive income attributable to non-controlling interests	502	466

Consolidated Statements of Changes in Net Assets

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

Fiscal Year 2022 (Year ended December 31, 2022)

(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	272,834	(139)	299,323
Cumulative effects of changes in accounting policies			(47)		(47)
Restated balance	10,374	16,254	272,786	(139)	299,276
Changes during period					
Dividends of surplus			(22,752)		(22,752)
Profit attributable to owners of parent			40,022		40,022
Reversal of revaluation reserve for land			(1,396)		(1,396)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	—	—	15,873	(0)	15,873
Balance at end of period	10,374	16,254	288,660	(140)	315,149

	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	8,734	8	(10,987)	151	1,513	(580)	3,030	301,774
Cumulative effects of changes in accounting policies								(47)
Restated balance	8,734	8	(10,987)	151	1,513	(580)	3,030	301,726
Changes during period								
Dividends of surplus								(22,752)
Profit attributable to owners of parent								40,022
Reversal of revaluation reserve for land								(1,396)
Purchase of treasury shares								(0)
Net changes in items other than shareholders' equity	(1,898)	(35)	4,846	49	1,858	4,819	312	5,132
Total changes during period	(1,898)	(35)	4,846	49	1,858	4,819	312	21,005
Balance at end of period	6,835	(26)	(6,141)	200	3,371	4,239	3,343	322,732

Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year 2021 (Year ended December 31, 2021)	Fiscal Year 2022 (Year ended December 31, 2022)
Cash flows from operating activities		
Profit before income taxes	58,190	56,509
Depreciation	7,982	8,290
Impairment losses	220	1,120
Increase (decrease) in allowance for doubtful accounts	(119)	32
Interest and dividend income	(239)	(270)
Interest expenses	44	43
Share of loss (profit) of entities accounted for using equity method	(794)	(661)
Loss on retirement of non-current assets	56	65
Loss (gain) on sale of non-current assets	(879)	(460)
Loss (gain) on sale of investment securities	(19)	(687)
Loss (gain) on valuation of investment securities	—	91
Decrease (increase) in trade receivables	9,342	(23,806)
Decrease (increase) in inventories	9,169	(9,716)
Increase (decrease) in trade payables	(5,419)	14,782
Other, net	(2,272)	(36)
Subtotal	75,260	45,297
Interest and dividends received	454	527
Interest paid	(44)	(43)
Income taxes paid	(17,796)	(16,584)
Net cash provided by (used in) operating activities	57,873	29,196
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,203)	(1,249)
Proceeds from sale of property, plant and equipment	1,546	969
Purchase of software	(5,679)	(5,828)
Purchase of investment securities	(198)	(2,707)
Proceeds from sale of investment securities	38	743
Long-term loan advances	(18)	(150)
Other, net	355	(133)
Net cash provided by (used in) investing activities	(9,160)	(8,355)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	(400)
Dividends paid	(21,797)	(22,753)
Other, net	(159)	(153)
Net cash provided by (used in) financing activities	(21,957)	(23,307)
Effect of exchange rate change on cash and cash equivalents	2	(4)
Net increase (decrease) in cash and cash equivalents	26,758	(2,471)
Cash and cash equivalents at beginning of period	178,988	205,746
Cash and cash equivalents at end of period	205,746	203,274

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 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

Fiscal Year 2022 (Year ended December 31, 2022)

(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	541,671	319,350	861,022	—	861,022
Inter-segment sales/transfers	71	552	623	(623)	—
Total	541,743	319,902	861,645	(623)	861,022
Segment profit	51,791	12,522	64,313	(9,545)	54,768
Segment assets	194,460	126,630	321,091	201,924	523,016
Other items					
Depreciation	4,451	3,208	7,659	629	8,289
Investments in affiliates accounted for using equity method	1,380	6,282	7,662	—	7,662
Increase in property, plant and equipment and intangible assets	4,106	2,895	7,001	76	7,077

Note) Since the "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29 on March 31, 2020), etc. are applying from the beginning of the fiscal year ended December 31, 2022, the above information concerning net sales and segment profit/loss by reportable segments for fiscal year 2022 reflects the amounts after the application of the accounting standard, etc. Comparing the conventional method, concerning System Integration business, net sales decreased 5,510 million yen and segment profit decreased 394 million yen for fiscal year 2022. Concerning Service and Support business, net sales decreased 31,033 million yen and segment profit increased 393 million yen for fiscal year 2022.