

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

(Securities Code: 4768)

March 8, 2022

To our shareholders:

Yuji Otsuka,  
President & Chief Executive  
Officer  
**OTSUKA  
CORPORATION**  
2-18-4 Iidabashi, Chiyoda-ku,  
Tokyo

## **NOTICE OF THE 61ST ANNUAL GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 61st Annual General Meeting of Shareholders of OTSUKA CORPORATION (the “Company”), which will be held as indicated below.

If you are unable to attend the Meeting, you can exercise your voting rights using any of the following methods. Please review the attached Reference Documents for the General Meeting of Shareholders and **exercise your voting rights by no later than 5:30 p.m., Monday, March 28, 2022 (JST).**

### **[Voting in writing (by mail)]**

Please indicate your approval or disapproval of each proposal on the enclosed voting form, and return it so that your vote is received by the above deadline.

### **[Voting via the internet, etc.]**

Please access the voting website designated by the Company (<https://www.web54.net>) using the voting code and password printed on the enclosed voting form, and enter your approval or disapproval of each proposal following the instructions on your screen by the above deadline.

- 1. Date and Time:** Tuesday, March 29, 2022, at 10:00 a.m. (JST)  
(The reception desk will open at 9:00 a.m.)
- 2. Venue:** **Large Conference Room, 3rd floor, Head Office of the Company**  
2-18-4 Iidabashi, Chiyoda-ku, Tokyo
- 3. Purpose of the Meeting:**  
*Items to be reported:*

1. The Business Report and the Consolidated Financial Statements for the 61st fiscal year (from January 1, 2021 to December 31, 2021), and the results of audits of the Consolidated Financial Statements by the Independent Auditor and the Audit & Supervisory Board
2. The Non-consolidated Financial Statements for the 61st fiscal year (from January 1, 2021 to December 31, 2021)

***Items to be resolved:***

- Proposal 1:** Appropriation of Surplus
- Proposal 2:** Partial Amendments to the Articles of Incorporation
- Proposal 3:** Provision of Final Payment of Retirement Benefits to Standing Audit & Supervisory Board Members upon the Abolition of the Audit & Supervisory Board Members' Retirement Benefits System

#### 4. Matters Prescribed for Convocation

- (1) In the event that your approval or disapproval of each proposal is not indicated on the voting form, it shall be considered as an indication of approval.
- (2) When voting rights are exercised via the internet, etc. more than once, the last vote shall be deemed effective.
- (3) When voting rights are exercised in duplicate, both in writing and via the internet, etc., the vote via the internet, etc. shall be deemed effective.
- (4) If you diversely exercise your voting rights, you are requested to notify the Company in writing of your intention to do so and state the reason for this no later than three days before the Meeting.

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- When you attend the Meeting, you are kindly requested to present the enclosed voting form at the reception.
  - Of the documents to be provided with this convocation notice, “System to Ensure the Properness of Operations and its Operational Status” of the Business Report, “Consolidated Statement of Changes in Equity” and “Notes to the Consolidated Financial Statements” of the Consolidated Financial Statements, and “Statement of Changes in Equity” and “Notes to the Non-consolidated Financial Statements” of the Non-consolidated Financial Statements have been published on the Company’s website in conformance with the relevant laws and regulations as well as Article 15 of the Company’s Articles of Incorporation, and therefore not provided in this convocation notice. The Audit & Supervisory Board Members and the Independent Auditor also audit the items posted on the website.
  - If any changes are made to items in the Reference Documents for the General Meeting of Shareholders and the Business Report, or to Non-consolidated Financial Statements and Consolidated Financial Statements, such changes will be posted on the Company’s website (<https://www.otsuka-shokai.co.jp>) (in Japanese only).

## Reference Documents for the General Meeting of Shareholders

### Proposal 1: Appropriation of Surplus

The Company proposes the appropriation of surplus as follows:

#### Year-end Dividends

The Company considers the return of profit to shareholders to be one of the most important management issues and its basic policy is to continually pay stable dividends based on its business performance while considering business foundation enhancement and the soundness of the financial structure.

In accordance with this policy, the Company proposes to pay ¥115 per common share of the Company as year-end dividends for the 61st fiscal year, the same as the previous fiscal year's ordinary dividend, plus ¥5 as a commemorative dividend for the Company's 60th Anniversary, resulting in ¥120 in total, as follows:

(1) Type of dividend property

To be paid in cash.

(2) Allotment of dividend property and their aggregate amount

¥120 per common share of the Company

Total dividends: ¥22,752,142,800

(3) Effective date of dividends of surplus

March 30, 2022

## Proposal 2: Partial Amendments to the Articles of Incorporation

### 1. Reasons for Proposal

As the revised provisions stipulated in the proviso to Article 1 of the Supplementary Provisions of the “Act Partially Amending the Companies Act” (Act No. 70 of 2019) will come into effect on September 1, 2022, the Articles of Incorporation are proposed to be amended as follows to introduce a system to provide materials for the General Meeting of Shareholders electronically.

- (1) As the Company will be required to provide in its Articles of Incorporation that it will take measures to provide electronically the information that is the content of the Reference Documents for the General Meeting of Shareholders, etc., Paragraph 1 of Article 15 (Measures for electronic provision, etc.) of the Proposed Amendment will be newly established.
- (2) Paragraph 2 of Article 15 (Measures for electronic provision, etc.) of the Proposed Amendment will be newly established to allow the Company to limit, of the matters to be electronically provided with respect to the information that is the content of the Reference Documents for the General Meeting of Shareholders, etc., the scope of matters to be stated in the documents to be delivered to shareholders who have requested documents in writing, to the scope specified in the applicable Ministry of Justice Order.
- (3) The provision of Article 15 (Internet disclosure and deemed provision of the Reference Documents for the General Meeting of Shareholders, etc.) of the current Articles of Incorporation will no longer be necessary when the electronic provision of information on the General Meeting of Shareholders is introduced, and is therefore to be deleted.
- (4) The Company will establish supplementary provisions to give effect to the above new and deleted provisions. These supplementary provisions are to be deleted after their expiration date.

### 2. Description of the Amendments

Description of the amendments is as follows:

(Amended parts are underlined.)

Current Articles of Incorporation	Proposed amendments
<p><u>(Internet disclosure and deemed provision of Reference Documents of the General Meeting of Shareholders, etc.)</u></p> <p><u>Article 15. When the Company convenes a General Meeting of Shareholders, if it discloses information that is to be stated or indicated in the Reference Documents for the General Meeting of Shareholders, Business Report, Financial Statements and/or Consolidated Financial Statements through the internet in accordance with the provisions prescribed by the Ministry of Justice Order, it may be deemed that the</u></p>	<p>(Deleted)</p>

Company has provided this information to  
shareholders.

	<u>(Measures for electronic provision, etc.)</u>
(New)	<p><u>Article 15.</u></p> <p><u>1. When the Company convenes a General Meeting of Shareholders, it shall take measures to electronically provide information that is the content of the Reference Documents for the General Meeting of Shareholders, etc.</u></p>
	<p><u>2. The company shall not be required to include all or part of the matters prescribed by the Ordinance of the Ministry of Justice among the matters for which electronic provision measures are to be taken in the documents to be delivered to shareholders who have made a request for delivery of documents by the record date for voting rights.</u></p> <p><u>Supplementary provisions</u></p>
(New)	<p><u>Article 1. The deletion of Article 15 (Internet disclosure and deemed provision of the Reference Documents for the General Meeting of Shareholders, etc.) of the Articles of Incorporation before the amendment and the establishment of Article 15 (Measures for electronic provision, etc.) of the Articles of Incorporation after the amendment shall become effective as of September 1, 2022.</u></p>
(New)	<p><u>Article 2. Regardless of the provisions of the preceding article, Article 15 (Internet disclosure and deemed provision of the Reference Documents for the General Meeting of Shareholders, etc.) of the Articles of Incorporation before amendment shall remain in effect for general meetings of shareholders to be held on a date within six months from September 1, 2022.</u></p>
(New)	<p><u>Article 3. These supplementary provisions shall be deleted after six months have elapsed from September 1, 2022 or three months have elapsed from the date of the General Meeting of Shareholders referred to in the preceding article, whichever is later.</u></p>

**Proposal 3: Provision of Final Payment of Retirement Benefits to Standing Audit & Supervisory Board Members upon the Abolition of the Audit & Supervisory Board Members' Retirement Benefits System**

Based on discussions among the Audit and Supervisory Board Members, the Company resolved at a meeting of its Board of Directors held on February 21, 2022, to abolish the retirement benefits system for Audit & Supervisory Board Members, applicable only to standing Audit & Supervisory Board Members, at the conclusion of this General Meeting of Shareholders.

Accordingly, to compensate Audit & Supervisory Board Member Tatsumi Murata for his efforts from the time of his assumption of office until the conclusion of this Meeting, the Company wishes to pay final retirement benefits to him within the range of the suitable amount prescribed by criteria established by the Company.

The timing of payment will be at the time of his retirement from Standing Audit & Supervisory Board Member, and the Company requests that the actual amount, method etc. of payment be determined through deliberation by the Audit & Supervisory Board Members.

The career summary of the retiring Standing Audit & Supervisory Board Member subject to the final payment is as follows:

Name	Career summary
Tatsumi Murata	Mar. 2021 Standing Audit & Supervisory Board Member (current position)



**Attached Documents**  
**Business Report**  
**(From January 1, 2021 to December 31, 2021)**

- 1. Current status of the corporate group**
- (1) Overview of business during the fiscal year**
- (i) Business activities and results**

During the fiscal year under review, the Japanese economy was severely constrained by the spread of COVID-19, which led to repeated declarations of a state of emergency and issuance of Area-Focused Intensive Measures for Prevention of the Spread of Infection. Thereafter, although economic activities gradually started to return to normal due to the lifting of the state of emergency declaration for the fifth wave of COVID-19 and a decrease in the number of infected people, the domestic economy continued to face an uncertain future caused by the emergence of new variants and disruption of the supply chain due to restrictions on the supply of some merchandise.

Under these economic conditions, in the IT investment field, although demand for IT investment remained firm as companies responded to digitization, there was a cautious approach as the outlook for the domestic economy remained uncertain. Amid the aforementioned environment, under the fiscal 2021 slogan, “Get close to and grow together with customers in DX and document solutions,” the OTSUKA Group strived to secure contact points with customers by utilizing online meetings, demonstrations, seminars, and other means, in addition to a combination of visiting customers while giving consideration to the prevention of infection. However, due to the prolonged impact of COVID-19, business negotiations were postponed and protracted, especially for solutions proposals, and activities for new customers were affected. Under such circumstances, in our sales activities, we continued to support our customers’ digitization efforts to improve productivity, enhance competitiveness, and reduce costs by providing opportunities for them to become aware of issues and needs related to the promotion of DX and by making concrete and easy-to-understand proposals for the shift to digitization in offices, and by working to identify demand for the digitization of documents and contracts.

As a result of the above, net sales in the fiscal year under review increased 1.9% from the previous fiscal year to ¥851,894 million. At the earnings level, operating profit decreased 0.9% year on year to ¥55,827 million, ordinary profit increased 0.0% year on year to ¥57,567 million and profit attributable to owners of parent increased 1.6% year on year to ¥39,927 million.

## (ii) Overview by business segment and principal lines of business

The OTSUKA Group's major businesses are the System Integration business encompassing business areas from building to launching information systems, and the Service and Support business covering the business area of providing support after the system launch. The businesses specifically involve consulting, building systems, providing supplies, supporting system administration and operation, etc., distinctively featuring one-stop solutions and one-stop support to widely supply copiers, computers, fax machines, telephones, lines and the likes, as well as necessary equipment and software in the office and the related services. Results by business segment are as follows:

### System Integration Business

Principal products▶ Consulting, sales of hardware and software, software development of consigned software, transport and installation work and network construction of equipment, etc.

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction, and its net sales decreased 0.6% year on year to ¥523,609 million due to such factors as the impact of a decline in unit sales of PCs and supply shortage of some merchandise.

### Service and Support Business

Principal products▶ Office supplies, maintenance and support for business operations, etc.

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, we saw a steady increase in net sales compared to the same period two years before, when COVID-19 had no impact. Meanwhile, in the "tayoreru<sup>\*1</sup>" support service business, maintenance services such as MNS<sup>\*2</sup> performed well, and therefore, net sales of overall maintenance and other services increased. As a result, overall net sales of this business increased 6.0% year on year to ¥328,284 million.

\*1 "Tayoreru": this is a business brand which supports customers' IT and overall business operations.

\*2 MNS refers to managed network services. This is a service that operates and manages office IT environments such as servers, communication equipment, security and backup across a network on behalf of customers.

**(2) Trends in assets at the end of and operating results in the current and most recent three fiscal years**

**(i) Trends in operating results and assets of the corporate group**

Class		58th fiscal year (FY2018)	59th fiscal year (FY2019)	60th fiscal year (FY2020)	61st fiscal year (Current Fiscal Year) (FY2021)
Net sales	(Millions of yen)	759,871	886,536	836,323	851,894
Ordinary profit	(Millions of yen)	49,285	63,706	57,550	57,567
Profit attributable to owners of parent	(Millions of yen)	33,601	43,497	39,309	39,927
Earnings per share (EPS)	(Yen)	177.22	229.42	207.33	210.59
Total assets	(Millions of yen)	406,732	461,812	471,292	486,254
Net assets	(Millions of yen)	231,664	261,622	280,035	301,774
Net assets per share	(Yen)	1,211.63	1,367.76	1,462.80	1,575.64
ROE	(%)	15.2	17.8	14.6	13.9

- Notes: 1. The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, earnings per share and net assets per share are calculated based on the assumption that the stock split was conducted at the beginning of the fiscal year ended December 31, 2018.
2. The Company conducted a 2-for-1 stock split for shares of the Company as of April 1, 2018. Earnings per share and net assets per share for the 58th fiscal year are stated with the assumption that the stock split was conducted at the beginning of the 58th fiscal year.

**(ii) Trends in operating results and assets of the Company**

Class		58th fiscal year (FY2018)	59th fiscal year (FY2019)	60th fiscal year (FY2020)	61st fiscal year (Current Fiscal Year) (FY2021)
Net sales	(Millions of yen)	684,912	802,200	750,492	766,724
Ordinary profit	(Millions of yen)	44,254	57,593	52,007	50,986
Profit	(Millions of yen)	30,686	39,952	36,336	36,087
Earnings per share (EPS)	(Yen)	161.85	210.72	191.65	190.33
Total assets	(Millions of yen)	373,627	426,112	431,736	443,127
Net assets	(Millions of yen)	210,057	235,571	250,316	268,128
Net assets per share	(Yen)	1,107.89	1,242.46	1,320.23	1,414.17

Note: The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, earnings per share and net assets per share are calculated based on the assumption that the stock split was conducted at the beginning of the fiscal year ended December 31, 2018.

**(3) Significant parent company and subsidiaries**

**(i) Parent company**

Not applicable.

**(ii) Significant subsidiaries**

Name	Share capital (Millions of yen)	Voting rights ratio of the Company (%)	Description of business
OSK Co., Ltd.	400	100.0	Development and sale of packaged software, IT consulting, and consigned software development
Networld Corporation	585	81.5	Sales and technical support for network related equipment
Alpha Techno Co., LTD.	50	100.0	Emergency repair of PCs and peripheral equipment, and data recovery service
Alpha Net Co., Ltd.	400	100.0	Comprehensive service and support for network systems

Note: For voting rights ratio, fractional numbers are rounded down to the nearest whole unit.

#### (4) Issues to be addressed

The OTSUKA Group will enhance the quality of management to flexibly respond to changes in the management environment over the mid-to long-term and aim to improve profitability and raise sales by leveraging collective strength pivoted on cultivation and expansion of trading customers.

To address ongoing issues, the OTSUKA Group will undertake following initiatives.

- Strengthening group management capabilities
- Thorough evaluation of each business area and optimal allocation of management resources
- Strengthening system to develop services
- Strengthening one-stop management system
- Developing human resources

At present, although there is a sense of uncertainty about the future in Japan due to concerns about the onset of the sixth wave of COVID-19, as well as the impact of supply bottlenecks on some merchandise caused by high resource prices and semiconductor shortages, and various geopolitical risks overseas, the economy is expected to recover gradually as economic activities return to normal over time.

Under these economic conditions, IT investment by companies is expected to remain resilient as they are required to respond to digitization and utilize technologies such as AI, IoT, and 5G in order to improve operational efficiency and strengthen competitiveness.

Based on the aforementioned outlook for the domestic economic situation and IT investment trends, the OTSUKA Group will strive to strengthen contact points with customers by combining various channels, such as the functions of each center that supports sales and support activities and the Customer Personalized Pages\*, in addition to sales activities conducted online using the web and by visiting customers in consideration of their safety. Specifically, we will support our customers' efforts to promote DX by utilizing our know-how and experiences under the fiscal 2022 slogan, "Get close to and grow together with customers in DX and all of our products." In particular, for small- and medium-sized customers who are lagging behind in digitization, we will provide support for digitization as well as solutions proposals that combine our wide range of products and services to improve productivity, enhance competitiveness, and reduce costs, in order to resolve the management issues faced by each customer. In addition to these efforts, we will strengthen accumulated business by offering a wide range of office supply merchandise and developing a maintenance service menu to enhance our earnings base. We will also contribute to society by providing IT-based services and solutions for social issues such as ESG and the SDGs. Furthermore, from fiscal 2022, we will implement various measures to once again strengthen our human capital.

[System Integration Business]

In the System Integration business, OTSUKA CORPORATION will undertake safe and efficient sales activities and work to identify needs for improving productivity, enhancing competitiveness, and reducing costs, such as digitization of documents. In addition, in order to promote the digitization of our customers, we will get close to our customers and continue to propose high

value-added solutions by utilizing the wide range of products we offer, which is one of the Group's strengths.

[Service and Support Business]

In the Services & Support business, in the “tanomail” business, we will work to strengthen our competitiveness and expand markets. In the “tayoreru” business, we will make efforts to improve its convenience and develop services that enable customers to continue their business activities safely and with a sense of security as well as services that can supplement the shortage of customers' IT human resources, aiming for a steady increase in net sales.

We will ask our shareholders for continued support with their understanding of the Company's initiatives.

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

**(5) Capital investments**

The total amount of capital investment of the company group made during the fiscal year under review was ¥10,882 million, an increase of ¥2,018 million compared to the previous fiscal year. Major equipment acquired during the fiscal year under review is as follows.

Major equipment acquired during the fiscal year under review

(Millions of yen)

Equipment, etc.	Location of equipment	Investment amount
Computers and servers, etc.	Nationwide offices	738
Software		5,679
Logistics center facility	Yokohama Logistics Center	3,405

**(6) Financing**

There was no financing carried out through a capital increase and corporate bond issuance during the fiscal year under review.

The capital investment funds were paid by the Company's capital.

**(7) Major creditors of the corporate group** (As of December 31, 2021)

(Millions of yen)

Creditor	Balance of borrowings
The Bank of Yokohama, Ltd.	1,900
MUFG Bank, Ltd.	1,850
Mizuho Bank, Ltd.	1,350



**(8) Main offices** (As of December 31, 2021)

<OTSUKA CORPORATION>

- (i) Head Office: 2-18-4 Iidabashi, Chiyoda-ku, Tokyo
- (ii) Main Departments: LA Division (Chiyoda-ku, Tokyo)  
BP Division (Chiyoda-ku, Tokyo)  
Tanomail Business Division (Chiyoda-ku, Tokyo)  
Hotel Division (Taito-ku, Tokyo)

(iii) Local Area Sales Departments and Regional Offices

Local Area Sales Departments		Regional Offices	
Name	Location	Name	Location
Chuo Sales Dept. 1	Chuo-ku, Tokyo	Sapporo Branch	Chuo-ku, Sapporo
Chuo Sales Dept. 2	Minato-ku, Tokyo	Sendai Branch	Miyagino-ku, Sendai
Kanagawa Sales Dept.	Kanagawa-ku, Yokohama	Tsukuba Branch	Tsukuba-shi, Ibaraki
Josai Sales Dept.	Shinjuku-ku, Tokyo	Utsunomiya Branch	Utsunomiya-shi, Tochigi
Tama Sales Dept.	Tachikawa-shi, Tokyo	Takasaki Branch	Takasaki-shi, Gunma
Johoku Sales Dept.	Toshima-ku, Tokyo	Chubu Branch	Naka-ku, Nagoya
Northern Kanto Sales Dept.	Chuo-ku, Saitama	Kyoto Branch	Nakagyo-ku, Kyoto
Keiyo Sales Dept.	Funabashi-shi, Chiba	Kobe Branch	Chuo-ku, Kobe
Osaka Northern Sales Dept.	Fukushima-ku, Osaka	Hiroshima Branch	Naka-ku, Hiroshima
Osaka Southern Sales Dept.	Chuo-ku, Osaka	Kyushu Branch	Hakata-ku, Fukuoka

(iv) Other locations

Name	Location
“tayoreru” Contact Center	Koto-ku, Tokyo, etc.
Internet Data Center	Chiyoda-ku, Tokyo, etc.
CTO Center	Ota-ku, Tokyo, Nishiyodogawa-ku, Osaka
ODT Center	Ichikawa-shi, Chiba
Hotel New Sagamiya and other three hotels	Atami-shi, Shizuoka, and other three locations

<Principal subsidiaries>

Name	Location	Name	Location
OSK Co., Ltd.	Sumida-ku, Tokyo	Alpha Techno Co., LTD.	Narashino-shi, Chiba
Networld Corporation	Chiyoda-ku, Tokyo	Alpha Net Co., Ltd.	Bunkyo-ku, Tokyo

**(9) Employees** (As of December 31, 2021)

**(i) Employees of the corporate group**

Number of employees	Increase/decrease from the previous fiscal year-end
9,171 (1,446)	Increased by 52 (increased by 99)

Note: The number of employees represents the number of full-time employees (excluding those seconded to external companies and including those seconded to the Company), and the number of casual employees is stated in parentheses. Casual employees include contract employees, part-time employees, and dispatched employees from human resources companies. In addition, contract employees and part-time employees include permanent employment contractors.

**(ii) Employees of the Company**

Number of employees	Increase/decrease from the previous fiscal year-end	Average age (Years)	Average years of service (Years)
7,480 (1,072)	Increased by 51 (increased by 2)	41.6	17.4

Note: The number of employees represents the number of full-time employees (excluding those seconded to external companies and including those seconded to the Company from the external companies), and the number of casual employees is stated in parentheses.

Casual employees include contract employees, part-time employees and dispatched employees from human resources companies. In addition, contract employees and part-time employees include permanent employment contractors.

**(10) Other significant matters relating to the current status of the corporate group**

The Company allegedly violated the Antimonopoly Act in relation to a bid for school computer equipment ordered by Hiroshima Prefecture and Hiroshima City. On October 13, 2020, the Japan Fair Trade Commission conducted an on-site inspection at the Hiroshima Branch of the Company. The Company is fully cooperating with the inspection by the Japan Fair Trade Commission.

## 2. Status of other companies, etc.

### (1) Shares (As of December 31, 2021)

(i) Total number of authorized shares	677,160,000
(ii) Total number of issued shares	190,002,120
(iii) Number of shareholders	6,498
(iv) Major shareholders (top 10 shareholders)	

Name	Number of shares held (Thousands of shares)	Equity ownership (%)
Otsuka Sobi Co., Ltd.	58,729	30.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,854	10.4
Custody Bank of Japan, Ltd. (Trust Account)	12,354	6.5
Yuji Otsuka	5,681	2.9
Custody Bank of Japan, Ltd. (Trust Account 9)	5,606	2.9
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,677	2.4
Terue Otsuka	3,873	2.0
Keiko Otsuka	3,481	1.8
SMBC Nikko Securities Inc.	2,828	1.4
STATE STREET BANK WEST CLIENT-TREATY 505234	2,217	1.1

Notes: 1. Equity Ownership is calculated after deducting treasury stock (400,930 shares).

2. Terue Otsuka passed away on December 11, 2021. However, since the transfer of ownership has not been completed, her name appears as shown in the list of shareholders.

### (2) Share acquisition rights

Not applicable.

**(3) Directors and Audit & Supervisory Board Members of the Company**

**(i) Directors and Audit & Supervisory Board Members (As of December 31, 2021)**

Position in the Company	Name	Responsibilities in the Company and significant concurrent positions outside the Company
President & Chief Executive Officer	Yuji Otsuka	General Manager of Marketing Headquarters <b>[Significant concurrent positions outside the Company]</b> President & Chief Executive Officer of Otsuka Sobi Co., Ltd.
Managing Director & Senior Executive Operating Officer	Kazuyuki Katakura	General Manager of Sales Headquarters, and Deputy General Manager of Marketing Headquarters
Managing Director & Senior Executive Operating Officer	Toshiyasu Takahashi	Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Information Department, General Manager of Tanomail Marketing Department, General Manager of Logistics Promotion Department, in charge of Marketing Automation Center and Customer Personalized Pages Promotion Center <b>[Significant concurrent positions outside the Company]</b> Representative Director and President of LION OFFICE PRODUCTS CORP.
Managing Director & Executive Operating Officer	Hironobu Tsurumi	Deputy General Manager of Sales Headquarters, Executive Department Head of CAD Department, and General Manager of CAD Promotion Department <b>[Significant concurrent positions outside the Company]</b> Chairman of Otsuka Information Technology Corp.
Managing Director & Executive Operating Officer	Hironobu Saito	In charge of Project Promotion Office, General Manager of Business Administration Headquarters, in charge of Audit Office, Marketing Automation Center and Customer Personalized Pages Promotion Center
Managing Director & Operating Officer	Katsuhiro Yano	In charge of Complex Solutions Promotion, Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office, General Manager of Major Customers Special Sales Department, in charge of Area Promotion Department
Managing Director & Operating Officer	Minoru Sakurai	General Manager of Technology Headquarters, Executive Department Head of AP Solution Department, and Executive Department Head of TC Solution Department

Position in the Company	Name	Responsibilities in the Company and significant concurrent positions outside the Company
Director	Jiro Makino	Attorney at law <b>[Significant concurrent positions outside the Company]</b> Director of MAKINO legal professional corporation
Director	Tetsuo Saito	<b>[Significant concurrent positions outside the Company]</b> Representative Director of Work Two Co., Ltd., Outside Audit and Supervisory Board Member of DD Holdings Co., Ltd., Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd., and Outside Director of Career Design Center Co., Ltd.
Director	Makiko Hamabe	<b>[Significant concurrent positions outside the Company]</b> Representative of Makiko Hamabe Office Outside Director of SoldOut, Inc
Standing Audit & Supervisory Board Member	Tatsumi Murata	–
Audit & Supervisory Board Member	Kazuhiko Nakai	Certified public accountant, and certified tax accountant <b>[Significant concurrent positions outside the Company]</b> Director of Kazuhiko Nakai Tax Accountant Office Director of Kazuhiko Nakai CPA Office Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. External Director of S-Pool, Inc.
Audit & Supervisory Board Member	Etsuo Hada	Certified public accountant, certified tax accountant, judicial scrivener, and administrative scrivener <b>[Significant concurrent positions outside the Company]</b> Director of Hada CPA and Judicial Scrivener Office Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd.
Audit & Supervisory Board Member	Katsumasa Minagawa	Attorney at law <b>[Significant concurrent positions outside the Company]</b> Representative Attorney of Kollect Partners Outside Statutory Auditor of Ubiquitous AI Corporation

- Notes: 1. Directors Jiro Makino, Tetsuo Saito, and Makiko Hamabe are outside Directors. The Company has submitted notification to the Tokyo Stock Exchange that Jiro Makino, Tetsuo Saito and Makiko Hamabe have been designated as independent officers as provided for by the aforementioned exchange.
2. Audit & Supervisory Board Members Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa are outside Audit & Supervisory Board Members. The Company has submitted notification to the Tokyo Stock Exchange that Kazuhiko Nakai, Etsuo Hada and Katsumasa Minagawa have been designated as independent officers as provided for by the aforementioned exchange.
3. Audit & Supervisory Board Members Kazuhiko Nakai and Etsuo Hada have considerable knowledge of finance and accounting as certified public accountants.
4. At the conclusion of the 60th Annual General Meeting of Shareholders held on March 26, 2021, Managing Director & Operating Officer Norihiko Moriya, Director & Senior Managing Officer Mitsuya Hirose and Director Yasuhiro Wakamatsu retired due to expiration of their terms of office, and standing Audit & Supervisory Board Member Naoto Minai retired due to his resignation.
5. The Directors' roles transferred during the fiscal year under review were as follows.

(Amendments are underlined.)

Name	New role	Previous role	Transfer date
Katsuhiro Yano	In charge of Complex Solutions Promotion, Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office, General Manager of Major Customers Special Sales Department, in charge of Area Promotion Department	In charge of Complex Solutions Promotion, Executive Department Head of Regional Department, General Manager of Complex Solutions Promotion Office, General Manager of <u>POD Promotion Department</u> , General Manager of Major Customers Special Sales Department, in charge of Area Promotion Department	January 1, 2021
Hironobu Saito	In charge of Project Promotion Office, <u>General Manager of Business Administration Headquarters</u> , in charge of Audit Office, Marketing Automation Center and Customer Personalized Pages Promotion Center	In charge of Project Promotion Office, Audit Office, Marketing Automation Center and Customer Personalized Pages Promotion Center	March 26, 2021

6. The Company introduced the Executive Officer System. Managing Officers, excluding those concurrently serving as the Directors, are as follows. (As of December 31, 2021)

Executive Managing Officer	Yasuo Amako	General Manager of Osaka Southern Sales Dept.
Executive Managing Officer	Ryosuke Mizutani	Executive Department Head of Telecommunication Network Department, General Manager of Telecommunication Network Promotion Department
Senior Managing Officer	Kazuhiko Goto	Head of Outbound Marketing Management Center, General Manager of Integrated Strategy Planning Department, General Manager of Security Infrastructure Promotion Department, General Manager of Cloud Infrastructure Promotion Department, General Manager of Infrastructure Base Promotion Department, General Manager of Network Infrastructure Promotion Department, General Manager of Regional Promotion Department, General Manager of Advertising Department, in charge of Sales Support Center
Senior Managing Officer	Toshio Otani	Head of Total Solution Group, Head of Inside Business Center, Head of SPR / CRM Center
Senior Managing Officer	Junichi Sekiguchi	Executive Department Head of Support Center, Head of Tayoreru Management Center
Senior Managing Officer	Kazuki Kimura	General Manager of Northern Kanto Sales Dept.
Senior Managing Officer	Yoshiaki Inooka	Branch Manager of Chubu Branch
Senior Managing Officer	Hiroshi Muto	Assistant to Executive Department Head of CAD Department, General Manager of PLM Solution Department
Managing Officer	Norihide Seino	General Manager of Kanagawa Sales Dept.
Managing Officer	Hidenori Takamatsu	General Manager of Total Information System Office
Managing Officer	Tadashi Egawa	General Manager of Keiyo Sales Dept.
Managing Officer	Koichiro Yamada	Executive Department Head of Industry SI Department, General Manager of Headquarters SI Supervision and General Manager of Industry SI Promotion Department
Managing Officer	Hitoshi Asano	Head of Service Center
Managing Officer	Norikazu Ishikawa	General Manager of Josai Sales Dept.



Managing Officer	Kazuhiro Kohara	Executive Division Manager of LA Division, General Manager of Broad Regional Sales Department, LA Division, General Manager of AMG Sales Department, LA Division, General Manager of LA Support
Managing Officer	Isao Murakami	Executive Division Manager of BP Division, General Manager of East Japan Sales Department, BP Division, General Manager of MA/CAD Sales Department, BP Division, General Manager of BPMRO Sales Department
Managing Officer	Yoshihiro Tokura	Assistant to Executive Department Head of Industry SI Department
Managing Officer	Shinichi Asaka	Head of Application Solution Center
Managing Officer	Koichi Hisano	Head of President's Office, General Manager of Compliance Office
Managing Officer	Hiroki Saito	General Manager of Chuo Sales Dept. 1
Managing Officer	Tomohiro Tsuchiya	Assistant to Executive Division Manager of Tanomail Business Division, General Manager of Tanomail Sales Division
Managing Officer	Hiroki Yamaguchi	Total Solution Master
Managing Officer	Kenji Watanabe	Total Solution Master
Managing Officer	Tatsuya Shimizu	Head of Technical Solution Center
Managing Officer	Takahiro Jinushi	Head of Marketing Automation Center
Managing Officer	Shigeru Koizumi	General Manager of Human Resources and General Affairs Department
Managing Officer	Kazuo Uneno	General Manager of Finance and Accounting Department

**(ii) Summary of details of contract of limited liability**

The Company has entered into agreements with each outside Director and each Audit & Supervisory Board Member to limit their liability for damages set forth in Article 423, Paragraph 1 of the Companies Act, pursuant to the provisions of Article 427, Paragraph 1 of the same Act.

According to the agreement, the limit of liability for damages shall be the amount stipulated by laws and regulations.

**(iii) Summary of details of directors and officers liability insurance policy**

The Company has concluded a directors and officers liability insurance policy with an insurance agency, as set forth in Article 430-3, Paragraph 1 of the Companies Act.

Directors, Audit & Supervisory Board Members, Executive Officers, and externally dispatched officers of the Company and its subsidiaries are insured under this insurance policy. It covers compensation for damage and litigation expenses incurred as a result of claims for damages arising from the insured persons' execution (including omissions) of their duties. However, the insurance policy does not cover certain reasons for exemption, including damages caused by criminal acts such as bribery or intentional illegal acts.

The insured persons bear approximately 7.5% of the insurance expenses, and the Company and its subsidiaries bear the remainder of the insurance expenses.

**(iv) Remuneration for Directors and Audit & Supervisory Board Members for the fiscal year**

1) Matters concerning policy for determining the details of individual remuneration for Directors

The Company has resolved at a meeting of its Board of Directors on the policy for determining the details of individual remuneration for Directors. With respect to the individual remuneration for Directors for the fiscal year under review, the Board of Directors has confirmed and judged that the method of determining the details of remuneration, etc. and the details of remuneration, etc. determined thereby are consistent with the determination policy resolved at the meeting of the Board of Directors and are in line with the said policy.

The details of the policy for determining the details of individual remuneration for Directors are as follows:

[Policy for Determining Remuneration for Directors]

Remuneration for Directors (excluding outside Directors) is monetary remuneration and consists of basic remuneration, bonuses, earnings bonuses, retirement benefits for officers (saving-type remuneration at time of retirement), and defined contribution corporate pension plan (for full-time Directors under 60 years old), within the limit approved by the General Meeting of Shareholders. In addition, Directors who concurrently serve as Managing Officers shall also receive a component of their Director remuneration for their position and performance as a Managing Officer. The remuneration levels and the composition ratios for each of the following remunerations in the individual remuneration for Directors are set according to the responsibilities and

level of contribution, etc. after referencing survey data, etc. provided by an external specialist body.

- i) Basic remuneration is paid on a monthly basis at an amount determined by the President & Chief Executive Officer, who is entrusted to do so by the Board of Directors, after giving comprehensive consideration to evaluation of the performance of the division that the individual director is responsible for over prior fiscal years, and considering the balance between the level of remuneration at other companies and the salary of employees.
- ii) In order to ensure they are linked to the level of contribution to the operation of the Company, they are based on the Company's overall performance over the period covered by the bonuses, the performance of the division the Director is in charge of, and each individual Director's level of contribution to the performance, while ensuring transparency with regard to the bonus's correlation with performance and keeping within a level of payment decided beforehand that corresponds to the level of achievement of the target value of the operating profit, which has a strong correlation with the share price. The President and Chief Executive Officer, who is appointed by the Board of Directors, shall determine the amount of bonuses to be paid annually in July and December.
- iii) Earnings bonuses are paid around February and August of each year as determined by the Board of Directors to an amount corresponding to the rate of achievement of the operating profit target at the second quarter closing and at the fiscal year closing, and their payment is in accordance with the fiscal year closing and second-quarter closing system for employees.
- iv) Retirement benefits for officers are paid in accordance with the provisions of rules on retirement benefits to officers as a consideration for the performance of duties, and an annual basic amount set for each rank of full-time Director is accrued, and the cumulative amount is calculated at the time of the Director's retirement based on a resolution of the General Meeting of Shareholders after the amount has been determined by the President & Chief Executive Officer, who is entrusted to do so by the Board of Directors.
- v) The defined contribution corporate pension plan is the highest amount awarded to employees and contributed at a constant amount every month for full-time Directors under 60 years old in accordance with the defined contribution pension rules that have been established by a resolution of the Board of Directors.

Concerning the remuneration paid to outside Directors, from the perspective of maintaining independence, remuneration consists of only a fixed basic remuneration. The basic remuneration is up to a limit that has been approved at the General Meeting of Shareholders, and determined by the President & Chief Executive Officer, who has been entrusted to do so by the Board of Directors, based on the remuneration level of other companies and that of full-time Directors of the Company. The basic remuneration is paid on a monthly basis.

In accordance with the above policy, the Board of Directors has delegated to President and Chief Executive Officer Yuji Otsuka the determination of the amount of remuneration for each individual Director. The reason for this delegation is that the

President and Chief Executive Officer is the most appropriate person to evaluate the performance and contribution of each Director in the division the Director is in charge of, while taking into consideration the overall performance of the Company.

#### Reference

Annual basic amount for each position as stipulated in the provisions for retirement benefits for directors (and other officers)

Position	Certain amount for each position (Millions of yen)
President & Chief Executive Officer	1,200
Managing Director & Senior Executive Operating Officer	400
Managing Director & Executive Operating Officer	370
Managing Director & Senior Operating Officer	300
Managing Director & Operating Officer	280
Director & Senior Managing Officer	200
Standing Audit & Supervisory Board Member	170

#### 2) Total amount of remuneration for Directors and Audit & Supervisory Board Members

Class	Total Remuneration (Millions of yen)	Breakdown of remuneration (Millions of yen)			Number of officers (Persons)
		Fixed remuneration	Performance-linked remuneration	Retirement benefits	
Directors (excluding outside Directors)	338	229	71	37	10
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	22	20	–	1	2
Outside Directors	35	35	–	–	3
Outside Audit & Supervisory Board Members	21	21	–	–	3

- Notes: 1. The above includes three Directors and one Audit & Supervisory Board Member who retired at the conclusion of the 60th Annual General Meeting of Shareholders held on March 26, 2021.
2. The amount of remuneration for Directors does not include the employee salary portion in the case of Directors who concurrently serve as employees.
3. The amount of annual remuneration for Directors is up to ¥650 million as approved at the General Meeting of Shareholders on March 13, 1990 (although this does not include portion of employee salaries). At the conclusion of said General Meeting of Shareholders, the number of Directors was 18.

4. The amount of annual remuneration for Audit & Supervisory Board Members is up to ¥50 million as approved at the General Meeting of Shareholders on March 30, 2005. At the conclusion of said Annual General Meeting of Shareholders, the number of Audit & Supervisory Board Members was four.
5. The increase in provision for retirement benefits for directors (and other officers) in the fiscal year under review is included in the above retirement benefits.
6. The actual results of the performance indicators used to calculate the amount of performance-linked remuneration for the fiscal year under review are as follows: for bonuses, operating profit of ¥49,958 million for the period subject to the bonuses (target: ¥53,597 million; achievement rate: 93.2%); and for earning bonuses, operating profit of ¥48,654 million for the fiscal year (target: ¥51,400 million; achievement rate: 94.7%). Earning bonuses were not applicable for the fiscal year as the achievement rate was less than 100%.

**(4) Outside Directors and outside Audit & Supervisory Board Members**

**(i) Significant concurrent positions at other organizations and relationships between the Company and such other corporations**

Position	Name	[Significant concurrent positions outside the Company]	Relation with the Company
Outside Director	Jiro Makino	Attorney at law Director of MAKINO legal professional corporation	No special relation
Outside Director	Tetsuo Saito	Representative Director of Work Two Co., Ltd. Outside Audit and Supervisory Board Member of DD Holdings Co., Ltd. Outside Audit and Supervisory Board Member of DM Solutions Co., Ltd. Outside Director of Career Design Center Co., Ltd.	No special relation
Outside Director	Makiko Hamabe	Representative of Makiko Hamabe Office Outside Director of SoldOut, Inc	No special relation
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	Certified public accountant, and certified tax accountant Director of Kazuhiko Nakai Tax Accountant Office Director of Kazuhiko Nakai CPA Office Outside Audit & Supervisory Board Member of Nippon Antenna Co., Ltd. External Director of S-Pool, Inc.	No special relation
Outside Audit & Supervisory Board Member	Etsuo Hada	Certified public accountant, certified tax accountant, judicial scrivener, and administrative scrivener Director of Hada CPA and Judicial Scrivener Office Corporate Auditor of The Nikkan Kogyo Shimbun, Ltd.	No special relation
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	Attorney at law Representative Attorney of Kollect Partners Outside Statutory Auditor of Ubiquitous AI Corporation	No special relation

**(ii) Major activities during the fiscal year**

Position	Name	Attendance, remarks, and summary of duties performed in relation to the roles expected of outside Directors
Outside Director	Jiro Makino	Jiro Makino attended all of the 20 meetings of the Board of Directors held during the fiscal year under review. He proactively states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors from a professional standpoint as a lawyer. In the fiscal year under review, he expressed opinions on dividends, quarterly financial results, and new commercials.
Outside Director	Tetsuo Saito	Tetsuo Saito attended all of the 20 meetings of the Board of Directors held during the fiscal year under review. Over the years, he has been involved in the management of numerous companies in many different industries, and proactively states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors. In the fiscal year under review, he expressed opinions on monthly and quarterly financial results, remuneration for Directors, and the dispatch of officers to subsidiaries and associated companies.
Outside Director	Makiko Hamabe	Makiko Hamabe attended all of the 14 meetings of the Board of Directors held during her tenure of office in the fiscal year under review. She proactively states her opinions to ensure fairness and appropriateness of decision-making at the Board of Directors by leveraging a high level of knowledge regarding ESG and IR. In the fiscal year under review, she expressed opinions on quarterly financial results and accounting policies etc., of new sales standards.

Note: Apart from the number of the Board of Directors' meetings held mentioned above, there was one written resolution passed by deeming that the Board of Directors' meeting was held in accordance with the provisions of Article 370 of the Companies Act and Article 28, Paragraph 2 of the Articles of Incorporation of the Company.

Position	Name	Attendance and remarks
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	Kazuhiko Nakai attended all of the 20 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors from a professional standpoint as a certified public accountant and tax accountant. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.

Outside Audit & Supervisory Board Member	Etsuo Hada	Kazuhiko Nakai attended all of the 20 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors from a professional standpoint as a certified public accountant, tax accountant, judicial scrivener, and administrative scrivener. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	Katsumasa Minagawa attended all of the 20 meetings of the Board of Directors and all of the 14 meetings of the Audit & Supervisory Board held during the fiscal year under review. He states his opinions to ensure fairness and appropriateness of decision-making at the Board of Directors from a professional standpoint as a lawyer. In addition, he states necessary opinions at the Audit & Supervisory Board as needed based on his considerable experience and high level of insight.

Note: Apart from the number of the Board of Directors' meetings held mentioned above, there was one written resolution passed by deeming that the Board of Directors' meeting was held in accordance with the provisions of Article 370 of the Companies Act and Article 28, Paragraph 2 of the Articles of Incorporation of the Company.



**(5) Independent Auditor**

**(i) Name Ernst & Young ShinNihon LLC**

**(ii) Amount of remuneration for Independent Auditor for the fiscal year**

(Millions of yen)

Class	For auditing and certification services	Non-auditing services
OTSUKA CORPORATION	73	–
Consolidated subsidiaries	17	–
Total	90	–

- Notes: 1. Ernst & Young ShinNihon LLC is the Independent Auditor for subsidiaries of the Company.
2. The audit agreement concluded between the Company and the Independent Auditor does not clearly divide the audit remuneration amount between the remuneration for audit performed under the Companies Act and that for audit performed under the Financial Instruments and Exchange Act. As each amount cannot be obtained substantially, the remuneration for auditing and certification services is stated in the total amount.
3. The Audit & Supervisory Board concluded to approve the remuneration amount, etc., for the Independent Auditor based on the necessary examination conducted to ensure the appropriateness of details of the Independent Auditor's audit plan, the executing status of accounting audit duties, and the basis for the calculation of remuneration estimates.

**(iii) Details of non-auditing services**

Not applicable.

**(iv) Policy on dismissal or determining non-reappointment of Independent Auditor**

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

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

**(v) Summary of details of contract of limited liability**

Not applicable.

## Consolidated Financial Statements

### Consolidated Balance Sheets

(As of December 31, 2021)

(Millions of yen)

Account	Amount	Account	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>401,034</b>	<b>Current liabilities</b>	<b>170,282</b>
Cash and deposits	204,701	Notes and accounts payable - trade	91,938
Notes and accounts receivable - trade	135,786	Electronically recorded obligations - operating	17,901
Merchandise	33,052	Short-term borrowings	4,800
Work in process	1,235	Income taxes payable	8,769
Raw materials and supplies	740	Advances received	15,746
Other	25,594	Provision for bonuses	3,806
Allowance for doubtful accounts	(75)	Other	27,319
<b>Non-current assets</b>	<b>85,219</b>	<b>Non-current liabilities</b>	<b>14,198</b>
<b>Property, plant and equipment</b>	<b>37,710</b>	Long-term borrowings	1,700
Buildings and structures	15,422	Lease obligations	1,485
Land	15,092	Provision for retirement benefits for directors	698
Other	7,195	Retirement benefit liability	9,210
<b>Intangible assets</b>	<b>15,830</b>	Other	1,104
Software	15,771	<b>Total liabilities</b>	<b>184,480</b>
Other	59	<b>Net assets</b>	
<b>Investments and other assets</b>	<b>31,678</b>	<b>Shareholders' equity</b>	<b>299,323</b>
Investment securities	22,366	Share capital	10,374
Guarantee deposits	2,429	Capital surplus	16,254
Deferred tax assets	5,336	Retained earnings	272,834
Other	1,661	Treasury shares	(139)
Allowance for doubtful accounts	(115)	<b>Accumulated other comprehensive income</b>	<b>(580)</b>
		Valuation difference on available-for-sale securities	8,734
		Deferred gains or losses on hedges	8
		Revaluation reserve for land	(10,987)
		Foreign currency translation adjustment	151
		Remeasurements of defined benefit plans	1,513
		<b>Non-controlling interests</b>	<b>3,030</b>
		<b>Total net assets</b>	<b>301,774</b>
<b>Total assets</b>	<b>486,254</b>	<b>Total liabilities and net assets</b>	<b>486,254</b>

Note: All amounts less than one million yen are rounded down.

**Consolidated Statements of Income**  
(From January 1, 2021 to December 31, 2021)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>851,894</b>
<b>Cost of sales</b>		<b>675,003</b>
<b>Gross profit</b>		<b>176,890</b>
<b>Selling, general and administrative expenses</b>		<b>121,062</b>
<b>Operating profit</b>		<b>55,827</b>
<b>Non-operating income</b>		
Interest income	14	
Dividend income	225	
Rental income from buildings	263	
Income from recycling	157	
Share of profit of entities accounted for using equity method	794	
Foreign exchange gains	64	
Other	325	1,845
<b>Non-operating expenses</b>		
Interest expenses	44	
Donations	50	
Other	11	105
<b>Ordinary profit</b>		<b>57,567</b>
<b>Extraordinary income</b>		
Gain on sale of non-current assets	886	
Gain on sale of investment securities	19	905
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	56	
Impairment losses	220	
Other	6	283
<b>Profit before income taxes</b>		<b>58,190</b>
Income taxes - current	17,142	
Income taxes - deferred	576	17,718
<b>Profit</b>		<b>40,471</b>
Profit attributable to non-controlling interests		543
<b>Profit attributable to owners of parent</b>		<b>39,927</b>

Note: All amounts less than one million yen are rounded down.

## Non-consolidated Financial Statements

### Balance Sheets

(As of December 31, 2021)

(Millions of yen)

Account	Amount	Account	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>361,466</b>	<b>Current liabilities</b>	<b>162,410</b>
Cash and deposits	190,050	Notes payable - trade	24
Notes receivable - trade	3,005	Electronically recorded obligations - operating	17,901
Accounts receivable - trade	114,301	Accounts payable - trade	84,587
Merchandise	30,294	Short-term borrowings	3,800
Work in process	1,133	Accounts payable - other	12,500
Raw materials and supplies	716	Income taxes payable	7,480
Advance payments to suppliers	8,560	Advances received	10,920
Accounts receivable - other	9,280	Deposits received	14,036
Other	4,199	Provision for bonuses	3,337
Allowance for doubtful accounts	(75)	Other	7,821
<b>Non-current assets</b>	<b>81,660</b>	<b>Non-current liabilities</b>	<b>12,588</b>
<b>Property, plant and equipment</b>	<b>37,527</b>	Long-term borrowings	1,700
Buildings	15,330	Lease obligations	1,459
Land	15,092	Provision for retirement benefits	7,818
Other	7,104	Provision for retirement benefits for directors	555
<b>Intangible assets</b>	<b>15,238</b>	Other	1,055
Software	15,195	<b>Total liabilities</b>	<b>174,998</b>
Other	42	<b>Net assets</b>	
<b>Investments and other assets</b>	<b>28,894</b>	<b>Shareholders' equity</b>	<b>270,576</b>
Investment securities	14,491	<b>Share capital</b>	<b>10,374</b>
Shares of subsidiaries and associates	7,172	<b>Capital surplus</b>	<b>16,254</b>
Guarantee deposits	1,828	Legal capital surplus	16,254
Deferred tax assets	3,653	<b>Retained earnings</b>	<b>244,086</b>
Other	1,863	Legal retained earnings	2,593
Allowance for doubtful accounts	(115)	Other retained earnings	241,492
		Reserve for tax purpose reduction to promote open innovation	37
		General reserve	67,350
		Retained earnings brought forward	174,105
		<b>Treasury shares</b>	<b>(139)</b>
		<b>Valuation and translation adjustments</b>	<b>(2,447)</b>
		Valuation difference on available-for-sale securities	8,540

<b>Account</b>	<b>Amount</b>	<b>Account</b>	<b>Amount</b>
		Revaluation reserve for land	(10,987)
		<b>Total net assets</b>	268,128
<b>Total assets</b>	<b>443,127</b>	<b>Total liabilities and net assets</b>	<b>443,127</b>

Note: All amounts less than one million yen are rounded down.

**Statements of Income**  
(From January 1, 2021 to December 31, 2021)

(Millions of yen)

Account	Amount	
<b>Net sales</b>		<b>766,724</b>
<b>Cost of sales</b>		<b>604,879</b>
<b>Gross profit</b>		<b>161,844</b>
<b>Selling, general and administrative expenses</b>		<b>113,190</b>
<b>Operating profit</b>		<b>48,654</b>
<b>Non-operating income</b>		
Interest income	14	
Dividend income	1,732	
Rental income from buildings	256	
Income from recycling	157	
Other	316	2,476
<b>Non-operating expenses</b>		
Interest expenses	79	
Donations	50	
Other	15	144
<b>Ordinary profit</b>		<b>50,986</b>
<b>Extraordinary income</b>		
Gain on sale of non-current assets	885	
Gain on sale of investment securities	14	900
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	56	
Impairment losses	220	
Other	6	283
<b>Profit before income taxes</b>		<b>51,603</b>
Income taxes - current	14,932	
Income taxes - deferred	584	15,516
<b>Profit</b>		<b>36,087</b>

Note: All amounts less than one million yen are rounded down.

(TRANSLATION)

## Accounting audit report on the consolidated financial statements

### Independent Auditor's Report (Translation)

February 14, 2022

OTSUKA CORPORATION  
The Board of Directors

**Ernst & Young ShinNihon LLC**  
**Tokyo Office, Japan**

Designated Engagement Partner	Certified Public Accountant	<b>Seiji Yamamoto</b>
Designated Engagement Partner	Certified Public Accountant	<b>Tomo Ito</b>
Designated Engagement Partner	Certified Public Accountant	<b>Hideaki Keyaki</b>

#### Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in equity, and the notes to the consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the "Group") applicable to the fiscal year from January 1, 2021 to December 31, 2021.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position and results of operations of the Group applicable to the fiscal year ended December 31, 2021, in accordance with accounting principles generally accepted in Japan.

#### Basis for Opinion

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

#### Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board 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.

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the 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. Selecting audit procedures to be applied is at the discretion of the auditor, 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 whether the presentation of the consolidated financial statements and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities within the Group and their business activities 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 Audit & Supervisory Board Members and the Audit & Supervisory Board regarding 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, and other matters required by auditing standards.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

#### **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.



The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

## Accounting audit report on the non-consolidated financial statements

### Independent Auditor's Report (Translation)

February 14, 2022

OTSUKA CORPORATION

The Board of Directors

#### Ernst & Young ShinNihon LLC Tokyo Office, Japan

Designated Engagement Partner	Certified Public Accountant	<b>Seiji Yamamoto</b>
Designated Engagement Partner	Certified Public Accountant	<b>Tomo Ito</b>
Designated Engagement Partner	Certified Public Accountant	<b>Hideaki Keyaki</b>

#### Opinion

Pursuant to Article 436, paragraph 2, item (i) of the Companies Act, we have audited the accompanying non-consolidated financial statements, which comprise the balance sheet, the statement of income, the statement of changes in equity, the notes to the non-consolidated financial statements and the related supplemental schedules (collectively, “non-consolidated financial statements, etc.”) of OTSUKA CORPORATION (the “Company”) applicable to the 61st fiscal year from January 1, 2021 to December 31, 2021.

In our opinion, the non-consolidated financial statements, etc. referred to above present fairly, in all material respects, the financial position and results of operations of the Company, applicable to the fiscal year ended December 31, 2021, 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 Non-consolidated Financial Statements, Etc. section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-consolidated financial statements, etc. in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Non-consolidated Financial Statements, Etc.

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

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

Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Directors' performance of duties within the maintenance and operation of the financial reporting process.

**Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements, Etc.**

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements, etc. 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 non-consolidated financial statements, etc. 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 non-consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks, select audit procedures to be applied is at the discretion of the auditor, 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 non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the Company'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 Company'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 non-consolidated financial statements, etc. 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 Company to cease to continue as a going concern.
- Evaluate whether the presentation of the non-consolidated financial statements, etc. and the notes thereto are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure and content of the non-consolidated financial statements, etc., including the related notes thereto, and whether the non-consolidated financial statements, etc. fairly represent the underlying transactions and accounting events.

We communicate with Audit & Supervisory Board Members and the Audit & Supervisory Board regarding 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, and other matters required by auditing standards.

We also provide Audit & Supervisory Board Members and the Audit & Supervisory Board with a statement that we have complied with the ethical requirements in Japan regarding independence that are relevant to our audit of the financial statements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards in order to eliminate or reduce obstruction factors.

**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 Company which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

(TRANSLATION)

## **Audit Report of the Audit & Supervisory Board**

### **Audit Report**

Regarding the performance of duties by the Directors for the 61st fiscal year from January 1, 2021 to December 31, 2021, we have prepared this Audit Report upon deliberation based on the audit reports prepared by each Audit & Supervisory Board Member and hereby report as follows:

#### **1. Auditing methods and content of audits by Audit & Supervisory Board Members and the Audit & Supervisory Board**

- (1) We established auditing policies, allocation of duties and other relevant matters, and received reports from each Audit & Supervisory Board Member regarding their execution of audits and results thereof, as well as reports from the Directors, other relevant personnel, and the Independent Auditor regarding performance of their duties, and sought explanations as necessary.
- (2) Each Audit & Supervisory Board Member complied with the auditing standards of Audit & Supervisory Board Members established by the Audit & Supervisory Board, followed the auditing policies, allocation of duties, and other relevant matters, communicated with such as the Directors, the internal auditing and other employees, made efforts to establish the environment for collecting information and auditing, and conducted the audit by the following methods.
  - (i) Each Audit & Supervisory Board Member participated in the meetings of the Board of Directors and other important meetings, received reports from such as the Directors and employees regarding performance of their duties, sought explanations as necessary, examined important authorized documents and associated information, and studied the operations and status of assets at the headquarters and principal offices. With respect to subsidiaries, we communicated and exchanged information with Directors and Audit & Supervisory Board Members of subsidiaries, and received business reports from subsidiaries as necessary.
  - (ii) We periodically received reports from Directors, employees and others, requested explanations as necessary, and expressed opinions, regarding the resolution of the Board of Directors on the establishment of following systems (Internal Control System) and the status of operation of the organized system based on such resolution, both of which are described in the business report;
    - i) the system for ensuring that the performance of duties by the Directors conforms to the applicable laws and regulations and Articles of Incorporation, and
    - ii) the system stipulated in Article 100, Paragraphs 1 and 3 of the Regulation for Enforcement of the Companies Act, which are necessary for ensuring the properness of operations of the enterprises consisting of the Company and its subsidiaries.
  - (iii) We monitored and verified whether the Accounting Auditor maintained their independence and implemented appropriate audits, and we received reports from the Independent Auditor regarding the performance of their duties and sought explanations as necessary. In addition, we received notice from the Independent Auditor that “System for ensuring that duties are performed properly” (matters set forth in each item of Article 131 of the Regulation on Corporate Accounting) is organized in accordance with the “Quality Management Standards Regarding Audits” (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations as necessary.

Based on the above methods, we examined the business report and the accompanying detailed statements, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and the accompanying detailed statements as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of equity, and notes to consolidated financial statements) for this fiscal year.

## 2. Results of audit

### (1) Results of audit of business report

- (i) We confirm that the business report and the accompanying detailed statements fairly represent the Company's conditions in accordance with the related laws and regulations and Articles of Incorporation.
- (ii) We have found no significant evidence of wrongful act or violation of related laws and regulations, nor the Articles of Incorporation with regard to the execution of duties by the Directors.
- (iii) We confirm that the content of the resolution of the Board of Directors regarding the Internal Control System is proper. In addition, we have found no matters on which to remark in regard to the description of the business report and the execution of duties by the Directors regarding the Internal Control System.

### (2) Results of audit of non-consolidated financial statements and the accompanying supplementary schedules

We confirm that the methods and results of the audit conducted by the Independent Auditor, Ernst & Young ShinNihon LLC, are proper.

### (3) Results of audit of consolidated financial statements

We confirm that the methods and results of the audit conducted by the Independent Auditor, Ernst & Young ShinNihon LLC, are proper.

February 15, 2022

Audit & Supervisory Board, OTSUKA CORPORATION

Standing Audit & Supervisory Board Member	Tatsumi Murata	(Seal)
Outside Audit & Supervisory Board Member	Kazuhiko Nakai	(Seal)
Outside Audit & Supervisory Board Member	Etsuo Hada	(Seal)
Outside Audit & Supervisory Board Member	Katsumasa Minagawa	(Seal)

## **System to Ensure the Properness of Operations and its Operational Status**

### **(1) System to ensure the properness of operations**

At the Board of Directors, the Company established the basic policy on systems to ensure that the execution of duties by the directors complies with laws and regulations, and the Article of Incorporation, and other systems required by the Ministry of Justice Ordinance to ensure the properness of operations of a corporation and a corporate group, which consists of said corporation and its subsidiaries (the “Basic Policy on Internal Control System.”)

#### **(i) System to Ensure that Execution of Duties of Directors and Employees Complies with Laws and Regulations, and the Articles of Incorporation of the Company**

Directors take the lead to be an example of complying with and promoting the Mission Statement, which serves as the basis of a compliance system.

Directors and employees strive to enhance a compliance system by raising awareness of the compliance system through continued compliance education, improving operation by performing internal audits, and appropriately applying the internal reporting system to ensure compliance with law and regulations on the execution of duties and the Article of Incorporation.

#### **(ii) System for Retaining and Managing Information Regarding the Execution of Duties by Directors**

Information on the execution of duties by directors (documents or electromagnetic records) and other important information are properly retained and managed in accordance with laws and regulations, and internal rules.

#### **(iii) Regulations and Other Systems for the Management of Risk of Loss**

The Company presses ahead with establishing a risk management system in line with internal rules to identify, analyze, and assess risk impacting on management performance and financial conditions, etc., and take appropriate measures.

If unforeseen circumstances occur, the Company establishes response headquarters, collects risk information, and takes prompt and proper response measures.

#### **(iv) System to Ensure Efficient Execution of Duties by Directors**

The Board of Directors is held once a month in principle to carry out deliberations on, pass resolutions of important matters related to management, and supervise business execution. In addition, the Board of Directors sets clear guidelines on holding committees aimed at enhancing the properness of decision making and bringing agenda before the committees, and provides the detail of the business execution under “Rules of Duties and Authorities” and “Rules of Segregation of Duties” to enhance efficiency.

#### **(v) System to Ensure the Properness of Operations by the Corporate Group Comprised of the Company and its Subsidiaries**

##### **(a) System for reporting matters related to the execution of duties by directors, etc., of subsidiaries to the Company**

The Company holds the Group Management Committee to grasp the management status of consolidated subsidiaries and the progress towards achieving profit targets. The Company has established the Special Managing Officer System under which President & Chief Executive Officers of consolidated subsidiaries are appointed as the Special Managing Officers to promote thorough compliance in the consolidated subsidiaries and more robust corporate governance, and are requested to report on the status of business

execution to the Board of Directors of the Company or President & Chief Executive Officer of the Company as necessary.

(b) Regulations and other systems for the management of risk of loss of subsidiaries

The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., and instructs to take appropriate measures. At the Group Management Committee, information on risks identified by consolidated subsidiaries is shared to detect risks promptly and prevent the risks from materializing. If unforeseen circumstances occur, the Company establishes a response headquarters within the Company, collects risk information, and takes prompt and proper response measures in cooperation with the consolidated subsidiary.

(c) System to ensure efficient execution of duties by directors, etc. of subsidiaries

Consolidated subsidiaries formulate annual plans aligned with the group's policies while ensuring their management's autonomy and independence. Each Company's targets and responsibilities are clarified, and variance between budget and the actual result is analyzed to achieve performance targets for the period. Consolidated subsidiaries establish the Rules of Board of Directors, hold the Board of Directors, deliberate on and resolve important matters concerning corporate management and supervise the status of business execution. In addition, various internal rules provide the details of business execution to enhance efficiency.

(d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws and regulations, and the articles of incorporation of the Company

Consolidated subsidiaries ensure the properness of operations by exerting self-corrective function through business execution in accordance with the Mission Statement. Consolidated subsidiaries raise awareness through continued compliance education, improve operation by establishing an internal audit office in each Company, and aim to improve compliance system with the appropriate implementation of the internal reporting system established by the Company common for all consolidated subsidiaries, to ensure compliance with laws and regulation on the execution of duties and the Article of Incorporation.

(e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries

The Audit Office of the Company receives reports on the results of internal audits performed by the internal audit office established in each consolidated subsidiary, and conducts regular audits at each consolidated subsidiary in order to audit the status of complying with law, regulations, and rules, and gives necessary instructions.

**(vi) Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request to Assign Such Employees**

With a request from Audit & Supervisory Board Members, appropriate personnel concurrently serving as employees are selected to assist Audit & Supervisory Board Members.

**(vii) Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**

Independence from Directors is ensured by obtaining prior consensus of Audit & Supervisory Board Members on decisions about matters concerning the personnel management right for employees in the preceding item.

Audit & Supervisory Board Members ensure effectiveness by establishing a system in which they give instructions directly to the employees and receive reports from the employees.

**(viii) System Regarding Reporting to Audit & Supervisory Board Members**

(a) System for reporting to Audit & Supervisory Board Members by directors and employees  
A system enabling Audit & Supervisory Board Members to receive reports on the status of business execution from directors and employees is established, and cooperation and coordination with internal departments carrying out audits are reinforced.

(b) System for reporting to Audit & Supervisory Board Members by Directors, Audit & Supervisory Board Members and employees of subsidiaries who execute business operations, or those who have received reports from the said persons

When those who receive reports from Directors, Audit & Supervisory Board Members, and employees or these personnel executing business of each subsidiary identify misconduct related to the execution of duties by Directors, etc., or the employees of the Company and its consolidated subsidiaries, any fact of violating law and regulations or the Article of Incorporation, and any fact that may inflict significant damages on the companies, they report such a fact to Audit & Supervisory Board Members based on the importance and urgency of the fact.

**(ix) System for Ensuring Reporting Persons Are Not Treated Disadvantageously for Making Reports Referred to in the Previous Item**

Those who reported to Audit & Supervisory Board Members in accordance with labor regulations shall not be treated disadvantageously because of the reporting.

**(x) Matters Concerning Policy on Treating Expenses or Debts Incurred by Audit & Supervisory Board Members in the Course of Executing Their Duties**

When Audit & Supervisory Board Members claim advance payment of expenses, etc., referred to in Article 388 of the Companies Act, such expenses are paid after the compliance Office carries out deliberations, unless when it deems the expenses, etc. per such claim as unessential in executing the duties of the Audit & Supervisory Board Members.

**(xi) Other Systems to Ensure Effective Audits by Audit & Supervisory Board Members**

President & Chief Executive Officer exchanges opinions with Audit & Supervisory Board Members as necessary.

The Audit Office of the Company maintains close coordination with Audit & Supervisory Board Members to conduct investigations based on the requests of Audit & Supervisory Board Members.



(2) Overview of operational status of system to ensure the properness of operations

The Company operates as follows in accordance with the “Basic Policy of Internal Control System.”

**(i) System to Ensure that Execution of Duties of Directors and Employees Complies with Laws and Regulations, and the Articles of Incorporation of the Company**

The Company makes it compulsory for Directors and employees to receive training in the Mission Statement and compliance to ensure that they abide by the laws and regulations, and internal rules, etc.

The Audit Office of the Company audits, on a regular and required basis, appropriateness of policies, plans, and procedures, the effectiveness of business operation, and compliance with laws and regulations, for overall business activities for the entire group of the Company. The Audit Office also gives specific advice and recommendations to improve operations and improve awareness and reports to Directors and Audit & Supervisory Board Members. Under the internal reporting system, the Company establishes an external contact point and a contact point independent from management executives, in addition to an internal contact point, thereby working to detect illegal acts and scandals early and prevent them from happening.

**(ii) System for Retaining and Managing Information Regarding the Execution of Duties by Directors**

Information on the execution of duties by directors (documents or electromagnetic record) and other important information are properly retained and managed by the Compliance Office in accordance with laws and regulations and internal rules.

**(iii) Regulations and Other Systems for the Management of Risk of Loss**

The company identifies, analyzes, and assesses risk impacting on management performance and financial conditions, etc., according to internal rules and takes appropriate measures. In addition, during the current fiscal year, contingency requiring the establishment of a task force did not occur.

**(iv) System to Ensure Efficient Execution of Duties by Directors**

The Board of Directors consists of 10 members, including three outside Directors. The meeting of the Board of Directors was held 20 times during the current fiscal year to carry out deliberations on and resolve important matters requiring the resolution of the Board of Directors in accordance with the provisions of laws and regulations, and the Article of Incorporation, while supervising the execution of duties of Directors. The Board of Directors actively exchanges opinions on each proposal, ensuring the effectiveness of decision making and supervision.

**(v) System to Ensure the Properness of Operations by the Corporate Group Comprised of the Company and its Subsidiaries**

**(a) System for reporting matters related to the execution of duties by directors, etc., of subsidiaries to the Company**

The Company held the Group Management Committee four times during the current fiscal year and has understood the management status of each group company and the progress of achieving profit targets.

**(b) Regulations and other systems for the management of risk of loss of subsidiaries**

The Board of Directors of consolidated subsidiaries identifies, analyzes, and assesses risk impacting on management and performance financial conditions, etc., and takes appropriate measures. In addition, the Company has a system under which the Group Management Committee shares information on significant risks. Further, the Company has not acknowledged any significant risks requiring information sharing during the current fiscal year.

- (c) System to ensure efficient execution of duties by directors, etc. of subsidiaries  
Consolidated subsidiaries formulate annual plans in accordance with the Group's policy, working to achieve performance targets for the period. In addition, the consolidated subsidiaries provide the details of business execution under various internal rules, hold the Board of Directors, carry out deliberations on and resolve important matters, and supervise the status of execution of duties.

- (d) System to ensure that execution of duties of directors and employees of subsidiaries complies with laws and regulations, and the articles of incorporation of the Company  
The consolidated subsidiaries make it compulsory for Directors and employees to receive training in the Mission Statement and compliance to ensure that they abide by the laws and regulations, and internal rules, etc.

The Internal Audit Office of the consolidated subsidiaries performs audits of overall business activities on a regular and required basis, offering specific advice and recommendations to improve operations and raise awareness and reports to President & Chief Executive Officer and Audit & Supervisory Board Members.

The consolidated subsidiaries make known to Directors and employees the internal reporting system common to the subsidiaries that the Company establishes.

- (e) Other systems to ensure the properness of operations by the corporate group comprised of the Company and its subsidiaries

The Audit Office of the Company receives reports on the result of internal audits performed by each group company and advises as necessary.

**(vi) Matters Concerning Employees to Assist Duties of Audit & Supervisory Board Members When Such Board Members Request to Assign Such Employees**

The Compliance Office is in charge of assisting duties of Audit & Supervisory Board Members.

**(vii) Matters Concerning the Independence of Employees Referred to in the Previous Item from Directors and Ensuring the Effectiveness of Instructions Issued to Them by Audit & Supervisory Board Members**

The Compliance Office is an organization established within the Business Administration Headquarters and maintains independence by assisting the duties of Audit & Supervisory Board Members based on instructions directly received from Audit & Supervisory Board Members.

**(viii) System Regarding Reporting to Audit & Supervisory Board Members**

- (a) System for reporting to Audit & Supervisory Board Members by directors and employees  
Standing Audit & Supervisory Board Members receive reports on the status of business execution by attending important meeting bodies such as the Board of Directors.
- (b) System for reporting to Audit & Supervisory Board Members by Directors, Audit & Supervisory Board Members and employees of subsidiaries who execute business

operations, or those who have received reports from the said persons

During the current fiscal year, there was no report submitted to Audit & Supervisory Board Members of the Company on any misconduct related to the execution of duties by Directors, etc., or the employees of the Company and its consolidated subsidiaries, any fact of violating law and regulations or the Article of Incorporation, and any fact that may inflict significant damages on the companies.

**(ix) System for Ensuring Reporting Persons Are Not Treated Disadvantageously for Making Reports Referred to in the Previous Item**

The Company has put in place a system under which when a whistle-blower is unfairly treated because they reported to Audit & Supervisory Board Members, Audit & Supervisory Board Members and a person responsible for internal reporting under the internal reporting system consult the reward and punishment committee about disciplinary measures against the person who mistreated the whistle-blower, in accordance with office regulations, and take appropriate measures based on the decision that is given. Meanwhile, none has treated whistle-blowers unfairly, being subject to disciplinary punishment during the current fiscal year.

**(x) Matters Concerning Policy on Treating Expenses or Debts Incurred by Audit & Supervisory Board Members in the Course of Executing Their Duties**

The Company has put in place a system under which when Audit & Supervisory Board Members claim advance payment of expenses, etc., referred to in Article 388 of the Companies Act, and such expenses are paid after the Compliance Office carries out deliberations. During the current fiscal year, no claim for the prepayment of expenses was made by Audit & Supervisory Board Members, and the Compliance Office promptly processes claims for expenses paid in advance by Audit & Supervisory Board Members.

**(xi) Other Systems to Ensure Effective Audits by Audit & Supervisory Board Members**

Audit & Supervisory Board Members exchange opinions with President & Chief Executive Officer as necessary.

Audit & Supervisory Board conducts hearings for the execution of duties by President & Chief Executive Officers of consolidated subsidiaries as necessary.

Standing Audit & Supervisory Board Members and the Audit Office of the Company hold a regular monthly meeting to exchange information on the audit plan, audit status, and status of business execution and take action as necessary.

Consolidated Statement of Changes in Equity (from January 1, 2021 to December 31, 2021)  
(Millions of yen)

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

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

(Note) All amounts less than one million yen are rounded down.

## Notes to Consolidated Financial Statements

### 1. Notes Regarding Basis of Preparation of Consolidated Financial Statements

#### (1) Disclosure of scope of consolidation

##### (i) Consolidated subsidiaries

Number of consolidated subsidiaries 4

Names of major consolidated subsidiaries Networkworld Corporation

##### (ii) Unconsolidated subsidiaries

Names of major unconsolidated subsidiaries Otsuka Auto Service Co., LTD.

Reason for exclusion from scope of consolidation Unconsolidated subsidiaries are excluded from the scope of consolidation as the scale of each unconsolidated subsidiary is small and its net assets, net sales and profit (amount corresponding to the equity interest) and retained earnings (amount corresponding to the equity interest), etc., do not have any material impact on consolidated financial statements.

#### (2) Disclosure about application of equity method

##### (i) Unconsolidated subsidiaries and affiliates accounted for using equity method

Number of unconsolidated subsidiaries and affiliates accounted for using equity method

3

Names of major companies LION OFFICE PRODUCTS CORP.

Companies whose balance sheet date differs from consolidated balance sheet date use financial statements prepared as of a balance sheet date closest to the consolidated balance sheet date, and material transactions arising between the balance sheet date and the consolidated balance sheet date are adjusted as required under the application of equity method.

##### (ii) Unconsolidated subsidiaries and affiliates not accounted for using equity method

Names of major companies Otsuka Auto Service Co., LTD.

Reasons for not accounted for using equity method Unconsolidated subsidiaries and affiliates not accounted for using the equity method are excluded from the scope of the application of equity method as they do not have any material impact on consolidated financial statements in terms of each company's profit (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.

#### (3) Disclosure about fiscal years, etc. of consolidated subsidiaries

The balance sheet date of all consolidated subsidiaries is the same as the consolidated balance sheet date.

#### (4) Accounting policies

##### (i) Accounting policy for measuring significant assets

Available-for-sale securities

Securities with market value Stated at market based on the market price as of the end of the fiscal year (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)

Securities without market value Stated at cost determined by the moving average method  
For investments in an investment limited partnership and partnerships of a similar nature (investments deemed to be securities prescribed under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount equivalent to the equity interest is recorded based on the latest financial statements available accordingly to the financial statements' reporting date stipulated under the partnership agreement.

Derivatives Stated at fair value

Inventories

Inventories held for sale in the ordinary course of business

	Stated at cost (with writing down of the carrying amount based on any decreased profitability)
Merchandise	Mainly moving average method
Work in process	Identified cost method
Raw materials and supplies	Mainly moving average method
(ii) Accounting policy for depreciation of significant assets	
Property, plant and equipment (excluding leased assets)	Declining balance method
	However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016. Major useful lives are as follows:
	Buildings and structures 15 to 50 years
	Other 4 to 10 years
Intangible assets (excluding leased assets)	
Software for sale	Software for sales is amortized in the amount corresponding to the sales amount for the current fiscal year based on the estimated sales amount. However, the amortized amount for each period is not less than the evenly divided amount over a remaining useful life (an estimated useful life of three years or less.)
Software for internal use	Software for internal use is amortized over the useful life (five years) using the straight-line method.
Leased assets	
Leased assets related to finance lease transactions that do not transfer ownership	Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over a lease period of the useful life with a residual value of zero.
(iii) Accounting policy for significant provisions	
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.
Provision for bonuses	Provision for bonuses is recorded at the amount the Company should bear for the current fiscal year, out of the estimated payment amount, to provide for employees' bonus payment.
Provision for retirement benefits for directors	Provision for retirement benefits for directors is recorded at the payment amount required as of the end of the consolidated fiscal year based on internal rules, to provide for expenditures of retirement benefits for directors (and other officers.)
(iv) Accounting policy for recognition of significant revenues and expenses	
Accounting policy for recognition of revenues and expenses regarding made-to-order software	
Made-to-order software whose outcome for the progress made by the end of the current fiscal year deemed certain	Percentage-of-completion method (the construction cost-percentage method for estimating the degree of completion of construction)
Other	Completed-contract method
(v) Accounting policy for translation of significant foreign currency assets or liabilities into Japanese yen	
Foreign-currency-denominated receivables and payables are translated into yen at the spot exchange rate as of the consolidated balance sheet date, and translation adjustment is recognized as gains or losses.	
(vi) Accounting policy for hedging	
1) Accounting policy for hedging	In principle, hedging transactions are accounted for under a deferral method. Exceptional accounting method is applied to interest rate swaps that meet the requirements.
2) Hedging instruments and hedged items	a. Hedging instruments: forward exchange contracts Hedged items: future transactions in foreign currencies
	b. Hedging instruments: interest rate swaps

Hedged items: borrowings

- 3) Hedging policy                      Based on internal rules of derivative transactions, the hedging policy aims to avoid fluctuation risk of exchange rate and interest rate.
- 4) Method for assessing the hedge effectiveness                      The effectiveness of hedging is assessed based on fluctuation amount, etc., of the hedging instruments and hedged items by comparing cumulative fluctuations in the market value between hedging instruments and hedged items for the period from the commencement of the hedge to a point in time of judging its effectiveness. In addition, when the critical terms of the hedging instrument and the hedged item are the same, and market fluctuation is anticipated to be fully offset, the Company omits the evaluation of effectiveness. Meanwhile, the Company omits evaluation of effectiveness for interest rate swaps accounted for under special treatment.

(vii) Other significant matters for preparing consolidated financial statements

1) Accounting policy for retirement benefits

a. Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis.

b. Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain number of years (primarily 12 years) within average remaining periods of service of employees as of the time when the past service cost incurred. Actuarial gains and losses are recognized, from the fiscal year following the fiscal year when they incur, as expense in an equally divided amount using the straight-line method over a certain number of years (primarily 12 years) within average remaining periods of service of employees as of the time when the actual gains and losses incurred in each fiscal year.

2) Accounting policy for consumption taxes                      Consumption taxes are accounted using the net-of-tax method.

## **2. Notes to Changes in Presentation**

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

The Company has applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) from the current fiscal year, and Notes to Accounting Estimates are provided under Notes to Consolidated Financial Statements.

## **3. Notes to Accounting Estimates**

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

## **4. Additional Information**

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

It is difficult to forecast the future expansion and convergence of COVID-19, and the Company has 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 Group will continue for a certain period of time in the next fiscal year and beyond. At this time, we have determined that there will be no significant impact on our accounting estimates, and we 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.

## **5. Notes to Consolidated Balance Sheet**

(1) Accumulated depreciation of property, plant and equipment    46,682 million yen  
Accumulated depreciation includes accumulated impairment loss.

(2) Notes matured at the end of the fiscal year



In the accounting treatment of notes matured at the end of the fiscal year, they were treated as having been settled on the maturity date, even though the end of the current fiscal year fell on a holiday of financial institutions.

Notes receivable - trade 450 million yen

## 6. Notes to Consolidated Statement of Changes in Equity

### (1) Matters concerning total number of outstanding shares

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	190,002 thousand shares	-	-	190,002 thousand shares

### (2) Matters concerning total number of treasury shares

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	400 thousand shares	0 thousand shares	-	400 thousand shares

Note: Increase in the number of treasury shares is due to purchase of shares of less than one unit.

### (3) Dividends of surplus

#### (i) Dividends paid

Matters concerning dividends resolved by the 60th Annual General Meeting of Shareholders held on March 26, 2021

Total amount of dividends	21,804 million yen
Dividend per share	115 yen
Record date	December 31, 2020
Effective date	March 29, 2021

#### (ii) Of the dividends whose record date belongs to the current fiscal year, the following are those whose effective date of the dividends belongs to the following fiscal year.

The Company will submit the following to the 61st Annual General Meeting of Shareholders scheduled to be held on March 29, 2022.

Total amount of dividends	22,752 million yen
Dividend per share	120 yen
Record date	December 31, 2021
Effective date	March 30, 2022

### (4) Matters concerning share acquisition rights at end of the current fiscal year

Not applicable.

## 7. Notes Regarding financial instruments

### (1) Status of financial instruments

#### (i) Policy on financial instruments

The Company Group manages temporary surplus funds with highly secure financial assets and finances working capital through bank loans.

#### (ii) Description of financial instruments and their risks, and risk management system

Notes receivable - trade and accounts receivable - trade, which are trade receivables, are exposed to the credit risk of customers. The Company identifies promptly and reduces concerns over the collection of trade receivables caused by deterioration of financial conditions, etc., through comprehensive management of business partners' credit and regular management of collection date and account balance to minimize such risks.

Investment securities are mainly stocks of companies, etc., with which the Company has business relationships. Listed stocks are exposed to the fluctuation risk of market price; however, the Company ensures collectability and reduces concerns over impairment losses by regularly analyzing and grasping fair values and the financial condition, etc., of issuers.

Notes and accounts payable - trade, accounts payable-trade, and electronically recorded obligations-operating, which are trade payables, are due within approximately three months. Long-term borrowings and short-term borrowings are mainly for financing working capital.

In addition, monetary liabilities such as notes and accounts payable - trade, electronically recorded obligations - operating, short-term borrowings, income taxes payable, are exposed to liquidity risk, which is managed by formulating financing plans, among other methods. Long-term borrowings are exposed to interest fluctuation risk, which is hedged using interest rate swap trades.

Derivative transactions consist of interest rate swaps and exchange contract trades of some consolidated subsidiaries, and the derivative transactions are executed and managed in accordance with internal rules prescribing trading authority.

(2) Fair values of financial instruments

Carrying amount, fair value, and their difference as of December 31, 2021, are as follows.

	Carrying amount	Fair value	Difference
(1) Cash and deposits	204,701 million yen	204,701 million yen	- million yen
(2) Notes and accounts receivable - trade	135,786	135,786	-
(3) Investment securities			
1) Available-for-sale securities	14,390	14,390	-
2) Shares of affiliates	1,193	2,116	923
Total assets	356,072	356,995	923
(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
Total liabilities	125,109	125,110	0
Derivatives (*)			
Derivative transaction to which hedge accounting is not applied	13	13	-
Derivative transaction to which hedge accounting is applied	15	15	-
Total derivatives	29	29	-

(\*) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in parentheses.

(Note 1) Methods for calculating fair values of financial instruments, and securities and derivatives

Assets

(1) Cash and deposits, and (2) Trade notes and accounts receivable

Since these accounts are settled in a short period of time, the fair value is nearly equal to the carrying amount. Therefore, the carrying amount is used for their fair values.

(3) Investment securities

With regard to the fair value of investment securities, the fair value of shares is based on the prices quoted by stock exchanges.

Liabilities

(4) Trade notes and accounts payable, (5) Electronically recorded obligations - operating, (6) Short-term borrowings and (7) Income taxes payable

Since these accounts are settled in a short period of time, the fair value is nearly equal to the carrying amount. Therefore, the carrying amount is used for their fair values.

(8) Long-term borrowings

The fair value of long-term borrowings is calculated by discounting the total of principal and interest at an interest rate that would be charged for similar new loans.

Derivatives

The fair value of forward exchange contracts is stated at a price, etc., provided by customers' financial institutions. As derivatives accounted for under special treatment for interest rate swaps are treated as long-term borrowings that are hedged items, the fair value of the derivatives is included in the fair value of the respective long-term borrowings (see (8) above).

(Note 2) Financial instruments whose fair value is deemed extremely difficult to determine

Class	Carrying amount
Shares not listed	6,759 million yen

Investments in investment limited partnerships, etc.	22
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It is extremely difficult to determine the fair value of these, since they have no available market prices. On this basis, unlisted shares are not included in (3) Investment securities

**8. Notes on Per Share Information**

- (1) Net assets per share                      1,575.64 yen
- (2) Earnings per share (EPS)              210.59 yen

## Statement of changes in equity (from January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity									
	Share capital	Capital surplus		Retained earnings					Treasury shares	Total shareholders' equity
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings		
					Reserve for tax purpose reduction to promote open innovation	General reserve	Retained earnings brought forward			
Balance at beginning of period	10,374	16,254	16,254	2,593	37	67,350	160,109	230,090	(139)	256,580
Changes during period										
Dividends of surplus							(21,804)	(21,804)		(21,804)
Profit							36,087	36,087		36,087
Reversal of revaluation reserve for land							(287)	(287)		(287)
Purchase of treasury shares									(0)	(0)
Net changes in items other than shareholders' equity										
Total changes during period	-	-	-	-	-	-	13,995	13,995	(0)	13,995
Balance at end of period	10,374	16,254	16,254	2,593	37	67,350	174,105	244,086	(139)	270,576

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of period	5,138	(11,402)	(6,263)	250,316
Changes during period				
Dividends of surplus				(21,804)
Profit				36,087
Reversal of revaluation reserve for land				(287)
Purchase of treasury shares				(0)
Net changes in items other than shareholders' equity	3,402	414	3,816	3,816
Total changes during period	3,402	414	3,816	17,811
Balance at end of period	8,540	(10,987)	(2,447)	268,128

(Note) All amounts less than one million yen are rounded down.

## Notes to Financial Statements

### 1. Notes to Significant Accounting Policies

- (1) Accounting policy for measuring assets
- (i) Accounting policy for measuring securities
- Shares of subsidiaries and affiliates Stated at cost determined by the moving average method
- Available-for-sale securities
- Securities with market value Stated at market based on the market price as of the end of the fiscal year (the valuation difference is accounted for as a separate component of net assets and the cost of sales is calculated by using the moving average method)
- Securities without market value Stated at cost determined by the moving average method
- For investments in an investment limited partnership and partnerships of a similar nature (investments deemed to be securities prescribed under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act), the net amount equivalent to the equity interest is recorded based on the latest financial statements available accordingly to the financial statements' reporting date stipulated under the partnership agreement.
- (ii) Accounting policy for derivatives
- Derivatives Stated at fair value
- (iii) Accounting policy for measuring inventories
- Inventories held for sale in the ordinary course of business
- Stated at cost (with writing down of the carrying amount based on any decreased profitability)
- Merchandise Moving average method
- Work in process Identified cost method
- Raw materials and supplies Mainly moving average method
- (2) Accounting policy for depreciation of assets
- (i) Property, plant and equipment (excluding leased assets) Declining balance method
- However, the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on and after April 1, 1998, and facilities attached to buildings and structures acquired on and after April 1, 2016.
- Major useful lives are as follows:
- |           |                |
|-----------|----------------|
| Buildings | 15 to 50 years |
| Other     | 4 to 20 years  |
- (ii) Intangible assets (excluding leased assets)
- Software for internal use Software for internal use is amortized over the useful life (five years) using the straight-line method.
- (iii) Leased assets
- Leased assets related to finance lease transactions that do not transfer ownership
- Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over a lease period of the useful life with a residual value of zero.
- (3) Accounting policy for provisions
- (i) 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.
- (ii) Provision for bonuses Provision for bonuses is recorded at the amount the Company should bear for the fiscal year under review, out of the estimated payment amount, to provide for employees' bonus payment.

- (iii) Provision for retirement benefits      Provision for retirement benefits is recorded based on the estimated amount of retirement benefit obligation and pension assets at the end of the fiscal year under review.
- a. Method of attributing expected retirement benefits to periods  
In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year on a benefit formula basis.
- b. Method of amortizing actuarial gains and losses and past service cost  
Past service cost is amortized using the straight-line method over a certain number of years (12 years) within average remaining periods of service of employees as of the time when the past service cost incurred. Actuarial gains and losses are recognized, from the fiscal year following the fiscal year when they incur, as expense in an equally divided amount using the straight-line method over a certain number of years (12 years) within average remaining periods of service of employees as of the time when the actual gains and losses incurred in each fiscal year.
- (iv) Provision for retirement benefits for directors      Provision for retirement benefits for directors is recorded at the payment amount required as of the end of the fiscal year based on internal rules, to provide for expenditures of retirement benefits for directors (and other officers.)
- (4) Accounting policy for recognition of revenues and expenses  
Accounting policy for recognition of revenues and expenses regarding made-to-order software  
Made-to-order software whose outcome for the progress made by the end of the fiscal year under review deemed certain  
Percentage-of-completion method (the construction cost-percentage method for estimating the degree of completion of construction)
- Other  
Completed-contract method
- (5) Accounting policy for hedging
- (i) Accounting policy for hedging  
The special hedge accounting treatment is applied to interest rate swaps that qualify for such treatment.
- (ii) Hedging instruments and hedged items      Hedging instruments: interest rate swaps  
Hedged items: borrowings
- (iii) Hedging policy  
Based on internal rules of derivative transactions, the hedging policy aims to avoid fluctuation risk of interest rate.
- (iv) Method for assessing the hedge effectiveness  
The special hedge accounting treatment is applied to interest rate swaps that qualify for such treatment.
- (6) Other significant information for preparation of financial statements
- (i) Accounting policy for retirement benefits      The accounting treatment of unrecognized actuarial gains and losses of retirement benefits and unrecognized past service costs differ from those applied to the consolidated financial statements.
- (ii) Accounting policy for consumption taxes      Consumption taxes are accounted using the net-of-tax method.

## 2. Notes to Changes in Presentation

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

The Company has applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) from the current fiscal year, and Notes to Accounting Estimates are provided under Notes to Financial Statements.

## 3. Notes to Accounting Estimates

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

## 4. Additional Information

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

It is difficult to forecast the future expansion and convergence of COVID-19, and the Company has 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, we have determined that there will be no significant impact on our accounting estimates, and we 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.

## 5. Notes to Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 46,128 million yen

Accumulated depreciation includes accumulated impairment loss.

(2) Contingent liabilities

The Company provides a debt guarantee of ¥2,637 million for purchase obligations from an affiliated company, Networld Corporation.

(3) Notes matured at the end of the fiscal year

In the accounting treatment of notes matured at the end of the fiscal year, they were treated as having been settled on the maturity date, even though the end of the current fiscal year fell on a holiday of financial institutions.

Notes receivable - trade 449 million yen

(4) Monetary claims and monetary debts to/from subsidiaries and affiliates

(i) Short-term monetary claims 1,942 million yen

(ii) Short-term monetary debts 15,816 million yen

## 6. Notes to Statement of Income

Total transactions with subsidiaries and affiliates

Operating transactions

Net sales 6,886 million yen

Purchase 56,039 million yen

Selling, general and administrative expenses 7,023 million yen

Non-operating transactions 2,403 million yen

## 7. Notes to Statement of Changes in Equity

Matters concerning total number of treasury shares

Classes of shares	Number of shares at beginning of current fiscal year	Increase	Decrease	Number of shares at end of current fiscal year
Ordinary shares	400 thousand shares	0 thousand shares	-	400 thousand shares

Note: Increase in the number of treasury shares is due to purchase of shares of less than one unit.

## 8. Notes Regarding Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major causes

Deferred tax assets (Millions of yen)

Allowance for doubtful accounts 58

Accrued business office tax 540

Provision for bonuses 1,021

Provision for retirement benefits 2,393

Provision for retirement benefits for directors 170

Impairment loss 889

Software development expenses 1,278

Other 1,898

Subtotal 8,251

Valuation allowance (845)

Total 7,405



Deferred tax liabilities	
Valuation difference on available-for-sale securities	(3,746)
Other	(6)
Total	<u>(3,752)</u>
Net deferred tax assets	3,653

## 9. Notes Regarding Transactions with Related Parties

### Subsidiaries and affiliates

Attribute	Names of companies	Share capital (Millions of yen)	Description of business	Voting rights held (%)	Relationship with related parties	Description of transactions	Transaction amount (Millions of yen)	Account	Balance at end of period (Millions of yen)
Subsidiary(ies)	Networld Corporation	585	Sales and technical support for network related equipment	(Ownership) Direct 81.5	Purchase of the Company's products	Purchase of products	34,600	Accounts payable - trade	3,553

Transaction conditions and policies to decide transaction conditions, etc.

The Company decides to purchase products under the same terms and conditions as general terms and conditions by taking into account market prices and other factors.

## 10. Notes on Per Share Information

- (1) Net assets per share 1,414.17 yen
- (2) Earnings per share (EPS) 190.33 yen