

# Financial Section

## Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2019, 2020 and 2021	Millions of yen			Thousands of U.S. dollars
	2019	2020	2021	2021
Net sales	¥886,536	¥836,323	<b>¥851,894</b>	<b>\$7,406,486</b>
System Integration business	578,698	526,613	<b>523,609</b>	<b>4,552,338</b>
Service and Support business	307,837	309,710	<b>328,284</b>	<b>2,854,148</b>
Operating profit	62,192	56,309	<b>55,827</b>	<b>485,376</b>
Ordinary profit	63,706	57,550	<b>57,567</b>	<b>500,497</b>
Profit before income taxes	62,668	57,584	<b>58,190</b>	<b>505,912</b>
Profit attributable to owners of parent	43,497	39,309	<b>39,927</b>	<b>347,138</b>
Total assets	461,812	471,292	<b>486,254</b>	<b>4,227,566</b>
Interest-bearing debt	8,807	8,895	<b>8,851</b>	<b>76,952</b>
Equity	259,328	277,348	<b>298,743</b>	<b>2,597,317</b>
Earnings per share (EPS) (Yen and U.S. dollars)	229.42	207.33	<b>210.59</b>	<b>1.83</b>
Dividend per share of common stock (Yen and U.S. dollars)	110.00	115.00	<b>120.00</b>	<b>1.04</b>
Cash flows from operating activities per share (Yen and U.S. dollars)	257.18	171.39	<b>305.24</b>	<b>2.65</b>
Operating profit to Net sales ratio (%)	7.02	6.73	<b>6.55</b>	—
Profit to Net sales ratio* (%)	4.91	4.70	<b>4.69</b>	—
Interest-bearing debt ratio (%)	1.91	1.89	<b>1.82</b>	—
Equity ratio (%)	56.15	58.85	<b>61.44</b>	—
Return on equity (ROE) (%)	17.79	14.65	<b>13.86</b>	—

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, 2021 exchange rate of ¥115.02 = US\$1.

Management's Analysis of Operating Results and Financial Position	36
Consolidated Balance Sheets	40
Consolidated Statements of Income	42
Consolidated Statements of Comprehensive Income	43
Consolidated Statements of Changes in Equity	44
Consolidated Statements of Cash Flows	46
Notes to Consolidated Financial Statements	47
Independent Auditor's Report	71

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

### Summary of Sales and Profits

	Millions of yen			
	2020	2021	Difference to Last Year	% Change to Last Year
Net sales	¥836,323	<b>¥851,894</b>	+15,570	+1.9%
System Integration business	526,613	<b>523,609</b>	-3,003	-0.6
Service and Support business	309,710	<b>328,284</b>	+18,573	+6.0
Cost of sales	662,598	<b>675,003</b>	+12,404	+1.9
Gross profit	173,725	<b>176,890</b>	+3,165	+1.8
Selling, general and administrative expenses	117,415	<b>121,062</b>	+3,647	+3.1
Operating profit	56,309	<b>55,827</b>	-481	-0.9
Ordinary profit	57,550	<b>57,567</b>	+16	+0.0
Profit before income taxes	57,584	<b>58,190</b>	+605	+1.1
Income taxes				
Current	17,786	<b>17,142</b>	-644	-3.6
Deferred	-12	<b>576</b>	+588	—
Profit attributable to owners of parent	39,309	<b>39,927</b>	+618	+1.6

#### Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥851,894 million, an increase of ¥15,570 million (1.9%) 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. Net sales declined 0.6% to ¥523,609 million due to the impact of a decrease in PC unit sales and shortages of supplies of some products.

#### 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 steadily compared with the same period in fiscal 2019, when there was no impact from the novel coronavirus. Additionally, in the "tayoreru" support service business, overall sales from maintenance services grew from the previous year as maintenance services such as MNS (Managed Network Service) trended firmly. As a result, overall net sales of this business increased 6.0% to ¥328,284 million.

#### Summary of Income and Expenses

Regarding profits, gross profit increased 1.8% from the previous fiscal year to ¥176,890 million due to the increase in net sales.

Operating profit decreased 0.9% to ¥55,827 million, ordinary profit increased 0.0% to ¥57,567 million and profit attributable to owners of parent increased 1.6% to ¥39,927 million. Earnings per share (EPS) amounted to ¥210.59.

## Financial Position

	Millions of yen			
	2020	2021	Difference to Last Year	% Change to Last Year
<b>Assets:</b>	¥471,292	<b>¥486,254</b>	+14,962	+3.2%
Current assets	391,523	<b>401,034</b>	+9,510	+2.4
Non-current assets	79,768	<b>85,219</b>	+5,451	+6.8
<b>Liabilities:</b>	191,256	<b>184,480</b>	-6,776	-3.5
Current liabilities	176,839	<b>170,282</b>	-6,557	-3.7
Non-current liabilities	14,416	<b>14,198</b>	-218	-1.5
<b>Net assets</b>	280,035	<b>301,774</b>	+21,738	+7.8

### Assets

Total assets at fiscal year-end increased ¥14,962 million from the previous fiscal year-end to ¥486,254 million.

Current assets increased ¥9,510 million from the previous fiscal year-end to ¥401,034 million due to such factors as an increase in cash and deposits. Non-current assets increased ¥5,451 million from the previous fiscal year-end to ¥85,219 million.

### Liabilities

Total liabilities at fiscal year-end decreased ¥6,776 million from the previous fiscal year-end to ¥184,480 million.

Current liabilities decreased ¥6,557 million from the previous fiscal year-end to ¥170,282 million due to such factors as an increase in notes and accounts payable – trade. Non-current liabilities decreased ¥218 million from the previous fiscal year-end to ¥14,198 million.

### Net Assets

Net assets at fiscal year-end increased ¥21,738 million from the previous fiscal year-end to ¥301,774 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 61.4%.

The interest coverage ratio was 1,272.83 times, the interest-bearing debt ratio was 1.82%, return on equity (ROE) was 13.86% and return on assets (ROA) was 11.88%.

	2020	2021
Interest coverage ratio (times)	1,269.26	<b>1,272.83</b>
Interest-bearing debt ratio (%)	1.89	<b>1.82</b>
ROE (%)	14.65	<b>13.86</b>
ROA (%)	12.19	<b>11.88</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

## Cash Flows

	Millions of yen	
	2020	2021
Cash flows from operating activities	¥32,496	<b>¥57,873</b>
Cash flows from investing activities	-8,716	<b>-9,160</b>
Cash flows from financing activities	-20,988	<b>-21,957</b>
Cash and cash equivalents at end of year	178,988	<b>205,746</b>

Cash and cash equivalents at end of year totaled ¥205,746 million, an increase of ¥26,758 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 ¥57,873 million, an increase of ¥25,377 million from the previous fiscal year due to a decrease in inventories.

### Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥9,160 million, an increase of ¥443 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 ¥968 million to ¥21,957 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, increased ¥24,933 million to ¥48,713 million.

## Details of Analysis and Examination of the State of Business Results from Management's Perspective

The details of recognition, analysis and examination of the state of the OTSUKA Group's business results from management's perspective are as follows. Matters concerning the future contained in the text are based on management's judgments as of March 29, 2022.

### Significant Accounting Policies and Estimates

The OTSUKA Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan. In preparing these consolidated financial statements, the OTSUKA Group makes accounting estimates based on rational standards for matters that require estimates. The OTSUKA Group makes rational decisions regarding these estimates in consideration of past results. However, actual results may differ from these estimates. The accounting policies significant in preparing these consolidated financial statements are as described in the Notes to Consolidated Financial Statements. Additionally, assumptions regarding the effects of the novel coronavirus are described in "2. Summary of Significant Accounting Policies (21) Additional Information."

The Company believes the following significant accounting policies could affect the preparation of the consolidated financial statements.

#### Revenue Recognition

##### a. Products

The OTSUKA Group's sales are recorded at the time products are shipped. The OTSUKA Group is typically involved in determining the specifications of the goods for customers, the delivery date and the delivery location, and is responsible for selecting a manufacturer or distributor designated by the manufacturer and delivering the goods to customers. Some of those transactions involve multiple companies and the related goods themselves are delivered directly from a supplier to the final customer without going through the Company or the consolidated subsidiary concerned. For such transactions, upon taking into consideration the nature of each transaction and confirming the existence of the actual transaction itself, the OTSUKA Group identifies the Company's or the consolidated subsidiary's respective roles in the commercial flow and determines whether it is appropriate to record revenue on a gross basis or a net basis.

##### b. Services

The OTSUKA Group ascertains the needs of customers and provides one-stop optimal solutions to various management issues faced by customers and records profits according to acceptance inspections or with the elapsing of time.

---

## Forecast for Fiscal 2022

Because the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) will be adopted from the beginning of fiscal 2022, the forecast for consolidated business results for the next fiscal year will be for the sales amount after the application of this accounting standard. The impact on operating profit, ordinary profit and profit attributable to owners of parent will be minor.

Beside investments in human capital, selling, general and administrative (SG&A) expenses are expected to increase due to factors such as upfront investment costs for the Yokohama Distribution Center, which started operation last year as our third distribution base in the Tokyo metropolitan area. Accordingly, our forecast for fiscal 2022 is as follows.

In fiscal 2022 the Company forecasts a 2.8% decrease in consolidated net sales to ¥828,000 million, a 4.0% decrease in operating profit to ¥53,600 million, a 5.3% decrease in ordinary profit to ¥54,500 million and an 8.2% decrease in profit attributable to owners of parent to ¥36,650 million.

By segment, we forecast a 1.8% decrease in net sales to ¥514,000 million in the System Integration business and a 4.4% decrease to ¥314,000 million in the Service and Support business.

It should be noted that assuming the same standard was adopted in fiscal 2021, it would have the impact of increasing sales by 1.2% year on year. By segment, the System Integration business would decrease by 0.9% year on year and the Service and Support business would increase by 4.8% year on year.

## Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries  
As of December 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
<b>Assets</b>			
<b>Current assets</b>			
Cash and deposits	¥178,072	<b>¥204,701</b>	<b>\$ 1,779,703</b>
Notes and accounts receivable - trade (Note 3)	145,033	<b>135,786</b>	<b>1,180,545</b>
Merchandise	42,011	<b>33,052</b>	<b>287,359</b>
Work in process	1,409	<b>1,235</b>	<b>10,745</b>
Raw materials and supplies	776	<b>740</b>	<b>6,437</b>
Other	24,320	<b>25,594</b>	<b>222,519</b>
Allowance for doubtful accounts	(100)	<b>(75)</b>	<b>(657)</b>
<b>Total current assets</b>	<b>391,523</b>	<b>401,034</b>	<b>3,486,652</b>
<b>Non-current assets</b>			
<b>Property, plant and equipment</b>			
Buildings and structures	59,177	<b>52,827</b>	<b>459,291</b>
Accumulated depreciation and impairment	(42,738)	<b>(37,405)</b>	<b>(325,204)</b>
Buildings and structures, net	16,439	<b>15,422</b>	<b>134,087</b>
Land (Note 2)	15,345	<b>15,092</b>	<b>131,215</b>
Other	13,058	<b>16,473</b>	<b>143,220</b>
Accumulated depreciation and impairment	(8,613)	<b>(9,277)</b>	<b>(80,661)</b>
Other, net	4,444	<b>7,195</b>	<b>62,558</b>
<b>Total property, plant and equipment</b>	<b>36,229</b>	<b>37,710</b>	<b>327,861</b>
<b>Intangible assets</b>			
Software	15,072	<b>15,771</b>	<b>137,117</b>
Other	59	<b>59</b>	<b>516</b>
<b>Total intangible assets</b>	<b>15,131</b>	<b>15,830</b>	<b>137,634</b>
<b>Investments and other assets</b>			
Investment securities (Note 1)	16,895	<b>22,366</b>	<b>194,459</b>
Guarantee deposits	2,337	<b>2,429</b>	<b>21,121</b>
Deferred tax assets	7,087	<b>5,336</b>	<b>46,394</b>
Other	2,297	<b>1,661</b>	<b>14,446</b>
Allowance for doubtful accounts	(209)	<b>(115)</b>	<b>(1,003)</b>
<b>Total investments and other assets</b>	<b>28,407</b>	<b>31,678</b>	<b>275,418</b>
<b>Total non-current assets</b>	<b>79,768</b>	<b>85,219</b>	<b>740,913</b>
<b>Total assets</b>	<b>¥471,292</b>	<b>¥486,254</b>	<b>\$ 4,227,566</b>

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
<b>Liabilities</b>			
Current liabilities			
Notes and accounts payable - trade	¥ 96,437	¥ 91,938	\$ 799,327
Electronically recorded obligations - operating	18,822	17,901	155,639
Short-term borrowings	4,800	4,800	41,731
Income taxes payable	9,367	8,769	76,241
Advances received	16,253	15,746	136,904
Provision for bonuses	3,844	3,806	33,090
Other	27,314	27,319	237,520
<b>Total current liabilities</b>	<b>176,839</b>	<b>170,282</b>	<b>1,480,456</b>
Non-current liabilities			
Long-term borrowings	1,700	1,700	14,780
Lease obligations	1,519	1,485	12,916
Provision for retirement benefits for directors	762	698	6,070
Retirement benefit liability	9,336	9,210	80,073
Other	1,098	1,104	9,603
<b>Total non-current liabilities</b>	<b>14,416</b>	<b>14,198</b>	<b>123,444</b>
<b>Total liabilities</b>	<b>191,256</b>	<b>184,480</b>	<b>1,603,900</b>
<b>Net assets</b>			
Shareholders' equity			
Share capital	10,374	10,374	90,200
Capital surplus	16,254	16,254	141,321
Retained earnings	254,997	272,834	2,372,058
Treasury shares	(139)	(139)	(1,216)
<b>Total shareholders' equity</b>	<b>281,487</b>	<b>299,323</b>	<b>2,602,363</b>
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,527	8,734	75,935
Deferred gains or losses on hedges	(5)	8	77
Revaluation reserve for land (Note 2)	(11,402)	(10,987)	(95,530)
Foreign currency translation adjustment	15	151	1,315
Remeasurements of defined benefit plans	1,725	1,513	13,156
<b>Total accumulated other comprehensive income</b>	<b>(4,139)</b>	<b>(580)</b>	<b>(5,045)</b>
Non-controlling interests	2,687	3,030	26,348
<b>Total net assets</b>	<b>280,035</b>	<b>301,774</b>	<b>2,623,666</b>
<b>Total liabilities and net assets</b>	<b>¥471,292</b>	<b>¥486,254</b>	<b>\$ 4,227,566</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, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Net sales	¥836,323	¥851,894	\$ 7,406,486
Cost of sales	662,598	675,003	5,868,573
Gross profit	173,725	176,890	1,537,912
Selling, general and administrative expenses			
Salaries, allowances and bonuses	45,039	46,035	400,237
Remuneration for directors	586	548	4,765
Welfare expenses	7,620	8,042	69,925
Rent expenses	7,095	7,475	64,993
Transportation and storage costs	23,998	26,140	227,273
Provision for bonuses	2,602	2,551	22,181
Retirement benefit expenses	2,401	1,715	14,911
Provision for retirement benefits for directors	60	57	497
Provision of allowance for doubtful accounts	40	(5)	(46)
Depreciation	5,990	6,151	53,484
Other	21,978	22,349	194,311
Total selling, general and administrative expenses (Note 1)	117,415	121,062	1,052,536
Operating profit	56,309	55,827	485,376
Non-operating income			
Interest income	10	14	127
Dividend income	181	225	1,957
Rental income from buildings	262	263	2,294
Income from recycling	126	157	1,369
Share of profit of entities accounted for using equity method	390	794	6,908
Foreign exchange gains	118	64	558
Other	205	325	2,827
Total non-operating income	1,296	1,845	16,042
Non-operating expenses			
Interest expenses	44	44	388
Donations	-	50	434
Other	10	11	98
Total non-operating expenses	55	105	921
Ordinary profit	57,550	57,567	500,497
Extraordinary income			
Gain on sale of non-current assets (Note 2)	-	886	7,703
Gain on sale of investment securities	225	19	171
Total extraordinary income	225	905	7,875
Extraordinary losses			
Loss on retirement of non-current assets (Note 3)	46	56	492
Impairment losses	143	220	1,914
Other	2	6	53
Total extraordinary losses	191	283	2,461
Profit before income taxes	57,584	58,190	505,912
Income taxes - current	17,786	17,142	149,037
Income taxes - deferred	(12)	576	5,011
Total income taxes	17,774	17,718	154,048
Profit	39,809	40,471	351,863
Profit attributable to non-controlling interests	500	543	4,725
Profit attributable to owners of parent	¥ 39,309	¥ 39,927	\$ 347,138

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, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Profit	¥ 39,809	¥ 40,471	\$351,863
Other comprehensive income			
Valuation difference on available-for-sale securities	(553)	3,159	27,466
Deferred gains or losses on hedges	(9)	17	152
Revaluation reserve for land	-	126	1,102
Remeasurements of defined benefit plans, net of tax	155	(228)	(1,984)
Share of other comprehensive income of entities accounted for using equity method	8	155	1,351
Total other comprehensive income (Note 1)	(399)	3,230	28,089
Comprehensive income	¥ 39,410	¥ 43,702	\$379,953
(Breakdown)			
Comprehensive income attributable to owners of parent	¥ 38,875	¥ 43,199	\$375,583
Comprehensive income attributable to non-controlling interests	535	502	4,369

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Equity

OTSUKA CORPORATION and Consolidated Subsidiaries					Millions of yen
For the year ended December 31, 2020					
	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
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

OTSUKA CORPORATION and Consolidated Subsidiaries									Millions of yen
For the year ended December 31, 2020									
	Accumulated other comprehensive income						Non-controlling interests	Total net assets	
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance 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					Millions of yen
For the year ended December 31, 2021					
	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance as of January 1, 2021	¥ 10,374	¥ 16,254	¥254,997	¥(139)	¥281,487
Dividends of surplus			(21,804)		(21,804)
Profit attributable to owners of parent			39,927		39,927
Reversal of revaluation reserve for land			(287)		(287)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	17,836	(0)	17,836
Balance as of December 31, 2021	¥ 10,374	¥ 16,254	¥272,834	¥(139)	¥299,323

OTSUKA CORPORATION and Consolidated Subsidiaries									Millions of yen
For the year ended December 31, 2021									
	Accumulated other comprehensive income						Non-controlling interests	Total net assets	
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of January 1, 2021	¥ 5,527	¥ (5)	¥(11,402)	¥ 15	¥ 1,725	¥(4,139)	¥ 2,687	¥280,035	
Dividends of surplus								(21,804)	
Profit attributable to owners of parent								39,927	
Reversal of revaluation reserve for land								(287)	
Purchase of treasury shares								(0)	
Net changes in items other than shareholders' equity	3,206	14	414	135	(211)	3,559	342	3,901	
Total changes during period	3,206	14	414	135	(211)	3,559	342	21,738	
Balance as of December 31, 2021	¥ 8,734	¥ 8	¥(10,987)	¥151	¥ 1,513	¥ (580)	¥3,030	¥301,774	

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the year ended December 31, 2021

Thousands of U.S. dollars

	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance as of January 1, 2021	\$ 90,200	\$ 141,321	\$ 2,216,986	\$ (1,215)	\$ 2,447,292
Dividends of surplus			(189,568)		(189,568)
Profit attributable to owners of parent			347,138		347,138
Reversal of revaluation reserve for land			(2,498)		(2,498)
Purchase of treasury shares				(1)	(1)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	155,071	(1)	155,070
Balance as of December 31, 2021	\$ 90,200	\$ 141,321	\$ 2,372,058	\$ (1,216)	\$ 2,602,363

Thousands of U.S. dollars

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of January 1, 2021	\$ 48,053	\$ (46)	\$ (99,130)	\$ 135	\$ 14,998	\$ (35,989)	\$ 23,367	\$ 2,434,671
Dividends of surplus								(189,568)
Profit attributable to owners of parent								347,138
Reversal of revaluation reserve for land								(2,498)
Purchase of treasury shares								(1)
Net changes in items other than shareholders' equity	27,881	124	3,600	1,179	(1,842)	30,943	2,980	33,924
Total changes during period	27,881	124	3,600	1,179	(1,842)	30,943	2,980	188,994
Balance as of December 31, 2021	\$ 75,935	\$ 77	\$ (95,530)	\$ 1,315	\$ 13,156	\$ (5,045)	\$ 26,348	\$ 2,623,666

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, 2020 and 2021

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
<b>Cash flows from operating activities:</b>			<b>2021</b>
Profit before income taxes	¥ 57,584	¥ 58,190	\$ 505,912
Depreciation	7,603	7,982	69,397
Impairment losses	143	220	1,914
Increase (decrease) in allowance for doubtful accounts	(39)	(119)	(1,036)
Interest and dividend income	(191)	(239)	(2,084)
Interest expenses	44	44	388
Share of loss (profit) of entities accounted for using equity method	(390)	(794)	(6,908)
Loss on retirement of non-current assets	46	56	492
Loss (gain) on sale of non-current assets	-	(879)	(7,649)
Loss (gain) on sale of investment securities	(225)	(19)	(171)
Decrease (increase) in trade receivables	4,560	9,342	81,221
Decrease (increase) in inventories	(9,651)	9,169	79,721
Increase (decrease) in trade payables	(5,853)	(5,419)	(47,113)
Other, net	35	(2,272)	(19,753)
Subtotal	53,666	75,260	654,328
Interest and dividends received	344	454	3,949
Interest paid	(44)	(44)	(388)
Income taxes paid	(21,470)	(17,796)	(154,729)
Net cash provided by (used in) operating activities	32,496	57,873	503,160
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	(2,970)	(5,203)	(45,239)
Proceeds from sale of property, plant and equipment	-	1,546	13,444
Purchase of software	(5,893)	(5,679)	(49,377)
Purchase of investment securities	(175)	(198)	(1,723)
Proceeds from sale of investment securities	299	38	331
Other, net	23	336	2,925
Net cash provided by (used in) investing activities	(8,716)	(9,160)	(79,638)
<b>Cash flows from financing activities:</b>			
Dividends paid	(20,847)	(21,797)	(189,511)
Other, net	(140)	(159)	(1,390)
Net cash provided by (used in) financing activities	(20,988)	(21,957)	(190,901)
Effect of exchange rate change on cash and cash equivalents	(1)	2	19
Net increase (decrease) in cash and cash equivalents	2,789	26,758	232,640
Cash and cash equivalents at beginning of period	176,198	178,988	1,556,148
<b>Cash and cash equivalents at end of period (Note 1)</b>	<b>¥178,988</b>	<b>¥205,746</b>	<b>\$1,788,788</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

## (SIGNIFICANT ITEMS 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 in accordance with Japanese "Financial Instruments and Exchange Act" on the basis of accounting principles and practices 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, 2020 and 2021 the numbers of subsidiaries and consolidated subsidiaries were as follows:

	2020	2021
Subsidiaries	8	8
(Consolidated subsidiaries)	(4)	(4)

The 4 subsidiaries which were consolidated in the year ended December 31, 2021 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, which is the same as the Company's fiscal year-end.

The unconsolidated subsidiaries are excluded from the scope of consolidation as the scale of each subsidiary is small and its net assets, net sales, profit/loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., have little impact on the consolidated financial statements.

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

As of December 31, 2020 and 2021 the numbers of unconsolidated subsidiaries and affiliates were as follows:

	2020	2021
Unconsolidated subsidiaries	4	4
Affiliates	7	6
(Affiliates accounted for using equity method )	(3)	(3)

Investments in unconsolidated subsidiaries and affiliates not accounted for using equity method were carried at cost, as the scale of each subsidiary and affiliate is small and they do not have any material impact on consolidated financial statements in terms of each company's profit/loss (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., even if they were excluded from the scope of the application of the equity method.

The 3 investments in affiliates accounted for using equity method as of December 31, 2021 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 marked prices, etc., 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 nature (investments deemed to be securities prescribed under article 2-2 of "Financial Instruments and Exchange Act"), the net 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.

#### **(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 leased assets)**

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

However, 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 are charged to the consolidated statements of income as incurred.

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

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

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

### **(7) Leased assets**

Depreciation of finance leased 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**

To prepare for credit losses on receivables, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

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

To provide for employees' bonus payment, an estimated amount to be paid in respect of the fiscal year is provided.

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

To provide for expenditure of retirement benefits for directors, the payment amount required as of the balance sheet date is recorded based on internal rules.

**(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 (mainly 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 whose outcome for the progress made by the end of the current fiscal year deemed certain, are recognized by the percentage-of-completion method. The Companies estimate the percentage of completion mainly based on construction cost-percentage method.

The completed-contract method is applied for other contracts.

**(13) Significant 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) Significant 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 Companies 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 based on fluctuation amount, etc., of the two. 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 tax effect 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) Significant Accounting Estimates**

There are no accounting estimates that have a risk of significantly impacting the financial statements for the next fiscal year.

**(19) 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 26, 2021)

**(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.

—Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 revised on June 17, 2021)

(a) Overview

This implementation guidance has been released to provide guidance on fair value measurement of investment trust and notes as well as notes on investments in limited liability partnerships, etc., which the net amount equivalent to the Company's partnership investment gain or loss under the equity method is recognized.

(b) Scheduled date of adoption

The Companies expect to adopt the implementation guidance from the beginning of the fiscal year ending December 31, 2023

(c) Impact of the adoption of implementation guidance

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

**(20) Changes in presentation**

(Changes due to the application of "Accounting Standard for Disclosure of Accounting Estimates")

The Companies have applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) from the fiscal year ending December 31, 2021, and notes to Significant Accounting Estimates are provided under Notes to Consolidated Financial Statements.

However, regarding notes concerned, contents related to fiscal year ending December 31, 2020 are not stated according to an interim measure provided in a proviso in paragraph 11 of accounting standard concerned.

**(21) Additional Information**

(Accounting Estimates Related to the Impact of the Spread of COVID-19)

It is difficult to forecast the future expansion and convergence of COVID-19, and the Companies have made accounting estimates such as impairment accounting for non-current assets and recoverability of deferred tax assets based on the assumption that there will be a gradual recovery in the future although the impact on the Company will continue for a certain period of time in the next fiscal year and beyond. At this time, the Companies have determined that there will be no significant impact on the accounting estimates, and do not expect any significant impact in the future.

Actual results may differ from these estimates as there are many uncertainties regarding the impact of the spread of COVID-19, and because of changes to the future business environment.

**(22) Rounding of amounts**

Amounts of less than a million yen have been omitted.

---

### 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 ¥115.02 = US\$1, exchange rates on December 31, 2021, 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, 2020 and 2021, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Investment securities (stock)	¥ 6,946	¥ 7,292	\$ 63,404
Investment securities (capital)	217	217	1,888

## \*2. Land Revaluation

Pursuant to the "Act on Revaluation of Land" (No.34 on March 31, 1998), and "Act on Partial Amendment to the Act on Revaluation of Land" (No.19 on March 31, 2001), 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" (No.119 on March 31, 1998) 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, 2020 and 2021, the differences between fair value and carrying value after revaluation were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
The differences between fair value and carrying value after revaluation	¥ 862	¥ 859	\$ 7,469

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

December 31, 2020 and 2021 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, 2020 and 2021, notes matured at the balance sheet date were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Notes receivable	¥ 300	¥ 450	\$ 3,913

## (CONSOLIDATED STATEMENTS OF INCOME)

### \*1. Research and development expenses

For the years ended December 31, 2020 and 2021, Research and development expenses were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Research and development expenses included in general and administrative expenses and manufacturing costs	¥ 789	¥ 1,035	\$ 9,006

### \*2. Gain on sale of non-current assets

For the years ended December 31, 2020 and 2021, Gain on sale of non-current assets were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Buildings and structures	-	¥ 608	\$ 5,291
Land	-	275	2,392
Other property, plant and equipment	-	2	19
Gain on sale of non-current assets	-	¥ 886	\$ 7,703

### \*3. Loss on retirement of non-current assets

For the years ended December 31, 2020 and 2021, Loss on retirement of non-current assets were as follows:

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Buildings and structures	¥ 18	¥ 33	\$ 288
Other property, plant and equipment	26	21	191
Software	0	1	12
Loss on retirement of non-current assets	¥ 46	¥ 56	\$ 492

## (CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

### \*1. Other comprehensive income

For the years ended December 31, 2020 and 2021, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Valuation difference on available-for-sale securities			
Amount arising during the year	¥ (572)	¥ 4,573	\$ 39,760
Reclassification adjustments	(225)	(19)	(171)
Amount before tax effect	(797)	4,553	39,588
Tax effect	244	(1,394)	(12,122)
Valuation difference on available-for-sale securities	(553)	3,159	27,466
Deferred gains or losses on hedges			
Amount arising during the year	(12)	70	614
Reclassification adjustments	(0)	(45)	(395)
Amount before tax effect	(13)	25	219
Tax effect	3	(7)	(67)
Deferred gains or losses on hedges	(9)	17	152
Revaluation reserve for land			
Amount arising during the year	-	-	-
Reclassification adjustments	-	-	-
Amount before tax effect	-	-	-
Tax effect	-	126	1,102
Revaluation reserve for land	-	126	1,102
Remeasurements of defined benefit plans			
Amount arising during the year	(36)	515	4,482
Reclassification adjustments	260	(844)	(7,342)
Amount before tax effects	223	(328)	(2,859)
Tax effects	(68)	100	875
Remeasurements of defined benefit plans	155	(228)	(1,984)
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	4	151	1,315
Reclassification adjustments	3	4	36
Share of other comprehensive income of entities accounted for using equity method	8	155	1,351
Total other comprehensive income	¥ (399)	¥ 3,230	\$ 28,089

## (CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY)

### 1. Shareholders' Equity

The Companies Act of Japan requires that an amount equal to 10% of additional dividends of surplus should be appropriated to capital reserves and retained earnings reserves until the total amount of capital reserves and retained earnings reserves equals to 25% of share capital.

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

### 2. Dividends of surplus, etc.

#### (1) Number of shares issued

	Thousands of shares	
	2020	2021
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	
	2020	2021
Number of shares at the beginning of the fiscal year	400	<b>400</b>
Increase	-	(*) <b>0</b>
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)		
2020/03/27	¥20,856	\$ 181,326	¥ 110.00	\$ 0.95	2019/12/31	2020/03/30
2021/03/26	<b>¥21,804</b>	<b>\$ 189,568</b>	<b>¥ 115.00</b>	<b>\$ 1.00</b>	2020/12/31	2021/03/29
2022/03/29	<b>¥22,752</b>	<b>\$ 197,810</b>	<b>¥ 120.00</b>	<b>\$ 1.04</b>	2021/12/31	2022/03/30

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, 2020 and 2021 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Cash and deposits	¥ 178,072	¥ 204,701	\$ 1,779,703
Time deposits with deposit terms of more than three months	(40)	(40)	(347)
Trust beneficiary interests included in other current assets with investment terms with three months or less	955	1,084	9,432
Cash and cash equivalents	¥ 178,988	¥ 205,746	\$ 1,788,788

## (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, 2020 and 2021.

### 2. Operating Lease Transactions (lessee)

The amounts of future lease payments on noncancelable operating leases as of December 31, 2020 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Due within one year	¥ 241	¥ 1,040	\$ 9,042
Due after one year	288	9,435	82,031
Total	¥ 529	¥ 10,475	\$ 91,073

## (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 identify promptly and 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, 2020 and 2021 and estimated fair value and their difference were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
2020			
<b>Assets</b>			
1) Cash and deposits	¥ 178,072	¥ 178,072	-
2) Notes and accounts receivable - trade	145,033	145,033	-
3) Investment securities			
Available-for-sale 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.

	Millions of yen		
	Carrying value	Fair value	Difference
2021			
<b>Assets</b>			
1) Cash and deposits	¥ 204,701	¥ 204,701	-
2) Notes and accounts receivable - trade	135,786	135,786	-
3) Investment securities			
Available-for-sale securities	14,390	14,390	-
Investments in affiliates	1,193	2,116	923
<b>Total assets</b>	<b>¥ 356,072</b>	<b>¥ 356,995</b>	<b>¥ 923</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	¥ 91,938	¥ 91,938	-
5) Electronically recorded obligations - operating	17,901	17,901	-
6) Short-term borrowings	4,800	4,800	-
7) Income taxes payable	8,769	8,769	-
8) Long-term borrowings	1,700	1,700	0
<b>Total liabilities</b>	<b>¥ 125,109</b>	<b>¥ 125,110</b>	<b>¥ 0</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	¥ 13	¥ 13	-
Derivative transactions to which hedge accounting is applied	15	15	-
<b>Total derivative transactions</b>	<b>¥ 29</b>	<b>¥ 29</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		
	2021		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	\$1,779,703	\$1,779,703	-
2) Notes and accounts receivable - trade	1,180,545	1,180,545	-
3) Investment securities			
Available-for-sale securities	125,114	125,114	-
Investments in affiliates	10,376	18,401	8,025
<b>Total assets</b>	<b>\$3,095,740</b>	<b>\$3,103,765</b>	<b>\$ 8,025</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	\$ 799,327	\$ 799,327	-
5) Electronically recorded obligations - operating	155,639	155,639	-
6) Short-term borrowings	41,731	41,731	-
7) Income taxes payable	76,241	76,241	-
8) Long-term borrowings	14,780	14,785	5
<b>Total liabilities</b>	<b>\$1,087,720</b>	<b>\$1,087,725</b>	<b>\$ 5</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	\$ 117	\$ 117	-
Derivative transactions to which hedge accounting is applied	137	137	-
<b>Total derivative transactions</b>	<b>\$ 254</b>	<b>\$ 254</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, 2020 and 2021, financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unlisted stocks	¥6,066	¥6,759	\$ 58,768
Investments in limited partnerships, etc.	26	22	198

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

**3. Redemption schedule for receivables as of December 31, 2020 and 2021 are as follows:**

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	-	-	-
<b>Total</b>	<b>¥ 323,106</b>	-	-	-

  

Millions of yen				
2021				
	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	<b>¥ 204,701</b>	-	-	-
Notes and accounts receivable - trade	<b>135,786</b>	-	-	-
<b>Total</b>	<b>¥ 340,487</b>	-	-	-

  

Thousands of U.S. dollars				
2021				
	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	<b>\$ 1,779,703</b>	-	-	-
Notes and accounts receivable - trade	<b>1,180,545</b>	-	-	-
<b>Total</b>	<b>\$ 2,960,248</b>	-	-	-

**4. Repayment schedules for long-term borrowings and other interest-bearing debt as of December 31, 2020 and 2021 are as follows:**

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	-	-

  

Millions of yen				
2021				
	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	<b>¥ 4,800</b>	-	-	-
Long-term borrowings	-	<b>1,700</b>	-	-

  

Thousands of U.S. dollars				
2021				
	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	<b>\$ 41,731</b>	-	-	-
Long-term borrowings	-	<b>14,780</b>	-	-

**(SECURITIES)**

As of December 31, 2020 and 2021, securities were as follows:

**(1) Available-for-sale securities with fair value as of December 31, 2020 and 2021**

	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	Carrying value	Acquisition cost	Unrealized gains(loss)	Carrying value	Acquisition cost	Unrealized gains(loss)	Carrying value	Acquisition cost	Unrealized gains(loss)
Securities whose carrying value exceeds their acquisition costs									
Stocks	¥ 8,874	¥ 808	¥8,066	¥ 14,076	¥ 1,582	¥ 12,493	\$ 122,379	\$ 13,756	\$ 108,623
Bonds	-	-	-	-	-	-	-	-	-
Other securities	236	110	125	253	115	138	2,207	1,006	1,201
	¥ 9,111	¥ 918	¥8,192	¥ 14,330	¥ 1,698	¥ 12,632	\$ 124,587	\$ 14,762	\$ 109,824
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥ 318	¥ 432	¥ (114)	¥ 60	¥ 61	¥ (0)	\$ 527	\$ 531	\$ (3)
Bonds	-	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-	-
	¥ 318	¥ 432	¥ (114)	¥ 60	¥ 61	¥ (0)	\$ 527	\$ 531	\$ (3)
<b>Total</b>	<b>¥ 9,429</b>	<b>¥1,351</b>	<b>¥8,078</b>	<b>¥ 14,390</b>	<b>¥ 1,759</b>	<b>¥ 12,631</b>	<b>\$ 125,114</b>	<b>\$ 15,294</b>	<b>\$ 109,820</b>

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
	2020	2021	2021
	Carrying value	Carrying value	Carrying value
Unlisted stocks	¥ 276	¥ 443	\$ 3,852
Investment in limited partnerships, etc.	26	22	198

## 2) Available-for-sale securities sold for the years ended December 31, 2020 and 2021

	Millions of yen						Thousands of U.S. dollars		
	2020			2021			2021		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥ 299	¥ 225	-	¥ 38	¥ 19	¥ 0	\$ 331	\$ 171	\$ 0

### (3) Securities whose purpose of holding changed

For the year ended December 31, 2021, since the Company came to have no material impact on SIOS Corporation, the Company reclassified its share from the investment for affiliates to available-for-sale securities (¥ 928 million, \$ 8,075 thousand as carrying value as of December 31, 2021).

### (4) Securities impaired for the years ended December 31, 2020 and 2021

For the years ended December 31, 2020 and 2021, there were no securities impaired.

Note. For securities with market quotations, the ones whose fair value as of the year-end are on or less than 50% of the acquisition costs which are considered as no recoverable are impaired in the amounts of fallen value and more than 50% but less than 70% are impaired in required amounts in consideration of the recoverability.

For securities without market quotations, the ones whose substantial value as of the year-end are on or less than 50% of the acquisition costs due to worsening in the issuers' financial situation are impaired except in the case that there is sufficient evidence to support the recoverability.

## (DERIVATIVES)

As of December 31, 2020 and 2021, derivative transactions were as follows:

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

Currency-related transactions (excepting market transactions)

	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)

	Millions of yen			
	2021			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts Buy U.S. dollar	¥ 1,093	-	¥ 13	¥ 13

	Thousands of U.S. dollars			
	2021			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts Buy U.S. dollar	\$ 9,509	-	\$ 117	\$ 117

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		
		2020		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥ 818	-	¥ (9)
Buy U.S. dollar				

		Millions of yen		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥ 739	-	¥ 15
Buy U.S. dollar				

		Thousands of U.S. dollars		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	\$ 6,428	-	\$ 137
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		
		2020		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term borrowings	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
Pay/fixed and receive/floating				

		Millions of yen		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term borrowings	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
Pay/fixed and receive/floating				

		Thousands of U.S. dollars		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term borrowings	Interest-rate swaps	\$ 14,780	\$ 14,780	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, 2021, 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
	2020	2021	2021
Balance at the beginning of the year	¥ 53,909	¥ 54,878	\$ 477,123
Service costs	2,511	2,519	21,901
Interest costs	52	56	489
Actuarial loss (gain)	42	(540)	(4,696)
Retirement benefits paid	(1,636)	(1,700)	(14,783)
Prior service costs	-	38	333
Balance at the end of the year	¥ 54,878	¥ 55,251	\$ 480,368

#### (b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at the beginning of the year	¥ 45,538	¥ 46,149	\$ 401,231
Actuarial loss (gain)	5	13	119
Contribution paid by the employer	2,164	2,176	18,925
Retirement benefits paid	(1,559)	(1,652)	(14,369)
Balance at the end of the year	¥ 46,149	¥ 46,687	\$ 405,906

#### (c) Changes in retirement defined benefit liability of the plans that apply the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at the beginning of the year	¥ 628	¥ 606	\$ 5,276
Retirement benefit expenses	86	90	783
Retirement benefits paid	(108)	(51)	(448)
Balance at the end of the year	¥ 606	¥ 645	\$ 5,611

(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
	2020	2021	2021
Funded retirement benefit obligations	¥ 52,185	¥ 52,269	\$ 454,442
Plan assets	(46,149)	(46,687)	(405,906)
	6,035	5,582	48,536
Unfunded retirement benefit obligations	3,300	3,627	31,537
Total net retirement benefit liability and asset	9,336	9,210	80,073
Retirement benefit liability	9,336	9,210	80,073
Total net retirement benefit liability and asset	¥ 9,336	¥ 9,210	\$ 80,073

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

(e) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Service costs	¥ 2,511	¥ 2,519	\$ 21,901
Interest costs	52	56	489
Amortization of actuarial differences	367	(737)	(6,412)
Amortization of prior service costs	(107)	(106)	(929)
Retirement benefit expenses calculated by simplified methods	86	90	783
Additional benefits for employees' retirement	8	11	96
Retirement benefit expenses	¥ 2,919	¥ 1,832	\$ 15,929

(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
	2020	2021	2021
Prior service costs	¥ (107)	¥ (145)	\$ (1,263)
Actuarial differences	330	(183)	(1,596)
Total	¥ 223	¥ (328)	\$ (2,859)

(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
	2020	2021	2021
Unrecognized prior service costs	¥ (216)	¥ (70)	\$ (615)
Unrecognized actuarial differences	(2,289)	(2,105)	(18,308)
Total	¥ (2,505)	¥ (2,176)	\$ (18,923)

(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:

	2020	2021
Cash and deposits	86%	86%
Life insurance 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 (indicated as a weighted average)

	2020	2021
Discount rate	0.1%	0.2%
Long-term expected rate of return on plan assets	0.0%	0.0%
Salary increasing rate	7.4%	7.4%

\* 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, 2020 and 2021 were ¥815 million and ¥821 million (\$7,140 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, 2020 and 2021 were ¥25 million and ¥26 million (\$231 thousand), respectively.

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2020	March 31, 2021	March 31, 2021
Plan assets	¥ 49,775	¥ 54,166	\$ 470,933
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	48,053	52,445	455,964
Difference	¥ 1,721	¥ 1,721	\$ 14,968

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

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

Fiscal year ended December 31, 2021. 1.4% (As of March 31, 2021)

(c) Supplementary information:

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
General reserve	¥ 2,520	¥ 1,721	\$ 14,968
Surplus or deficiency	(798)	-	-
Total	¥ 1,721	¥ 1,721	\$ 14,968

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

## (TAX EFFECT ACCOUNTING)

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

	Millions of yen		Thousands of
	2020	2021	U.S. dollars
Deferred tax assets:			
Allowance for doubtful accounts	¥ 95	¥ 58	\$ 508
Accrued enterprise taxes	727	625	5,439
Provision for bonuses	1,179	1,167	10,152
Retirement benefit liability	2,862	3,495	30,389
Provision for directors' retirement benefits	233	213	1,860
Impairment losses	1,216	889	7,733
Software development costs	1,504	1,670	14,526
Unrealized profit from non-current assets	428	412	3,583
Other	2,340	1,703	14,809
Subtotal	10,589	10,237	89,003
Less: Valuation allowance	(974)	(951)	(8,275)
Total deferred tax assets	9,614	9,285	80,727
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(2,448)	(3,842)	(33,407)
Other	(79)	(106)	(925)
Total deferred tax liabilities	(2,527)	(3,948)	(34,332)
Net deferred tax assets	¥ 7,087	¥ 5,336	\$ 46,394

### (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 "SIGNIFICANT ITEMS 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 segments

	Reportable segments				Millions of yen	
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	2020	
					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>	
<b>Segment profit</b>	<b>¥ 50,965</b>	<b>¥ 14,443</b>	<b>¥ 65,409</b>	<b>¥ (9,100)</b>	<b>¥ 56,309</b>	
<b>Segment assets</b>	<b>¥ 172,178</b>	<b>¥ 116,977</b>	<b>¥ 289,155</b>	<b>¥ 182,136</b>	<b>¥ 471,292</b>	
<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	

Millions of yen					
	Reportable segments			Adjustment (Note 1)	2021
	System Integration business	Service and Support business	Total		Amount recorded in consolidated financial statements (Note 2)
<b>Net sales</b>					
Outside customers sales	¥ 523,609	¥ 328,284	¥ 851,894	-	¥ 851,894
Inter-segment sales/transfers	56	745	802	(802)	-
<b>Total</b>	<b>¥ 523,666</b>	<b>¥ 329,029</b>	<b>¥ 852,696</b>	<b>¥ (802)</b>	<b>¥ 851,894</b>
<b>Segment profit</b>	<b>¥ 50,552</b>	<b>¥ 14,234</b>	<b>¥ 64,786</b>	<b>¥ (8,958)</b>	<b>¥ 55,827</b>
<b>Segment assets</b>	<b>¥ 159,879</b>	<b>¥ 124,849</b>	<b>¥ 284,728</b>	<b>¥201,526</b>	<b>¥ 486,254</b>
<b>Other items</b>					
Depreciation (Note 3)	¥ 3,782	¥ 3,368	¥ 7,150	¥ 831	¥ 7,982
Investments in affiliates accounted for using equity method	1,193	5,961	7,155	-	7,155
Increase in property, plant and equipment and intangible assets	5,540	5,078	10,618	264	10,882

Thousands of U.S. dollars					
	Reportable segments			Adjustment (Note 1)	2021
	System Integration business	Service and Support business	Total		Amount recorded in consolidated financial statements (Note 2)
<b>Net sales</b>					
Outside customers sales	\$4,552,338	\$2,854,148	\$7,406,486	-	\$7,406,486
Inter-segment sales/transfers	490	6,482	6,972	(6,972)	-
<b>Total</b>	<b>\$4,552,828</b>	<b>\$2,860,630</b>	<b>\$7,413,459</b>	<b>\$ (6,972)</b>	<b>\$7,406,486</b>
<b>Segment profit</b>	<b>\$ 439,510</b>	<b>\$ 123,752</b>	<b>\$ 563,262</b>	<b>\$ (77,886)</b>	<b>\$ 485,376</b>
<b>Segment assets</b>	<b>\$1,390,010</b>	<b>\$1,085,457</b>	<b>\$2,475,468</b>	<b>\$1,752,098</b>	<b>\$4,227,566</b>
<b>Other items</b>					
Depreciation (Note 3)	\$ 32,881	\$ 29,287	\$ 62,168	\$ 7,228	\$ 69,397
Investments in affiliates accounted for using equity method	10,376	51,833	62,209	-	62,209
Increase in property, plant and equipment and intangible assets	48,166	44,150	92,317	2,298	94,616

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Segment profit adjustment			
companywide expenses (not allocated to the reportable segments) consisting mainly of expenses related to administrative operations	¥ (9,061)	¥ (9,002)	\$ (78,266)
Segment assets adjustment			
companywide assets (not allocated to the reportable segments) consisting mainly of assets not belonging to the reportable segments (cash and deposits, investment securities) and assets related to administrative operations	¥ 183,129	¥202,437	\$1,760,020
Depreciation adjustment			
depreciation expenses related to companywide assets	¥ 845	¥ 831	\$ 7,228
Increase in property, plant and equipment and intangible assets adjustment			
increase related to companywide assets	566	264	2,298

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, 2020 and 2021.

**(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, 2020 and 2021.

2. Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan as of December 31, 2020 and 2021.

**(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, 2020 and 2021.

**【Impairment loss on non-current assets by reportable segments】**

The disclosure is omitted because impairment loss on non-current assets by reportable segments is immaterial in the consolidated financial statements for the years ended December 31, 2020 and 2021.

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

For the years ended December 31, 2020 and 2021, not applicable.

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

For the years ended December 31, 2020 and 2021, not applicable.

**【Related Party Transactions】**

For the years ended December 31, 2020 and 2021, not applicable.

## (PER SHARE INFORMATION)

Net assets per share as of December 31, 2020 and 2021 and basic earnings per share for the years ended December 31, 2020 and 2021 were summarized as follows:

	Yen		U.S. dollars
	2020	2021	2021
Net assets per share	¥ 1,462.80	¥ 1,575.64	\$ 13.70
Basic earnings per share	207.33	210.59	1.83

Notes 1. Diluted earnings per share for the years ended December 31, 2020 and 2021 are omitted, because the Companies have no dilutive shares.

2. Basis for calculation of net assets per share as of December 31, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Numerator:			
Net assets	¥ 280,035	¥ 301,774	\$ 2,623,666
Amounts deducted from net assets(Non-controlling interests)	2,687	3,030	26,348
Net assets attributable to common stock	¥ 277,348	¥ 298,743	\$ 2,597,317

	Thousands of shares	
Denominator:		
Number of shares of common stock outstanding	189,601	189,601

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, 2020 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Numerator:			
Profit attributable to owners of parent	¥ 39,309	¥ 39,927	\$ 347,138
Amount not attributable to common shareholders	-	-	-
Profit attributable to owners of parent related to common stock	¥ 39,309	¥ 39,927	\$ 347,138

	Thousands of shares	
Denominator:		
Weighted-average number of shares of common stock outstanding	189,601	189,601

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, 2021 consisted of the following:

	Millions of yen	
	2021	
	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings at the average interest rate of 0.67%	¥4,800	¥4,800
Current portion of long-term borrowings	-	-
Current portion of lease obligations	875	865
Long-term borrowings due in 2023 at the average interest rate of 0.66%	1,700	1,700
Lease obligations due in 2023-2026	1,519	1,485
Other interest-bearing debt	-	-
<b>Total</b>	<b>¥8,895</b>	<b>¥8,851</b>

	Thousands of U.S. dollars	
	2021	
	Balance at the beginning of the year	Balance at the end of the year
Short-term borrowings at the average interest rate of 0.67%	\$ 41,731	\$ 41,731
Current portion of long-term borrowings	-	-
Current portion of lease obligations	7,615	7,523
Long-term borrowings due in 2023 at the average interest rate of 0.66%	14,780	14,780
Lease obligations due in 2023-2026	13,213	12,916
Other interest-bearing debt	-	-
<b>Total</b>	<b>\$ 77,340</b>	<b>\$ 76,952</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. Repayment schedule of long-term borrowings and lease obligations through five years after December 31, 2021 is as follows:

	Millions of yen			
	2021			
	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	682	467	255	80

	Thousands of U.S. dollars			
	2021			
	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	\$14,780	-	-	-
Lease obligations	5,936	4,061	2,217	701

# 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, 2021, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, and the related consolidated supplementary schedules.

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, 2021, 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.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Accounting treatment for direct delivery transactions involving multiple companies in the System Integration business	
Description of Key Audit Matter	Auditor's Response
<p>As described in "Segment Information," in the notes to consolidated financial statements of OTSUKA CORPORATION (the "Company") and its subsidiaries, consolidated net sales were 851,894 million yen, of which System Integration business sales were 523,609 million yen for the fiscal year ended December 31, 2021. The business fields of the System Integration business encompass the construction of information systems and their cutover to end users.</p> <p>The System Integration business of the Company and a certain consolidated subsidiary typically involves determining the specifications of the goods for customers, the delivery date and the delivery location, and responsible for selecting a manufacturer or distributor designated by the manufacturer (the "manufacturers") and delivering the goods to customers. Some of those transactions involve multiple companies and the related goods themselves are delivered directly from a supplier to the final customer without going through the Company or the consolidated subsidiary. These transactions may include goods that have purchased from suppliers other than the manufacturers in exceptional circumstances. In that case, the Company or the consolidated subsidiary must take into consideration the nature of each transaction, confirm the existence of the transaction, identify their own roles in the commercial flow of the transaction, and determine whether it is appropriate to record revenue on a gross basis or a net basis.</p> <p>If the commercial flow of a transaction is complex and the role of the Company or the consolidated subsidiary in the transaction is highly customized, management's judgement is necessary to determine the accounting treatment, and depending on such judgement, the amount of revenue recorded might differ significantly from the actual amount that should be recognized. Based on the above, we determined that the accounting treatment for direct delivery transactions involving multiple companies in the System Integration business was highly significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess the appropriateness of the accounting treatment for direct delivery transactions involving multiple companies in the System Integration business included the following:</p> <p>(1) Internal control testing</p> <ul style="list-style-type: none"> <li>We tested the design and operating effectiveness of the following internal controls in the purchasing department. <ul style="list-style-type: none"> <li>Control to ensure orders are only placed with suppliers registered in the purchasing system</li> <li>Control to ensure the reasonableness of placing orders with non-regular suppliers</li> </ul> </li> <li>We tested the design and operating effectiveness of the following internal controls in the accounting department. <ul style="list-style-type: none"> <li>Control to understand the nature of the transaction, identify the role of the Company or the consolidated subsidiary in the commercial flow of the transaction, and assess whether the revenue should be recognized on a gross basis or a net basis for direct delivery transactions over a certain monetary threshold.</li> <li>Control to accurately process the accounting treatment for transactions that are determined to be recorded on a net basis in financial closing process.</li> </ul> </li> </ul> <p>(2) Substantive procedures</p> <ul style="list-style-type: none"> <li>We inquired with the sales department about direct delivery transactions that met certain criteria and understood the nature of the transaction and the role of the Company or the consolidated subsidiary in the commercial flow of the transaction. Then we examined the rationality of the commercial flow of the transaction, normality in gross profit margin, and whether the Company or the consolidated subsidiary has any inventory risk or the right to determine the sales price. Also, we examined evidence such as negotiation documents between the Company or the consolidated subsidiary and their customers to confirm the consistency of information acquired from our inquiries.</li> <li>In order to examine the accuracy of the recorded amount, we compared the amount over a certain monetary threshold with transaction supporting documents such as contracts.</li> <li>In order to evaluate whether there were any abnormalities in the recorded amounts, we conducted the fluctuation analysis of the total amounts of those transactions assessed in determining whether to recognize revenue on a gross basis or a net basis by the Company or the consolidated subsidiary and of the revenue recorded on a net basis.</li> </ul>

### ***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.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### ***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, 2021 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 29, 2022

/s/Seiji Yamamoto  
Designated Engagement Partner  
Certified Public Accountant

/s/Tomo Ito  
Designated Engagement Partner  
Certified Public Accountant

/s/Hideaki Keyaki  
Designated Engagement Partner  
Certified Public Accountant