

# **ANNUAL REPORT 2020**

For the fiscal year ended December 31, 2020

***Otsuka Corporation***

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# Mission Statement

## Mission

OTSUKA CORPORATION serves a wide range of companies, providing comprehensive support for their business activities by presenting, within a concrete framework, new business opportunities and management improvement strategies brought about by innovations in information and telecommunication technology. By so doing, we continue to facilitate the growth of our client companies and contribute to the development of our country and the creation of a spiritually enriching society.

## Goals

- To become a corporate group that is recognized and trusted as a valuable corporate citizen.
- To encourage employee growth and self-realization through the attainment of personal goals and professional achievement.
- To demonstrate harmonious coexistence and growth with nature and society.
- To create business models that consistently keep pace with the changing times.

## Principles

- Always thinking from the customer's perspective and acting through harmonious team work.
- Maintaining the spirit of challenge inherited from our predecessors, exercising our own critical judgment, and acting on our own initiative.
- Fully complying with all prevailing laws and regulations, and maintaining high ethical standards.

## Otsuka Corporation

### Forward-looking Statements

The forecasts, plans and outlooks concerning future operating results that are described in this Annual Report are judgments believed to be reasonable by the Company's management, based upon the information available to OTSUKA CORPORATION and member companies of the OTSUKA Group at the time such future projections were created. Various factors that form the basis of these forward-looking statements may differ from the OTSUKA Group's assumptions, and actual results may differ significantly from those presented here. Such factors include changes in the economic situation in principal markets and in product demand, and changes in various domestic and international regulations, accounting standards and customary business practices.

# Consolidated Financial Highlights

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2018, 2019 and 2020			Millions of yen	Thousands of U.S. dollars	%
	2018	2019	2020	2020	Change
Net sales	¥759,871	¥886,536	¥836,323	\$8,078,862	-5.7
System Integration business	463,293	578,698	526,613	5,087,071	-9.0
Service and Support business	296,577	307,837	309,710	2,991,790	+0.6
Operating profit	48,058	62,192	56,309	543,950	-9.5
Ordinary profit	49,285	63,706	57,550	555,937	-9.7
Profit before income taxes	49,100	62,668	57,584	556,267	-8.1
Profit attributable to owners of parent	33,601	43,497	39,309	379,730	-9.6
Total assets	406,732	461,812	471,292	4,552,671	+2.1
Interest-bearing debt	8,256	8,807	8,895	85,932	+1.0
Equity	229,726	259,328	277,348	2,679,174	+6.9
Earnings per share (EPS) (Yen and U.S. dollars)	177.22	229.42	207.33	2.00	-9.6
Dividend per share of common stock (Yen and U.S. dollars)	85.00	110.00	115.00	1.11	+4.5
Cash flows from operating activities per share (Yen and U.S. dollars)	203.83	257.18	171.39	1.66	-33.4
Operating profit to Net sales ratio (%)	6.32	7.02	6.73	—	
Profit to Net sales ratio* (%)	4.42	4.91	4.70	—	
Interest-bearing debt ratio (%)	2.03	1.91	1.89	—	
Equity ratio (%)	56.48	56.15	58.85	—	
Return on equity (ROE) (%)	15.18	17.79	14.65	—	

Notes:

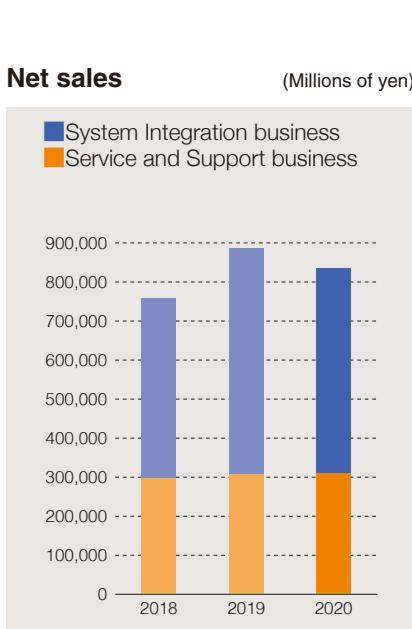
\* Profit stands for Profit attributable to owners of parent

Equity = Total net assets - Share subscription rights - Non-controlling interests

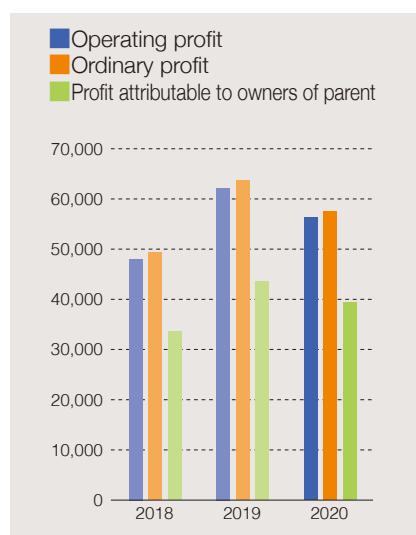
Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2020 exchange rate of ¥103.52 = US\$1.

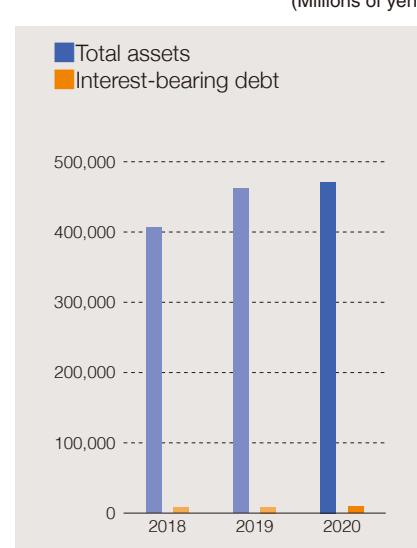
The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2018.



**Operating profit, Ordinary profit,  
Profit attributable to owners of parent** (Millions of yen)



**Total assets,  
Interest-bearing debt** (Millions of yen)



Note:

Sums of less than a million yen are rounded down.

# To Our Shareholders and Investors



I am pleased to announce the results for the fiscal year ended December 31, 2020 and to thank our shareholders and investors for their loyal support.

During the fiscal year, harsh conditions persisted in the Japanese economy due to the global spread of COVID-19. Nonetheless, in corporate IT investment fields, along with measures for improving productivity and reducing costs, responses to new work styles through teleworking also advanced. Amid this environment, the OTSUKA Group secured online customer contact points and supported the introduction of telework and other initiatives by customers.

As a result, net sales decreased 5.7% from the previous fiscal year to ¥836,323 million due also to the impact of increased replacement demand for Windows 7 in the previous year. At the earnings level, operating profit decreased 9.5% to ¥56,309 million, ordinary profit decreased 9.7% to ¥57,550 million and profit attributable to owners of parent decreased 9.6% to ¥39,309 million.

Management has resolved to pay year-end dividends per share of ¥115 in line with our efforts to return profits to shareholders, who have given us their support. This also marked the 11th consecutive year of an increase in dividends.

In the coming fiscal year, despite an uncertain future due to the spread of COVID-19, OTSUKA CORPORATION will support the utilization of IT by its customers to help them resolve problems for their entire office.

In working to realize our Mission Statement, the OTSUKA Group will continue to pursue management reforms to ensure the trust of all stakeholders. Your ongoing support is greatly appreciated as we move forward with these endeavors.

Yuji Otsuka, President & Chief Executive Officer

March 2021

# Overview of Consolidated Operations

## ■ Spread of COVID-19

During the fiscal year under review (January 1, 2020 to December 31, 2020), the Japanese economy was inevitably affected by the global-wide spread of COVID-19 (novel coronavirus), as evidenced by the postponement of the Tokyo Olympics and Paralympics and the declaration of a state of emergency. Subsequently, the Japanese economy showed signs of picking up thanks to the lifting of the state of emergency as well as to government initiatives to maintain socio-economic activities while preventing the further spread of the novel coronavirus. Nonetheless, the future once again became uncertain as a result of the onset of the third wave of COVID-19.

Even though the economy faced difficult circumstances, in IT investment fields measures for improving productivity and reducing costs proceeded while the introduction of telework advanced in line with a visible shift toward new work styles.

**An Uncertain Future  
A Shift to New Work Styles**

## ■ Supporting the Business Activities of Customers

Within this environment, in keeping with the fiscal 2020 slogan “Leverage solutions from the perspective of customers and live up to customer trust,” the OTSUKA Group undertook its utmost efforts to protect the safety of its employees, customers and business partners and also focused on sales activities and support activities not involving customer visits as well as on online demonstrations and seminars as it secured customer contact points. On top of this, the OTSUKA Group worked to stimulate demand for IT that will enable work style reforms, improvements in productivity and cost reductions, as well as supported the business activities of customers that are moving quickly to introduce telework and those proactively introducing IT. During the fiscal year, unit sales of PCs decreased due to the impact of increased replacement demand in the previous year along with the ending of support for Windows 7.

In addition, even though IT demand increased in step with the growing use of telework due to the spread of COVID-19, conversely, sales of some office supply products and copier maintenance services declined due to a decrease in activities at offices.

**Secure customer contact points online  
Support the introduction of telework  
by customers**

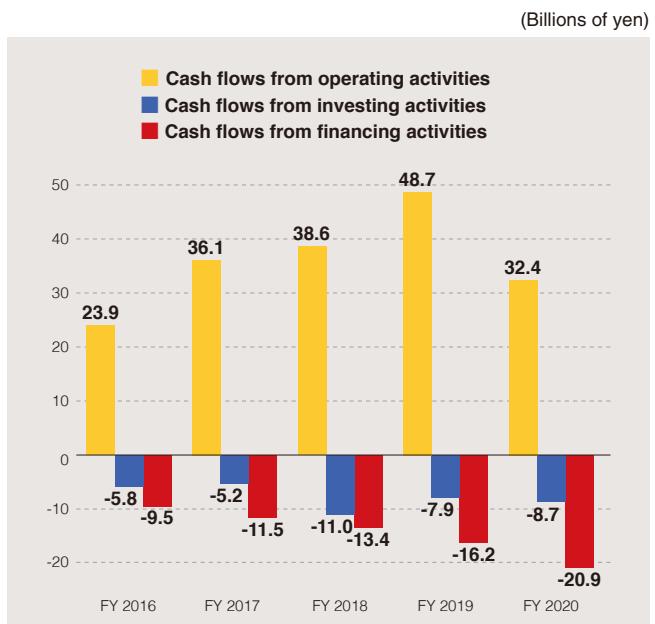
## ■ Sales and Profits Decline for the First Time since 2009

As a result of the above measures, net sales decreased 5.7% from the previous fiscal year to ¥836,323 million. At the earnings level, operating profit decreased 9.5% to ¥56,309 million, ordinary profit decreased 9.7% to ¥57,550 million and profit attributable to owners of parent decreased 9.6% to ¥39,309 million.

	FY 2019	FY 2020	
	Amount	Amount	Change to Last Year
Net sales	886,536	<b>836,323</b>	<b>-5.7%</b>
Operating profit	62,192	<b>56,309</b>	<b>-9.5%</b>
Ordinary profit	63,706	<b>57,550</b>	<b>-9.7%</b>
Profit*	43,497	<b>39,309</b>	<b>-9.6%</b>

\*Profit attributable to owners of parent

## ■ Cash Flows



Net cash provided by operating activities amounted to ¥32,496 million, a decrease of ¥16,266 million from the previous fiscal year due to an increase in inventories that resulted from meeting demand related to the GIGA School program.

Net cash used in investing activities amounted to ¥8,716 million, an increase of ¥781 million from the previous fiscal year due to an increase in the purchase of property, plant and equipment.

Net cash used in financing activities increased ¥4,766 million to ¥20,988 million due to an increase in cash dividends paid.

## Overview of Results by Quarter

### ■ Net Sales

Net sales increased in the first quarter (January-March), but decreased from the second quarter (April-June) onward.

Net sales in the first quarter (January-March) of 2020 amounted to ¥224,329 million, a 2.6% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2020 amounted to ¥208,614 million, a 9.9% decrease from the previous second quarter. Net sales in the third quarter (July-September) of 2020 amounted to ¥188,274 million, a 13.2% decrease from the previous third quarter. Net sales in the fourth quarter (October-December) of 2020 amounted to ¥215,105 million, a 2.0% decrease from the previous fourth quarter.

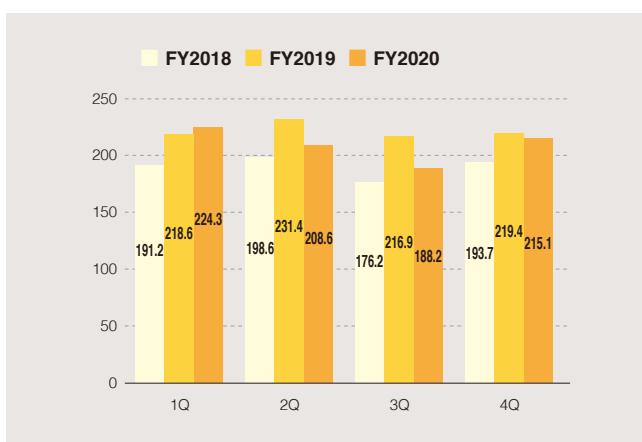
### ■ Ordinary Profit

Ordinary profit also increased in the first quarter (January-March), but decreased from the second quarter (April-June) onward.

Ordinary profit in the first quarter (January-March) of 2020 amounted to ¥16,484 million, an increase of 9.3% from the previous first quarter. Ordinary profit in the second quarter (April-June) of 2020 amounted to ¥14,478 million, a decrease of 26.2% from the previous second quarter. Ordinary profit in the third quarter (July-September) of 2020 amounted to ¥11,249 million, a decrease of 11.3% from the previous third quarter. Ordinary profit in the fourth quarter (October-December) of 2020 amounted to ¥15,338 million, down 6.0% from the previous fourth quarter.

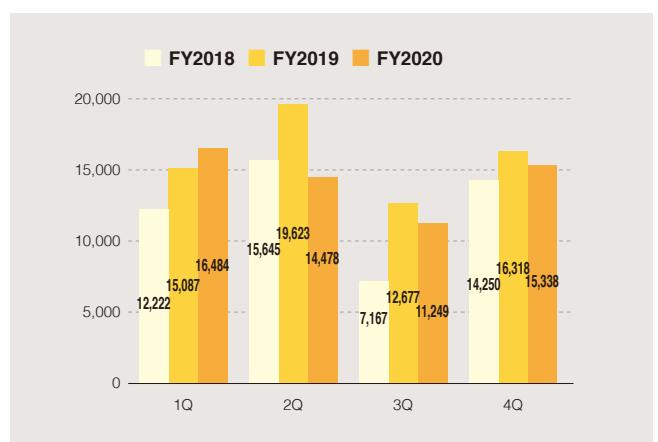
**Quarterly Net Sales**

(Billions of yen)



**Quarterly Ordinary Profit**

(Millions of yen)



## Overview of Business Segments

### ■ System Integration Business

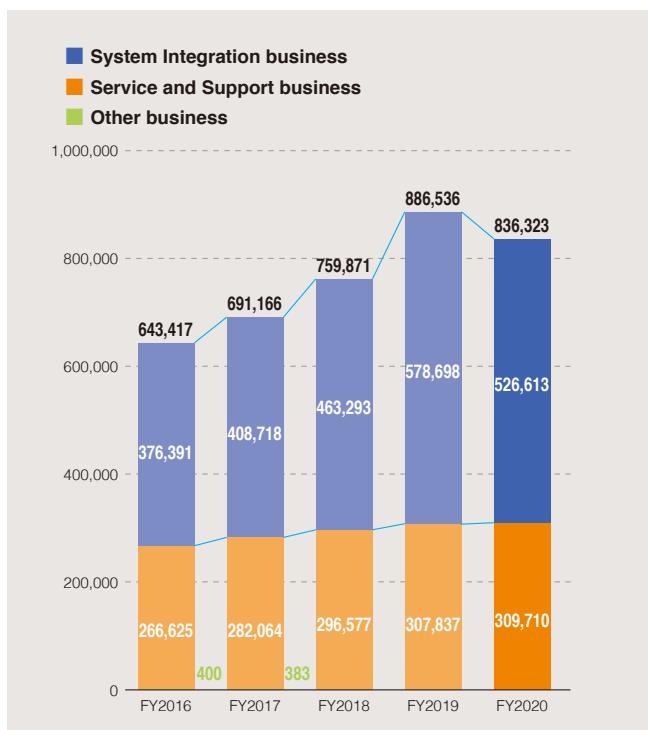
The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. Although we captured demand related to telework and work style reforms and for responding to the GIGA School program, net sales declined 9.0% to ¥526,613 million. This decrease was due to such factors as the impact of a decline in unit sales of PCs, which increased sharply in the previous fiscal year on the back of replacement demand for Windows 7, and to restrictions on sales activities that continued even after the lifting of the state of emergency declaration.

### ■ Service and Support Business

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. In our “tanomail” office supply mail-order service business, sales increased year on year in the fourth quarter; however, sales for the full year declined from the previous year as the expanded use of telework resulted in a decrease in sales of some products. Meanwhile, in the “tayoreru” support service business, although sales from maintenance services for copiers declined from the previous year accompanying a decrease in usage, telework-related services and maintenance services such as MNS\* trended firmly, and therefore, overall maintenance sales surpassed those of the previous year. As a result, overall net sales of this business increased 0.6% to ¥309,710 million.

### Net Sales by Segments

(Millions of yen)



Note: Otsuka Auto Service Co., LTD., which was a consolidated subsidiary, was excluded from consolidation from fiscal 2018 due to its reduced impact on consolidated business results. Along with this, the Other business segment is not listed from fiscal 2018 due to the absence of business results.

\*MNS (Managed Network Service): This is a service that operates and manages office IT environments such as servers, communication equipment, security and backup across a network on behalf of customers.

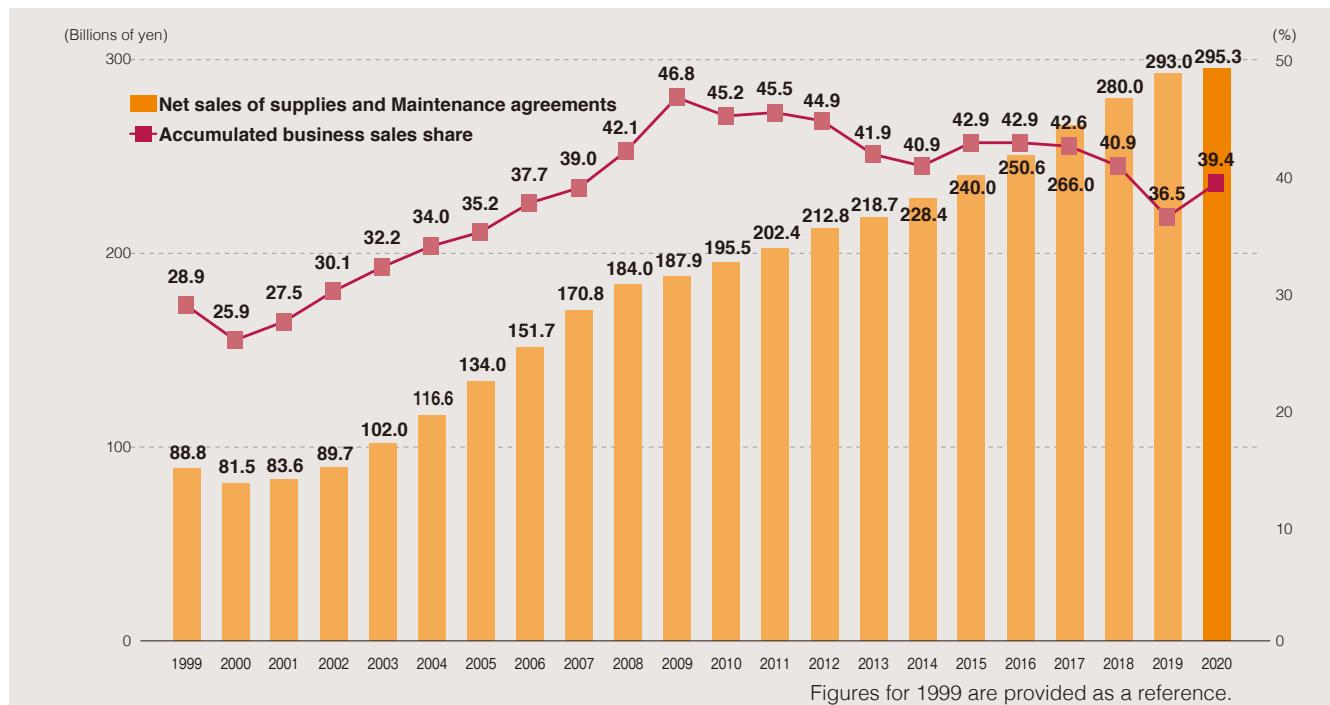
# Focusing Efforts on the Accumulated Business

OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

The accumulated business is not easily impacted by fluctuations in the economy and is steadily achieving growth annually. As such, this can be said to be a cumulative or accumulation business.

In fiscal 2020, sales of the accumulated business on a non-consolidated basis grew steadily, increasing ¥2.3 billion, or 0.8%, to ¥295.3 billion. As a result, the accumulated business achieved growth for the 20th consecutive year, which includes in 2009 following the Lehman Shock and in 2020 during the COVID-19 pandemic. The proportion of net sales accounted for by the accumulated business rose to 39.4% of net sales (non-consolidated basis). The accumulated business serves as the foundation of OTSUKA CORPORATION’s stable growth, and in the future we will focus on continuing to build up this business.

## ■ Accumulated Business (Non-consolidated)



“tanomail” and “tayoreru” are the core pillars of the accumulated business.

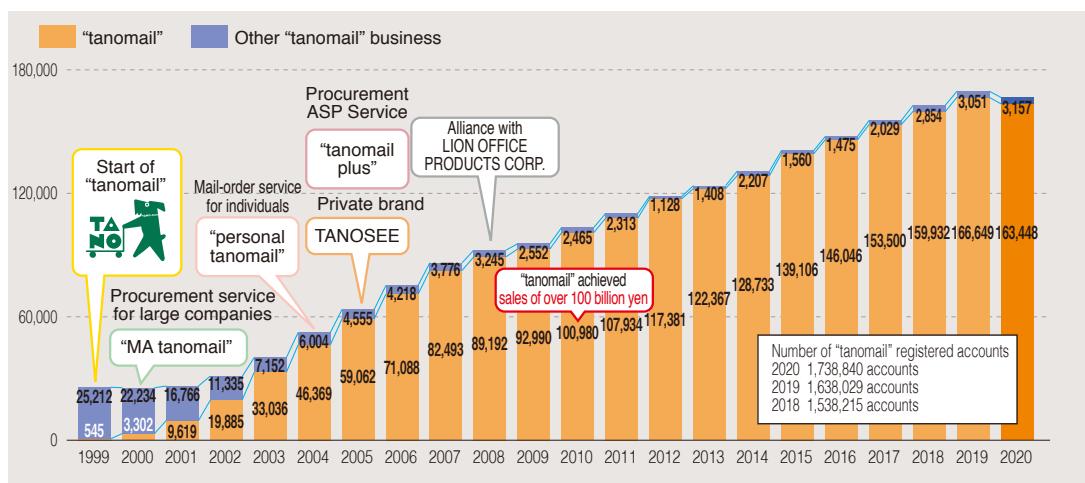
# たのめーる

“tanomail”

In fiscal 2020, net sales in our “tanomail” office supply mail-order service business decreased 1.9% to ¥163,448 million due to the impact of the spread of COVID-19.

Annual Sales of “tanomail”

(Millions of yen)

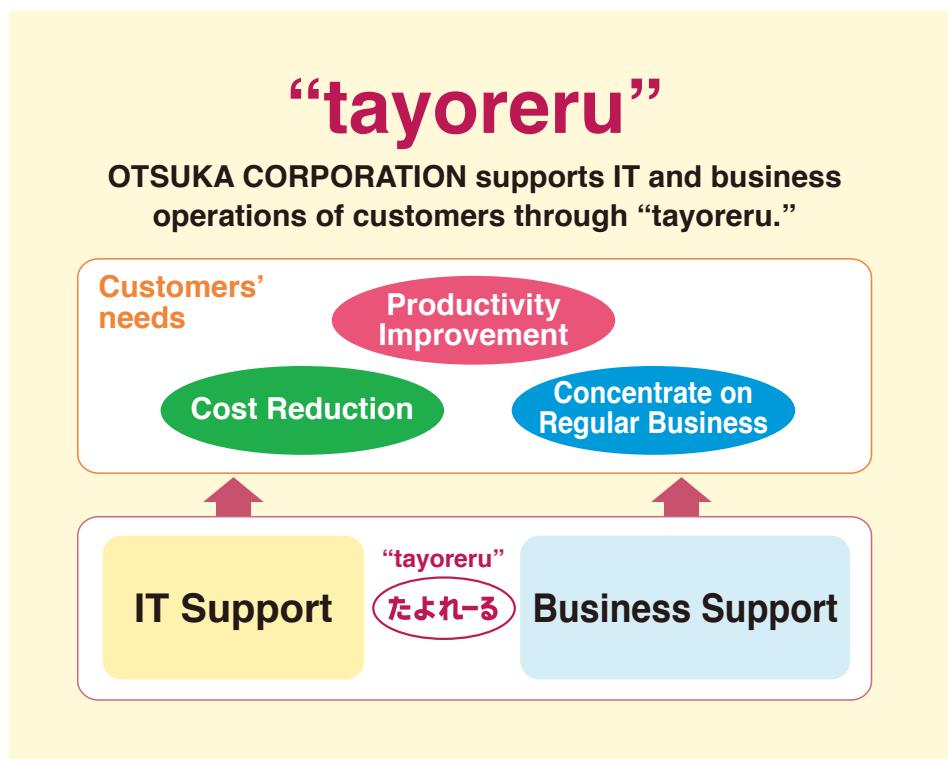


# たよれーる

“tayloreru”

The “tayloreru” support service business supports customers’ IT and business operations.

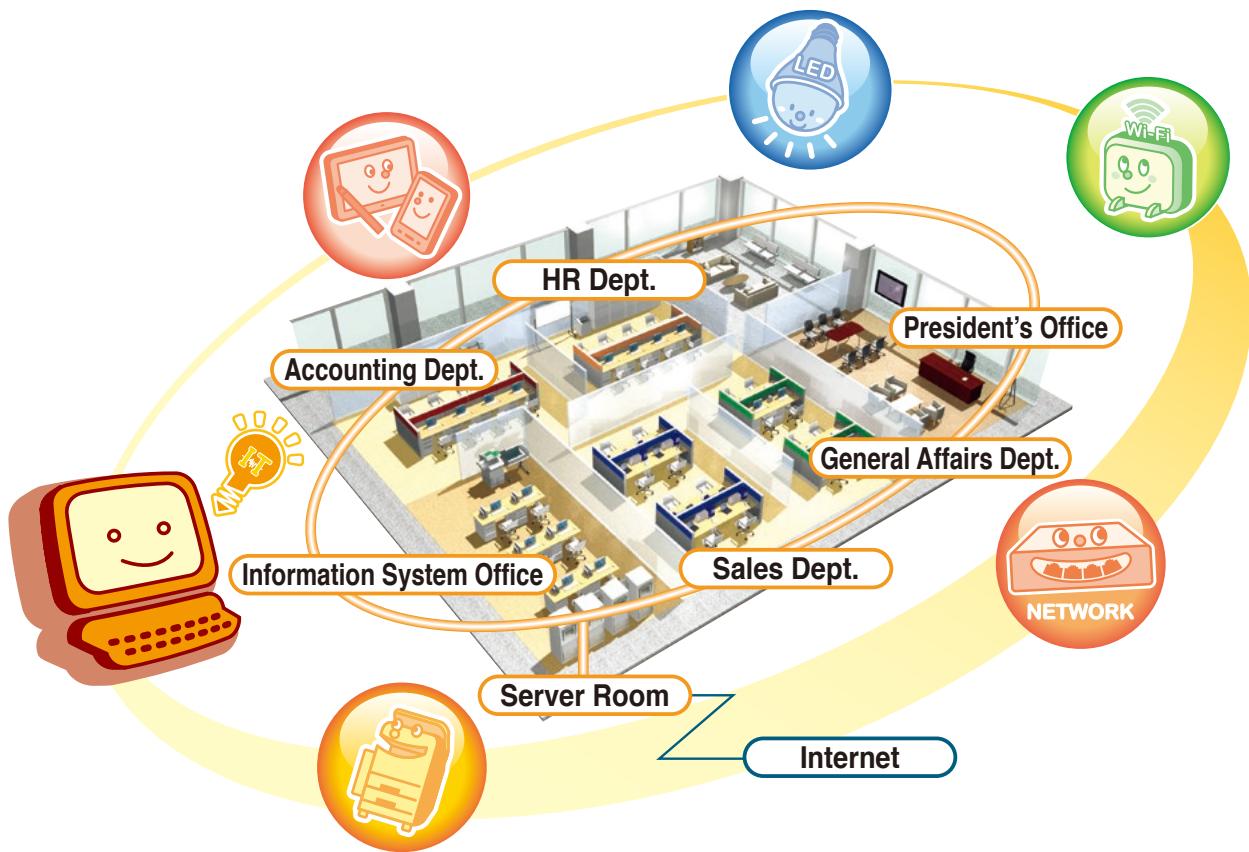
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



# OTSUKA CORPORATION—A Partner to Our Customers

OTSUKA CORPORATION offers one-stop solutions and even one-stop support for the entire offices of customers that integrates the various kinds of business equipment, information and telecommunication devices essential to corporate offices.

OTSUKA CORPORATION aims to be a partner that grows together with our customers.

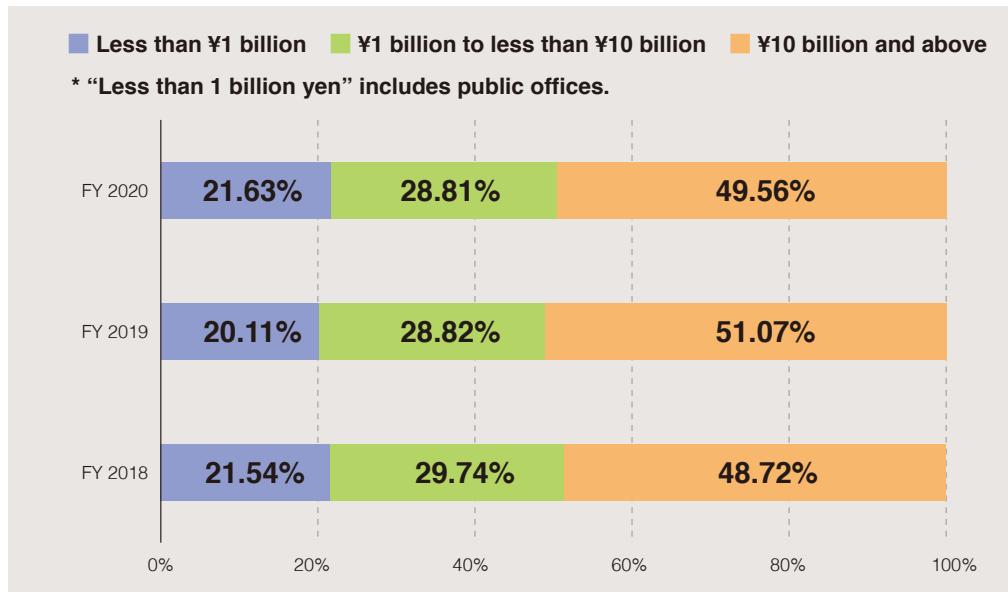


# OTSUKA CORPORATION—Backed by a Diverse Range of Customers

OTSUKA CORPORATION maintains a well-balanced composition of customers, with the corporate scale of the Company's customers ranging from major enterprises to small- and medium-sized firms.

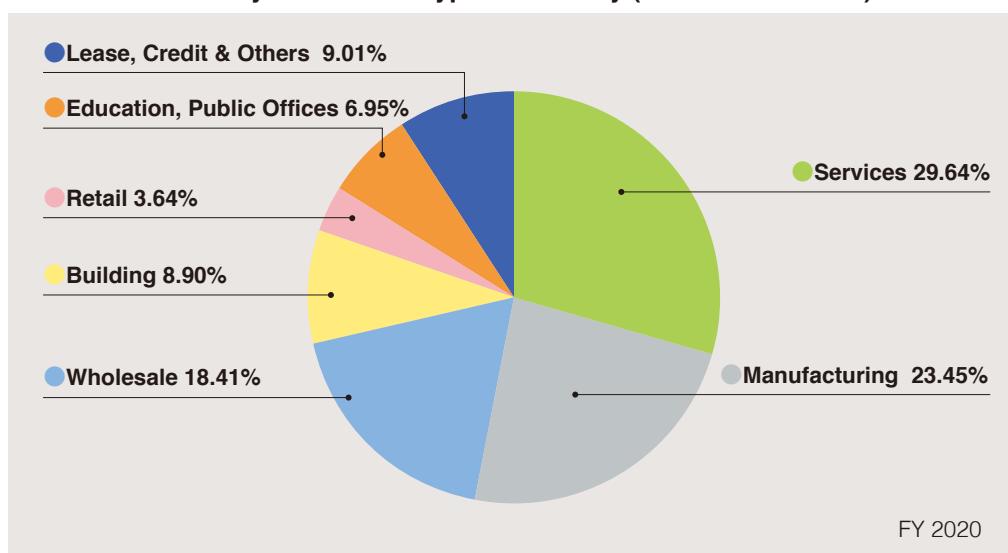
In terms of annual net sales, in fiscal 2020 the ratio of companies with sales of less than ¥1 billion increased while the ratio of companies with sales of ¥1 billion to less than ¥10 billion and companies with sales of ¥10 billion and above decreased.

**Net sales structure on Customers' total annual business scale (Non-consolidated)**



We also have a well-balanced customer base by customers' type of industry. In fiscal 2020, there was no major change in the sales breakdown of customers by type of industry.

**Sales Breakdown by Customers' type of Industry (Non-consolidated)**



# Overview of Key Strategic Businesses (Non-consolidated)

## <Amount of Sales>

	FY 2018			FY 2020	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
"tanomail"	159,932	166,649	+4.2%	<b>163,448</b>	-1.9%
SMILE	11,715	13,241	+13.0%	<b>11,568</b>	-12.6%
ODS	55,715	55,798	+0.1%	<b>52,117</b>	-6.6%
OSM	71,662	77,535	+8.2%	<b>81,847</b>	+5.6%

(ODS : Otsuka Document Solutions OSM : Otsuka Security Management)

## <Reference: Number of Units Sold>

(Units)

	Units	Units	Change to Last Year	Units	Change to Last Year
Copiers	41,046	37,930	-7.6%	<b>36,619</b>	-3.5%
(of which color copiers)	39,825	36,648	-8.0%	<b>35,690</b>	-2.6%
Servers	32,000	32,063	+0.2%	<b>25,507</b>	-20.4%
Personal computers	1,178,899	1,789,884	+51.8%	<b>1,537,963</b>	-14.1%
Client Total	1,222,643	1,830,498	+49.7%	<b>1,638,051</b>	-10.5%

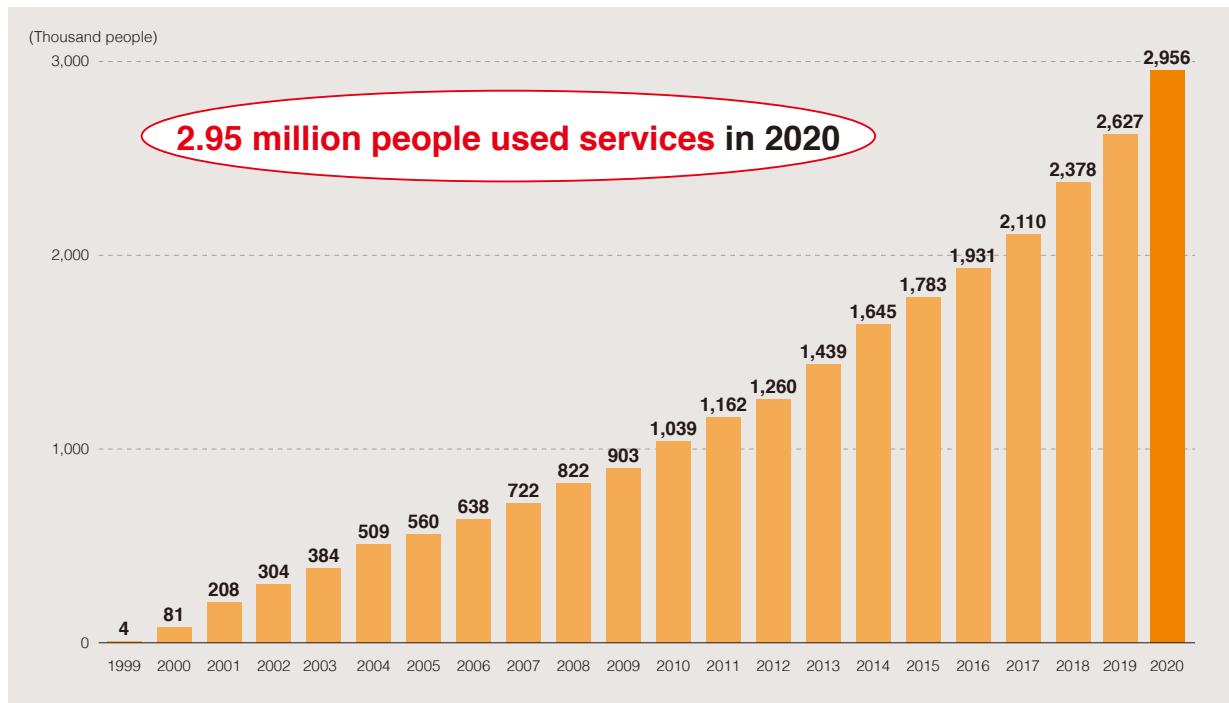
The number of personal computers and client computers declined in reaction to high growth of approximately 50% in 2019 that resulted from increased replacement demand accompanying the ending of support for Windows 7.

# OTSUKA CORPORATION's Web Services (ASP)

## ■ Provision of services commenced in 1999. The number of users exceeded 2.95 million in 2020.

OTSUKA CORPORATION has been providing Web services (ASP) since 1999. The number of users has been rising steadily, and in 2020 the number reached 2.95 million due in part to the expansion of telework during the COVID-19 pandemic.

Number of Users of OTSUKA CORPORATION's Main Web Services (ASP)



# Outlook for Fiscal 2021

## ■ Corporate Digitization Further Advances

In Japan, despite visible signs of a pickup in the economy, at the present time a cautious stance toward the future direction of the economy can also be seen as a state of emergency has once again been declared in response to the spread of COVID-19 and the economic activities of some companies have stagnated.

Under these economic conditions, there is still a high need for telework due to self-imposed restraints on movement. Additionally, the establishment of the Digital Agency is scheduled for 2021, and with the boost provided by various preferential tax systems, subsidies and grant-in-aid programs, digitization by companies aimed at improving operational efficiency and strengthening competitiveness is expected to advance further.

## ■ DX and Document Solutions

On the premise of the above economic situation and outlook for domestic IT investment trends, OTSUKA CORPORATION will strive to increase contact points with customers even with the coronavirus pandemic by continuing to strengthen our system that enables sales activities and support activities not involving visits to customers, as well as by focusing on online demonstrations and seminars utilizing IT while working to stimulate demand amid the restrictions on visits by providing concrete and easy-to-understand explanations. In addition, we will support the creation of a foundation for DX (digital transformation) that enables small- and medium-sized customers to continue their business and strengthen their market competitiveness by utilizing such technologies as AI as we support the advance of digitization and IT utilization.

Specifically, we will continue to focus on enhancing each center that supports sales activities and support activities as well as on Customer Personalized Pages.\* This year, in particular, OTSUKA CORPORATION will identify demand for the digitization of documents and contracts and will support the introduction of a safe and efficient environment throughout the life cycle of customers' documents by making proposals that combine such functions as related equipment, software, networks and security.

## Market Environment in 2021

- Uncertain future due to the spread of COVID-19
- Movement to promote digitization in the government and private sectors
- Firm establishment of telework and responses to new working styles
- Expansion of markets such as AI, IoT and 5G
- Corporate needs for IT utilization are strong

## Policies and Measures in 2021

- "Get close to and grow together with customers in DX and document solutions"
- Promote "Entire Office" by raising customer satisfaction
- Further promote DX
- Deploy specific document solutions based on Otsuka's experience and know-how
- Continue initiatives for "Otsuka Strategy II"

\*Customer Personalized Pages: This is a customer portal site that provides numerous customers with convenient services to enable us to get closer to customers and help create relationships with customers through the Web.

## ■ Strategies by Segment

In the System Integration business, OTSUKA CORPORATION will undertake safe and efficient sales activities and work to identify needs for responding to COVID-19, such as for the digitization of documents, and for improving productivity and reducing costs. In addition, to promote the digitization of our customers' business operations, we aim to get close to our customers and make continuous proposals.

In the Services & Support business, we anticipate that maintenance service of copiers will once again be affected by the expanded use of telework as in the previous year. However, we expect to cover this through growth in system maintenance services and support and "tanomail," which posted a recovery in sales in the fourth quarter of 2020. In the "tanomail" business, we will work to strengthen our competitiveness and expand markets. In the "tayloreru" business, we will make efforts to develop services that enable customers to continue their business activities safely and with a sense of security even amid COVID-19 as well as services that can supplement the shortage of customers' IT human resources.

## ■ Forecast for Fiscal 2021

In fiscal 2021 the Company forecasts a 3.4% increase in consolidated net sales to ¥865,000 million, a 3.2% increase in operating profit to ¥58,100 million, a 2.5% increase in ordinary profit to ¥59,000 million and a 0.6% increase in profit attributable to owners of parent to ¥39,550 million.

By segment, we forecast a 2.7% increase in net sales to ¥540,600 million in the System Integration business and a 4.7% increase to ¥324,400 million in the Service and Support business.

**Forecast for Consolidated Net Sales and Profit** (Millions of yen)

	Fiscal 2020	Fiscal 2021 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	836,323	<b>865,000</b>	+3.4%
Operating profit	56,309	<b>58,100</b>	+3.2%
Ordinary profit	57,550	<b>59,000</b>	+2.5%
Profit*	39,309	<b>39,550</b>	+0.6%

\*Profit attributable to owners of parent

**Forecast for Consolidated Net Sales by Segment** (Millions of yen)

	Fiscal 2020	Fiscal 2021 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	526,613	<b>540,600</b>	+2.7%
Service and Support business	309,710	<b>324,400</b>	+4.7%

# Social Contribution and Environmental Protection Activities

We undertake social contribution activities and environmental protection activities in aiming “to demonstrate harmonious coexistence and growth with nature and society,” which is one of the goals prescribed in our Mission Statement. Here we introduce noteworthy topics in 2020.

## ■ We Supported the Healthy Child Development Program through the “OTSUKA CORPORATION Heartful Fund”

The “OTSUKA CORPORATION Heartful Fund,” an employee-company matching gift program, supports disaster-stricken regions and NPO organizations. In 2020, the fund supported the Healthy Child Development Program. A total of ¥2,900,000 was donated to 10 organizations that passed screening after a public recruitment on our website. Through various projects, the fund also supported children with foreign roots, sexual minority children, children living in disaster areas and other children facing difficult circumstances.



ICT learning class for children who do not attend schools implemented by Youth Community, NPO organization



Online exchange between children in the tsunami-stricken areas of Tohoku and Indonesia implemented by Laboratory for Global Dialogue, NPO organization

## ■ Support for Heavy Rainfall Disasters in July 2020 through Happy Points

As a customer participation-oriented social contribution activity, the “tanomail” office supply mail-order service business has set up a program that allows the donation of points awarded in accordance with purchase prices. OTSUKA CORPORATION solicited points for donations to victims of heavy rainfall disasters that occurred across a wide region that included Kumamoto Prefecture in July 2020. Thanks to the cooperation of numerous customers, points worth ¥2,345,800 were collected. With one point being converted at a rate of ¥1, an equivalent amount was added by OTSUKA CORPORATION for a total of ¥4,691,600. This amount was donated to the Japanese Red Cross Society July 2020 Heavy Rain Disaster Relief Fund.

## ■ Food Bank Support

Since 2016, OTSUKA CORPORATION has donated “tanomail” food and beverages nearing their expiration dates to food banks and is thereby making effective use of these products. Demand for food banks is rising due to COVID-19, and in 2020 we provided a total of about 32,000 items to Second Harvest Japan, a certified NPO organization (Taito-ward, Tokyo), and to Food Bank Kansai, a certified NPO organization. In December, employees participated as volunteers in food box packing at Second Harvest Japan.



Employees participated as volunteers in food box packing.

# Corporate Governance

## Corporate Governance

### 1. Basic Stance Regarding Corporate Governance

Based on a corporate ethic and spirit of compliance spelled out in its Mission Statement, the OTSUKA Group aims to adapt agilely to changes in the environment and augment its competitiveness by ensuring thorough compliance and raising both operational transparency and fairness.

### 2. Overview of the Corporate Governance System and Reason for Adopting This System

#### A. Overview of the Corporate Governance System

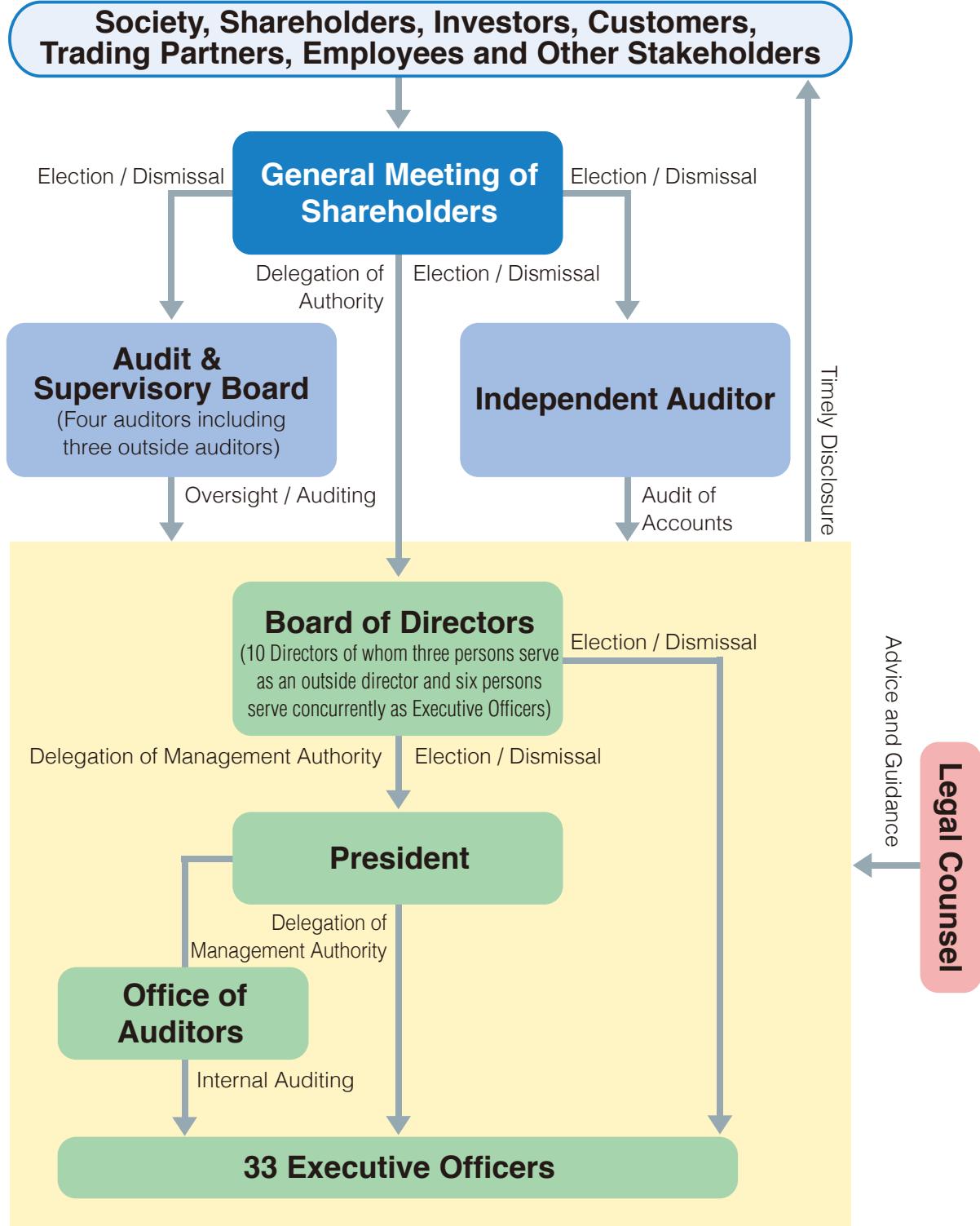
OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Audit & Supervisory Board Members and Audit & Supervisory Board and Independent Auditor. An Audit & Supervisory Board Members System has therefore been adopted. Additionally, the Company appoints outside directors and outside auditors with the aim of strengthening the monitoring of the execution of duties.

The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of 10 persons, including three outside directors, and the Board of Directors meets regularly once a month in principle to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution. There are 33 Executive Officers, including six with a concurrent post of Director.

The Audit & Supervisory Board is chaired by Tatsumi Murata, Standing Audit & Supervisory Board Member, and is comprised of four auditors (one full-time auditor, three part-time auditors), including three outside auditors. The Audit & Supervisory Board prescribes auditing policies and annual plans, receives reports on important auditing-related matters and carries out discussions. The Audit & Supervisory Board Members attend such important meetings as the Board of Directors meetings to provide appropriate recommendations and advice, monitor that suitable management is being carried out and closely audit the execution of duties by Directors.

Group Management Meetings, chaired by Hironobu Saito, Managing Director & Executive Operating Officer, and comprising and including four top management of all Group companies (Special Executive Officers), are also held to clarify operational conditions at each company and make progress in achieving profit targets in addition to working to strengthen corporate governance.

The structure for corporate management decision-making, business operations and oversight is as follows:



## **B. Reason for Adopting Present Corporate Governance System**

Because the Company's business domains are diverse, Standing Audit & Supervisory Board Members who are familiar with the Company's business and can concentrate on the duties of auditor are appointed. The Company has also adopted an Audit & Supervisory Board Members System that allows it to appoint outside Audit & Supervisory Board Members who have considerable insight and experience in law or finance and accounting and that possesses an independent responsibility system.

The Company assures transparency of decision-making by strengthening management oversight and audit functions by auditors, including outside auditors, and appoints outside directors with no conflict of interest with general shareholders to strengthen management supervision functions. By doing so, the Company aims to contribute to proper decision-making by the Board of Directors.

In this manner, the Company believes that its Corporate Governance system under which Executive Officers handle business execution based on the Board of Directors, including outside directors, and the Audit & Supervisory Board, including outside auditors, functions effectively.

## **3. Other Matters Concerning Corporate Governance**

### **A. State of Internal Control Systems**

At a meeting of the Board of Directors, the Company has determined the following basic policies for a system for ensuring that the execution of duties by Directors is in compliance with laws and the Articles of Incorporation as well as for a system deemed necessary as prescribed by an ordinance of the Ministry of Justice for ensuring appropriate operations of stock companies and of corporate groups consisting of stock companies and their subsidiaries.

- Basic policies for internal control systems

a) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees  
Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

Directors and employees shall strive to enhance the compliance system by taking such measures as improving awareness through continuous compliance education, improving business operations through internal audits and properly applying the internal reporting system in working to ensure compliance with laws and the Articles of Incorporation in the execution of their duties.

b) System for storing and managing information concerning the execution of duties by directors

Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.

c) Regulations and other systems concerning management of risk of losses

Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

In the event of unexpected contingencies, we shall set up a task force, collect risk information and devise quick and appropriate countermeasures.

d) System for ensuring the efficient execution of duties by directors

The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

Also, the Board of Directors shall clarify criteria for convening and bringing up matters for debate at council bodies set up to raise the suitability of decision-making, while specific details shall be stipulated in Duty Authority Regulations and Separation of Duty Regulations and efficiency shall be raised.

e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries

1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries

Group Management Meetings are held and these clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans.

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries. When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or President & Chief Executive Officer on the state of the execution of duties.

2) Regulations and other systems concerning management of risk of losses at subsidiaries

The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

Information regarding recognized risk by consolidated subsidiaries shall be shared at Group Management Meetings and efforts shall be made for the early detection and prevention of risk.

In the event of unexpected contingencies, we shall set up a task force at the Company, collect risk information, collaborate with the relevant consolidated subsidiaries and devise quick and appropriate countermeasures.

3) System for ensuring the efficient execution of duties by directors of subsidiaries

Consolidated subsidiaries shall ensure the autonomy and independence of management and formulate an annual plan in accordance with the Group's policies. The targets and responsibilities of each company shall be clarified and efforts shall be made to attain the intended performance targets through the analyses of variances between budget estimates and actual results. Consolidated subsidiaries shall establish Board of Directors regulations and convene meetings of the Board of Directors to deliberate on and resolve important matters concerning management and monitor the state of the execution of duties. Moreover, details on the execution of duties shall be prescribed in the various types of internal company regulations and efficiency shall be raised.

4) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by Directors and employees

Consolidated subsidiaries shall ensure the proper execution of business operations by the functioning of self-cleansing mechanisms through the execution of business operations that are in accordance with the Mission Statement. Consolidated subsidiaries shall strive to enhance their compliance systems and ensure the execution of business operations is in compliance with laws and the Articles of Incorporation by taking such measures as raising awareness through continuous compliance education, setting up internal audit offices within each company to improve business operations and properly applying the internal reporting system established by the Company and shared by consolidated subsidiaries.

5) Other systems for ensuring proper operations of the Group consisting of the Company and its subsidiaries

The Company's Office of Auditors shall receive reports on the results of internal audits implemented at each consolidated subsidiary by internal auditing offices established at each consolidated subsidiary. Additionally, it shall implement regular audits of consolidated subsidiaries as well as audit the state of compliance with laws and regulations and provide necessary guidance.

f) Matters regarding employees assisting Audit & Supervisory Board Members when requested by Audit & Supervisory Board Members

When an Audit & Supervisory Board Member makes such a request, an appropriate employee shall be appointed from the Business Administration Headquarters and assigned to a concurrent position as an employee assisting the Audit & Supervisory Board Member.

g) Matters concerning the independence of such employees from Directors as mentioned in the preceding item and matters related to ensuring the effectiveness of instructions from the Audit & Supervisory Board Member to the relevant employees

Concerning the determination of matters related to the delegation of authority over personnel matters to the relevant employee as mentioned in the previous item, the independence of such employees from Directors shall be ensured by obtaining the prior consent of the Audit & Supervisory Board Member.

Effectiveness shall be ensured by establishing a structure under which the Audit & Supervisory Board Member provides direct instructions to and receives reports from the relevant employee.

h) System regarding reporting to the Audit & Supervisory Board Members

1) System for reporting to Audit & Supervisory Board Members by Directors and employees

A system shall be established that enables Audit & Supervisory Board Members to receive reports from Directors and employees on the state of the execution of duties. At the same time, collaboration and coordination with internal departments carrying out audits shall be strengthened.

2) System that enables Directors, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, to report to the Audit & Supervisory Board Members

Directors, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated subsidiaries, as well as parties receiving reports from these persons, shall, depending on the importance and urgency of the matters, report to the Audit & Supervisory Board Members about any improprieties regarding the execution of duties by Directors or employees of the Company or consolidated subsidiaries, about any actual matters in violation of laws and regulations or the Articles of Incorporation or regarding actual matters that could cause significant damage to the Company.

i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports  
In accordance with employment regulations, persons reporting matters to the Audit & Supervisory Board Members shall not be treated unfavorably as a result of such reports.

j) Matters related to the treatment of expenses and liabilities incurred in business execution by Audit & Supervisory Board Members

In the case Audit & Supervisory Board Members request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such Audit & Supervisory Board Members.

k) Other systems for ensuring effective audits by Audit & Supervisory Board Members

Representative Directors shall exchange opinions with Audit & Supervisory Board Members on a timely basis. The Company's Office of Auditors shall maintain close relations with the Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

## **B. Basic Thinking on the Elimination of Antisocial Forces and Establishment of Measures**

a) Basic thinking

The Mission Statement and Compliance Regulations stipulate that the Company shall take a firm stance against and maintain no relations with antisocial forces that threaten the order and safety of society.

b) Establishment of measures

The Company shall express its Action Guidelines against antisocial forces in its Mission Statement and Compliance Manual while designating its Compliance Office, Human Resources and General Affairs Department, and Customer Relationship Office as the department and office responsible for responding to antisocial forces. The Company shall collaborate with legal counsel and external organizations that include police departments and the Metropolitan Police Department Joint Association for the Prevention of Particular Violence. At the same time, employees shall be thoroughly familiarized with the Action Guidelines.

## **C. State of Establishment of Risk Management Structure**

OTSUKA CORPORATION has established a Risk Management Committee as the body to promote and control business risk management as part of a risk management system.

The Risk Management Committee identifies and assesses all risk related to the Company and investigates respective measures for key risks. The Committee provides direction on the creation of a risk management system to ensure the ongoing and stable maintenance and management of risk in each division and department in its scope. At the same time, efforts are made to enhance crisis management by (1) preparing for such emergencies during ordinary times, (2) taking appropriate steps during a crisis and (3) formulating and managing a business continuity plan.

## **D. Summary of Details of Contract of Limited Liability**

As prescribed by Article 427-1 of the Companies Act, the Company, each outside director and each Audit & Supervisory Board Member conclude a contract that limits liability under Article 423-1 of the Act. The amount limit of the liability based on these contracts shall be the amount prescribed by law.

## **E. Number of Directors**

The Company's Articles of Incorporation stipulate that the number of Company Directors shall be 19 or fewer.

## **F. Resolutions for Appointment of Director**

The Company's Articles of Incorporation stipulate that a resolution for the appointment of a Director requires attendance by shareholders with more than one-third of the voting rights of shareholders capable of exercising such rights at the General Meeting of Shareholders, and is decided by a majority of shareholders. In addition, a resolution for the appointment of a Director shall not be decided by cumulative voting.

## **G. Requirements for Special Resolution of the General Meeting of Shareholders**

The Company's Articles of Incorporation stipulate that a special resolution of the General Meeting of Shareholders, pursuant to Article 309, Paragraph 2 of the Companies Act, shall be adopted when it is approved by a vote of two-thirds or more of the voting rights present at a General Meeting of Shareholders, a quorum for which shall be the presence of shareholders of one-third of the aggregate voting rights if the total shareholders are capable of exercising such rights. This aim is to facilitate efficient operation of the General Meeting of Shareholders through the moderation of special resolutions at the General Meeting of Shareholders.

## **H. Interim Dividend**

Pursuant to Paragraph 5, Article 454 of the Companies Act, the Company's Articles of Incorporation stipulate that based on a resolution of the Board of Directors, the Company can pay interim dividends with the date of record being June 30 of each year. This is in order to allow the flexible return of profits to shareholders.

## **I. Purchase of Own Shares**

The purport of the Company's Articles of Incorporation stipulates that the Company shall be able to purchase its own shares based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act. This is aimed at purchasing

own shares through market transactions to enable the execution of a flexible capital policy that responds to changes in economic conditions.

## Status of Directors and Auditors

### 1. Status of Outside Directors and Auditors

The Company has three outside directors and three outside auditors.

Although Outside Director Jiro Makino had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside director because of his knowledge and experience as a lawyer and long years of involvement in the actual practice of legal affairs. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Jiro Makino Law Office legal professional corporation, in which Outside Director Jiro Makino currently has a key position.

Tetsuo Saito has been appointed as an outside director because of his long years of experience in participating in the management of numerous companies in multiple industries. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

There are no special interests or otherwise relationship between the Company and Work Two Co., Ltd., DD Holdings Co., Ltd., DM SOLUTIONS Co., Ltd. and Career Design Center Co., Ltd., in which Tetsuo Saito currently has key positions.

Makiko Hamabe has been appointed as an outside director because of her high level of knowledge about corporate governance and ESG and long years of involvement in corporate communications and IR. She makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE. Additionally, there are no special interests or otherwise relationship between the Company and SoldOut, Inc., in which Outside Director Makiko Hamabe currently has a key position.

Although Outside Auditor Kazuhiko Nakai had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside director because of his knowledge and experience as a certified public accountant and tax accountant and long years of involvement in the actual practice of corporate accounting. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Kazuhiko Nakai Tax Accountant Office, Kazuhiko Nakai CPA Office, Nippon Antenna Co., Ltd. and S-Pool, Inc., in which Kazuhiko Nakai concurrently has key positions.

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Although Outside Auditor Etsuo Hada had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside auditor because of his knowledge and experience as a Certified Public Accountant (CPA), licensed tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement in the actual practice of corporate accounting and legal affairs. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Hada CPA and Judicial Scrivener Office and Nikkan Kogyo Shimbun Ltd. in which Outside Auditor Etsuo Hada currently has key positions.

Although Outside Auditor Katsumasa Minagawa had no involvement in company management in the past other than serving as an outside officer, he has been appointed as an outside auditor because of his knowledge and experience as a lawyer as well as his long years of involvement in the actual practice of corporate law. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

Additionally, there are no special interests or otherwise relationship between the Company and Katsumasa Minagawa Law Office and Ubiquitous AI Corporation in which Outside Auditor Katsumasa Minagawa currently has key positions.

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE). The outside directors and outside auditors each attend Board of Directors meetings to provide insights and impart opinions based on their extensive experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

## 2. Supervision or Auditing by Outside Directors or Outside Corporate Auditors and Mutual Cooperation among Internal Audits, Audit & Supervisory Board Audits and Accounting Audits, and Relationships with Internal Control Departments

Outside directors attend the Audit & Supervisory Board as observers, ascertain the status of audit implementation by the Audit & Supervisory Board and exchange information and opinions with Audit & Supervisory Board Members.

Outside directors and outside auditors receive a report on the audit plan and the status of audit implementation from the Office of Auditors and exchange opinions at the Audit & Supervisory Board that in principle is held once per month. Besides receiving reports on the establishment and operation of internal controls from the Internal Control Committee at the Board of Directors meetings, the Board of Directors or the Audit & Supervisory Board exchange information and opinions with the Finance and Accounting Department and Compliance Office at their discretion to ascertain the current situation and issues of the OTSUKA Group and express opinions from a professional viewpoint as necessary.

The outside directors and outside auditors meet on a timely basis with the accounting auditors to confirm auditing plans and the condition of audit implementation and progress on improvements to recommended areas, exchange information confirming the legality of actions taken by Directors and take appropriate steps as required.

## Status of Audits

### 1. Status of Audits by Audit & Supervisory Board Members

The Audit & Supervisory Board consists of four persons, including three outside auditors (one full-time auditor and three part-time auditors). Among these auditors, outside auditor Kazuhiko Nakai and outside auditor Etsuo Hada hold qualifications as certified public accountants and tax accountants and have considerable knowledge of finance and accounting. In addition, Katsumasa Minagawa, outside Audit & Supervisory Board Member, holds qualifications as a lawyer and has considerable knowledge of law.

The Audit & Supervisory Board is chaired by a full-time auditor in accordance with a resolution.

The Audit & Supervisory Board shall in principle convene once per month during the fiscal year and the state of attendance by each Audit & Supervisory Board Member is as follows.

Class	Name	Number of times convened	Number of times attended (attendance rate)
Standing Audit & Supervisory Board Member	Naoto Minai Note 1	14 times	14 times (100%)
Audit & Supervisory Board Member	Kazuhiko Nakai	14 times	14 times (100%)
Audit & Supervisory Board Member	Tetsutaro Wakatsuki	Five times Note 2	Five times (100%) Note 2
Audit & Supervisory Board Member	Etsuo Hada	14 times	14 times (100%)
Audit & Supervisory Board Member	Katsumasa Minagawa	Nine times Note 3	Nine times (100%) Note 3

Notes:

1. Naoto Minai, Standing Audit & Supervisory Board Member, retired at the conclusion of the General Meeting of Shareholders held on March 26, 2021.
2. Tetsutaro Wakatsuki, Audit & Supervisory Board Member, retired at the conclusion of the General Meeting of Shareholders held on March 27, 2020 and thus the number of meetings convened and number of times attended is only for those members of the Audit & Supervisory Board who are in office.
3. Katsumasa Minagawa was appointed at the General Meeting of Shareholders held on March 27, 2020, and therefore the number of meetings convened and number of times attended is for the Audit & Supervisory Board convened after taking office.

The main items considered and the status of activities by the Audit & Supervisory Board are as follows.

Items considered	Status of activities		
	Full-time auditor	Part-time auditor	Activity details
Formulation of audit policy and annual plan	<input type="radio"/>	<input type="radio"/>	After discussion, formulated the audit policy and annual plan.
Agreement with the proposal for appointment of Audit & Supervisory Board Members	<input type="radio"/>	<input type="radio"/>	Discussed and agreed to the proposal for appointment of Audit & Supervisory Board Members
Selection of persons convening the Audit & Supervisory Board and the chairperson	<input type="radio"/>	<input type="radio"/>	After discussion, the person convening and the chairperson of the Audit & Supervisory Board were selected.
Selection of Standing Audit & Supervisory Board Member	<input type="radio"/>	<input type="radio"/>	After discussion, Standing Audit & Supervisory Board Member was selected.
Determination of a specified Audit & Supervisory Board Member	<input type="radio"/>	<input type="radio"/>	After discussions, a specified Audit & Supervisory Board Member was selected.
Determination of monthly remuneration for Audit & Supervisory Board Members	<input type="radio"/>	<input type="radio"/>	After discussion, the monthly remuneration for Audit & Supervisory Board Members was decided.
Exchange of opinions with the President and Representative Director	<input type="radio"/>	<input type="radio"/>	Opinions exchanged with the President and Representative Director.

Items considered	Status of activities		
	Full-time auditor	Part-time auditor	Activity details
Attendance and expressing opinions at the Board of Directors meetings	<input type="radio"/>	<input type="radio"/>	Each Audit & Supervisory Board Member attended all Board of Directors meetings and expressed opinions as appropriate. (Note) 1
Attendance and expressing opinions at important meetings	<input type="radio"/>	—	Attended important meetings (Executive Board Meeting, Otsuka Corporation Group Management Meeting, IT Control Committee, etc.) and expressed opinions as appropriate. (Note) 2
Listening to reports from directors and employees	<input type="radio"/>	<input type="radio"/>	Received reports from directors who also serve as executive officers and department heads and requested explanations.
Monitoring and verification of status of establishment and operation of internal control system, including financial reporting	<input type="radio"/>	<input type="radio"/>	Monitored and verified status of establishment and operation of the internal control system, including financial reporting.
Confirmation of status of accounts receivable collection	<input type="radio"/>	—	Confirmed the status of accounts receivable collection and requested explanations.
Viewing financial results documents	<input type="radio"/>	<input type="radio"/>	Examined financial results documents and requested explanations.
Viewing important documents	<input type="radio"/>	—	Examined important documents (approval documents, etc.) and requested explanation. (Note) 2
Report on the status of execution of duties by standing Audit & Supervisory Board Member	<input type="radio"/>	<input type="radio"/>	Standing Audit & Supervisory Board Member reported to the non-standing Audit & Supervisory Board Members on the status of execution of duties by the standing Audit & Supervisory Board Member.
Attending inventory counts	<input type="radio"/>	<input type="radio"/>	Attended inventory counts and requested an explanation.
Cooperation and exchange of opinions among three audits (accounting auditor and Audit Office)	<input type="radio"/>	<input type="radio"/>	Received reports on the audit plan and audit implementation status from the corporate auditor and the Audit Office and exchanged opinions.
Exchange of opinions with the presidents and representative directors of consolidated subsidiaries	<input type="radio"/>	<input type="radio"/>	Exchanged opinions with the presidents and representative directors of consolidated subsidiaries.
Hearing reports and exchanging opinions with Audit & Supervisory Board Members of consolidated subsidiaries	<input type="radio"/>	<input type="radio"/>	Received reports from Audit & Supervisory Board Members of consolidated subsidiaries and exchanged opinions.
Hearing reports from internal whistleblowing independent of management	<input type="radio"/>	<input type="radio"/>	Received internal reports from a whistleblowing hotline independent of management and requested explanations.
Adequate evaluation of the accounting auditor's audit method and results	<input type="radio"/>	<input type="radio"/>	Evaluated audit method and the appropriateness of the results of the accounting auditor and decided to reappoint the accounting auditor.
Agreement of accounting auditor's compensation	<input type="radio"/>	<input type="radio"/>	Discussed and agreed with the accounting auditor's compensation plan.
Creation of audit report	<input type="radio"/>	<input type="radio"/>	Audited business reports, financial statements, etc., and created an audit report.

Notes:

1. Tetsutaro Wakatsuki, Audit & Supervisory Board Member, retired at the conclusion of the General Meeting of Shareholders held on March 27, 2020 and thus the Board of Directors meetings convened during his tenure are covered. Katsumasa Minagawa, Audit & Supervisory Board Member, was appointed at the General Meeting of Shareholders held on March 27, 2020, and therefore the Board of Directors meetings convened after he took office are covered.
2. Important matters are also shared with non-standing Audit & Supervisory Board Members in a timely manner.

The Audit & Supervisory Board exchanges information with the accounting auditor and takes action as necessary.

The Compliance Office is in charge of assisting Audit & Supervisory Board Members with their duties. Although the Compliance Office is an organization within the Business Management Division, one employee (concurrent position) assists with duties based on instructions given directly by Audit & Supervisory Board Members to ensure independence.

## 2. Status of Internal Audits

The Office of Auditors (15 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Office of Auditors regularly exchanges opinions with the accounting auditor regarding audit plans, the state of audit implementation and results, and strives for mutual collaboration. Moreover, the Office of Auditors strives for mutual collaboration with Audit & Supervisory Board Members.

## 3. Accounting Audits

a) Name of Corporate Auditor

Ernst & Young ShinNihon LLC

b) Continuous audit period

Since 1992

\* From 1992 to 2007, the Company concluded an audit contract with MISUZU Audit Corporation (then Chuo Shinko Audit Corporation). Subsequently, with the dissolution of MISUZU Audit Corporation, since 2007 the Company entered into an audit contract with EY Shinnihon LLC (then Ernst & Young ShinNihon). On this occasion, the certified public accountant who was executing the Company's auditing work was also transferred to Ernst & Young ShinNihon LLC (then Ernst & Young ShinNihon) and continued to execute the Company's auditing work even after this transfer. As such, the Company considers the same corporate auditor as continuing to execute the Company's auditing work and lists this in conjunction with the audit period of the corporate auditor prior to the transfer of the relevant certified public accountant.

c) Certified public accountants involved in auditing-related operations

Seiji Yamamoto, Designated Employee with Limited Liability and Managing Partner

Shigeyuki Kano, Designated Employee with Limited Liability and Managing Partner

Tomo Ito, Designated Employee with Limited Liability and Managing Partner

\* Summarized, as all members have less than seven years of continuous auditing experience

d) Composition of staff assisting in auditing-related operations

CPAs 14

Other individuals 25

e) Corporate Auditor Selection Policy and Reasons

(Corporate auditor selection policy)

The Audit & Supervisory Board makes comprehensive considerations that include the independence, expertise and the state of quality control of the corporate auditor as well as the appropriateness and efficiency of auditing activities and on the basis of the establishment of a system that assures the proper execution of duties of the corporate auditor the Board decides on suitability.

(Policy on Dismissal or Determining Non-reappointment of Accounting Auditor)

If there is determined to be a necessity, such as interference with the execution of the duties of the accounting auditor, the Audit & Supervisory Board will determine details of the proposal for dismissal or non-reappointment of the accounting auditor that is submitted to the General Meeting of Shareholders.

If the accounting auditor is deemed to come under any of the items prescribed in Article 340-1 of the Companies Act, the accounting auditor shall be dismissed based on the approval of all Audit & Supervisory Board Members. In this case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the intent and reason for the dismissal of the accounting auditor at the first General Meeting of Shareholders convened after the dismissal.

(Reason for reappointment of accounting auditor)

The Audit & Supervisory Board evaluated the accounting auditor in accordance with the policy for selecting the accounting auditor and determined that reappointing Ernst & Young ShinNihon LLC as the accounting auditor would be appropriate.

f) Evaluation of Accounting Auditors by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board exchanges information with the accounting auditor and receives reports from the accounting auditor on the results of quality control reviews and inspections of the corporate auditors that are external organizations.

Audit & Supervisory Board Members and the Audit & Supervisory Board evaluate the accounting auditor based on the evaluation standards prescribed in accordance with the Japan Audit & Supervisory Board Members Association's "Practical Guidelines for Auditors Concerning Determination of Evaluation Standards for Selection Criteria for Accounting Auditors" and determined this to be suitable.

#### 4. Details of Auditors' Remuneration, etc.

##### a) Remuneration for Auditing Certified Public Accountants

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Osuka Corporation	69	—	70	6
Consolidated Subsidiaries	14	—	15	—
Total	84	—	85	6

(Current Fiscal Year)

The contents of non-auditing work at the Company consist of providing information, consultation, advice and support for accounting standards pertaining to revenue recognition, which is work other than that prescribed by Article 2, Paragraph 1 of the Certified Public Accountants Act.

b) Excluding (remuneration <a>) for the same network (Ernst & Young) as the audit certified public accountants

Not applicable

c) Details of remuneration for other important audit certification services

Not applicable

d) Audit Remuneration Policy

The Company determines with agreement of the Audit & Supervisory Board an appropriate amount of audit remuneration based on a number of factors, including the number of days of auditing work, the nature of auditing duties and scale of work to ensure the accounting auditor can conduct auditing and certification services fairly and in good faith from an independent standpoint.

e) Reasons the Audit & Supervisory Board Agreed to the Remuneration for the Accounting Auditor

The Audit & Supervisory Board, upon undertaking necessary verifications of the appropriateness of the details of audit plan of the accounting auditor, the state of execution of duties of accounting audits and the basis for calculating remuneration estimates, has agreed to the provisions of Article 399-1 of the Companies Act for remuneration for the accounting auditor.

## Directors (Officers) Remuneration

#### 1. Items Concerning Policy for Determination of Remuneration Amounts for Directors and Its Calculation Method

The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include employee compensation). The Company shall have no more than 19 directors as stipulated by the Articles of Incorporation.

Remuneration for Directors (excluding outside directors) shall be monetary compensation within the range approved by a resolution of the General Meeting of Shareholders that comprises basic remuneration, bonus, annual performance-based pay, retirement bonuses for Directors (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age). For Directors who concurrently serve as Executive Officers, position and performance as an Executive Officer shall also be elements in determining director remuneration. Remuneration levels as well as the percentages of each of the following types of remuneration as individual remuneration for Directors are set according to job responsibilities and contributions, etc., giving reference to survey data from external specialist organizations.

- A. For basic remuneration, the President and Representative Director, who is appointed by the Board of Directors, shall determine the payment amounts to be paid monthly giving comprehensive consideration to such factors as the evaluation of the performance of the supervised department in past years taking into account levels of other companies and a balance with employee salaries.
- B. In order to link contribution to business performance, bonuses are determined based on the target achievement rate for operating profit, which is strongly correlated to stock price. The President and Representative Director, who is appointed by the Board of Directors, shall determine the amount of bonuses to be paid annually in July and December based on the performance of the entire company during the bonus payment period, the performance of the supervised department and the degree of contribution to performance of the individual officer upon assuring transparency of the link with performance. In the current fiscal year, actual operating profit was ¥50,733 million versus the operating profit target for bonus calculation of ¥54,633 million, which was an achievement rate of 92.9%.
- C. Annual performance-based bonus is paid annually around February and August after amounts are decided by the Board of Directors in accordance with the annual and semi-annual operating profit achievement rate based on the annual and semi-annual

plan for employees. In the current fiscal year, actual operating profit amounted to ¥49,810 million (published value) versus the operating profit target of ¥56,700 million, which was an achievement rate of 87.9%. This is not applicable because the achievement rate is less than 100%.

- D. Retirement benefits for directors are set aside in accordance with the rules for retirement benefits for directors, with the annual basic amount being set aside for full-time directors (each position), and the cumulative amount is calculated at retirement and paid in an amount determined by the President and Representative Director, who is appointed by the Board of Directors based on a resolution of the General Meeting of Shareholders. There were no eligible persons in the current fiscal year. At the General Meeting of Shareholders held on March 26, 2021, retirement benefits shall be presented to three retired directors within a reasonable amount based on prescribed standards set by the Company, and approval was granted to entrust the Board of Directors with determining specific amounts, timing and method of presentation.
- E. The company-type defined contribution pension for full-time directors who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees in accordance with the provisions of the defined contribution (DC) pension regulations established by a resolution of the Board of Directors. There were no eligible persons this fiscal year.

Outside directors shall receive monetary remuneration that is only fixed basic remuneration from the perspective of maintaining independence. Basic remuneration shall be within a range approved by a resolution of the General Meeting of Shareholders and paid monthly in an amount determined by the President and Representative Director, who is appointed by the Board of Directors, based on the levels of other companies and the remuneration levels of full-time directors of the Company.

The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005. The Company shall have no more than four Audit & Supervisory Board Members as stipulated by the Articles of Incorporation.

The remuneration of Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) shall be monetary compensation within a range approved by a resolution of the General Meeting of Shareholders and comprises basic remuneration, officer retirement benefits (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (Audit & Supervisory Board Members under 60 years of age).

- A. Basic remuneration is paid monthly in an amount determined through discussions with Audit & Supervisory Board Members.
- B. Retirement benefits for Directors are set aside in accordance with the rules for retirement benefits for directors, with the annual basic amount being set aside for full-time Audit & Supervisory Board Members, and the cumulative amount is calculated at retirement and paid upon determination of payment amount based on a resolution at the General Meeting of Shareholders upon consultation with the Audit & Supervisory Board Members. There were no eligible persons this fiscal year. At the General Meeting of Shareholders held on March 26, 2021, retirement benefits shall be presented to Audit & Supervisory Board Members within a reasonable amount based on prescribed standards set by the Company, and approval was granted to entrust the Audit & Supervisory Board with determining specific amounts, timing and method of presentation.
- C. The company-type defined contribution pension for full-time Audit & Supervisory Board Members who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees in accordance with the provisions of the defined contribution (DC) pension regulations established by a resolution of the Board of Directors. There were no eligible persons this fiscal year.

Outside Audit & Supervisory Board members shall receive monetary remuneration that is only fixed basic remuneration. The paid amount of basic remuneration is determined by consultation with the Audit & Supervisory Board Members.

## 2. Details of Activities of the Board of Directors in the Process of Determining the Amount of Remuneration for Officers

In the current fiscal year, at the Board of Directors meeting on March 27, 2020, the Board resolved to entrust the basic remuneration for directors to the President and Representative Director based on a policy for determining the amount of remuneration for officers.

### 3. Total Amount of Remuneration for Each Officer Class, Total Amount by Type of Remuneration and Number of Eligible Officers

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Fixed Remuneration	Performance-linked Remuneration	Retirement Benefits	
Directors (excluding outside directors)	373	252	83	37	10
Audit & Supervisory Board Members (except outside auditors)	18	16	–	1	1
Outside Directors	24	24	–	–	2
Outside Auditors	19	19	–	–	4

Notes:

1. The above includes one Outside Auditor who retired at the conclusion of the 59th General Meeting of Shareholders held on March 27, 2020.
2. Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
3. The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

### 4. Total Consolidated Remuneration by Director and Audit & Supervisory Board Member

Not disclosed since there are no Directors or Audit & Supervisory Board Members that receive consolidated remuneration of ¥100 million or more.

## Principal Stockholdings by the Company

### 1. Criteria and Concept for Classification of Investment Stocks

The Company classifies stocks into investment stocks held for the purpose of pure investment, which are investment stocks held for the purpose of obtaining profits from fluctuations in stock prices and dividends from stocks, and investment stocks held for purposes other than pure investment (policy stocks), which are held for the purpose of strengthening relationships and alliances with partner companies. The Company does not in principle hold investment stocks held for the purpose of pure investment.

### 2. Stocks Held for Purposes Other than Pure Investment

#### a) Holding Policy and Method for Verifying the Rationality of Holdings and Details of Verification by the Board of Directors Regarding the Suitability of Holding Individual Stocks

One of the Company's management objectives is to continuously improve corporate value through business expansion even within a harsh economic environment and the Company recognizes that securing a wide-ranging sales network, the stable procurement of products and services and continuing to secure smooth financial transactions into the future are essential in executing its management strategy. Based on this need, the Company adheres to a policy of holding policy stocks for the purpose of strengthening relationships and alliances with partner companies and does not hold policy stocks otherwise.

Every year the Board of Directors verifies the returns and risks of policy stocks from a medium- to-long-term perspective and considers the suitability of holding these stocks. As evaluation criteria for determining the suitability of holdings, the Company comprehensively considers such factors as the benefits of alliances, comparison of investment returns and the cost of capital, investment risk and the growth potential of the relevant company. In accordance with the above criteria, as a shareholder, the Company will sell policy stocks that do not result in a medium- to-long-term increase in corporate value upon carrying out sufficient dialogue with its partner company.

At the Board of Directors meeting for the current fiscal year, the Company pursued a return on investment of all strategically held shares that is calculated from dividends and business profits obtained from the company as well as the acquisition price of the shares and compared and verified the return on investment with the Company's cost of capital. As a result, the Company deliberated on the suitability of holding stocks for which return on investment was lower than the Company's cost of capital. As a result of this deliberation, although some of these stocks have a low direct relation to business profits, the Company has confirmed the benefits of maintaining cooperative relationships in undertaking its business operations that include alliances in financing and fund settlement fields and has determined the appropriateness of holding these stocks. On the other hand, the Company has resolved to proceed with the sale of stocks for which the appropriateness of these holdings has not been recognized.

#### b) Criteria for Exercising Voting Rights for Holdings of Policy Stocks

Regarding the exercise of voting rights of policy stocks, the Company determines advantages and disadvantages of a resolution upon close examination by individual stock to determine whether these contribute to the enhancement of medium-to-long-term corporate value of the relevant company and the Company.

c) Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (millions of yen)
Unlisted stocks	22	276
Stocks other than unlisted stocks	29	8,477

(Issues for which the number of shares increased this fiscal year)

	Number of issues	Total amount of acquisition price for the increase in the number of shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	151	New investment for developing services in the AI and IoT fields
Stocks other than unlisted stocks	7	21	Regular purchases by business partner holding company

(Issues for which the number of shares decreased this fiscal year)

	Number of issues	Total amount of sales price for the decrease in the number of shares (millions of yen)
Unlisted stocks*	1	–
Stocks other than unlisted stocks	4	299

\* One issue for which the number of shares decreased is due to the liquidation of the company.

d) Information on the number of shares for each issue of specified investment stocks and deemed stocks held and balance sheet amounts

Specified investment stocks

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
PERSOL HOLDINGS CO., LTD.	3,000,000	3,000,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 3
	5,583	6,153		
GiG Works Inc.	360,000	360,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	1,177	694		
Uchida Esco Co., Ltd.	180,000	180,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	531	966		
Daiwa House Industry Co, Ltd.	100,000	100,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	306	339		
Ricoh Company, Ltd.	381,938	359,724	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	Yes
	258	428		
Concordia Financial Group, Ltd.	382,204	382,204	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	138	172		
Daito Trust Construction Co., Ltd.	13,100	13,100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	126	176		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
NAMUCO BANDAI Holdings Inc.	9,504	9,504	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	84	63		
Credit Saison Co., Ltd.	50,000	50,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	59	95		
Zeon Corporation	35,172	34,098	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	52	46		
Meiko Network Japan Co., Ltd.	60,000	60,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	33	61		
Kyowa Kirin Co., Ltd.	8,000	8,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	22	20		
Nippon Kayaku Co., Ltd.	20,062	19,231	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	19	26		
Iino Kaiun Kaisha, Ltd.	37,682	35,630	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	16	13		
HYPER Inc.	24,000	24,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	13	17		
Mitsubishi UFJ Financial Group, Inc.	29,110	29,110	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 4
	13	17		
Morinaga & Co., Ltd.	3,284	3,209	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	12	16		
Dai-ichi Life Holdings, Inc.	4,300	4,300	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 5
	6	7		
Rengo Co., Ltd.	7,600	7,600	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	6	6		
Maruzen Co., Ltd.	2,000	2,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	3	4		
Mizuho Financial Group, Inc.	2,152	21,520	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 6
	2	3		
Canon Marketing Japan Inc.	1,155	1,155	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	2	2		
Tsuchiya Holdings Co., Ltd.	13,689	12,627	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	2	2		
Autobacs Seven Co., Ltd.	1,500	1,500	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
LIXIL Corporation.	331	331	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
KOIKE SANSO KOGYO Co., LTD.	133	133	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
TOKYO THEATRES COMPANY Inc.	245	199	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	0	0		
Kurimoto, Ltd.	100	100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
NIPPON KINZOKU CO., LTD.	100	100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
Billing System Corporation	–	200,000	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	–	228		
Mitsubishi Tanabe Pharma Corporation	–	13,300	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	–	26		
Iwabuchi Corporation	–	2,343	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	–	15		
HOSODA CORPORATION	–	1,200	The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	–	0		

Notes:

1. All stocks, including stocks with recorded balance sheet amounts of 1/100 or less of their capital amounts, are listed.
2. The - symbol indicates the Company does not hold that stock.
3. Although PERSOL HOLDINGS CO., LTD. does not hold Company shares, its subsidiary, PERSOL TEMPSTAFF CO., LTD., holds Company shares.
4. Although Mitsubishi UFJ Financial Group, Inc. does not hold Company shares, its subsidiaries, MUFG Bank, Ltd. and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd., hold Company shares.
5. Although Dai-ichi Life Holdings, Inc. does not hold Company shares, its subsidiary, The Dai-ichi Life Insurance Company, Limited, holds Company shares.
6. Although Mizuho Financial Group, Inc. does not hold Company shares, its subsidiaries, Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd., hold Company shares. Regarding the number of shares of Mizuho Financial Group, Inc., a reverse stock split was executed on October 1, 2020, in which 10 shares of common stock were consolidated into 1 share. Therefore, the number of shares after the reverse stock split is listed for the current fiscal year.
7. LIXIL Group Corporation. was renamed LIXIL Corporation. on December 1, 2020.

Deemed stocks

Not applicable

**3. Investment Stocks Held for the Purpose of Pure Investment**

Not applicable

# Directors and Audit & Supervisory Board Members (As of March 26, 2021)



President & Chief Executive Officer

**Yuji Otsuka**



Managing Director & Senior Executive Operating Officer

**Kazuyuki Katakura**



Managing Director & Senior Executive Operating Officer

**Toshiyasu Takahashi**



Managing Director & Executive Operating Officer

**Hironobu Tsurumi**



Managing Director & Executive Operating Officer

**Hironobu Saito**



Managing Director & Operating Officer

**Katsuhiro Yano**



Managing Director & Operating Officer

**Minoru Sakurai**

## Directors

Jiro Makino  
Tetsuo Saito  
Makiko Hamabe

## Standing Audit & Supervisory Board Member

Tatsumi Murata

## Audit & Supervisory Board Members

Kazuhiko Nakai  
Etsuo Hada  
Katsumasa Minagawa

# Business Risks

The most common risks that could potentially impact the Group's business performance results and financial condition are outlined below. While these are the most common risks, they do not represent all potential risks.

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 26, 2021.

## ■ Customer-related Risks

The OTSUKA Group's customers range from large enterprises to small firms that span a broad range in terms of company scale and industries. Consequently, its level of dependency on any specific customer is low.

However, the Group's operations could be impacted by convergent changes in IT investment trends by a large number of companies as a result of unexpected changes in the economic environment.

## ■ Supplier-related Risks

The OTSUKA Group is supplied with high-quality products, services and technologies (hereafter called "products") by numerous suppliers for respective segments in order to optimally resolve the problems of each customer. While working to deepen its relationship with suppliers to ensure stable supply of these "products," the Group is constantly working to acquire information on newer "products" as well.

However, the Group's operations could be impacted by the inability to supply "products" in the quantity demanded by customers because of insufficient supply of "products" due to issues at supplier sites, as well as by the Group's inability to obtain substitutes.

## ■ Information Leakage Risks

The OTSUKA Group possesses an abundance of individual and corporate information pertaining to operations that is handled carefully. The Company received approval to use the Privacy Mark of the Japan Institute for Promotion of Digital Economy and Community, and its Internet Data Center acquired certification for Information Security Management Systems (ISMS).

As a concrete measure to manage data, the Company has released an internal and external Personal Information Protection Policy, as well as established regulations on personal information protection and confidentiality. The Company has its employees take a pledge of confidentiality as well as works to prevent information leakage outside of the Company and raises awareness of information management through its proprietary educational "CP (Compliance Program) License System" and other measures. Moreover, the Company implements even more stringent measures for its information systems. These include respective technical measures used at entrances, internally, and at exits as well as third-party external diagnoses, regular drills against targeted e-mail attacks and establishing the Computer Security Incident Response Team (CSIRT) and the Security Surveillance Committee.

Even with these measures, however, the Group's operations could be impacted by assuming liabilities for damage and loss of trust by society in the unlikely event that personal or corporate information is leaked outside the Group.

## ■ Risks Related to the Spread of Infectious Diseases

In preparation for the spread of infectious diseases, besides measures to prevent the infection of its employees, the OTSUKA Group has established an environment that enables online activities not involving customer visits or face-to-face discussions to ensure that sales and service activities can be undertaken in addition to strengthening sales activities through call centers and websites.

However, despite these measures, in the event of an infectious disease that significantly affects overall socio-economic activities, depending on the state of infection, the Group's operations could be impacted by restrictions on the Group's sales and service activities, reductions in office supply consumption and copy usage, and a shortage of products due to a rapid increase in demand for specific products such PCs and tablets and infection-prevention products.

# Financial Section

## Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2018, 2019 and 2020	Millions of yen			Thousands of U.S. dollars
	2018	2019	2020	2020
Net sales	¥759,871	¥886,536	¥836,323	\$8,078,862
System Integration business	463,293	578,698	526,613	5,087,071
Service and Support business	296,577	307,837	309,710	2,991,790
Operating profit	48,058	62,192	56,309	543,950
Ordinary profit	49,285	63,706	57,550	555,937
Profit before income taxes	49,100	62,668	57,584	556,267
Profit attributable to owners of parent	33,601	43,497	39,309	379,730
Total assets	406,732	461,812	471,292	4,552,671
Interest-bearing debt	8,256	8,807	8,895	85,932
Equity	229,726	259,328	277,348	2,679,174
Earnings per share (EPS) (Yen and U.S. dollars)	177.22	229.42	207.33	2.00
Dividend per share of common stock (Yen and U.S. dollars)	85.00	110.00	115.00	1.11
Cash flows from operating activities per share (Yen and U.S. dollars)	203.83	257.18	171.39	1.66
Operating profit to Net sales ratio (%)	6.32	7.02	6.73	—
Profit to Net sales ratio* (%)	4.42	4.91	4.70	—
Interest-bearing debt ratio (%)	2.03	1.91	1.89	—
Equity ratio (%)	56.48	56.15	58.85	—
Return on equity (ROE) (%)	15.18	17.79	14.65	—

Notes:

\* Profit stands for Profit attributable to owners of parent

Equity = Total net assets - Share subscription rights - Non-controlling interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2020 exchange rate of ¥103.52 = US\$1.

The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2018.

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## Management's Analysis of Operating Results and Financial Position

### Summary of Sales and Profits

				Millions of yen
	2019	2020	Difference to Last Year	% Change to Last Year
Net sales	¥886,536	<b>¥836,323</b>	-50,212	-5.7%
System Integration business	578,698	<b>526,613</b>	-52,085	-9.0
Service and Support business	307,837	<b>309,710</b>	+1,872	+0.6
Cost of sales	706,537	<b>662,598</b>	-43,938	-6.2
Gross profit	179,999	<b>173,725</b>	-6,273	-3.5
Selling, general and administrative expenses	117,806	<b>117,415</b>	-391	-0.3
Operating profit	62,192	<b>56,309</b>	-5,882	-9.5
Ordinary profit	63,706	<b>57,550</b>	-6,155	-9.7
Profit before income taxes	62,668	<b>57,584</b>	-5,084	-8.1
Income taxes				
Current	20,331	<b>17,786</b>	-2,544	-12.5
Deferred	-1,625	<b>-12</b>	+1,613	—
Profit attributable to owners of parent	43,497	<b>39,309</b>	-4,187	-9.6

### Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥836,323 million, a decrease of ¥50,212 million (5.7%) from the previous fiscal year.

### System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. Although we captured demand related to telework and work style reforms and for responding to the GIGA School program, net sales declined 9.0% to ¥526,613 million. This decrease was due to such factors as the impact of a decline in unit sales of PCs, which increased sharply in the previous fiscal year on the back of replacement demand for Windows 7, and to restrictions on sales activities that continued even after the lifting of the state of emergency declaration.

### Service and Support Business

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. In our "tanomail" office supply mail-order service business, sales increased year on year in the fourth quarter; however, sales for the full year declined from the previous year as the expanded use of telework resulted in a decrease in sales of some products. Meanwhile, in the "tayloreru" support service business, although sales from maintenance services for copiers declined from the previous year accompanying a decrease in usage, telework-related services and maintenance services such as MNS (Managed Network Service) trended firmly, and therefore, overall maintenance sales surpassed those of the previous year. As a result, overall net sales of this business increased 0.6% to ¥309,710 million.

### Summary of Income and Expenses

Regarding profits, gross profit decreased 3.5% from the previous fiscal year to ¥173,725 million due to the decrease in net sales.

Due to the decrease in gross profit, operating profit decreased 9.5% to ¥56,309 million, ordinary profit decreased 9.7% to ¥57,550 million and profit attributable to owners of parent decreased 9.6% to ¥39,309 million. Earnings per share (EPS) amounted to ¥207.33.

## Financial Position

	Millions of yen			
	2019	2020	Difference to Last Year	% Change to Last Year
<b>Assets:</b>	<b>¥461,812</b>	<b>¥471,292</b>	+9,480	+2.1%
Current assets	382,485	<b>391,523</b>	+9,038	+2.4
Non-current assets	79,326	<b>79,768</b>	+442	+0.6
<b>Liabilities:</b>	<b>200,190</b>	<b>191,256</b>	-8,933	-4.5
Current liabilities	186,115	<b>176,839</b>	-9,276	-5.0
Non-current liabilities	14,074	<b>14,416</b>	+342	+2.4
<b>Net assets</b>	<b>261,622</b>	<b>280,035</b>	+18,413	+7.0

### Assets

Total assets at fiscal year-end increased ¥9,480 million from the previous fiscal year-end to ¥471,292 million.

Current assets increased ¥9,038 million from the previous fiscal year-end to ¥391,523 million due to such factors as an increase in merchandise. Non-current assets increased ¥442 million from the previous fiscal year-end to ¥79,768 million.

### Liabilities

Total liabilities at fiscal year-end decreased ¥8,933 million from the previous fiscal year-end to ¥191,256 million.

Current liabilities decreased ¥9,276 million from the previous fiscal year-end to ¥176,839 million due to such factors as an increase in notes and accounts payable – trade. Non-current liabilities increased ¥342 million from the previous fiscal year-end to ¥14,416 million.

### Net Assets

Total net assets at fiscal year-end increased ¥18,413 million from the previous fiscal year-end to ¥280,035 million due to an increase in retained earnings.

As a result, the equity ratio increased 2.6 percentage points from the previous fiscal year-end to 58.8%.

The interest coverage ratio was 1,269.26 times, the interest-bearing debt ratio was 1.89%, return on equity (ROE) was 14.65% and return on assets (ROA) was 12.19%.

	2019	2020
Interest coverage ratio (times)	1,321.66	<b>1,269.26</b>
Interest-bearing debt ratio (%)	1.91	<b>1.89</b>
ROE (%)	17.79	<b>14.65</b>
ROA (%)	14.50	<b>12.19</b>

Interest coverage ratio = Business profit / (Interest expenses + Interest payable on bonds)

ROA = Business profit / Total assets (average during the fiscal year)

Business profit = Operating profit + Interest income + Interest on securities + Dividends income + Share of profit (loss) of entities accounted for using equity method

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## Cash Flows

	Millions of yen	
	2019	2020
Cash flows from operating activities	¥48,762	<b>¥32,496</b>
Cash flows from investing activities	-7,934	<b>-8,716</b>
Cash flows from financing activities	-16,221	<b>-20,988</b>
Cash and cash equivalents at end of year	176,198	<b>178,988</b>

Cash and cash equivalents at end of year totaled ¥178,988 million, an increase of ¥2,789 million from the end of the previous fiscal year.

Factors relating to each cash flow category were as follows.

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥32,496 million, a decrease of ¥16,266 million from the previous fiscal year due to an increase in inventories that resulted from meeting demand related to the GIGA School program.

### Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥8,716 million, an increase of ¥781 million from the previous fiscal year due to an increase in the purchase of property, plant and equipment.

### Cash Flows from Financing Activities

Net cash used in financing activities increased ¥4,766 million to ¥20,988 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, decreased ¥17,048 million to ¥23,779 million.

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## Forecast for Fiscal 2021

In fiscal 2021 the Company forecasts a 3.4% increase in consolidated net sales to ¥865,000 million, a 3.2% increase in operating profit to ¥58,100 million, a 2.5% increase in ordinary profit to ¥59,000 million and a 0.6% increase in profit attributable to owners of parent to ¥39,550 million.

By segment, we forecast a 2.7% increase in net sales to ¥540,600 million in the System Integration business and a 4.7% increase to ¥324,400 million in the Service and Support business.

## Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries  
As of December 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
<b>Assets</b>			
Current assets			
Cash and deposits	¥175,427	¥178,072	\$ 1,720,175
Notes and accounts receivable - trade (Note 3)	149,574	145,033	1,401,021
Merchandise	32,321	42,011	405,829
Work in process	1,470	1,409	13,617
Raw materials and supplies	754	776	7,503
Other	23,057	24,320	234,930
Allowance for doubtful accounts	(120)	(100)	(970)
Total current assets	382,485	391,523	3,782,108
Non-current assets			
Property, plant and equipment			
Buildings and structures	58,933	59,177	571,651
Accumulated depreciation and impairment loss	(42,183)	(42,738)	(412,849)
Buildings and structures, net	16,750	16,439	158,801
Land (Note 2)	15,351	15,345	148,235
Other	12,683	13,058	126,148
Accumulated depreciation and impairment loss	(8,838)	(8,613)	(83,209)
Other, net	3,845	4,444	42,938
Total property, plant and equipment	35,947	36,229	349,975
Intangible assets			
Software	14,452	15,072	145,596
Other	59	59	573
Total intangible assets	14,511	15,131	146,170
Investments and other assets			
Investment securities (Note 1)	17,358	16,895	163,210
Guarantee deposits	2,428	2,337	22,580
Deferred tax assets	6,895	7,087	68,461
Other	2,414	2,297	22,192
Allowance for doubtful accounts	(229)	(209)	(2,028)
Total investments and other assets	28,867	28,407	274,417
Total non-current assets	79,326	79,768	770,563
<b>Total assets</b>	<b>¥461,812</b>	<b>¥471,292</b>	<b>\$ 4,552,671</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
<b>Liabilities</b>			
<b>Current liabilities</b>			
Notes and accounts payable - trade (Note 3)	¥102,006	¥ 96,437	\$ 931,581
Electronically recorded obligations - operating	19,105	18,822	181,820
Short-term borrowings	4,800	4,800	46,367
Income taxes payable	13,270	9,367	90,488
Advances received	14,742	16,253	157,012
Provision for bonuses	4,014	3,844	37,138
Other	28,176	27,314	263,858
<b>Total current liabilities</b>	186,115	<b>176,839</b>	<b>1,708,266</b>
<b>Non-current liabilities</b>			
Long-term borrowings	1,700	1,700	16,421
Lease obligations	1,583	1,519	14,681
Provision for retirement benefits for directors	713	762	7,367
Retirement benefit liability	8,999	9,336	90,186
Other	1,077	1,098	10,609
<b>Total non-current liabilities</b>	14,074	<b>14,416</b>	<b>139,267</b>
<b>Total liabilities</b>	200,190	<b>191,256</b>	<b>1,847,534</b>
<b>Net assets</b>			
<b>Shareholders' equity</b>			
Share capital	10,374	<b>10,374</b>	<b>100,220</b>
Capital surplus	16,254	<b>16,254</b>	<b>157,020</b>
Retained earnings	236,544	<b>254,997</b>	<b>2,463,271</b>
Treasury shares	(139)	(139)	(1,350)
<b>Total shareholders' equity</b>	263,034	<b>281,487</b>	<b>2,719,161</b>
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	6,117	<b>5,527</b>	<b>53,392</b>
Deferred gains or losses on hedges	2	(5)	(51)
Revaluation reserve for land (Note 2)	(11,402)	(11,402)	(110,143)
Foreign currency translation adjustment	7	15	151
Remeasurements of defined benefit plans	1,569	<b>1,725</b>	<b>16,664</b>
<b>Total accumulated other comprehensive income</b>	(3,705)	(4,139)	(39,987)
<b>Non-controlling interests</b>	2,293	<b>2,687</b>	<b>25,963</b>
<b>Total net assets</b>	261,622	<b>280,035</b>	<b>2,705,137</b>
<b>Total liabilities and net assets</b>	¥461,812	<b>¥471,292</b>	<b>\$ 4,552,671</b>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2019 and 2020

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
Net sales	¥886,536	¥836,323	\$ 8,078,862
Cost of sales	706,537	662,598	6,400,680
Gross profit	179,999	173,725	1,678,181
Selling, general and administrative expenses			
Salaries, allowances and bonuses	45,646	45,039	435,075
Remuneration for directors	598	586	5,666
Welfare expenses	7,561	7,620	73,612
Rent expenses	6,894	7,095	68,543
Transportation and storage costs	23,024	23,998	231,827
Provision for bonuses	2,744	2,602	25,143
Retirement benefit expenses	2,402	2,401	23,197
Provision for retirement benefits for directors	66	60	588
Provision of allowance for doubtful accounts	95	40	392
Depreciation	5,664	5,990	57,871
Other	23,107	21,978	212,311
Total selling, general and administrative expenses (Note 1)	117,806	117,415	1,134,231
Operating profit	62,192	56,309	543,950
Non-operating income			
Interest income	10	10	103
Dividend income	186	181	1,749
Rental income from buildings	253	262	2,540
Income from recycling	207	126	1,226
Share of profit of entities accounted for using equity method	572	390	3,769
Foreign exchange gains	151	118	1,148
Other	189	205	1,984
Total non-operating income	1,571	1,296	12,522
Non-operating expenses			
Interest expenses	47	44	432
Other	10	10	101
Total non-operating expenses	58	55	534
Ordinary profit	63,706	57,550	555,937
Extraordinary income			
Gain on sales of investment securities	34	225	2,179
Total extraordinary income	34	225	2,179
Extraordinary losses			
Loss on retirement of non-current assets (Note 2)	73	46	445
Impairment loss	967	143	1,383
Other	31	2	21
Total extraordinary losses	1,072	191	1,849
Profit before income taxes	62,668	57,584	556,267
Income taxes - current	20,331	17,786	171,821
Income taxes - deferred	(1,625)	(12)	(115)
Total income taxes	18,706	17,774	171,705
Profit	43,962	39,809	384,562
Profit attributable to non-controlling interests	465	500	4,832
Profit attributable to owners of parent	¥ 43,497	¥ 39,309	\$ 379,730

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit	¥ 43,962	¥ 39,809	\$384,562
Other comprehensive income			
Valuation difference on available-for-sale securities	1,565	(553)	(5,346)
Deferred gains or losses on hedges	31	(9)	(87)
Revaluation reserve for land	76	-	-
Remeasurements of defined benefit plans, net of tax	556	155	1,498
Share of other comprehensive income of entities accounted for using equity method	(5)	8	79
Total other comprehensive income (Note 1)	2,223	(399)	(3,856)
Comprehensive income	¥ 46,186	¥ 39,410	\$380,706
(Breakdown)			
Comprehensive income attributable to owners of parent	¥ 45,718	¥ 38,875	\$375,534
Comprehensive income attributable to non-controlling interests	467	535	5,172

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries For the year ended December 31, 2019		Millions of yen				
		Shareholders' equity				
		Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2019		¥ 10,374	¥ 16,254	¥ 209,335	¥(139)	¥235,825
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 in items other than shareholders' equity						
Total changes during period		-	-	27,208	(0)	27,208
Balance as of December 31, 2019		¥ 10,374	¥ 16,254	¥ 236,544	¥(139)	¥263,034

Millions of yen								
	Accumulated other comprehensive income							
	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	Non-controlling interests	Total net assets
Balance as of January 1, 2019	¥ 4,544	¥(23)	¥(11,650)	¥ 3	¥ 1,027	¥(6,098)	¥ 1,938	¥231,664
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 in items other than shareholders' equity	1,573	25	248	4	542	2,393	355	2,748
Total changes during period	1,573	25	248	4	542	2,393	355	29,957
Balance as of December 31, 2019	¥ 6,117	¥ 2	¥(11,402)	¥ 7	¥ 1,569	¥(3,705)	¥ 2,293	¥261,622

Millions of yen						
Shareholders' equity						
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	
Balance as of January 1, 2020	¥ 10,374	¥ 16,254	¥236,544	¥(139)	¥263,034	
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 as of December 31, 2020	¥ 10,374	¥ 16,254	¥254,997	¥(139)	¥281,487	

Millions of yen								
	Accumulated other comprehensive income							
	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	Non-controlling interests	Total net assets
Balance as of January 1, 2020	¥ 6,117	¥ 2	¥(11,402)	¥ 7	¥ 1,569	¥(3,705)	¥ 2,293	¥261,622
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 as of December 31, 2020	¥ 5,527	¥ (5)	¥(11,402)	¥15	¥1,725	¥(4,139)	¥ 2,687	¥280,035

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the year ended December 31, 2020

Thousands of U.S. dollars

	Shareholders' equity					
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	
Balance as of January 1, 2020	\$ 100,220	\$ 157,020	\$ 2,285,010	\$ (1,350)	\$ 2,540,900	
Dividends of surplus			(201,469)		(201,469)	
Profit attributable to owners of parent			379,730		379,730	
Net changes in items other than shareholders' equity						
Total changes during period	-	-	178,260	-	178,260	
Balance as of December 31, 2020	\$ 100,220	\$ 157,020	\$ 2,463,271	\$ (1,350)	\$ 2,719,161	

Thousands of U.S. dollars

	Accumulated other comprehensive income							
	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	Non-controlling interests	Total net assets
Balance as of January 1, 2020	\$ 59,097	\$ 19	\$(110,143)	\$ 71	\$ 15,163	\$ (35,791)	\$ 22,151	\$ 2,527,260
Dividends of surplus							(201,469)	
Profit attributable to owners of parent							379,730	
Net changes in items other than shareholders' equity	(5,705)	(71)	-	79	1,501	(4,195)	3,812	(383)
Total changes during period	(5,705)	(71)	-	79	1,501	(4,195)	3,812	177,876
Balance as of December 31, 2020	\$ 53,392	\$ (51)	\$(110,143)	\$ 151	\$ 16,664	\$ (39,987)	\$ 25,963	\$ 2,705,137

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2019 and 2020

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 62,668	¥ 57,584	\$ 556,267
Depreciation	7,228	7,603	73,450
Impairment loss	967	143	1,383
Increase (decrease) in allowance for doubtful accounts	48	(39)	(379)
Interest and dividend income	(197)	(191)	(1,853)
Interest expenses	47	44	432
Share of loss (profit) of entities accounted for using equity method	(572)	(390)	(3,769)
Loss on retirement of non-current assets	73	46	445
Decrease (increase) in trade receivables	(17,263)	4,560	44,055
Decrease (increase) in inventories	(7,038)	(9,651)	(93,234)
Increase (decrease) in trade payables	13,884	(5,853)	(56,541)
Loss (gain) on sales of investment securities	(34)	(225)	(2,179)
Other, net	5,281	35	344
<b>Subtotal</b>	<b>65,093</b>	<b>53,666</b>	<b>518,421</b>
Interest and dividends received	276	344	3,325
Interest paid	(47)	(44)	(432)
Income taxes paid	(16,559)	(21,470)	(207,402)
<b>Net cash provided by (used in) operating activities</b>	<b>48,762</b>	<b>32,496</b>	<b>313,911</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(2,152)	(2,970)	(28,694)
Purchase of software	(5,707)	(5,893)	(56,935)
Purchase of investment securities	(43)	(175)	(1,694)
Proceeds from sales of investment securities	65	299	2,896
Other, net	(96)	23	230
<b>Net cash provided by (used in) investing activities</b>	<b>(7,934)</b>	<b>(8,716)</b>	<b>(84,197)</b>
<b>Cash flows from financing activities:</b>			
Dividends paid	(16,109)	(20,847)	(201,388)
Other, net	(112)	(140)	(1,360)
<b>Net cash provided by (used in) financing activities</b>	<b>(16,221)</b>	<b>(20,988)</b>	<b>(202,749)</b>
Effect of exchange rate change on cash and cash equivalents	6	(1)	(15)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>24,612</b>	<b>2,789</b>	<b>26,948</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>151,585</b>	<b>176,198</b>	<b>1,702,071</b>
<b>Cash and cash equivalents at end of period (Note 1)</b>	<b>¥176,198</b>	<b>¥178,988</b>	<b>\$1,729,020</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

## (FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS)

### 1. Basis of Presentation of the Consolidated Financial Statements

#### Accounting Principles

The accompanying consolidated financial statements of OTSUKA CORPORATION ("the Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

### 2. Summary of Significant Accounting Policies

#### (1) Scope of consolidation

As of December 31, 2019 and 2020 the numbers of subsidiaries and consolidated subsidiaries were as follows:

	2019	2020
Subsidiaries	8	8
(Consolidated subsidiaries)	(4)	(4)

The 4 subsidiaries which were consolidated in the year ended December 31, 2020 are listed below:

A ratio of voting rights held by the Company
OSK Co., LTD. 100.0%
Alpha Techno Co., LTD. 100.0%
Alpha Net Co., LTD. 100.0%
Networld Corporation 81.5%

The Company and its consolidated subsidiaries are hereinafter referred to as "the Companies".

The consolidated subsidiaries listed above apply a fiscal year ending on December 31 of each year, which is the same as the Company's fiscal year-end.

The unconsolidated subsidiaries had little impact on total assets, net sales, profit (loss) attributable to owners of parent and retained earnings in the consolidated financial statements.

#### (2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2019 and 2020 the numbers of unconsolidated subsidiaries and affiliates were as follows:

	2019	2020
Unconsolidated subsidiaries	4	4
Affiliates	7	7
(Affiliates accounted for using equity method )	(3)	(3)

Investments in unconsolidated subsidiaries and affiliates not accounted for using equity method were carried at cost, since they had little impact on profit (loss) attributable to owners of parent and retained earnings and their overall materiality did not exist in the consolidated financial statements as well.

The 3 investments in affiliates accounted for using equity method as of December 31, 2020 are listed below:

A ratio of voting rights held by the Company
Otsuka Information Technology Corp. 37.8%
LION OFFICE PRODUCTS CORP. 40.4%
RO Holdings, Inc. 33.4%

As for affiliates accounted for using equity method whose fiscal year-end are different from the Company's fiscal year-end, the Company uses their financial statements whose fiscal year-end are the nearest to the Company's and makes necessary adjustments to reflect any significant transaction which occurred between their closing dates and the Company's for applying the equity method.

### **(3) Financial instruments**

#### **(a) Securities**

Securities held by the Companies are as follows:

- Available-for-sale securities

Securities with market quotations are measured at fair value, based on market prices at the balance sheet date.

(Unrealized gains/losses from valuation of marketable securities are charged directly to net assets at a net-of-tax amount, while cost of sale is determined by the moving-average method.)

Securities without market quotations are stated at cost, determined by the moving-average method.

Regarding investments in limited partnerships and similar investments, an amount equivalent to the Company's partnership investment gain or loss under the equity method, with such a gain or loss being based on the latest available financial statements of the corresponding limited partnerships, was recognized in the consolidated statements of income.

#### **(b) Derivatives**

Derivatives are recognized at fair value.

### **(4) Inventories**

Inventories are stated at cost (Carrying value of inventories on the balance sheet is stated by writing down based on their decrease in profitability).

Merchandise	Primarily, moving-average method
Work in process	Specific identification method
Raw materials and supplies	Primarily, moving-average method

### **(5) Property, plant and equipment (excluding lease assets)**

Depreciation is calculated using the declining-balance method, at rates based on the estimated useful lives of assets.

Buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated by the straight-line method.

Estimated useful lives of assets are principally as follows:

Buildings and structures — 15 to 50 years

Other — 4 to 10 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to the consolidated statements of income as incurred.

### **(6) Intangible assets (excluding lease assets)**

Development costs of computer software to be sold are amortized based on the estimated sales revenue with the minimum amount equally amortized over the useful life within 3 years.

Software developed for internal use is amortized on a straight-line basis over the estimated useful life of the asset, which is 5 years.

### **(7) Lease assets**

Depreciation of finance lease assets, which do not transfer ownership of the assets at the end of the lease term, is calculated by the straight-line method over the lease periods, which are deemed as the useful lives, assuming no residual value.

### **(8) Allowance for doubtful accounts**

An allowance for doubtful accounts is provided at an amount of potential losses from uncollectable receivables based on the historical rate of losses from bad debts for ordinary receivables, and on the estimated collectability of receivables from companies in financial difficulty.

### **(9) Provision for bonuses**

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year.

**(10) Provision for retirement benefits for directors**

The Companies have retirement benefits for directors.

Retirement benefits for directors at the balance sheet date are based on an estimate of the amounts to be paid as retirement allowance for services rendered by directors by that date.

**(11) Accounting methods for retirement benefits**

(a)The method to attribute expected benefit to periods of service

The retirement benefit obligation for employee is attributed to each period by the benefit formula basis over the estimated years of service of the eligible employees.

(b)The method of recording of actuarial gains and losses and prior service costs

Prior service cost is amortized as incurred by the straight-line method over periods (12 years), which are shorter than the average remaining years of service of the employees.

Actuarial gain or loss is amortized in the following year in which the gain or loss is recognized by the straight-line method over periods (mainly 12 years), which are shorter than the average remaining years of service of the employees.

**(12) The revenue and cost recognition basis regarding the make-to-order software**

Revenues and costs of the make-to-order software contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The Companies estimate the percentage of completion mainly based on the most recent cost information. The completed-contract method continues to be applied for contracts of which the percentage of completion cannot be reliably estimated.

**(13) Foreign currency translation**

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates in effect at the balance sheet date, and the differences arising from the translation are recognized as gains/losses in the consolidated statements of income.

**(14) Hedge accounting**

(a)Hedge accounting method

Deferral hedge accounting method. Interest rate swap agreements are not recognized at fair value if the agreements meet the criteria for application of the exceptional treatment for the recognition of derivatives at fair value.

(b)Hedging instruments and hedged items

1. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

2. Hedging instruments: Interest rate swaps

Hedged items: Borrowings

(c)Hedge policy

The Company and one consolidated subsidiary utilize derivatives based on internal rules for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates.

(d)Evaluation of hedging effectiveness

The Companies assess its hedging effectiveness by comparing the accumulated changes in fair value of hedging instruments with the accumulated changes in fair value of hedged items. The assessment is omitted, if the substantial terms and conditions concerning hedging instruments and hedged items are same, and the fluctuations are expected to be offset perfectly.

In addition, the assessment of the effectiveness is omitted for interest rate swaps that meet the criteria for application of the exceptional treatment for the recognition of derivatives at fair value.

**(15) Cash and cash equivalents**

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits which can be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

**(16) Accounting for income taxes**

Income taxes of the Companies consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

The Companies have adopted the deferred tax accounting method. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis assets and liabilities and those as reported in the consolidated financial statements.

#### **(17) Accounting for the consumption tax**

The Japanese Consumption Tax Law generally imposes consumption tax on domestic consumption of goods and services (Some goods and services are tax-exempt). The consumption tax withheld upon sale is not included in the amount of "Net sales" in the accompanying consolidated statements of income but recorded as a liability. Consumption tax, which is paid by the Companies on purchases of goods and services, is not included in the amounts of costs/expenses in the consolidated statements of income, but offset consumption tax for the sales by the one for the purchase, and the net balance is included in "Other" in current liabilities in the consolidated balance sheets.

#### **(18) Accounting pronouncement not yet adopted**

—Accounting Standard for Revenue Recognition (ASBJ Statement No.29 on March 31, 2020)

—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 on March 31, 2020)

##### **(a)Overview**

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

##### **(b)Scheduled date of adoption**

The Companies expect to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending December 31, 2022.

##### **(c)Impact of the adoption of accounting standard and implementation guidance**

The Companies are currently evaluating the impact of the adoption of this accounting standard and implementation guidance on the consolidated financial statements.

—Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 on July 4, 2019)

—Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 on July 4, 2019)

—Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)

—Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)

—Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No.19 on March 31, 2020)

##### **(a)Overview**

In order to enhance comparability of financial statements among domestic and overseas companies, ASBJ developed an "Accounting Standard for Fair Value Measurement" and issued a new standard together with its implementation guidance. The sections which adopted the accounting standard and implementation guidance are as follows:

- Financial Instruments defined by "Accounting Standard for Financial Instruments"
- Measurement method of Inventories held for trading purposes defined by "Accounting Standard for Measurement of Inventories"

"Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised requiring disclosure of financial instruments broken down by level in the fair value hierarchy.

##### **(b)Scheduled date of adoption**

The Companies expect to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending December 31, 2022.

##### **(c)Impact of the adoption of accounting standard and related implementation guidance**

The Companies are currently evaluating the impact of the adoption of this accounting standards and related implementation guidance on the consolidated financial statements.

—Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24 on March 31, 2020)

(a) Overview

This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

(b) Scheduled date of adoption

The Companies expect to adopt the accounting standard from the end of the fiscal year ending December 31, 2021.

—Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 on March 31, 2020)

(a) Overview

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

(b) Scheduled date of adoption

The Companies expect to adopt the accounting standard from the end of the fiscal year ending December 31, 2021.

**(19) Additional Information**

Effects of COVID-19 Pandemic When Making Accounting Estimates

COVID-19 pandemic affects the Companies' certain maintenance services. Although these effects are expected to gradually recover, the Companies make the accounting estimates, including impairment of fixed assets and recoverability of deferred tax assets, based on the assumption that these effects continue until the end of the next fiscal year.

The estimates are based on the information currently available and are highly uncertain. Changes in the expected timing of returning to normal or changes in the impact of other economic conditions due to various factors may affect the Companies' financial positions and operating results.

**(20) Rounding of amounts**

Amounts of less than a million yen have been omitted.

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### 3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. Amounts of less than a thousand of U.S. dollars have been omitted. The rate of ¥103.52 = US\$1, exchange rates on December 31, 2020, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate.

## (CONSOLIDATED BALANCE SHEETS)

### \*1. Investment securities

As of December 31, 2019 and 2020, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Thousands of	
	Millions of yen	U.S. dollars
	2019	2020
Investment securities (stock)	¥ 6,704	¥ 6,946
Investment securities (capital)	217	217
		2,098

### \*2. Land Revaluation

Pursuant to the "Act on Revaluation of Land", and "Act on Partial Amendment to the Act on Revaluation of Land", the Company revalued land used for business activities.

The amount which is deducted deferred tax liabilities for land revaluation from revaluation difference was recorded as "Revaluation reserve for land", net assets in the accompanying consolidated balance sheets.

Revaluation method provided in article 3-3 of "Act on Revaluation of Land"

The Company revalued land using the price of land which is determined based on article 2-4 of "Order for Enforcement of Act on Revaluation on Land" and assessed value of fixed assets provided in article 2-3 for land without price of land after making reasonable adjustments for land shape and so on.

The date of Land Revaluation: December 31, 2001

As of December 31, 2019 and 2020, the differences between fair value and carrying value after revaluation were as follows:

	Thousands of	
	Millions of yen	U.S. dollars
	2019	2020
The differences between fair value and carrying value after revaluation	¥ 438	¥ 862
		\$ 8,333

### \*3. Notes matured at the balance sheet date

December 31, 2019 and 2020 were a bank holiday, and notes matured at the balance sheet date were accounted for as if they were settled on the maturity dates.

As of December 31, 2019 and 2020, notes matured at the balance sheet date were as follows:

	Thousands of	
	Millions of yen	U.S. dollars
	2019	2020
Notes receivable	¥ 450	¥ 300
Notes payable	0	-
		-

## (CONSOLIDATED STATEMENTS OF INCOME)

### \*1. Research and development expenses

For the years ended December 31, 2019 and 2020, Research and development expenses were as follows:

	2019	2020	Thousands of U.S. dollars
	Millions of yen	2020	
Research and development expenses included in general and administrative expenses and manufacturing costs	¥ 476	¥ 789	\$ 7,631

### \*2. Loss on retirement of non-current assets

For the years ended December 31, 2019 and 2020, Loss on retirement of non-current assets were as follows:

	2019	2020	Thousands of U.S. dollars
	Millions of yen	2020	
Buildings and structures	¥43	¥18	\$ 182
Other property, plant and equipment	28	26	259
Software	1	0	3
Loss on retirement of non-current assets	¥73	¥46	\$ 445

## (CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

### \*1. Other comprehensive income

For the years ended December 31, 2019 and 2020, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	2019	2020	Thousands of U.S. dollars
	Millions of yen	2020	
Valuation difference on available-for-sale securities			
Amount arising during the year	¥ 2,263	¥ (572)	\$ (5,526)
Reclassification adjustments	(7)	(225)	(2,179)
Amount before tax effect	2,256	(797)	(7,705)
Tax effect	(690)	244	2,359
Valuation difference on available-for-sale securities	1,565	(553)	(5,346)
Deferred gains or losses on hedges			
Amount arising during the year	1	(12)	(117)
Reclassification adjustments	43	(0)	(8)
Amount before tax effect	44	(13)	(126)
Tax effect	(13)	3	38
Deferred gains or losses on hedges	31	(9)	(87)
Revaluation reserve for land			
Amount arising during the year	-	-	-
Reclassification adjustments	-	-	-
Amount before tax effect	-	-	-
Tax effect	76	-	-
Revaluation reserve for land	76	-	-
Remeasurements of defined benefit plans			
Amount arising during the year	559	(36)	(356)
Reclassification adjustments	243	260	2,514
Amount before tax effects	803	223	2,157
Tax effects	(246)	(68)	(659)
Remeasurements of defined benefit plans	556	155	1,498
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	(6)	4	48
Reclassification adjustments	1	3	31
Share of other comprehensive income of entities accounted for using equity method	(5)	8	79
Total other comprehensive income	¥ 2,223	¥ (399)	\$ (3,856)

## (CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)

### 1. Shareholders' Equity

The Companies Act of Japan provides that an amount equal to 10% of distributions from capital surplus (other than capital reserves) and retained earnings (other than retained earnings reserves) should be appropriated to capital reserves and retained earnings reserves.

No further appropriations are required when the total amount of capital reserves and retained earnings reserves reach 25% of share capital.

Such distributions can be made at any time by resolution of the shareholders or the Board of Directors if certain conditions are met, but neither capital reserves nor retained earnings reserves are available for distributions.

### 2. Dividends from surplus, etc.

#### (1) Number of shares issued

	Thousands of shares	
	2019	2020
Number of shares at the beginning of the fiscal year	190,002	<b>190,002</b>
Increase	-	-
Decrease	-	-
Number of shares at the end of the fiscal year	190,002	<b>190,002</b>

Type of all shares issued is common stock.

#### (2) Number of treasury shares

	Thousands of shares	
	2019	2020
Number of shares at the beginning of the fiscal year	400	<b>400</b>
Increase	(*) 0	-
Decrease	-	-
Number of shares at the end of the fiscal year	400	<b>400</b>

Type of all treasury shares is common stock.

\* The 0 thousand of shares increase in the number of treasury shares is due to purchase of the shares of less than standard unit.

#### (3) Items related to subscription rights to shares and own stock option

None.

#### (4) Items related to dividends

General meeting of shareholders approved resolutions on the amount of dividend payments as follows:

Resolution date	Dividends paid		Dividend per share		Record date	Effective date
	(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
2019/03/27	¥16,116	\$155,681	¥ 85.00	\$ 0.82	2018/12/31	2019/03/28
2020/03/27	<b>¥20,856</b>	<b>\$201,469</b>	<b>¥ 110.00</b>	<b>\$ 1.06</b>	2019/12/31	2020/03/30
2021/03/26	<b>¥21,804</b>	<b>\$210,627</b>	<b>¥ 115.00</b>	<b>\$ 1.11</b>	2020/12/31	2021/03/29

Type of all shares issued is common stock.

Source of dividends is Retained earnings.

## (CONSOLIDATED STATEMENTS OF CASH FLOWS)

### \*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2019 and 2020 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cash and deposits	¥ 175,427	¥ 178,072	\$ 1,720,175
Time deposits with deposit terms of more than three months	(45)	(40)	(386)
Trust beneficiary interests included in other current assets with investment terms with three months or less	816	955	9,230
Cash and cash equivalents	¥ 176,198	¥ 178,988	\$ 1,729,020

## (LEASE TRANSACTIONS)

### 1. Finance Lease Transactions (lessee)

The disclosure is omitted because finance lease transactions were immaterial in the consolidated financial statements as of December 31, 2019 and 2020.

### 2. Operating Lease Transactions (lessee)

The amounts of future lease payments on noncancelable operating leases as of December 31, 2019 and 2020 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Due within one year	¥ 280	¥ 241	\$ 2,330
Due after one year	240	288	2,782
Total	¥ 521	¥ 529	\$ 5,112

## (FINANCIAL INSTRUMENTS)

### 1. Financial Instruments

#### (1) Policy for financial instruments

The Companies manage temporary surplus through low-risk financial instruments, and raise working capital through bank loans.

#### (2) Types of financial instruments, related risk and risk management

Trade receivables -trade notes and accounts receivable- are exposed to credit risk in relation to customers.

The Companies try to reduce credit risk by monitoring and analyzing the creditworthiness of each customer, as well as managing due dates and balances.

Investment securities are mainly the securities of the entities with which the Companies have operational relationships. Although listed securities are exposed to market risk, the Companies monitor and analyze fair value and the issuers' financial status periodically to reduce potential impairment risk.

Trade payables - trade notes and accounts payable, electronically recorded obligations - have payment due date within almost three months. Short-term borrowings and long-term borrowings are mainly financing related to working capital.

Trade payables, short-term borrowings, income taxes payable, and other payables are exposed to liquidity risk. The Companies reduce liquidity risk relating to these payables by developing a cash flow plan. Long-term borrowings are exposed to interest rate fluctuation risk. The Companies hedge this risk by using interest rate swap transactions.

Derivative transactions are interest rate swap agreements and foreign exchange contracts entered into by one of the consolidated subsidiaries. Conducting and managing derivative transactions are in accordance with the internal rules which provide transaction authority.

## 2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of December 31, 2019 and 2020, estimated fair value and their difference were as follows:

	Millions of yen		
	2019		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	¥ 175,427	¥ 175,427	-
2) Notes and accounts receivable - trade	149,574	149,574	-
3) Investment securities			
Other securities	10,277	10,277	-
Investments in affiliates	1,302	3,078	1,775
<b>Total assets</b>	<b>¥ 336,581</b>	<b>¥ 338,357</b>	<b>¥ 1,775</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	¥ 102,006	¥ 102,006	-
5) Electronically recorded obligations - operating	19,105	19,105	-
6) Short-term borrowings	4,800	4,800	-
7) Income taxes payable	13,270	13,270	-
8) Long-term borrowings	1,700	1,701	1
<b>Total liabilities</b>	<b>¥ 140,882</b>	<b>¥ 140,884</b>	<b>¥ 1</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	¥ 4	¥ 4	-
Derivative transactions to which hedge accounting is applied	3	3	-
<b>Total derivative transactions</b>	<b>¥ 8</b>	<b>¥ 8</b>	<b>-</b>

\* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

	Millions of yen		
	2020		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	¥ 178,072	¥ 178,072	-
2) Notes and accounts receivable - trade	145,033	145,033	-
3) Investment securities			
Other securities	9,429	9,429	-
Investments in affiliates	1,373	2,881	1,507
<b>Total assets</b>	<b>¥ 333,909</b>	<b>¥ 335,416</b>	<b>¥ 1,507</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	¥ 96,437	¥ 96,437	-
5) Electronically recorded obligations - operating	18,822	18,822	-
6) Short-term borrowings	4,800	4,800	-
7) Income taxes payable	9,367	9,367	-
8) Long-term borrowings	1,700	1,700	0
<b>Total liabilities</b>	<b>¥ 131,126</b>	<b>¥ 131,127</b>	<b>¥ 0</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	¥ (9)	¥ (9)	-
Derivative transactions to which hedge accounting is applied	(9)	(9)	-
<b>Total derivative transactions</b>	<b>¥ (19)</b>	<b>¥ (19)</b>	<b>-</b>

\* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	\$ 1,720,175	\$ 1,720,175	-
2) Notes and accounts receivable - trade	1,401,021	1,401,021	-
3) Investment securities			
Other securities	91,086	91,086	-
Investments in affiliates	13,268	27,831	14,563
<b>Total assets</b>	<b>\$ 3,225,551</b>	<b>\$ 3,240,115</b>	<b>\$ 14,563</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	\$ 931,581	\$ 931,581	-
5) Electronically recorded obligations - operating	181,820	181,820	-
6) Short-term borrowings	46,367	46,367	-
7) Income taxes payable	90,488	90,488	-
8) Long-term borrowings	16,421	16,431	9
<b>Total liabilities</b>	<b>\$ 1,266,680</b>	<b>\$ 1,266,689</b>	<b>\$ 9</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	\$ (91)	\$ (91)	-
Derivative transactions to which hedge accounting is applied	(96)	(96)	-
<b>Total derivative transactions</b>	<b>\$ (188)</b>	<b>\$ (188)</b>	<b>-</b>

\* The value of assets and liabilities arising from derivatives is shown at net value, and with the amount in parentheses representing net liability position.

#### Notes:

- 1. Methods to determine the estimated fair value of financial instruments and other matters related to investment securities and derivative transactions.**

#### Assets

- 1) Cash and deposits, 2) Notes and accounts receivable - trade

Since these items are settled in a short term and their carrying value approximates fair value, the fair value in above table is presented the same as carrying value.

- 3) Investment securities

The fair value of stocks is based on quoted market prices.

For information on securities classified by holding purpose, please refer to SECURITIES, of Notes to Consolidated Financial Statements.

#### Liabilities

- 4) Notes and accounts payable – trade, 5) Electronically recorded obligations – operating, 6) Short-term borrowings,

- 7) Income taxes payable

Since these items are settled in a short term and their carrying value approximates fair value, the fair value in above table is presented the same as carrying value.

- 8) Long-term borrowings

The fair value of long-term borrowings is based on the present value of the total of principal and interest discounted by the interest rate presumed in the case of new borrowings.

#### Derivative transactions

Please refer to DERIVATIVES, of Notes to Consolidated Financial Statements.

- 2. As of December 31, 2019 and 2020, financial instruments for which it is extremely difficult to determine the fair value were as follows:**

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Unlisted stocks	¥ 5,745	¥ 6,066	\$ 58,602
Investments in investment business limited partnerships	33	26	252

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included "3) Investment securities" in the above table.

**3. Redemption schedule for receivables as of December 31, 2019 and 2020 are as follows:**

	Millions of yen				
	2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥175,427	-	-	-	-
Notes and accounts receivable - trade	149,574	-	-	-	-
Total	¥325,001	-	-	-	-

	Millions of yen				
	2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥178,072	-	-	-	-
Notes and accounts receivable - trade	145,033	-	-	-	-
Total	¥323,106	-	-	-	-

	Thousands of U.S. dollars				
	2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$1,720,175	-	-	-	-
Notes and accounts receivable - trade	1,401,021	-	-	-	-
Total	\$3,121,197	-	-	-	-

**4. Repayment schedules for long-term borrowings and other interest-bearing debt as of December 31, 2019 and 2020 are as follows:**

	Millions of yen				
	2019	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	¥4,800	-	-	-	-
Long-term borrowings	-	1,700	-	-	-

	Millions of yen				
	2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	¥4,800	-	-	-	-
Long-term borrowings	-	1,700	-	-	-

	Thousands of U.S. dollars				
	2020	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	\$46,367	-	-	-	-
Long-term borrowings	-	16,421	-	-	-

## (SECURITIES)

As of December 31, 2019 and 2020, securities were as follows:

### (1) Available-for-sale securities with fair value as of December 31, 2019 and 2020

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Carrying value	Aquisition cost	Unrealized gains(loss)	Carrying value	Aquisition cost	Unrealized gains(loss)	Carrying value	Aquisition cost	Unrealized gains(loss)
<b>Securities whose carrying value exceeds their acquisition costs</b>									
Stocks	¥10,065	¥1,293	¥8,771	¥8,874	¥ 808	¥8,066	\$ 85,730	\$ 7,806	\$ 77,923
Bonds	-	-	-	-	-	-	-	-	-
Other securities	211	107	104	236	110	125	2,282	1,067	1,215
	¥10,277	¥1,401	¥8,875	¥9,111	¥ 918	¥8,192	\$ 88,012	\$ 8,873	\$ 79,139
<b>Securities whose carrying value does not exceed their acquisition costs</b>									
Stocks	-	-	-	¥ 318	¥ 432	¥ (114)	\$ 3,073	\$ 4,177	\$ (1,103)
Bonds	-	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-	-
	-	-	-	¥ 318	¥ 432	¥ (114)	\$ 3,073	\$ 4,177	\$ (1,103)
Total	¥10,277	¥1,401	¥8,875	¥9,429	¥1,351	¥8,078	\$ 91,086	\$ 13,050	\$ 78,035

Note. The followings are not included in the above table because these were no quoted market price available and it is extremely difficult to determine the fair value:

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value	Carrying value
<b>Unlisted stocks</b>									
Unlisted stocks			¥ 127			¥ 276			\$ 2,674
Investment in limited liability partnerships			33			26			252

### (2) Available-for-sale securities sold for the years ended December 31, 2019 and 2020

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥ 65	¥ 34	-	¥ 299	¥ 225	-	\$ 2,896	\$ 2,179	-

### (3) Securities impaired for the years ended December 31, 2019 and 2020

	Millions of yen						Thousands of U.S. dollars		
	2019			2020			2020		
	Impairment losses	Impairment losses	Impairment losses						
Stocks		¥ 2				-			-

Note. As for securities whose fair value as of the year-end are on or less than 50% of the acquisition costs or more than 50% but less than 70% and deemed to be unrecoverable, the impairment losses are recognized.

## (DERIVATIVES)

As of December 31, 2019 and 2020, derivative transactions were as follows:

### (1) Derivative transactions to which hedge accounting is not applied

Currency-related transactions (excepting market transactions)

	Millions of yen			
	2019			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Forward foreign exchange contracts Buy U.S. dollar	¥ 522	-	¥ 4	¥ 4
	Millions of yen			
	2020			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Forward foreign exchange contracts Buy U.S. dollar	¥ 739	-	¥ (9)	¥ (9)
	Thousands of U.S. dollars			
	2020			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
	Total	Over one year		
Forward foreign exchange contracts Buy U.S. dollar	\$ 7,144	-	\$ (92)	\$ (92)

Note. Fair value calculation: Fair value is estimated on the basis of mainly value quoted by counterparty financial institutions.

**(2) Derivative transactions to which hedge accounting is applied**

(a)Currency-related transactions

		Millions of yen		
		2019		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥ 500	-	¥ 3
Buy U.S. dollar				
		Millions of yen		
		2020		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥ 818	-	¥ (9)
Buy U.S. dollar				
		Thousands of U.S. dollars		
		2020		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	\$ 7,905	-	\$ (95)
Buy U.S. dollar				

Note. Fair value calculation: Fair value is estimated on the basis of mainly value quoted by counterparty financial institutions.

(b)Interest rate-related transactions

		Millions of yen		
		2019		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Long-term borrowings	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
	Pay/fixed and receive/floating			
		Millions of yen		
		2020		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Long-term borrowings	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
	Pay/fixed and receive/floating			
		Thousands of U.S. dollars		
		2020		
		Contractual value or notional principal amount		Fair value
		Total	Over one year	
Long-term borrowings	Interest-rate swaps	\$ 16,421	\$ 16,421	Note
	Pay/fixed and receive/floating			

Note. The fair value of interest-rate swaps which meets the criteria for application of the exceptional treatment for the recognition of derivatives is included in the fair value of long-term borrowings designated as the hedged item.

## (RETIREMENT BENEFITS)

### (1) Retirement benefit plans

The Companies have defined contribution pension plans, agreement type corporate pension plans and lump-sum plans as retirement benefit plans. Of the Companies as of December 31, 2020, 4 have enrolled in defined contribution pension plans, 3 in agreement type corporate pension plans and 5 in lump-sum plans.

The Companies that have lump-sum plans calculate retirement benefit liabilities and retirement benefit expenses using the simplified method which is required the amount to be paid as retirement allowance for services rendered by the fiscal year-end.

1 consolidated subsidiary participates in multi-employer pension plan. Because the plan cannot be reasonably calculated the amount of plan assets attributed to the company's contribution, it is accounted for in the same way as the defined contribution plans.

The company may pay additional benefits for employees' retirement.

### (2) Defined benefit pension plans

(a) Changes in retirement benefit obligations (excluding plans that apply the simplified method)

	Millions of yen	Thousands of U.S. dollars
	2019	2020
Balance at the beginning of the year	¥ 53,619	\$ 520,760
Service costs	2,553	2,511
Interest costs	56	52
Actuarial loss (gain)	(546)	42
Retirement benefits paid	(1,772)	(1,636)
Balance at the end of the year	¥ 53,909	\$ 530,127

(b) Changes in plan assets

	Millions of yen	Thousands of U.S. dollars
	2019	2020
Balance at the beginning of the year	¥ 45,054	\$ 439,904
Actuarial loss (gain)	12	5
Contribution paid by the employer	2,189	2,164
Retirement benefits paid	(1,717)	(1,559)
Balance at the end of the year	¥ 45,538	\$ 445,803

(c) Changes in Retirement benefit liability of the plans that apply the simplified method

	Millions of yen	Thousands of U.S. dollars
	2019	2020
Balance at the beginning of the year	¥ 640	\$ 6,073
Retirement benefit expenses	83	86
Retirement benefits paid	(95)	(108)
Balance at the end of the year	¥ 628	\$ 5,862

(d) Reconciliation between the funded status of the plans and the amounts recognized as Retirement benefit liability in the consolidated balance sheets at the end of the fiscal years

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
Funded retirement benefit obligations	¥ 51,328	¥ 52,185	\$ 504,110
Plan assets	(45,538)	(46,149)	(445,803)
	5,789	6,035	58,306
Unfunded retirement benefit obligations	3,209	3,300	31,879
Total net retirement benefit liability and asset	8,999	9,336	90,186
Retirement benefit liability	8,999	9,336	90,186
Total net retirement benefit liability and asset	¥ 8,999	¥ 9,336	\$ 90,186

Note: Plans to which simplified methods are applied are included.

(e) Components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
Service costs	¥ 2,553	¥ 2,511	\$ 24,260
Interest costs	56	52	508
Amortization of actuarial differences	351	367	3,552
Amortization of prior service costs	(107)	(107)	(1,038)
Retirement benefit expenses calculated by simplified methods	83	86	836
Additional benefits for employees' retirement	12	8	83
Retirement benefit expenses	¥ 2,948	¥ 2,919	\$ 28,203

(f) Remeasurements of defined benefit plans included in other comprehensive income

Components of items (before tax) were as follows:

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
Prior service cost	¥ (107)	¥ (107)	\$ (1,038)
Actuarial difference	910	330	3,195
Total	¥ 803	¥ 223	\$ 2,157

(g) Remeasurements of defined benefit plans included in accumulated other comprehensive income

Components of items (before tax) were as follows:

	Millions of yen	Thousands of U.S. dollars	
	2019	2020	2020
Unrecognized prior service costs	¥ (323)	¥ (216)	\$ (2,087)
Unrecognized actuarial differences	(1,958)	(2,289)	(22,116)
Total	¥ (2,282)	¥ (2,505)	\$ (24,203)

(h) Items for plan assets

1. Major components of the plan assets

The ratios of the major types of assets to the total plan assets were as follows:

	2019	2020
Cash and deposits	86%	86%
Life insurance company general accounts	14%	14%
Total	100%	100%

2. Method of determining the long-term expected rate of return on plan assets

Current and target asset allocations, and historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return on plan assets.

(i) Items related to actuarial assumptions

The major actuarial assumptions

	2019	2020
Discount rate	0.1%	<b>0.1%</b>
Long-term expected rate of return on plan assets	0.0%	<b>0.0%</b>
Salary increasing rate	7.4%	<b>7.4%</b>

\* Salary increasing rate is calculated based on a point based plan.

**(3) Defined contribution pension plans**

Required contributions to defined contribution pension plans of the Companies for the years ended December 31, 2019 and 2020 were ¥810 million and ¥815 million (\$7,876 thousand), respectively.

**(4) Multi-employer pension plan**

Required contributions to the multi-employer pension plan which was treated the same as the defined contribution pension plans for the years ended December 31, 2019 and 2020 were ¥23 million and ¥25 million (\$244 thousand), respectively.

(a) The most recent funded status related to multi-employer pension plan

	Millions of yen		Thousands of U.S. dollars
	March 31, 2019	March 31, 2020	March 31, 2020
Plan assets	¥ 49,969	<b>¥ 49,775</b>	<b>\$ 480,827</b>
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	47,438	<b>48,053</b>	<b>464,195</b>
Difference	¥ 2,530	<b>¥ 1,721</b>	<b>\$ 16,631</b>

(b) The contribution ratio of the Companies to the multi-employer pension plan

Fiscal year ended December 31, 2019                    1.2% (As of March 31, 2019)

Fiscal year ended December 31, 2020                    1.2% (As of March 31, 2020)

(c) Supplementary information:

The main factor of the difference shown in above (a)

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
General reserve	¥ 792	<b>¥ 2,520</b>	<b>\$ 24,347</b>
Surplus or deficiency	1,738	<b>(798)</b>	<b>(7,715)</b>
Total	¥ 2,530	<b>¥ 1,721</b>	<b>\$ 16,631</b>

The ratio in above (b) have not presented the actual ratio of the Companies.

## (DEFERRED TAX)

### (1) Significant components of the Companies' deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
<b>Deferred tax assets:</b>			
Allowance for doubtful accounts	¥ 107	¥ 95	\$ 918
Accrued enterprise taxes	858	727	7,031
Provision for bonuses	1,231	1,179	11,393
Retirement benefit liability	2,759	2,862	27,651
Provision for directors' retirement benefits	218	233	2,257
Impairment losses	1,202	1,216	11,755
Software development costs	1,449	1,504	14,535
Unrealized profit from non-current assets	406	428	4,141
Other	2,383	2,340	22,608
<b>Subtotal</b>	<b>10,617</b>	<b>10,589</b>	<b>102,292</b>
Less: Valuation allowance	(953)	(974)	(9,412)
<b>Total deferred tax assets</b>	<b>9,663</b>	<b>9,614</b>	<b>92,880</b>
<b>Deferred tax liabilities:</b>			
Valuation difference on available-for-sale securities	(2,692)	(2,448)	(23,649)
Other	(75)	(79)	(768)
<b>Total deferred tax liabilities</b>	<b>(2,768)</b>	<b>(2,527)</b>	<b>(24,418)</b>
<b>Net deferred tax assets</b>	<b>¥ 6,895</b>	<b>¥ 7,087</b>	<b>\$ 68,461</b>

### **(2) A reconciliation of the material differences between the normal effective statutory tax rates and burden ratio of income taxes after application of tax effect accounting**

Since the differences between the normal effective statutory tax rates and the burden ratio of income taxes after application of tax effect accounting are less than 5% of the normal effective statutory tax rates, a reconciliation of the differences is omitted.

## (ASSET RETIREMENT OBLIGATIONS)

The disclosure is omitted because asset retirement obligations were immaterial in the consolidated financial statements.

## (INVESTMENT AND RENTAL PROPERTIES)

The disclosure is omitted because investment and rental properties were immaterial in the consolidated financial statements.

## (SEGMENT INFORMATION)

### [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) Basis of measurement for reportable segment net sales, segment profit or loss, segment assets and other items

The accounting method for the Companies' reported business segments is substantially the same as "FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS". Also, segment profit or loss is equivalent to operating profit. The prices of inter-segment transactions are determined by price after taking market conditions into account.

#### (3) Information concerning net sales, segment profit or loss, segment assets and other items by reportable segment

	Reportable segments				Millions of yen	
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)	2019
<b>Net sales</b>						
Outside customers sales	¥ 578,698	¥ 307,837	¥ 886,536	-	¥ 886,536	
Inter-segment sales/transfers	95	549	644	(644)	-	
<b>Total</b>	<b>¥ 578,794</b>	<b>¥ 308,387</b>	<b>¥ 887,181</b>	<b>¥ (644)</b>	<b>¥ 886,536</b>	
<b>Segment profit</b>	<b>¥ 55,265</b>	<b>¥ 15,746</b>	<b>¥ 71,012</b>	<b>¥ (8,819)</b>	<b>¥ 62,192</b>	
<b>Segment assets</b>	<b>¥ 172,739</b>	<b>¥ 111,205</b>	<b>¥ 283,944</b>	<b>¥ 177,867</b>	<b>¥ 461,812</b>	
<b>Other items</b>						
Depreciation (Note 3)	¥ 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	

						Millions of yen
	Reportable segments					2020
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)	
<b>Net sales</b>						
Outside customers sales	¥ 526,613	¥ 309,710	¥ 836,323	-	¥ 836,323	
Inter-segment sales/transfers	271	774	1,046	(1,046)	-	
<b>Total</b>	<b>¥ 526,885</b>	<b>¥ 310,484</b>	<b>¥ 837,370</b>	<b>¥ (1,046)</b>	<b>¥ 836,323</b>	
Segment profit	¥ 50,965	¥ 14,443	¥ 65,409	¥ (9,100)	¥ 56,309	
Segment assets	¥ 172,178	¥ 116,977	¥ 289,155	¥ 182,136	¥ 471,292	
<b>Other items</b>						
Depreciation (Note 3)	¥ 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	

						Thousands of U.S. dollars
	Reportable segments					2020
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)	
<b>Net sales</b>						
Outside customers sales	\$ 5,087,071	\$ 2,991,790	\$ 8,078,862	-	\$ 8,078,862	
Inter-segment sales/transfers	2,622	7,483	10,106	(10,106)	-	
<b>Total</b>	<b>\$ 5,089,694</b>	<b>\$ 2,999,274</b>	<b>\$ 8,088,968</b>	<b>\$ (10,106)</b>	<b>\$ 8,078,862</b>	
Segment profit	\$ 492,327	\$ 139,527	\$ 631,855	\$ (87,905)	\$ 543,950	
Segment assets	\$ 1,663,236	\$ 1,129,998	\$ 2,793,235	\$ 1,759,436	\$ 4,552,671	
<b>Other items</b>						
Depreciation (Note 3)	\$ 34,047	\$ 31,236	\$ 65,283	\$ 8,167	\$ 73,450	
Investments in affiliates accounted for using equity method	9,459	52,502	61,962	-	61,962	
Increase in property, plant and equipment and intangible assets	43,338	36,822	80,160	5,469	85,629	

Notes 1. Below is a description of main components of adjustment.

				Thousands of U.S. dollars
			2019	2020
<b>Segment profit adjustment</b>				
companywide expenses (not allocated to the reportable segments) consisting mainly of expenses related to administrative operations		¥ (8,821)	¥ (9,061)	\$ (87,532)
<b>Segment assets adjustment</b>				
companywide assets (not allocated to the reportable segments) consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, investments in securities) and assets related to administrative operations		¥ 178,789	¥ 183,129	\$ 1,769,022
<b>Depreciation adjustment</b>				
depreciation expenses related to companywide assets		¥ 905	¥ 845	\$ 8,167
Increase in property, plant and equipment and intangible assets adjustment increase related to companywide assets		70	566	5,469

2. The "Segment profit" is reconciled with "Operating profit" in Consolidated Statements of Income.

3. "Depreciation" include relevant amount of Long-term prepaid expenses.

**【Related Information】**

**(1) Products and services**

The disclosure is omitted because similar information is disclosed in segment information for the years ended December 31, 2019 and 2020.

**(2) Geographical area**

1. Net Sales

The disclosure is omitted because outside customers sales in Japan constituted more than 90% of total net sales for the years ended December 31, 2019 and 2020.

2. Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan as of December 31, 2019 and 2020.

**(3) Major customer**

The disclosure is omitted because there was no outside customer whose net sales amount was 10% or more of net sales in the consolidated statements of income for the years ended December 31, 2019 and 2020.

**【Impairment loss on fixed assets by reportable segment】**

The disclosure is omitted because impairment loss on fixed assets by reportable segment is immaterial in the consolidated financial statements for the years ended December 31, 2019 and 2020.

**【Amortization and unamortized balance of goodwill by reportable segment】**

For the years ended December 31, 2019 and 2020, not applicable.

**【Gain on negative goodwill by reportable segment】**

For the years ended December 31, 2019 and 2020, not applicable.

**【Related Party Transactions】**

For the years ended December 31, 2019 and 2020, not applicable.

## (PER SHARE INFORMATION)

Net assets per share as of December 31, 2019 and 2020 and basic earnings per share for the years ended December 31, 2019 and 2020 were summarized as follows:

	Yen	U.S. dollars
	2019	2020
Net assets per share	¥ 1,367.76	¥ 1,462.80
Basic earnings per share	229.42	207.33
		<b>2.00</b>

Notes 1. Diluted earnings per share for the years ended December 31, 2019 and 2020 are omitted, because the Companies have no dilutive shares.

2. Basis for calculation of net assets per share as of December 31, 2019 and 2020 were as follows:

	Thousands of U.S. dollars	
	Millions of yen	2020
	2019	2020
<b>Numerator:</b>		
Net assets	¥ 261,622	¥ 280,035
Non-controlling interests in consolidated subsidiaries	2,293	2,687
Net assets attributable to common stock	¥ 259,328	¥ 277,348
		<b>\$2,705,137</b>
		<b>25,963</b>
		<b>\$2,679,174</b>

Thousands of shares

**Denominator:**

Number of shares of common stock outstanding	189,601	<b>189,601</b>
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Net assets per share is based upon the number of common stock outstanding (excluding treasury shares) each year end.

3. Basis for calculation of basic earnings per share for the years ended December 31, 2019 and 2020 were as follows:

	Thousands of U.S. dollars	
	Millions of yen	2020
	2019	2020
<b>Numerator:</b>		
Profit attributable to owners of parent	¥ 43,497	¥ 39,309
Amount not attributable to common shareholders	-	-
Profit attributable to owners of parent related to common stock	¥ 43,497	¥ 39,309
		<b>\$379,730</b>

Thousands of shares

**Denominator:**

Weighted-average number of shares of common stock outstanding	189,601	<b>189,601</b>
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Basic earnings per share is based upon the weighted average number of common stock outstanding (excluding treasury shares) during each year.

**[CONSOLIDATED SUPPLEMENTARY STATEMENTS]**

**(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)**

Borrowings as of December 31, 2020 consisted of the following:

	Millions of yen	
	2020	
	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings at the average interest rate of 0.68%	¥4,800	¥4,800
Current portion of long-term borrowings	-	-
Current portion of lease obligations	724	875
Long-term borrowings due in 2023 at the average interest rate of 0.66%	1,700	1,700
Lease obligations due in 2022-2026	1,583	1,519
Other interest-bearing debt	-	-
<b>Total</b>	<b>¥8,807</b>	<b>¥8,895</b>

	Thousands of U.S. dollars	
	2020	
	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings at the average interest rate of 0.68%	\$ 46,367	\$ 46,367
Current portion of long-term borrowings	-	-
Current portion of lease obligations	6,994	8,461
Long-term borrowings due in 2023 at the average interest rate of 0.66%	16,421	16,421
Lease obligations due in 2022-2026	15,293	14,681
Other interest-bearing debt	-	-
<b>Total</b>	<b>\$ 85,077</b>	<b>\$ 85,932</b>

Notes 1. The annual average interest rate represents the weighted-average rate applicable to the ending balance.

2. The annual average interest rate is not shown for lease obligations because the amounts in the consolidated balance sheets include the amounts corresponding to interest paid from total lease payment.

3. The contractual maturities of long-term borrowings and lease obligations as of December 31, 2020 were as follows:

	Millions of yen			
	2020			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	-	¥1,700	-	-
Lease obligations	695	503	266	54

	Thousands of U.S. dollars			
	2020			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	-	\$16,421	-	-
Lease obligations	6,716	4,863	2,572	525

## Independent Auditor's Report

### Independent Auditor's Report

The Board of Directors  
OTSUKA CORPORATION

#### **Opinion**

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

***Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan***

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

***Convenience Translation***

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan  
March 26, 2021

/s/Seiji Yamamoto  
Designated Engagement Partner  
Certified Public Accountant

/s/Shigeyuki Kano  
Designated Engagement Partner  
Certified Public Accountant

/s/Tomo Ito  
Designated Engagement Partner  
Certified Public Accountant

## Corporate Data (As of December 31, 2020)

<b>Name</b>	OTSUKA CORPORATION
<b>Founded</b>	July 17, 1961 (registered as joint-stock company on December 13, 1961)
<b>Capital Stock</b>	¥10,374,851,000
<b>Number of Employees</b>	7,429 (with consolidated subsidiaries: 9,119)
<b>Business</b>	<p>System Integration business: Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities</p> <p>Service and Support business: Supplies, maintenance and educational support, other activities</p>
<b>Main Banks</b>	The Bank of Yokohama, Ltd. MUFG Bank, Ltd. Mizuho Bank, Ltd.

## Bases (As of December 31, 2020)

<b>Head Office</b>	2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573 TEL 03-3264-7111		
<b>Local Area Sales Departments</b>	Chuo Sales Dept. 1 Josai Sales Dept. Northern Kanto Sales Dept. Osaka Southern Sales Dept.	Chuo Sales Dept. 2 Tama Sales Dept. Keiyo Sales Dept.	Kanagawa Sales Dept. Johoku Sales Dept. Osaka Northern Sales Dept.
<b>Regional Offices</b>	Sapporo Branch Takasaki Branch Kyoto Branch Kyushu Branch	Sendai Branch Tsukuba Branch Kobe Branch	Utsunomiya Branch Chubu Branch Hiroshima Branch

## Principal Group Companies (As of December 31, 2020)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 8 subsidiaries, including 4 consolidated subsidiaries as well as 7 affiliated companies, including 3 affiliates accounted for using equity method that carry out the System Integration business, Service and Support business. The 4 consolidated subsidiaries are listed below.

Company Name	Established	Capital (¥ million)	Ratio of Voting Rights	Scope of Business
<b>System Integration business</b>				
OSK Co., LTD.	1984	400	100.0%	• Development and sale of packaged software, IT consulting, and consigned software development
Networld Corporation	1990	585	81.5%	• Sales and technical support for network related equipment
<b>Service and Support business</b>				
Alpha Techno Co., LTD.	1996	50	100.0%	• Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., LTD.	1997	400	100.0%	• Comprehensive service and support for network systems

# Stock Information (As of December 31, 2020)

<b>Authorized Common Stock</b>	<b>677,160,000 shares</b>
<b>Issued Common Stock</b>	<b>190,002,120 shares</b>
<b>Number of Shares of Unit Stock</b>	<b>100 shares</b>
<b>Number of Shareholders</b>	<b>6,730</b>

## ■ Major Shareholders

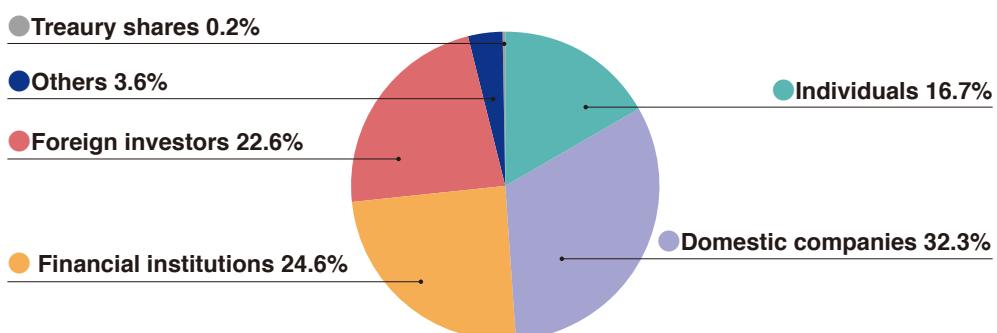
Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	58,729,980	30.97	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,749,200	5.66	—	—
Custody Bank of Japan, Ltd. (Trust Account)	10,494,700	5.53	—	—
Yuji Otsuka	5,681,880	2.99	—	—
Custody Bank of Japan, Ltd. (Trust Account 9)	5,409,800	2.85	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,783,220	2.52	—	—
Terue Otsuka	3,873,000	2.04	—	—
Keiko Otsuka	3,681,960	1.94	—	—
JPMorgan Securities Japan Co., Ltd.	2,565,213	1.35	—	—
SMBC Nikko Securities Inc.	2,545,900	1.34	—	—

Notes:

1) Equity Ownership is calculated after deducting treasury stock (400,908 shares).

2) Japan Trustee Services Bank, Ltd. merged with JTC Holdings, Ltd. and Trust & Custody Services Bank, Ltd. on July 27, 2020. The newly formed entity then changed its name to Custody Bank of Japan, Ltd.

## ■ Breakdown of Shareholders (Based on total shares)



**OTSUKA CORPORATION WEBSITE**

**<https://www.otsuka-shokai.co.jp>**

***Otsuka Corporation***

2-18-4 Iidabashi, Chiyoda-ku, Tokyo 102-8573, Tokyo Tel: +81-3-3264-7111