

ANNUAL REPORT 2019

For the fiscal year ended December 31, 2019

Otsuka Corporation

CONTENTS

Consolidated Financial Highlights	1
To Our Shareholders and Investors	2
Overview of Consolidated Operations	3
Focusing Efforts on the Accumulated Business	7
OTSUKA CORPORATION —A Partner to Our Customers	10
OTSUKA CORPORATION —Backed by a Diverse Range of Customers	11
Overview of Key Strategic Businesses (Non-consolidated)	12
OTSUKA CORPORATION's Web Services (ASP)	13
Outlook for Fiscal 2020	14
Social Contribution and Environmental Protection Activities	16
Corporate Governance	18
Directors and Audit & Supervisory Board Members	32
Business Risks	33
Financial Section	34
Corporate Data	70
Principal Group Companies	70
Stock Information	71

Mission Statement

Mission

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

Goals

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

Principles

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

Otsuka Corporation

Forward-looking Statements

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

Consolidated Financial Highlights

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2017, 2018 and 2019			Millions of yen	Thousands of U.S. dollars	%
	2017	2018	2019	2019	Change
Net sales	¥691,166	¥759,871	¥886,536	\$8,092,527	+16.7
System Integration business	408,718	463,293	578,698	5,282,508	+24.9
Service and Support business	282,064	296,577	307,837	2,810,019	+3.8
Other business	383	—	—	—	—
Operating profit	44,386	48,058	62,192	567,709	+29.4
Ordinary profit	45,460	49,285	63,706	581,527	+29.3
Profit before income taxes	45,363	49,100	62,668	572,058	+27.6
Profit attributable to owners of parent	31,560	33,601	43,497	397,057	+29.4
Total assets	380,317	406,732	461,812	4,215,536	+13.5
Interest-bearing debt	8,873	8,256	8,807	80,394	+6.7
Equity	212,897	229,726	259,328	2,367,219	+12.9
Earnings per share (EPS) (Yen and U.S. dollars)	166.46	177.22	229.42	2.09	+29.4
Dividend per share of common stock (Yen and U.S. dollars)	70.00	85.00	110.00	1.00	+29.4
Cash flows from operating activities per share (Yen and U.S. dollars)	190.68	203.83	257.18	2.35	+26.2
Operating profit to Net sales ratio (%)	6.42	6.32	7.02	—	—
Profit to Net sales ratio* (%)	4.57	4.42	4.91	—	—
Interest-bearing debt ratio (%)	2.33	2.03	1.91	—	—
Equity ratio (%)	55.98	56.48	56.15	—	—
Return on equity (ROE) (%)	15.67	15.18	17.79	—	—

Notes:

* Profit stands for Profit attributable to owners of parent

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

Figures for ROE are calculated using average equity.

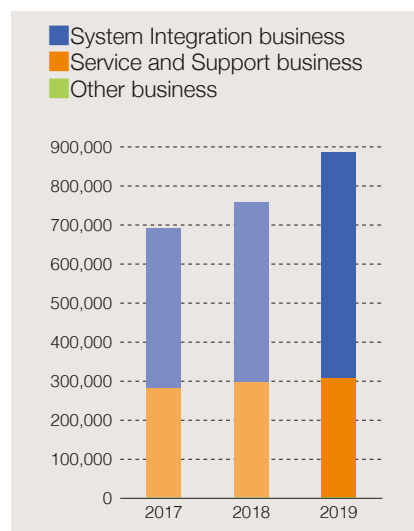
U.S. dollar amounts are computed using the December 31, 2019 exchange rate of ¥109.55 = US\$1.

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

The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2017.

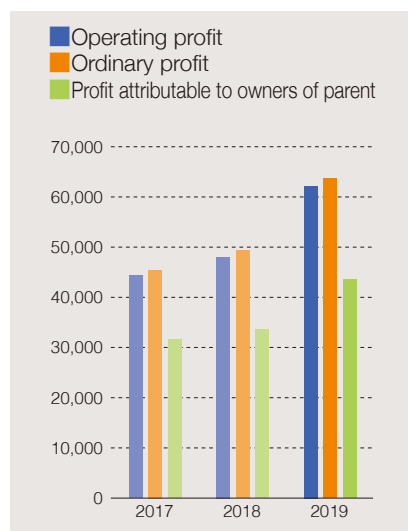
Net sales

(Millions of yen)



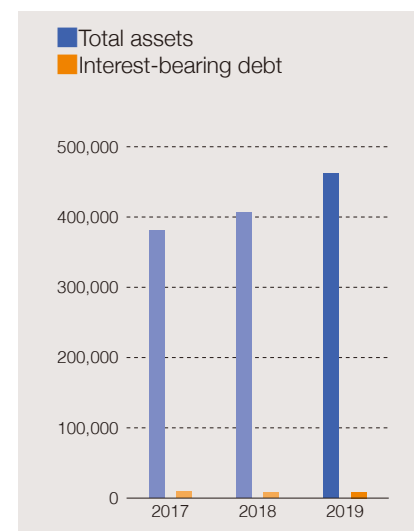
Operating profit, Ordinary profit, Profit attributable to owners of parent

(Millions of yen)



Total assets, Interest-bearing debt

(Millions of yen)



Note:

Sums of less than a million yen are rounded down.

To Our Shareholders and Investors



I am pleased to announce the results for the fiscal year ended December 31, 2019 and to thank our shareholders and investors for their loyal support.

During the fiscal year, the Japanese economy continued a moderate recovery and corporate IT investments trended firmly. The OTSUKA Group worked to propose added-value solutions in accordance with customer needs through its regional-led business management structure.

As a result, net sales increased 16.7% from the previous fiscal year to ¥886,536 million. At the earnings level, operating profit increased 29.4% to ¥62,192 million, ordinary profit increased 29.3% to ¥63,706 million and profit attributable to owners of parent increased 29.4% to ¥43,497 million. This marked the 10th consecutive year of increases in sales and profits.

Management has resolved to pay year-end dividends per share of ¥110 in line with our efforts to return profits to shareholders, who have given us their support. This also marked the 10th consecutive year of an increase in dividends.

In the coming fiscal year, corporate IT investments are expected to be firm. Within this environment, we will further strengthen our solution proposals that resolve issues faced by customers for their entire office and ensure their satisfaction.

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

Yuji Otsuka, President & Chief Executive Officer

March 2020

Overview of Consolidated Operations

■ Japanese Economy Continues a Moderate Recovery

During the fiscal year under review (January 1, 2019 to December 31, 2019), despite weakness in some areas, the Japanese economy continued a moderate recovery overall amid a pickup in personal consumption and a steadily improving employment situation.

Under these economic conditions, a cautious stance toward the future was also seen due to concerns about a slowing Chinese economy resulting from U.S.-China trade issues as well as to worries about the impact of Japan-Korea issues. Nevertheless, with corporate earnings trending briskly at a high level and capital investment and software investment plans increasing, there was high interest in IT by Japanese companies due in part to a boost from such factors as government efforts to promote work style reform, demand for business supporting the adoption of IT and PC replacement demand, and corporate IT investments trended firmly.

■ Proposing Added-Value Solutions

Within this environment, in keeping with the fiscal 2019 slogan “Leverage solutions from the perspective of customers and live up to customer trust,” the OTSUKA Group continued to strengthen relationships with customers under its regional-led business management. Under our “For the Entire Office” policy, we combined those products and services we are capable of providing and strived to make added-value solution proposals that meet the needs of our customers. The OTSUKA Group also hosted events and seminars, where we raised the “Office 2020 Problem”^{*} and worked to stimulate IT demand. Additionally, our combined proposals and solution proposals, on which we have especially focused our efforts, are generating results that enabled us to provide a broad range of products and services.

**Promote work style reform
IT investments trending firmly**

**Strengthening relationships with
customers through regional-led
business management
Proposing added-value solutions**

^{*}Office 2020 Problem: This refers to issues involving offices that will occur between 2019 and 2020. Specifically, these issues include the ending of production of fluorescent lamps and mercury lamps, the enforcement of laws pertaining to work style reform, an increase in the consumption tax, the ending of support for Windows 7, responses to cyberattacks in the run-up to the Tokyo Olympics and the formulation of company BCPs being promoted by the government.

■ Sales and Profits Increase for the 10th Consecutive Year and Sales, Operating Profit, Ordinary Profit and Profit Attributable to Owners of Parent Reach Record-high Levels

As a result of the above measures, net sales increased 16.7% from the previous fiscal year to ¥886,536 million. At the profit level, operating profit rose 29.4% to ¥62,192 million. Ordinary profit increased 29.3% to ¥63,706 million and profit attributable to owners of parent was up 29.4% to ¥43,497 million.

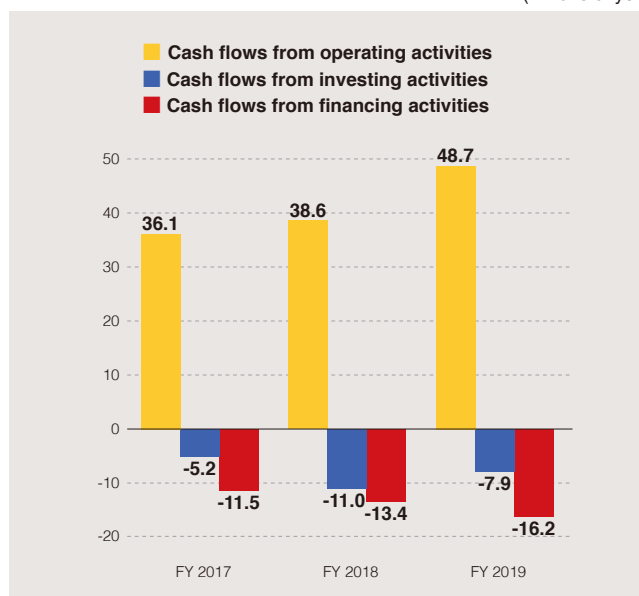
(Millions of yen)

	FY 2018	FY 2019	
	Amount	Amount	Change to Last Year
Net sales	759,871	886,536	+16.7%
Operating profit	48,058	62,192	+29.4%
Ordinary profit	49,285	63,706	+29.3%
Profit*	33,601	43,497	+29.4%

*Profit attributable to owners of parent

■ Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥48,762 million, an increase of ¥10,115 million from the previous fiscal year due to an increase in profit before income taxes.

Net cash used in investing activities amounted to ¥7,934 million, a decrease of ¥3,162 million from the previous fiscal year due to a decrease in the purchase of investment securities.

Net cash used in financing activities increased ¥2,751 million to ¥16,221 million due to an increase in cash dividends paid.

Overview of Results by Quarter

■ Net Sales

Net sales posted double-digit increases in all quarters of the fiscal year and the uptrend in net sales has continued.

Net sales in the first quarter (January-March) of 2019 amounted to ¥218,681 million, a 14.4% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2019 amounted to ¥231,472 million, a 16.5% increase from the previous second quarter. Net sales in the third quarter (July-September) of 2019 amounted to ¥216,944 million, a 23.1% increase from the previous third quarter. Net sales in the fourth quarter (October-December) of 2019 amounted to ¥219,437 million, an increase of 13.3% over the previous fourth quarter.

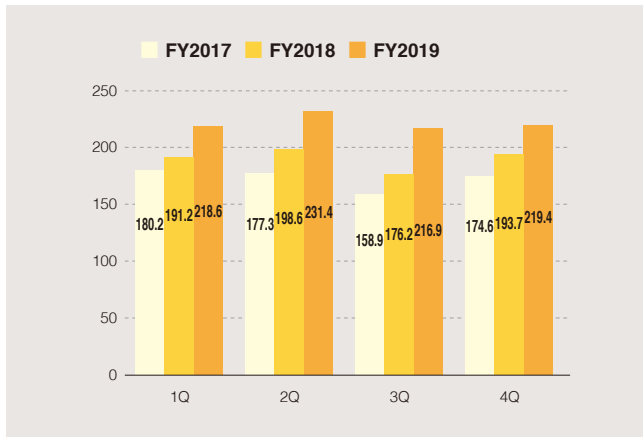
■ Ordinary Profit

Ordinary profit posted double-digit increases in all quarters and has sustained high growth from the fourth quarter (October-December) of the previous year.

Ordinary profit in the first quarter (January-March) of 2019 amounted to ¥15,087 million, an increase of 23.4% from the previous first quarter. Ordinary profit in the second quarter (April-June) of 2019 amounted to ¥19,623 million, an increase of 25.4% from the previous second quarter. Ordinary profit in the third quarter (July-September) of 2019 amounted to ¥12,677 million, an increase of 76.9% from the previous third quarter. Ordinary profit in the fourth quarter (October-December) of 2019 amounted to ¥16,318 million, up 14.5% from the previous fourth quarter.

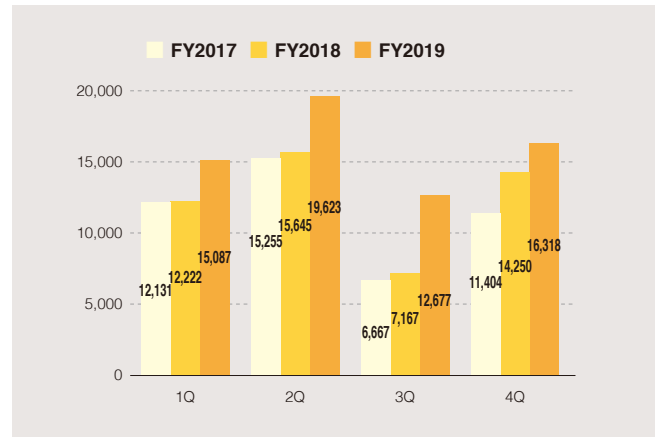
Quarterly Net Sales

(Billions of yen)



Quarterly Ordinary Profit

(Millions of yen)



Overview of Business Segments

■ System Integration Business

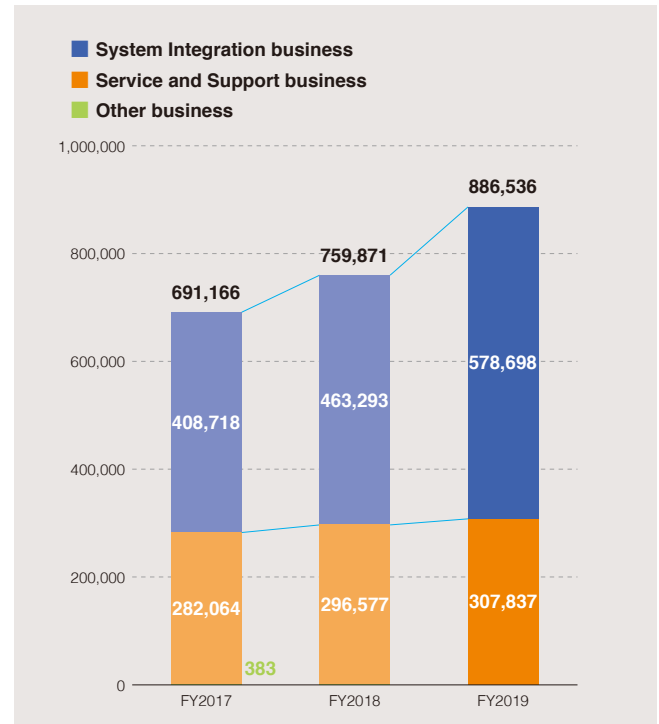
The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We recorded high growth in unit sales of PCs. Additionally, thanks also to responses to the increase in the consumption tax and system replacement demand, we also achieved smooth growth in sales of packaged software and consigned software. As a result, net sales increased 24.9% from the previous fiscal year to ¥578,698 million.

■ Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We worked to strengthen the competitiveness of our “tanomail” office supply mail-order service business and also responded to the last-minute surge in demand prior to the increase in the consumption tax. The “tayoreru” support service business also recorded a steady growth in sales, which led to a 3.8% increase in net sales from the previous fiscal year to ¥307,837 million.

Net Sales by Segments

(Millions of yen)



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

Focusing Efforts on the Accumulated Business

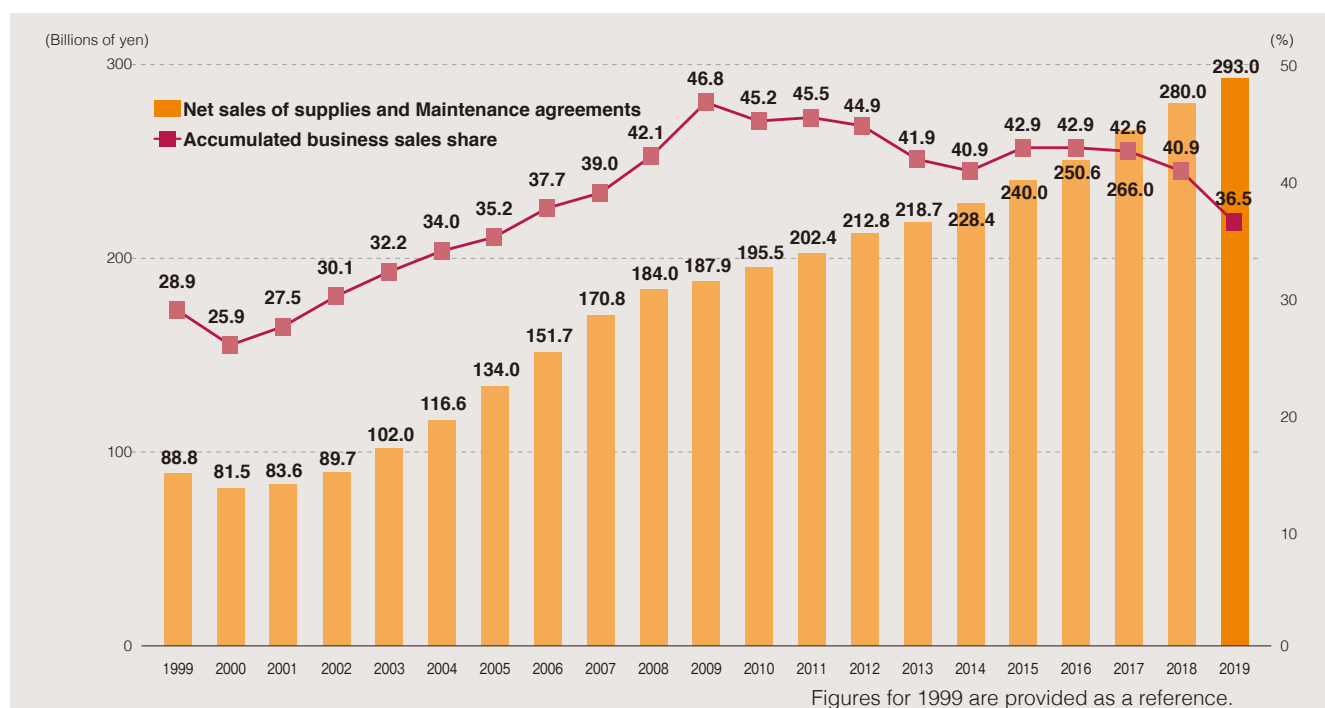
OTSUKA CORPORATION places special emphasis on office supply and maintenance agreement services as the “accumulated business” within the Service and Support business.

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

In fiscal 2019 as well, sales in the accumulated business grew steadily, increasing ¥13.0 billion, or 4.7%, to ¥293.0 billion. The accumulated business accounted for 36.5% of net sales (non-consolidated basis) due to high growth in the System Integration business. Since our public listing in 2000, net sales have increased ¥211.5 billion, an approximately 260% increase.

OTSUKA CORPORATION will continue to focus on the accumulated business as it works to raise the stability of its operations.

Accumulated Business (Non-consolidated)



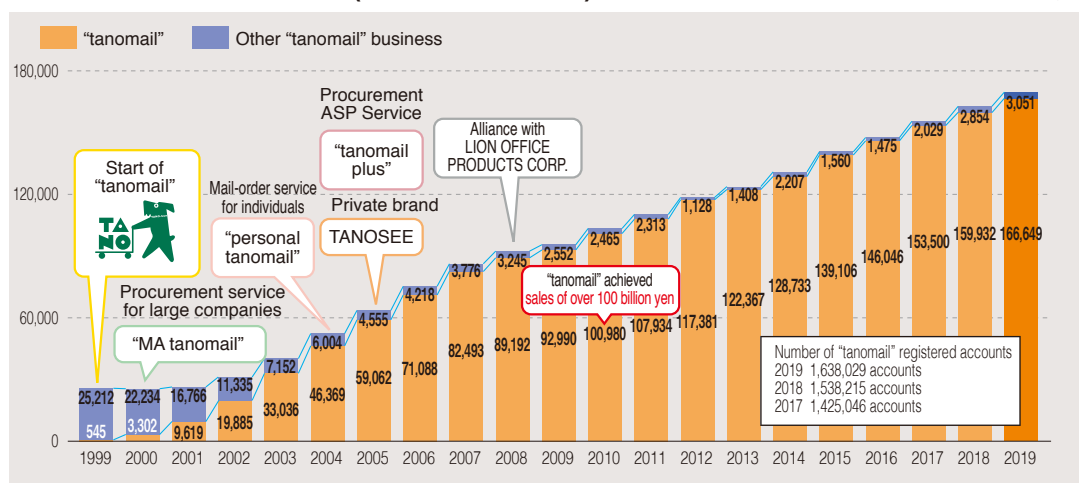
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

たのめーる “tanomail”

Net sales in our “tanomail” office supply mail-order service business are expanding steadily. In fiscal 2019, net sales increased 4.2% to ¥166,649 million.

Annual Sales of “tanomail” (Non-consolidated)

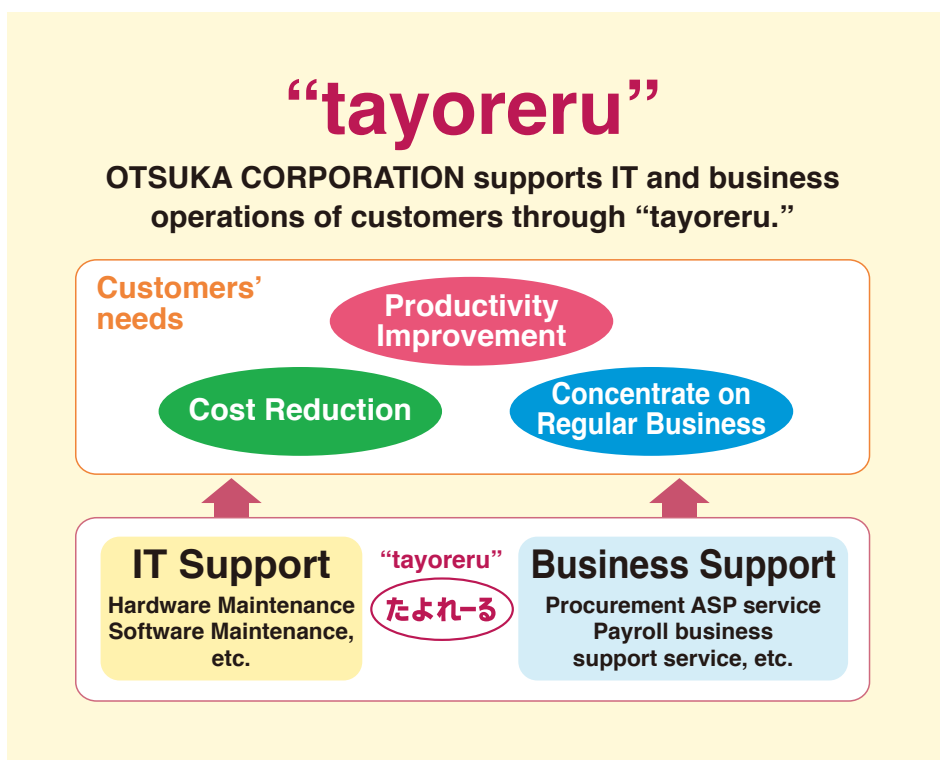
(Millions of yen)



たよれーる “tayoreru”

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

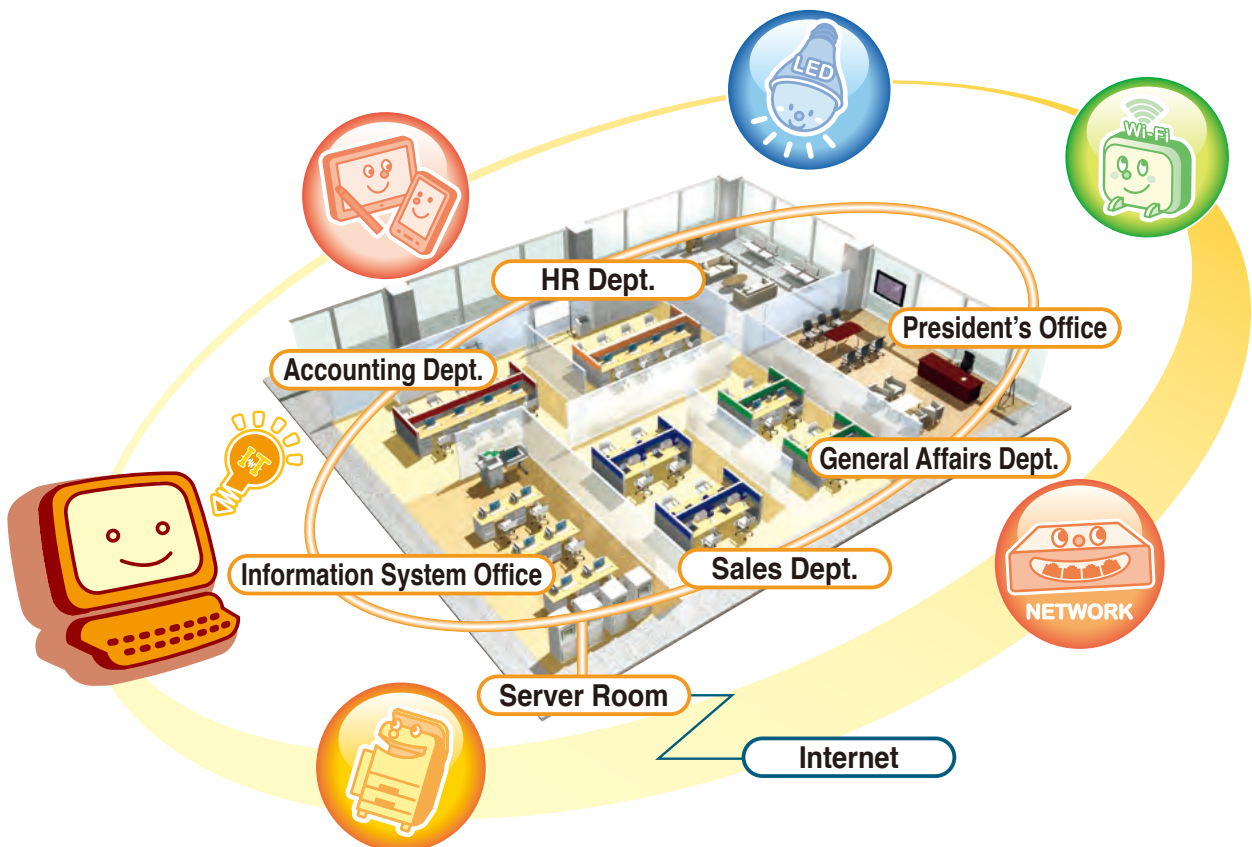
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



OTSUKA CORPORATION—A Partner to Our Customers

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

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

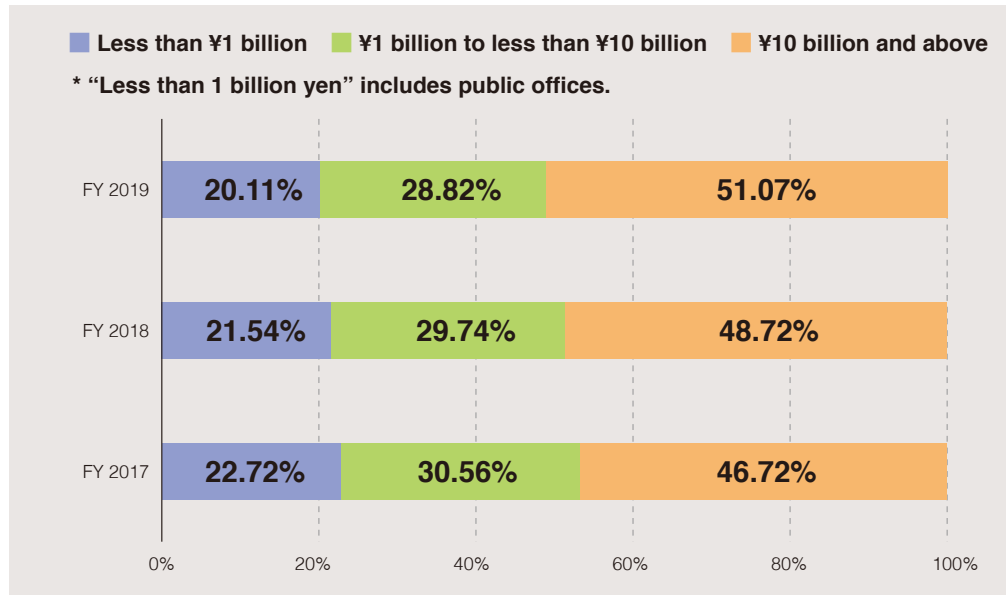


OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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

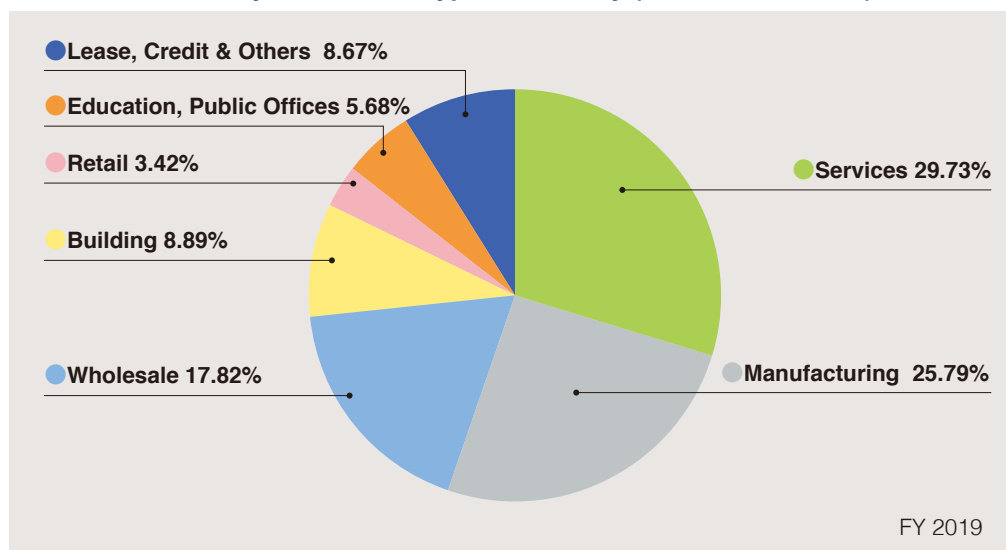
In terms of annual net sales, in fiscal 2019 the ratio of companies with sales of ¥10 billion and above increased while the ratio of companies with sales of ¥1 billion to less than ¥10 billion and companies with sales of less than ¥1 billion decreased. Nevertheless, sales amounts in each segment increased.

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



We also have a well-balanced customer base by customers’ type of industry. In fiscal 2019, there was no major change in the sales breakdown of customers by type of industry.

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



Overview of Key Strategic Businesses (Non-consolidated)

<Amount of Sales>

(Millions of yen)

	FY 2017	FY 2018		FY 2019	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
"tanomail"	153,500	159,932	+4.2%	166,649	+4.2%
SMILE	10,817	11,715	+8.3%	13,241	+13.0%
ODS	55,997	55,715	-0.5%	55,798	+0.1%
OSM	67,514	71,662	+6.1%	77,535	+8.2%

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

<Reference: Number of Units Sold>

(Units)

	Units	Units	Change to Last Year	Units	Change to Last Year
Copiers	43,807	41,046	-6.3%	37,930	-7.6%
(of which color copiers)	41,942	39,825	-5.0%	36,648	-8.0%
Servers	31,232	32,000	+2.5%	32,063	+0.2%
Personal computers	887,640	1,178,899	+32.8%	1,789,884	+51.8%
Client Total	927,835	1,222,643	+31.8%	1,830,498	+49.7%

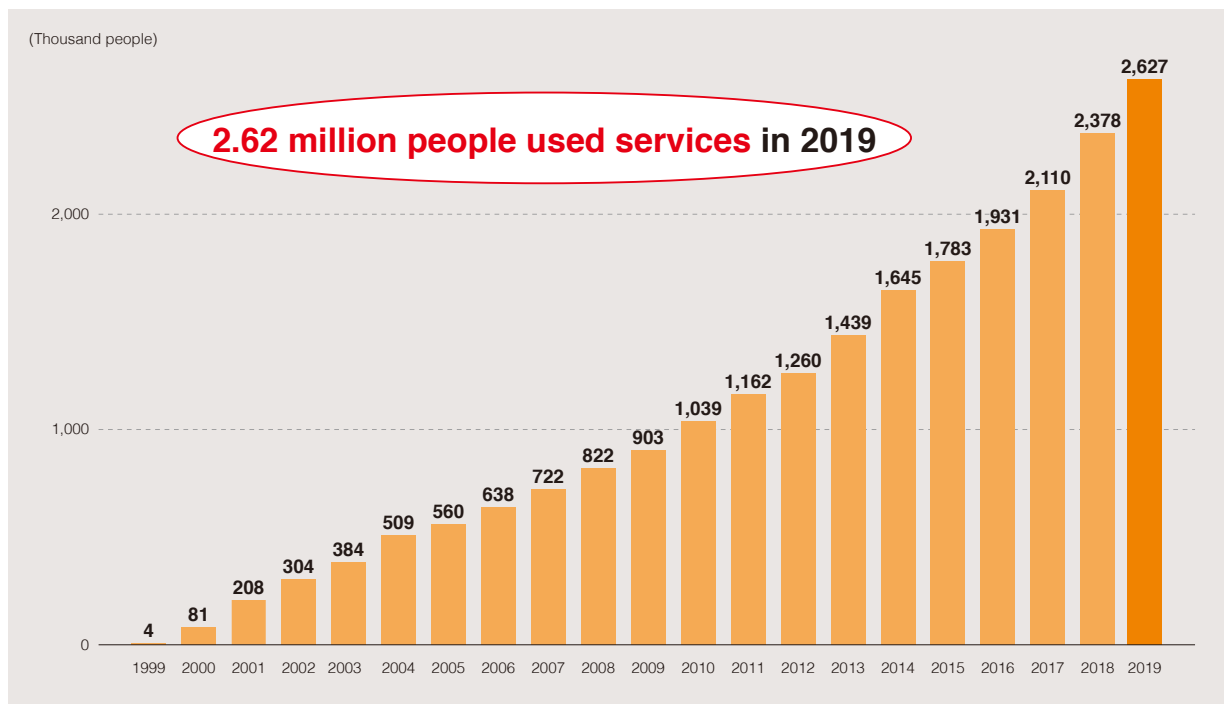
Personal computers and client computers, which includes personal computers, registered high growth of approximately 50% in the number of units sold. Unit sales of copiers declined.

OTSUKA CORPORATION's Web Services (ASP)

■ Provision of services commenced in 1999. The number of users exceeded 2.62 million in 2019.

OTSUKA CORPORATION has been providing its main Web services since 1999. The number of users has been rising steadily, and in 2019, the number reached 2.62 million.

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



Outlook for Fiscal 2020

■ Corporate IT Investments Expected to Remain Stable

In the future, the Japanese economy is forecast to sustain a moderate recovery in advance of such large-scale events as the Tokyo Olympics. Nevertheless, there is also expected to be some areas of weakness that include worsening business sentiment in manufacturing industries due to concerns about slowing external demand.

Under these economic conditions, Japanese companies are maintaining a proactive stance toward capital investment and software investment. At the same time, companies are required to respond to laws concerning work style reform, strengthen their security and utilize such technologies as artificial intelligence (AI), the Internet of Things (IoT) and 5G. As a result, corporate IT investments are forecast to continue to trend firmly.

■ OTSUKA CORPORATION for the Entire Office

Given the above economic conditions and outlook for corporate IT investments, we will support small- and medium-sized enterprises that must respond to work style reform by proposing solutions that realize productivity improvements and cost reductions that exceed the costs of responding to these reforms while grasping market needs. Moreover, with the aim of forging new relationships with customers, we will leverage AI and other technologies to support sales activities, enhance center functions to respond to customers that cannot be covered by sales activities and enhance our Customer Personalized Pages* (Customer My Page) portal site for becoming closer to customers, as well as increase customer contact points and further enhance the efficiency of sales activities.

Through these activities, the OTSUKA Group will work to turn one-time customers into lifelong customers, while under our “For the Entire Office” policy we will continue to provide high-added-value proposals that utilize the Group’s wide range of products and services, which is the Group’s strength. Besides these measures, we will continue to strengthen our lineup of office supplies and develop a lineup of maintenance services to bolster the accumulated business and enhance our earnings foundation based on stable and long-term business relationships with customers.

Market Environment in 2020

- Domestic economy is stable although there are areas of weakness
- Promotion of work style reforms as well as IT introduction at SMEs for boosting productivity
- Expansion of markets such as AI, IoT and 5G
- Large-scale events such as the Olympics and Paralympics
- Strong demand by companies for IT utilization and energy-saving

Policies and Measures in 2020

- “Leverage solutions from the perspective of customers and live up to customer trust.”
- Work style reforms, especially responses for SMEs and improving productivity
 - Realize “Entire Office” by further raising customer satisfaction
 - Update the 8.13 million units remaining in the Windows 7 corporate market
 - Responses for realizing the Ministry of Education, Culture, Sports, Science and Technology (MEXT) GIGA school concept
 - Full-fledged implementation of Otsuka Strategy II

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

■ Strategies by Segment

In the System Integration business, we will respond to work style reform and identify needs for improving productivity and reducing costs. We will also promote comprehensive proposals and combined system proposals that combine products and services as we strengthen our solutions proposals.

In the Service and Support business, the OTSUKA Group will upgrade and expand our lineup of products matched to customer needs and enhance our lineup of “TANOSEE” private brand products in “tanomail.” In our “tayoreru” support service business, we will develop services that enable customers to carry out their corporate activities securely and safely along with services that can help compensate for our customers’ shortages of IT personnel.

■ Forecast for Fiscal 2020

In fiscal 2020 the Company forecasts a 2.5% decrease in consolidated net sales to ¥864,000 million, a 2.4% increase in operating profit to ¥63,700 million, a 1.4% increase in ordinary profit to ¥64,600 million and a 0.1% increase in profit attributable to owners of parent to ¥43,530 million.

By segment, we forecast a 6.1% decrease in net sales to ¥543,550 million in the System Integration business and a 4.1% increase to ¥320,450 million in the Service and Support business.

Our results forecast for fiscal 2020 is in accordance with average growth rates. The forecast for consolidated business results is shown above. Nonetheless, the OTSUKA Group will thoroughly implement the previously mentioned policies and activities and aim for increases in net sales, profits and dividends for the 11th consecutive fiscal year.

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

	Fiscal 2019	Fiscal 2020 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	886,536	864,000	-2.5%
Operating profit	62,192	63,700	+2.4%
Ordinary profit	63,706	64,600	+1.4%
Pprofit*	43,497	43,530	+0.1%

*Profit attributable to owners of parent

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

	Fiscal 2019	Fiscal 2020 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	578,698	543,550	-6.1%
Service and Support business	307,837	320,450	+4.1%

Social Contribution and Environmental Protection Activities

We undertake social contribution activities and environmental protection activities in aiming “to demonstrate harmonious coexistence and growth with nature and society,” which is one of the goals prescribed in our Mission Statement. Here we introduce noteworthy topics in 2019.

■ We Supported Disaster-Stricken Regions through the “OTSUKA CORPORATION Heartful Fund”

The “OTSUKA CORPORATION Heartful Fund,” an employee-company matching gift program, supports disaster-stricken regions and NPO organizations. In 2019, the fund focused especially on supporting disaster-stricken regions.

Specifically, the fund donated ¥3,200,000 through the Japanese Red Cross Society to provide support following Typhoon No. 19 in September 2019.

Additionally, we solicited projects that contribute to rebuilding and improving the welfare of disaster-stricken regions and provided a total of ¥2,828,000 to 10 organizations that passed our screening. Looking at a breakdown of these 10 organizations, eight organizations provide support in regions affected by the Great East Japan Earthquake, one group provides support related to the Kumamoto earthquakes and one organization provides support for the West Japan heavy rain disaster.



The fund supported research on the local specialty product “Hoya” at Utatsu junior high school in Minamisanriku, Miyagi Prefecture, held by CREATAS inc.



The fund supported the Children's Cafeteria operated by the Dream Camp Executive Committee in Kesenuma City, Miyagi Prefecture.

■ Environmental Protection Activities through Tree Planting in Brazil

As a program commemorating OTSUKA CORPORATION's 50th anniversary in 2011, we are planting Tasmanian blue gum trees to be used as a raw material for copy paper in Macapá, Amapa State, Brazil, and have named this program "Tanokun No Mori (TANO-kun Forest)." Tasmanian blue gum trees are fast growing and can be felled in approximately six years.

Beginning with the use of trees felled from 2017, we have created "TANO-Kun Forest αEco-Paper," an original "tanomail" copy paper. In commemoration of the 20th anniversary of "tanomail," we donated ¥10 per package to social contribution organizations. We were able to donate a total of ¥415,920 to the Japan Committee for UNICEF, Japanese Red Cross Society and Guide Dog & Service Dog & Hearing Dog Association of Japan.



2011



2017 (Tree felling commenced.)



TANO-Kun Forest αEco-Paper

■ Holding Social Contribution Seminars

As a seminar for employees, in March we invited Ms. Yoshiko Park, representative director of the Guide Dog & Service Dog & Hearing Dog Association of Japan, to give a lecture based on the theme of "barrier-free heart." This association is the only organization in Japan that trains and certifies guide dogs, service dogs and hearing dogs. Participants learned about the concept of "barrier-free heart" indicated in the Universal Design 2020 Action Plan.

Corporate Governance

Corporate Governance

1. Basic Stance Regarding Corporate Governance

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

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

A. Overview of the Corporate Governance System

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

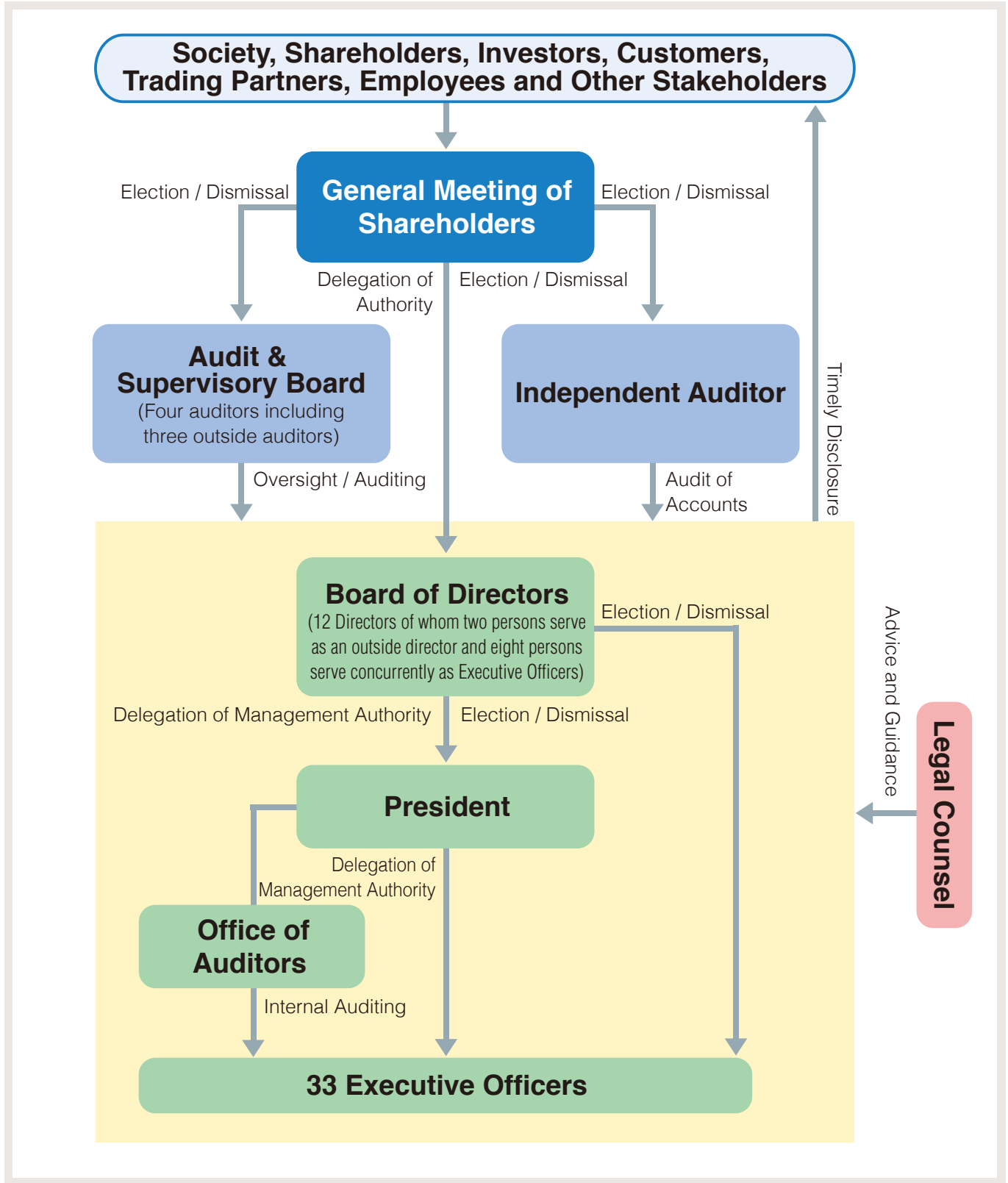
With regard to outside directors and outside auditors, the Company selects and appoints individuals with a sufficient level of knowledge and experience regarding laws, financial affairs and accounting.

The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of 12 persons, including two outside directors, and the Board of Directors meets regularly once a month in principle to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution. There are 33 Executive Officers, including eight with a concurrent post of Director.

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

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

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



B. Reason for Adopting Present Corporate Governance System

It has been deemed that a governance system led by outside directors would not be suitable due to a wide range of business domains of the Company and the importance of understanding these domains and being familiar with the IT industry. An Audit & Supervisory Board Members System has therefore been adopted in the manner above.

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

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

3. Other Matters Concerning Corporate Governance

A. State of Internal Control Systems

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

• Basic policies for internal control systems

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

Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

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

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

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

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

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

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

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

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

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

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

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

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

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries.

When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or

Representative Directors on the state of the execution of duties.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Directors, Audit & Supervisory Board Members, employees and other employees executing business operations of consolidated

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

- i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports
In accordance with employment regulations, persons reporting matters to the Audit & Supervisory Board Members shall not be treated unfavorably as a result of such reports.
- j) Matters related to the treatment of expenses and liabilities incurred in business execution by Audit & Supervisory Board Members
In the case Audit & Supervisory Board Members request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such Audit & Supervisory Board Members.
- k) Other systems for ensuring effective audits by Audit & Supervisory Board Members
Representative Directors shall exchange opinions with Audit & Supervisory Board Members on a timely basis. The Company's Office of Auditors shall maintain close relations with the Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

B. Basic thinking on the elimination of antisocial forces and establishment of measures

a) Basic thinking

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

b) Establishment of measures

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

C. State of Establishment of Risk Management Structure

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

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

D. Summary of Details of Contract of Limited Liability

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

E. Number of Directors

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

F. Resolutions for Appointment and Dismissal of Director

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

decided by cumulative voting.

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

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

H. Decision-making Body for the Distribution of Retained Earnings

The regular General Meeting of Shareholders shall serve as the decision-making body for the distribution of retained earnings at year-end.

I. Interim Dividend

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

J. Purchase of Own Shares

The purport of the Company's Articles of Incorporation stipulates that the Company shall be able to purchase its own shares based on a resolution of the Board of Directors as prescribed under Article 165, Paragraph 2 of the Companies Act. This is aimed at purchasing own shares through market transactions to enable the execution of a flexible capital policy that responds to changes in economic conditions.

Status of Directors and Auditors

1. Status of Outside Directors and Auditors

The Company has two outside directors and three outside auditors.

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

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

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

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

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

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

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an

agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

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

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

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

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

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

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

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

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

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

Status of Audits

1. Status of Audits by Audit & Supervisory Board Members

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

The Audit & Supervisory Board is chaired by a full-time auditor in accordance with a resolution. Regarding audits by the Audit & Supervisory Board, the audit policies and annual plan are determined by the Audit & Supervisory Board. Each auditor complies with the Audit & Supervisory Board Audit Standards prescribed by the Audit & Supervisory Board and attends the Board of Directors meetings, and through discussions with management, audit reports from the Office of Auditors and audit reports of auditors of subsidiaries shall strive for communication with Directors, the Office of Auditors and auditors of subsidiaries and work to collect information and enhance the

environment for auditing while monitoring and verifying the state of the internal control system. In addition, the full-time auditor attends important meetings, receives reports from Directors on the state of their business duties and investigates the state of business operations and assets at the head office and main business sites. Through these activities, Audit & Supervisory Board Members provide opinions such as advice and recommendations to Directors or employees.

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

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

2. Status of Internal Audits

The Office of Auditors (13 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

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

3. Accounting Audits

a) Name of Corporate Auditor

Ernst & Young ShinNihon LLC

b) Certified public accountants involved in auditing-related operations

Seiji Yamamoto, Designated Employee with Limited Liability and Managing Partner

Shigeyuki Kano, Designated Employee with Limited Liability and Managing Partner

Tomo Ito, Designated Employee with Limited Liability and Managing Partner

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

c) Composition of staff assisting in auditing-related operations

CPAs 10

Other individuals 19

d) Corporate Auditor Selection Policy and Reasons

(Corporate auditor selection policy)

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

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

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

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

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

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

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

4. Details of Auditors' Remuneration, etc.

a) Remuneration for Auditing Certified Public Accountants

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	67	—	69	—
Consolidated Subsidiaries	14	—	14	—
Total	81	—	84	—

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

Not applicable

c) Details of remuneration for other important audit certification services

Not applicable

d) Audit Remuneration Policy

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

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

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

Directors (Officers) Remuneration

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

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

Remuneration for Directors (excluding outside directors) comprises basic remuneration, bonus, annual performance-based pay, retirement bonuses for Directors (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age). For Directors who concurrently serve as Executive Officers, position and performance as an Executive Officer shall also be elements in determining director remuneration. Remuneration levels are set according to job responsibilities giving reference to survey data from external specialist organizations.

- A. For basic remuneration, the President and Representative Director, who is appointed by the Board of Directors, shall determine the payment amount giving comprehensive consideration to such factors as the evaluation of the performance of the supervised department in past years taking into account levels of other companies and a balance with employee salaries.
- B. In order to link contribution to business performance, bonuses are determined based on the target achievement rate for operating profit, which is strongly correlated to stock price. The President and Representative Director, who is appointed by the Board of Directors, shall determine bonuses based on the performance of the entire company during the bonus payment period, the performance of the supervised department and the degree of contribution to performance of the individual officer upon assuring transparency of the link with performance. In the current fiscal year, actual operating profit was ¥53,826 million (published value) versus the operating profit target for bonus calculation of ¥43,766 million, which was an achievement rate of 123.0%.
- C. Annual performance-based bonus is paid in accordance with the annual and semi-annual operating profit achievement rate based on the annual and semi-annual plan for employees. In the current fiscal year, actual operating profit amounted to ¥55,632 million (published value) versus the operating profit target of ¥44,700 million, which was an achievement rate of 124.5%.
- D. Retirement benefits for directors are set aside in accordance with the rules for retirement benefits for directors, with the annual

basic amount being set aside for full-time directors (each position), and the cumulative amount is calculated at retirement and paid upon determination of payment amount at the Board of Directors based on a resolution of the General Meeting of Shareholders. Retirement benefits for the current fiscal year were resolved at the General Meeting of Shareholders held on March 27, 2019.

- E. The company-type defined contribution pension for full-time directors who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees. There were no eligible persons this fiscal year.

Outside directors shall receive only fixed basic remuneration from the perspective of maintaining independence.

Basic remuneration is determined by the President and Representative Director, who is appointed by the Board of Directors, based on the levels of other companies and the remuneration levels of full-time directors of the Company.

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

The remuneration of Audit & Supervisory Board Members (excluding Outside Audit & Supervisory Board Members) comprises basic remuneration, officer retirement benefits (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age).

- A. Basic remuneration is determined through discussions with Audit & Supervisory Board Members.
- B. Retirement benefits for Directors are set aside in accordance with the rules for retirement benefits for directors, with the annual basic amount being set aside for full-time Audit & Supervisory Board Members, and the cumulative amount is calculated at retirement and paid upon determination of payment amount based on a resolution at the General Meeting of Shareholders upon consultation with the Audit & Supervisory Board Members. There were no eligible persons this fiscal year.
- C. The company-type defined contribution pension for full-time Audit & Supervisory Board Members who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees. There were no eligible persons this fiscal year.

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

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

In the current fiscal year, at the Board of Directors meeting on March 27, 2019, the Board resolved to entrust the basic remuneration for directors and the amount of retirement benefits for directors to the President and Representative Director and determined the amount of retirement benefits for directors based on a policy for determining the amount of remuneration for officers.

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

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Fixed Remuneration	Performance-linked Remuneration	Retirement Benefits	
Directors (excluding outside directors)	390	256	91	42	12
Audit & Supervisory Board Members (except outside auditors)	18	16	–	1	1
Outside Directors and Auditors	43	43	–	–	5

Notes:

- The above includes two Directors who retired at the conclusion of the 58th General Meeting of Shareholders held on March 27, 2019.
- Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
- The increase in allowance for retirement benefits for directors in the year under review is included in the above retirement benefits.

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

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

Principal Stockholdings by the Company

1. Criteria and Concept for Classification of Investment Stocks

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

2. Stocks Held for Purposes Other than Pure Investment

a) Holding Policy and Method for Verifying the Rationality of Holdings and Details of Verification by the Board of Directors

Regarding the Suitability of Holding Individual Stocks

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

During this fiscal year, the Company adopted a resolution to proceed with the sale of some stocks, etc., based on verification at the Board of Directors.

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

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

c) Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (millions of yen)
Unlisted stocks	22	127
Stocks other than unlisted stocks	33	9,611

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

	Number of issues	Total amount of acquisition price for the increase in the number of shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	1	5	New investment for collaborative business development
Stocks other than unlisted stocks	8	23	Regular purchases by business partner holding company

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

	Number of issues	Total amount of sales price for the decrease in the number of shares (millions of yen)
Unlisted stocks	1	29
Stocks other than unlisted stocks	3	36

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

Specified investment stocks

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
PERSOL HOLDINGS CO., LTD.	3,000,000	3,000,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 3
	6,153	4,908		
Uchida Esco Co., Ltd.	180,000	180,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	966	252		
GiG Works Inc. Note 4	360,000	360,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	694	310		
Ricoh Company, Ltd.	359,724	341,989	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	Yes
	428	368		
Daiwa House Industry Co., Ltd.	100,000	100,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	339	349		
Billing System Corporation	200,000	100,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares was due to an increase resulting from a stock split.	No
	228	409		
Daito Trust Construction Co., Ltd.	13,100	13,100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	176	196		
Concordia Financial Group, Ltd.	382,204	382,204	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	172	161		
Credit Saison Co., Ltd.	50,000	50,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	95	64		
NAMUCO BANDAI Holdings Inc.	9,504	9,504	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	63	46		
Meiko Network Japan Co., Ltd.	60,000	60,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	61	53		
Zeon Corporation	34,098	33,160	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	46	33		
Mitsubishi Tanabe Pharma Corporation	13,300	13,300	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	26	21		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
Nippon Kayaku Co., Ltd.	19,231	18,605	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	26	26		
Kyowa Kirin Co., Ltd. Note 5	8,000	8,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	20	16		
HYPER Inc.	24,000	24,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	17	10		
Mitsubishi UFJ Financial Group, Inc.	29,110	29,110	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 6
	17	15		
Morinaga & Co., Ltd.	3,209	3,153	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	16	14		
Iwabuchi Corporation	2,343	2,213	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	15	10		
Iino Kaiun Kaisha, Ltd.	35,630	33,492	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	13	13		
Dai-ichi Life Holdings, Inc.	4,300	4,300	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 7
	7	7		
Rengo Co., Ltd.	7,600	7,600	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	6	6		
Maruzen Co., Ltd.	2,000	2,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	4	3		
Mizuho Financial Group, Inc.	21,520	21,520	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 8
	3	3		
Canon Marketing Japan Inc.	1,155	1,155	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	2	2		
Tsuchiya Holdings Co., Ltd.	12,627	11,621	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	2	1		
Autobacs Seven Co., Ltd.	1,500	1,500	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares (stock)	Number of shares (stock)		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
LIXIL Group Corporation.	331	331	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
KOIKE SANSEI KOGYO Co., LTD.	133	133	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
TOKYO THEATRES COMPANY Inc.	199	155	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company.	No
	0	0		
Kurimoto, Ltd.	100	100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
HOSODA CORPORATION	1,200	1,200	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
NIPPON KINZOKU CO., LTD.	100	100	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
The Keiyo Bank, Ltd.	-	25,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	17		
J ESCOM HOLDINGS, INC.	-	150,000	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	12		
Levi Strauss Japan K.K.	-	440	The purpose of holding the company's shares is to enhance and maintain business relationships. Although it is difficult to state the quantitative holding effect, the Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	-	0		

Notes:

- All stocks, including stocks with recorded balance sheet amounts of 1/100 or less of their capital amounts, are listed.
- The - symbol indicates the Company does not hold that stock.
- Although PERSOL HOLDINGS CO., LTD. does not hold Company shares, its subsidiary, PERSOL TEMPSTAFF CO., LTD., holds Company shares.
- ThreePro Group Co., Ltd. was renamed GiG Works Inc. on August 1, 2019.
- Kyowa Hakko Kirin Co., Ltd. was renamed Kyowa Kirin Co., Ltd. on July 1, 2019.
- Although Mitsubishi UFJ Financial Group, Inc. does not hold Company shares, its subsidiaries MUFG Bank, Ltd., and Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. hold Company shares.
- Although Dai-ichi Life Holdings, Inc. does not hold Company shares, its subsidiary, The Dai-ichi Life Insurance Company, Limited, holds Company shares.
- Although Mizuho Financial Group, Inc. does not hold Company shares, its subsidiaries, Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd., hold Company shares.

Deemed stocks

Not applicable

3. Investment Stocks Held for the Purpose of Pure Investment

Not applicable

Directors and Audit & Supervisory Board Members (As of March 27, 2020)



President & Chief Executive Officer

Yuji Otsuka



Managing Director & Senior Executive Operating Officer

Kazuyuki Katakura



Managing Director & Senior Executive Operating Officer

Toshiyasu Takahashi



Managing Director & Executive Operating Officer

Hironobu Tsurumi



Managing Director & Senior Operating Officer

Hironobu Saito



Managing Director & Operating Officer

Katsuhiro Yano



Managing Director & Operating Officer

Minoru Sakurai



Managing Director & Operating Officer

Norihiko Moriya

Director & Senior Managing Officer

Mitsuya Hirose

Directors

Yasuhiro Wakamatsu

Jiro Makino

Tetsuo Saito

Standing Audit & Supervisory Board Member

Naoto Minai

Audit & Supervisory Board Members

Kazuhiko Nakai

Etsuo Hada

Katsumasa Minagawa

Business Risks

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

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 27, 2020.

■ Customer-related Risks

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

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

■ Supplier-related Risks

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

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

■ Information Leakage Risks

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

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

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

Financial Section

Three-year Financial Data

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2017, 2018 and 2019	Millions of yen			Thousands of U.S. dollars
	2017	2018	2019	2019
Net sales	¥691,166	¥759,871	¥886,536	\$8,092,527
System Integration business	408,718	463,293	578,698	5,282,508
Service and Support business	282,064	296,577	307,837	2,810,019
Other business	383	—	—	—
Operating profit	44,386	48,058	62,192	567,709
Ordinary profit	45,460	49,285	63,706	581,527
Profit before income taxes	45,363	49,100	62,668	572,058
Profit attributable to owners of parent	31,560	33,601	43,497	397,057
Total assets	380,317	406,732	461,812	4,215,536
Interest-bearing debt	8,873	8,256	8,807	80,394
Equity	212,897	229,726	259,328	2,367,219
Earnings per share (EPS) (Yen and U.S. dollars)	166.46	177.22	229.42	2.09
Dividend per share of common stock (Yen and U.S. dollars)	70.00	85.00	110.00	1.00
Cash flows from operating activities per share (Yen and U.S. dollars)	190.68	203.83	257.18	2.35
Operating profit to Net sales ratio (%)	6.42	6.32	7.02	—
Profit to Net sales ratio* (%)	4.57	4.42	4.91	—
Interest-bearing debt ratio (%)	2.33	2.03	1.91	—
Equity ratio (%)	55.98	56.48	56.15	—
Return on equity (ROE) (%)	15.67	15.18	17.79	—

Notes:

* Profit stands for Profit attributable to owners of parent

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

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2019 exchange rate of ¥109.55 = US\$1.

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

The Company conducted a 2-for-1 stock split for shares of common stock of the Company with April 1, 2018 as the effective date. Accordingly, the amount of Per Share Data is calculated based on the assumption that the share split was conducted at the beginning of the fiscal year 2017.

Management's Analysis of Operating Results and Financial Position	35
Consolidated Balance Sheets	38
Consolidated Statements of Income	40
Consolidated Statements of Comprehensive Income	41
Consolidated Statements of Changes in Net Assets	42
Consolidated Statements of Cash Flows	44
Notes to Consolidated Financial Statements	45
Independent Auditor's Report	69

Management's Analysis of Operating Results and Financial Position

Summary of Sales and Profits

	Millions of yen			
	2018	2019	Difference to Last Year	% Change to Last Year
Net sales	¥759,871	¥886,536	+126,665	+16.7%
System Integration business	463,293	578,698	+115,405	+24.9
Service and Support business	296,577	307,837	+11,259	+3.8
Cost of sales	602,054	706,537	+104,483	+17.4
Gross profit	157,817	179,999	+22,182	+14.1
Selling, general and administrative expenses	109,758	117,806	+8,047	+7.3
Operating profit	48,058	62,192	+14,134	+29.4
Ordinary profit	49,285	63,706	+14,420	+29.3
Profit before income taxes	49,100	62,668	+13,568	+27.6
Income taxes				
Current	15,744	20,331	+4,587	+29.1
Deferred	-622	-1,625	-1,003	—
Profit attributable to owners of parent	33,601	43,497	+9,895	+29.4

Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥886,536 million, an increase of ¥126,665 million (16.7%) from the previous fiscal year.

System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. We recorded high growth in unit sales of PCs. Additionally, thanks also to responses to the increase in the consumption tax and system replacement demand, we also achieved smooth growth in sales of packaged software and consigned software. As a result, net sales increased 24.9% from the previous fiscal year to ¥578,698 million.

Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. We worked to strengthen the competitiveness of our "tanomail" office supply mail-order service business and also responded to the last-minute surge in demand prior to the increase in the consumption tax. The "tayoreru" support service business also recorded a steady growth in sales, which led to a 3.8% increase in net sales from the previous fiscal year to ¥307,837 million.

Summary of Income and Expenses

Regarding profits, gross profit increased 14.1% from the previous fiscal year to ¥179,999 million due to the growth in net sales.

Because the rise in gross profit largely exceeded the increase in selling, general and administrative (SG&A) expenses, operating profit increased 29.4% to ¥62,192 million, ordinary profit increased 29.3% to ¥63,706 million and profit attributable to owners of parent rose 29.4% to ¥43,497 million. Earnings per share (EPS) amounted to ¥229.42.

Financial Position

	Millions of yen			
	2018	2019	Difference to Last Year	% Change to Last Year
Assets:	¥406,732	¥461,812	+55,079	+13.5%
Current assets	331,468	382,485	+51,016	+15.4
Non-current assets	75,263	79,326	+4,062	+5.4
Liabilities:	175,067	200,190	+25,122	+14.4
Current liabilities	161,327	186,115	+24,788	+15.4
Non-current liabilities	13,740	14,074	+333	+2.4
Net assets	231,664	261,622	+29,957	+12.9

Note: From 2019, the Company adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" and has adopted this retroactively for 2018. Therefore, the figures presented for current assets and non-current assets at the end of December 2018 are after retroactive adoption.

Assets

Total assets at fiscal year-end increased ¥55,079 million from the previous fiscal year-end to ¥461,812 million.

Current assets increased ¥51,016 million from the previous fiscal year-end to ¥382,485 million due to such factors as an increase in cash and deposits. Non-current assets increased ¥4,062 million from the previous fiscal year-end to ¥79,326 million.

Liabilities

Total liabilities at fiscal year-end increased ¥25,122 million from the previous fiscal year-end to ¥200,190 million.

Current liabilities increased ¥24,788 million from the previous fiscal year-end to ¥186,115 million due to such factors as an increase in notes and accounts payable – trade.

Non-current liabilities increased ¥333 million from the previous fiscal year-end to ¥14,074 million.

Net Assets

Total net assets at fiscal year-end increased ¥29,957 million from the previous fiscal year-end to ¥261,622 million due to an increase in retained earnings.

As a result, the equity ratio decreased 0.3 percentage point from the previous fiscal year-end to 56.2%.

The interest coverage ratio was 1,321.66 times, the interest-bearing debt ratio was 1.91%, return on equity (ROE) was 17.79% and return on assets (ROA) was 14.50%.

	2018	2019
Interest coverage ratio (times)	1,013.55	1,321.66
Interest-bearing debt ratio (%)	2.03	1.91
ROE (%)	15.18	17.79
ROA (%)	12.32	14.50

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

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

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

Cash Flows

	Millions of yen	
	2018	2019
Cash flows from operating activities	¥38,646	¥48,762
Cash flows from investing activities	-11,096	-7,934
Cash flows from financing activities	-13,470	-16,221
Cash and cash equivalents at end of year	151,585	176,198

Cash and cash equivalents at end of year totaled ¥176,198 million, an increase of ¥24,612 million from the end of the previous fiscal year. Factors relating to each cash flow category were as follows.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥48,762 million, an increase of ¥10,115 million from the previous fiscal year due to an increase in profit before income taxes.

Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥7,934 million, a decrease of ¥3,162 million from the previous fiscal year due to a decrease in the purchase of investment securities.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥2,751 million to ¥16,221 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥13,278 million to ¥40,828 million.

Forecast for Fiscal 2020

In fiscal 2020 the Company forecasts a 2.5% decrease in consolidated net sales to ¥864,000 million, a 2.4% increase in operating profit to ¥63,700 million, a 1.4% increase in ordinary profit to ¥64,600 million and a 0.1% increase in profit attributable to owners of parent to ¥43,530 million.

By segment, we forecast a 6.1% decrease in net sales to ¥543,550 million in the System Integration business and a 4.1% increase to ¥320,450 million in the Service and Support business.

Consolidated Balance Sheets

OTSUKA CORPORATION and Consolidated Subsidiaries
As of December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Assets			
Current assets			
Cash and deposits (Note 2)	¥150,888	¥175,427	\$ 1,601,342
Notes and accounts receivable - trade (Note 4)	132,352	149,574	1,365,356
Merchandise	25,721	32,321	295,037
Work in process	957	1,470	13,420
Raw materials and supplies	828	754	6,888
Other	20,833	23,057	210,477
Allowance for doubtful accounts	(113)	(120)	(1,099)
Total current assets	331,468	382,485	3,491,424
Non-current assets			
Property, plant and equipment			
Buildings and structures	58,138	58,933	537,961
Accumulated depreciation and impairment loss	(40,761)	(42,183)	(385,060)
Buildings and structures, net	17,376	16,750	152,901
Land (Note 3)	15,604	15,351	140,135
Other	13,038	12,683	115,780
Accumulated depreciation and impairment loss	(9,389)	(8,838)	(80,677)
Other, net	3,649	3,845	35,103
Total property, plant and equipment	36,629	35,947	328,140
Intangible assets			
Software	13,729	14,452	131,923
Other	59	59	541
Total intangible assets	13,789	14,511	132,465
Investments and other assets			
Investment securities (Note 1)	14,609	17,358	158,456
Guarantee deposits	2,424	2,428	22,163
Deferred tax assets	6,144	6,895	62,941
Other	1,854	2,414	22,036
Allowance for doubtful accounts	(187)	(229)	(2,091)
Total investments and other assets	24,844	28,867	263,506
Total non-current assets	75,263	79,326	724,112
Total assets	¥406,732	¥461,812	\$ 4,215,536

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Liabilities			
Current liabilities			
Notes and accounts payable - trade (Note 2) (Note 4)	¥ 89,322	¥102,006	\$ 931,141
Electronically recorded obligations - operating	17,904	19,105	174,403
Short-term loans payable	4,800	4,800	43,815
Income taxes payable	9,326	13,270	121,134
Advances received	14,350	14,742	134,572
Provision for bonuses	3,564	4,014	36,645
Other	22,058	28,176	257,199
Total current liabilities	161,327	186,115	1,698,913
Non-current liabilities			
Long-term loans payable	1,700	1,700	15,518
Lease obligations	1,058	1,583	14,452
Provision for retirement benefits for directors	690	713	6,517
Retirement benefit liability	9,205	8,999	82,145
Other	1,085	1,077	9,838
Total non-current liabilities	13,740	14,074	128,471
Total liabilities	175,067	200,190	1,827,384
Net assets			
Shareholders' equity			
Capital stock	10,374	10,374	94,704
Capital surplus	16,254	16,254	148,377
Retained earnings	209,335	236,544	2,159,235
Treasury shares	(139)	(139)	(1,276)
Total shareholders' equity	235,825	263,034	2,401,041
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	4,544	6,117	55,844
Deferred gains or losses on hedges	(23)	2	18
Revaluation reserve for land (Note 3)	(11,650)	(11,402)	(104,080)
Foreign currency translation adjustment	3	7	67
Remeasurements of defined benefit plans	1,027	1,569	14,328
Total accumulated other comprehensive income	(6,098)	(3,705)	(33,821)
Non-controlling interests	1,938	2,293	20,932
Total net assets	231,664	261,622	2,388,151
Total liabilities and net assets	¥406,732	¥461,812	\$ 4,215,536

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Net sales	¥759,871	¥886,536	\$ 8,092,527
Cost of sales	602,054	706,537	6,449,448
Gross profit	157,817	179,999	1,643,078
Selling, general and administrative expenses			
Salaries, allowances and bonuses	42,549	45,646	416,672
Remuneration for directors	580	598	5,458
Welfare expenses	7,094	7,561	69,019
Rent expenses	6,699	6,894	62,934
Transportation and warehousing expenses	20,812	23,024	210,175
Provision for bonuses	2,383	2,744	25,052
Retirement benefit expenses	2,299	2,402	21,932
Provision for retirement benefits for directors	65	66	606
Provision of allowance for doubtful accounts	73	95	874
Depreciation	5,126	5,664	51,707
Other	22,074	23,107	210,935
Total selling, general and administrative expenses (Note 1)	109,758	117,806	1,075,369
Operating profit	48,058	62,192	567,709
Non-operating income			
Interest income	13	10	95
Dividend income	162	186	1,704
House rent income	248	253	2,312
Income from recycling	175	207	1,897
Share of profit of entities accounted for using equity method	259	572	5,230
Foreign exchange gains	179	151	1,380
Other	241	189	1,728
Total non-operating income	1,282	1,571	14,349
Non-operating expenses			
Interest expenses	47	47	434
Other	7	10	96
Total non-operating expenses	55	58	530
Ordinary profit	49,285	63,706	581,527
Extraordinary income			
Gain on sales of non-current assets (Note 2)	96	-	-
Gain on sales of investment securities	2	34	317
Other	7	-	-
Total extraordinary income	106	34	317
Extraordinary losses			
Loss on retirement of non-current assets (Note 3)	61	73	671
Impairment loss	227	967	8,831
Other	2	31	284
Total extraordinary losses	292	1,072	9,787
Profit before income taxes	49,100	62,668	572,058
Income taxes - current	15,744	20,331	185,594
Income taxes - deferred	(622)	(1,625)	(14,840)
Total income taxes	15,122	18,706	170,753
Profit	33,977	43,962	401,304
Profit attributable to non-controlling interests	375	465	4,247
Profit attributable to owners of parent	¥ 33,601	¥ 43,497	\$ 397,057

The accompanying notes are an integral part of these statements.

Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Profit	¥ 33,977	¥ 43,962	\$401,304
Other comprehensive income			
Valuation difference on available-for-sale securities	(2,763)	1,565	14,288
Deferred gains or losses on hedges	(31)	31	284
Revaluation reserve for land	-	76	695
Remeasurements of defined benefit plans, net of tax	(263)	556	5,078
Share of other comprehensive income of entities accounted for using equity method	(45)	(5)	(49)
Total other comprehensive income (Note 1)	(3,103)	2,223	20,297
Comprehensive income	¥ 30,874	¥ 46,186	\$421,601
(Breakdown)			
Comprehensive income attributable to owners of parent	¥ 30,468	¥ 45,718	\$417,331
Comprehensive income attributable to non-controlling interests	406	467	4,270

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

OTSUKA CORPORATION and Consolidated Subsidiaries
For the year ended December 31, 2018

	Shareholders' equity				Millions of yen
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2018	¥ 10,374	¥ 16,254	¥ 189,816	¥(137)	¥216,308
Dividends of surplus			(13,272)		(13,272)
Profit attributable to owners of parent			33,601		33,601
Reversal of revaluation reserve for land			(446)		(446)
Purchase of treasury shares				(2)	(2)
Change of scope of consolidation			(364)		(364)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	19,518	(2)	19,516
Balance as of December 31, 2018	¥ 10,374	¥ 16,254	¥ 209,335	¥(139)	¥235,825

	Accumulated other comprehensive income							Millions of yen
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of January 1, 2018	¥ 7,348	¥ 2	¥ (12,097)	¥ 45	¥ 1,289	¥ (3,411)	¥ 1,634	¥214,532
Dividends of surplus								(13,272)
Profit attributable to owners of parent								33,601
Reversal of revaluation reserve for land								(446)
Purchase of treasury shares								(2)
Change of scope of consolidation								(364)
Net changes of items other than shareholders' equity	(2,804)	(25)	446	(41)	(261)	(2,687)	303	(2,384)
Total changes of items during period	(2,804)	(25)	446	(41)	(261)	(2,687)	303	17,132
Balance as of December 31, 2018	¥ 4,544	¥ (23)	¥ (11,650)	¥ 3	¥ 1,027	¥ (6,098)	¥ 1,938	¥231,664

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

	Shareholders' equity				Millions of yen
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of January 1, 2019	¥ 10,374	¥ 16,254	¥209,335	¥(139)	¥235,825
Dividends of surplus			(16,116)		(16,116)
Profit attributable to owners of parent			43,497		43,497
Reversal of revaluation reserve for land			(172)		(172)
Purchase of treasury shares				(0)	(0)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	27,208	(0)	27,208
Balance as of December 31, 2019	¥ 10,374	¥ 16,254	¥236,544	¥(139)	¥263,034

	Accumulated other comprehensive income							Millions of yen
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of January 1, 2019	¥ 4,544	¥ (23)	¥ (11,650)	¥ 3	¥ 1,027	¥ (6,098)	¥ 1,938	¥231,664
Dividends of surplus								(16,116)
Profit attributable to owners of parent								43,497
Reversal of revaluation reserve for land								(172)
Purchase of treasury shares								(0)
Net changes of items other than shareholders' equity	1,573	25	248	4	542	2,393	355	2,748
Total changes of items during period	1,573	25	248	4	542	2,393	355	29,957
Balance as of December 31, 2019	¥ 6,117	¥ 2	¥ (11,402)	¥ 7	¥ 1,569	¥ (3,705)	¥ 2,293	¥261,622

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

Thousands of U.S. dollars

	Shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance as of January 1, 2019	\$ 94,704	\$ 148,377	\$ 1,910,866	\$ (1,274)	\$ 2,152,673
Dividends of surplus			(147,111)		(147,111)
Profit attributable to owners of parent			397,057		397,057
Reversal of revaluation reserve for land			(1,576)		(1,576)
Purchase of treasury shares				(1)	(1)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	248,369	(1)	248,367
Balance as of December 31, 2019	\$ 94,704	\$ 148,377	\$ 2,159,235	\$ (1,276)	\$ 2,401,041

Thousands of U.S. dollars

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of January 1, 2019	\$ 41,483	\$ (213)	\$(106,352)	\$ 30	\$ 9,379	\$(55,672)	\$17,691	\$2,114,692
Dividends of surplus								(147,111)
Profit attributable to owners of parent								397,057
Reversal of revaluation reserve for land								(1,576)
Purchase of treasury shares								(1)
Net changes of items other than shareholders' equity	14,360	231	2,271	37	4,949	21,850	3,241	25,091
Total changes of items during period	14,360	231	2,271	37	4,949	21,850	3,241	273,459
Balance as of December 31, 2019	\$ 55,844	\$ 18	\$(104,080)	\$ 67	\$14,328	\$(33,821)	\$20,932	\$2,388,151

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries
For the years ended December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 49,100	¥ 62,668	\$ 572,058
Depreciation	6,438	7,228	65,983
Impairment loss	227	967	8,831
Increase (decrease) in allowance for doubtful accounts	9	48	442
Interest and dividend income	(176)	(197)	(1,799)
Interest expenses	47	47	434
Share of loss (profit) of entities accounted for using equity method	(259)	(572)	(5,230)
Loss on retirement of non-current assets	61	73	671
Loss (gain) on sales of non-current assets	(94)	-	-
Decrease (increase) in notes and accounts receivable - trade	(10,255)	(17,263)	(157,588)
Decrease (increase) in inventories	(909)	(7,038)	(64,251)
Increase (decrease) in notes and accounts payable - trade	6,246	13,884	126,745
Other, net	2,540	5,246	47,889
Subtotal	52,976	65,093	594,186
Interest and dividend income received	207	276	2,521
Interest expenses paid	(48)	(47)	(436)
Income taxes paid	(14,489)	(16,559)	(151,154)
Net cash provided by (used in) operating activities	38,646	48,762	445,116
Cash flows from investing activities:			
Purchase of property, plant and equipment	(2,436)	(2,152)	(19,649)
Proceeds from sales of property, plant and equipment	243	-	-
Purchase of software	(5,864)	(5,707)	(52,099)
Purchase of investment securities	(3,065)	(43)	(396)
Proceeds from sales of investment securities	10	65	599
Other, net	13	(96)	(878)
Net cash provided by (used in) investing activities	(11,096)	(7,934)	(72,425)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	(100)	-	-
Cash dividends paid	(13,265)	(16,109)	(147,047)
Other, net	(105)	(112)	(1,030)
Net cash provided by (used in) financing activities	(13,470)	(16,221)	(148,077)
Effect of exchange rate change on cash and cash equivalents	(7)	6	55
Net increase (decrease) in cash and cash equivalents	14,071	24,612	224,668
Cash and cash equivalents at beginning of period	137,545	151,585	1,383,714
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(31)	-	-
Cash and cash equivalents at end of period (Note 1)	¥151,585	¥176,198	\$1,608,383

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

(FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS)

1. Basis of Presentation of the Consolidated Financial Statements

Accounting Principles

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

2. Summary of Significant Accounting Policies

(1) Scope of consolidation

As of December 31, 2018 and 2019 the numbers of subsidiaries and consolidated subsidiaries were as follows:

	2018	2019
Subsidiaries	8	8
(Consolidated subsidiaries)	(4)	(4)

The 4 subsidiaries which were consolidated in the year ended December 31, 2019 are listed below:

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

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

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

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

(2) Investments in unconsolidated subsidiaries and affiliates

As of December 31, 2018 and 2019 the numbers of unconsolidated subsidiaries and affiliates were as follows:

	2018	2019
Unconsolidated subsidiaries	4	4
Affiliates	7	7
(Affiliates accounted for using equity method)	(3)	(3)

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

The 3 investments in affiliates accounted for using equity method as of December 31, 2019 are listed below:

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

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

(3) Financial instruments

(a) Securities

Securities held by the Companies are as follows:

- Available-for-sale securities

Securities with market quotations are measured at fair value, based on market prices at the balance sheet date. (Unrealized gains/losses from valuation of marketable securities are charged directly to net assets at a net-of-tax amount, while cost of sale is determined by the moving-average method.)

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

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

(b) Derivatives

Derivatives are recognized at fair value.

(4) Inventories

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

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

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

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

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

Estimated useful lives of assets are principally as follows:

Buildings and structures	— 15 to 50 years
Other	— 4 to 10 years

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

(6) Intangible assets (excluding lease assets)

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

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

(7) Lease assets

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

(8) Allowance for doubtful accounts

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

(9) Provision for bonuses

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

(10) Provision for retirement benefits for directors

The Companies have retirement benefits for directors.

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

(11) Accounting methods for retirement benefits

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

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

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

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

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

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

Revenues and costs of the make-to-order software contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The completed-contract method continues to be applied for contracts of which the percentage of completion cannot be reliably estimated.

(13) Foreign currency translation

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

(14) Hedge accounting

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

1. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

2. Hedging instruments: Interest rate swaps

Hedged items: Loans payable

(c) Hedge policy

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

(d) Evaluation of hedging effectiveness

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

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

(15) Cash and cash equivalents

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

(16) Accounting for income taxes

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

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

(17) Accounting for the consumption tax

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

(18) Accounting pronouncement not yet adopted

—Accounting Standard for Revenue Recognition (ASBJ Statement No.29 on March 30, 2018)

—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 on March 30, 2018)

(a)Overview

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

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

(b)Scheduled date of adoption

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

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

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

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

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

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

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

(a)Overview

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

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

(b)Scheduled date of adoption

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

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

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

(19) Change in presentation

Partial Amendments to Accounting Standard for Tax Effect Accounting

The Companies have adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No.28 on February 16, 2018) (hereinafter, the "Partial Amendments") from the beginning of the year ended December 31, 2019. As such, deferred tax assets is classified as part of "Investments and other assets" and deferred tax liabilities is classified as part of "Non-current liabilities" respectively.

As a result, ¥3,181 million of deferred tax assets previously presented in "Current assets" in consolidated balance sheets as of December 31, 2018 is included within ¥6,144 million of deferred tax assets in "Investments and other assets."

(20) Rounding of amounts

Amounts of less than a million yen have been omitted.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. Amounts of less than a thousand of U.S. dollars have been omitted. The rate of ¥109.55 = US\$1, exchange rates on December 31, 2019, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate.

(CONSOLIDATED BALANCE SHEETS)

***1. Investment securities**

As of December 31, 2018 and 2019, principal items related to unconsolidated subsidiaries and affiliates were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Investment securities (stock)	¥6,214	¥6,704	\$ 61,197
Investment securities (capital)	217	217	1,982

***2. Pledged Assets**

As of December 31, 2018 and 2019, pledged assets were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Time deposits	¥ 5	-	-

Liabilities corresponding to above assets were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Notes and accounts payable - trade	¥ 5	-	-

***3. Land Revaluation**

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

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

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

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

The date of Land Revaluation: December 31, 2001

As of December 31, 2018 and 2019, the differences between fair value and carrying value after revaluation were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
The differences between fair value and carrying value after revaluation	¥73	¥ 438	\$ 3,998

*4. Notes matured at the balance sheet date

December 31, 2018 and 2019 were a bank holiday, and notes matured at the balance sheet date were accounted for as if they were settled on the maturity dates.

As of December 31, 2018 and 2019, notes matured at the balance sheet date were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Notes receivable	¥ 555	¥ 450	\$ 4,107
Notes payable	-	0	1

(CONSOLIDATED STATEMENTS OF INCOME)

*1. Research and development expenses

For the years ended December 31, 2018 and 2019, Research and development expenses were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Research and development expenses included in general and administrative expenses and manufacturing costs	¥ 1,004	¥ 476	\$ 4,345

*2. Gain on sales of non-current assets

For the years ended December 31, 2018 and 2019, Gain on sales of non-current assets were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Buildings and structures	¥59	-	-
Land	37	-	-
Other property, plant and equipment	0	-	-
Gain on sales of non-current assets	¥96	-	-

*3. Loss on retirement of non-current assets

For the years ended December 31, 2018 and 2019, Loss on retirement of non-current assets were as follows:

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Buildings and structures	¥27	¥43	\$ 396
Other property, plant and equipment	33	28	262
Software	-	1	12
Loss on retirement of non-current assets	¥61	¥73	\$ 671

(CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

*1. Other comprehensive income

For the years ended December 31, 2018 and 2019, reclassification adjustments and tax effects related to other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Valuation difference on available-for-sale securities			
Amount arising during the year	¥ (3,993)	¥ 2,263	\$ 20,665
Reclassification adjustments	(2)	(7)	(70)
Amount before tax effect	(3,996)	2,256	20,594
Tax effect	1,232	(690)	(6,306)
Valuation difference on available-for-sale securities	(2,763)	1,565	14,288
Deferred gains or losses on hedges			
Amount arising during the year	(22)	1	15
Reclassification adjustments	(23)	43	394
Amount before tax effect	(45)	44	409
Tax effect	13	(13)	(125)
Deferred gains or losses on hedges	(31)	31	284
Revaluation reserve for land			
Amount arising during the year	-	-	-
Reclassification adjustments	-	-	-
Amount before tax effect	-	-	-
Tax effect	-	76	695
Revaluation reserve for land	-	76	695
Remeasurements of defined benefit plans			
Amount arising during the year	(452)	559	5,107
Reclassification adjustments	74	243	2,223
Amount before tax effects	(378)	803	7,331
Tax effects	115	(246)	(2,252)
Remeasurements of defined benefit plans	(263)	556	5,078
Share of other comprehensive income of entities accounted for using equity method			
Amount arising during the year	(47)	(6)	(62)
Reclassification adjustments	1	1	13
Share of other comprehensive income of entities accounted for using equity method	(45)	(5)	(49)
Total other comprehensive income	¥ (3,103)	¥ 2,223	\$ 20,297

(CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)

1. Shareholders' Equity

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

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

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

2. Dividends from surplus, etc.

(1) Number of shares issued

	Thousands of shares	
	2018	2019
Number of shares at the beginning of the fiscal year	95,001	190,002
Increase(*)	95,001	-
Decrease	-	-
Number of shares as of the end of the fiscal year	190,002	190,002

Type of all shares issued is common stock.

* The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018. The shares increase in the number of shares issued arise from the stock split.

(2) Number of treasury shares

	Thousands of shares	
	2018	2019
Number of shares at the beginning of the fiscal year	200	400
Increase	(*) 200	(*) 0
Decrease	-	-
Number of shares as of the end of the fiscal year	400	400

Type of all treasury shares is common stock.

*1 The 200 thousands of shares increase in the number of treasury shares consists of 200 thousand of shares by the stock split with an effective date of April 1, 2018 and 0 thousand of shares by purchase of the shares of less than standard unit.

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

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

None.

(4) Items related to dividends

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

Resolution date	Dividends paid		Dividend per share		Record date	Effective date
	(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
2018/03/28	¥13,272	\$ 121,151	¥ 140.00	\$ 1.28	2017/12/31	2018/03/29
2019/03/27	¥16,116	\$ 147,111	(*) ¥ 85.00	\$ 0.78	2018/12/31	2019/03/28
2020/03/27	¥20,856	\$ 190,380	(*) ¥ 110.00	\$ 1.00	2019/12/31	2020/03/30

Type of all shares issued is common stock.

Source of dividends is Retained earnings.

* The dividend per share whose record dates are December 31, 2018 and 2019 stated above are calculated in consideration of the stock split with an effective date of April 1, 2018. The dividend per share whose record dates are December 31, 2018 and 2019 not considering the stock split are ¥ 170.00 and ¥ 220.00, respectively.

(CONSOLIDATED STATEMENTS OF CASH FLOWS)

*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2018 and 2019 consisted of:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Cash and deposits	¥ 150,888	¥ 175,427	\$ 1,601,342
Time deposits with deposit terms of more than three months	(55)	(45)	(410)
Trust beneficiary interests included in other current assets with investment terms with three months or less	752	816	7,451
Cash and cash equivalents	¥ 151,585	¥ 176,198	\$ 1,608,383

(LEASE TRANSACTIONS)

1. Finance Lease Transactions (lessee)

The disclosure is omitted because finance lease transactions were immaterial in the consolidated financial statements as of December 31, 2018 and 2019.

2. Operating Lease Transactions (lessee)

The amounts of future lease payments on noncancelable operating leases as of December 31, 2018 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Due within one year	¥ 614	¥ 280	\$ 2,564
Due after one year	149	240	2,197
Total	¥ 764	¥ 521	\$ 4,761

(FINANCIAL INSTRUMENTS)

1. Financial Instruments

(1) Policy for financial instruments

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

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

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

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

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

Trade payables - trade notes and accounts payable, electronically recorded obligations - have payment due date within almost three months. Short-term loans payable and long-term loans payable are mainly financing related to working capital. Trade payables, short-term loans payable, income taxes payable, and other payables are exposed to liquidity risk.

The Companies reduce liquidity risk relating to these payables by developing a cash flow plan.

Long-term loans payable are exposed to interest rate fluctuation risk.

The Companies hedge this risk by using interest rate swap transactions.

Derivative transactions are interest rate swap agreements and foreign exchange contracts entered into by one of the consolidated subsidiaries.

Conducting and managing derivative transactions are in accordance with the internal policies, which set forth delegation of authority.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of December 31, 2018 and 2019 and estimated fair value were as follows:

	Millions of yen		
	Carrying value	Fair value	Difference
2018			
Assets			
1) Cash and deposits	¥ 150,888	¥ 150,888	-
2) Notes and accounts receivable - trade	132,352	132,352	-
3) Investment securities			
Other securities	8,021	8,021	-
Investments in affiliates	1,185	1,755	569
Total assets	¥ 292,447	¥ 293,017	¥ 569
Liabilities			
4) Notes and accounts payable – trade	¥ 89,322	¥ 89,322	-
5) Electronically recorded obligations - operating	17,904	17,904	-
6) Short-term loans payable	4,800	4,800	-
7) Income taxes payable	9,326	9,326	-
8) Long-term loans payable	1,700	1,702	2
Total liabilities	¥ 123,053	¥ 123,056	¥ 2
Derivative transactions (*)			
Derivative transactions to which hedge accounting is not applied	¥ (12)	¥ (12)	-
Derivative transactions to which hedge accounting is applied	(41)	(41)	-
Total derivative transactions	¥ (53)	¥ (53)	-

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

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

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

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Difference
Assets			
1) Cash and deposits	\$1,601,342	\$1,601,342	-
2) Notes and accounts receivable - trade	1,365,356	1,365,356	-
3) Investment securities			
Other securities	93,812	93,812	-
Investments in affiliates	11,893	28,100	16,207
Total assets	\$3,072,405	\$3,088,612	\$16,207
Liabilities			
4) Notes and accounts payable – trade	\$ 931,141	\$ 931,141	-
5) Electronically recorded obligations - operating	174,403	174,403	-
6) Short-term loans payable	43,815	43,815	-
7) Income taxes payable	121,134	121,134	-
8) Long-term loans payable	15,518	15,536	18
Total liabilities	\$1,286,013	\$1,286,031	\$ 18
Derivative transactions (*)			
Derivative transactions to which hedge accounting is not applied	\$ 44	\$ 44	-
Derivative transactions to which hedge accounting is applied	32	32	-
Total derivative transactions	\$ 77	\$ 77	-

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

Notes:

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

Assets

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

Since these items are settled in a short term, their carrying value approximates fair value.

3) Investment securities

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

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

Liabilities

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

7) Income taxes payable

Since these items are settled in a short term, their carrying value approximates fair value.

8) Long-term loans payable

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

Derivative transactions

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

2. As of December 31, 2018 and 2019, financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unlisted stocks	¥5,372	¥5,745	\$ 52,449
Investments in investment business limited partnerships	29	33	301

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

3. Redemption schedule for receivables as of December 31, 2018 and 2019 are as follows:

Millions of yen				
2018				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	¥ 150,888	-	-	-
Notes and accounts receivable - trade	132,352	-	-	-
Total	¥ 283,240	-	-	-

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

Thousands of U.S. dollars				
2019				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	\$ 1,601,342	-	-	-
Notes and accounts receivable - trade	1,365,356	-	-	-
Total	\$ 2,966,699	-	-	-

4. Repayment schedules for long-term loans payable and other interest-bearing debt as of December 31, 2018 and 2019 are as follows:

Millions of yen				
2018				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans payable	¥ 4,800	-	-	-
Long-term loans payable	-	1,700	-	-

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

Thousands of U.S. dollars				
2019				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term loans payable	\$ 43,815	-	-	-
Long-term loans payable	-	15,518	-	-

(SECURITIES)

As of December 31, 2018 and 2019, securities were as follows:

(1) Available-for-sale securities with fair value as of December 31, 2018 and 2019

	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Carrying value	Acquisition cost	Unrealized gains(loss)	Carrying value	Acquisition cost	Unrealized gains(loss)	Carrying value	Acquisition cost	Unrealized gains(loss)
Securities whose carrying value exceeds their acquisition costs									
Stocks	¥7,826	¥1,272	¥6,554	¥10,065	¥1,293	¥8,771	\$91,877	\$11,806	\$80,070
Bonds	-	-	-	-	-	-	-	-	-
Other securities	170	102	67	211	107	104	1,934	984	950
	¥7,997	¥1,375	¥6,622	¥10,277	¥1,401	¥8,875	\$93,812	\$12,791	\$81,021
Securities whose carrying value does not exceed their acquisition costs									
Stocks	¥24	¥26	¥(2)	-	-	-	-	-	-
Bonds	-	-	-	-	-	-	-	-	-
Other securities	-	-	-	-	-	-	-	-	-
	¥24	¥26	¥(2)	-	-	-	-	-	-
Total	¥8,021	¥1,402	¥6,619	¥10,277	¥1,401	¥8,875	\$93,812	\$12,791	\$81,021

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
	Carrying value	Carrying value	Carrying value
Unlisted stocks	¥126	¥127	\$1,162
Investment in limited liability partnerships	29	33	301

(2) Available-for-sale securities sold for the years ended December 31, 2018 and 2019

	Millions of yen						Thousands of U.S. dollars		
	2018			2019			2019		
	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses	Sales proceeds	Aggregate gains	Aggregate losses
Stocks	¥2	¥2	-	¥65	¥34	-	\$599	\$317	-

(3) Securities impaired for the years ended December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
	Impairment losses	Impairment losses	Impairment losses
Stocks	-	¥2	\$21

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

(DERIVATIVES)

As of December 31, 2018 and 2019, derivative transactions were as follows:

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

Currency-related transactions (excepting market transactions)

	Millions of yen			
	2018			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts				
Buy U.S. dollar	¥ 817	-	¥ (12)	¥ (12)
	Millions of yen			
	2019			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts				
Buy U.S. dollar	¥ 522	-	¥ 4	¥ 4
	Thousands of U.S. dollars			
	2019			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts				
Buy U.S. dollar	\$ 4,771	-	\$ 44	\$ 44

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

(2) Derivative transactions to which hedge accounting is applied

Currency-related transactions

		Millions of yen		
		2018		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥2,008	-	¥(41)
Buy U.S. dollar				

		Millions of yen		
		2019		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	¥ 500	-	¥ 3
Buy U.S. dollar				

		Thousands of U.S. dollars		
		2019		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	\$ 4,570	-	\$ 32
Buy U.S. dollar				

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

Interest rate-related transactions

		Millions of yen		
		2018		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term loans payable	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
Pay/fixed and receive/floating				

		Millions of yen		
		2019		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term loans payable	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
Pay/fixed and receive/floating				

		Thousands of U.S. dollars		
		2019		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term loans payable	Interest-rate swaps	\$15,518	\$15,518	Note
Pay/fixed and receive/floating				

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

(RETIREMENT BENEFITS)

(1) Retirement benefit plans

The Companies have defined contribution pension plans, agreement type corporate pension plans and lump-sum plans as retirement benefit plans. Of the Companies as of December 31, 2019, 4 have enrolled in defined contribution pension plans, 3 in agreement type corporate pension plans and 5 in lump-sum plans.

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

1 consolidated subsidiary participates in multi-employer pension plan.

Because the plan cannot be reasonably calculated the amount of plan assets attributed to the company's contribution, it is accounted for in the same way as the defined contribution plans.

The company may pay premium benefits for employees' retirement.

(2) Defined benefit pension plans

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at the beginning of the year	¥ 51,763	¥ 53,619	\$ 489,448
Service costs	2,536	2,553	23,307
Interest costs	105	56	512
Actuarial loss (gain)	474	(546)	(4,990)
Retirement benefits paid	(1,261)	(1,772)	(16,180)
Balance as of the end of the year	¥ 53,619	¥ 53,909	\$ 492,096

(b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at the beginning of the year	¥ 43,925	¥ 45,054	\$ 411,269
Actuarial loss (gain)	21	12	116
Contribution paid by the employer	2,276	2,189	19,982
Retirement benefits paid	(1,168)	(1,717)	(15,678)
Balance as of the end of the year	¥ 45,054	¥ 45,538	\$ 415,690

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Balance at the beginning of the year	¥ 694	¥ 640	\$ 5,850
Retirement benefit expenses	77	83	757
Retirement benefits paid	(97)	(95)	(868)
Deconsolidation of subsidiaries	(33)	-	-
Balance as of the end of the year	¥ 640	¥ 628	\$ 5,739

(d) Reconciliation between the funded status of the plans and the amounts recognized as net defined liabilities in the consolidated balance sheets as of the end of the fiscal years

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Funded retirement benefit obligations	¥ 51,211	¥ 51,328	\$ 468,536
Plan assets	(45,054)	(45,538)	(415,690)
	6,157	5,789	52,845
Unfunded retirement benefit obligations	3,048	3,209	29,299
Total net defined benefit liability (asset)	9,205	8,999	82,145
Net defined benefit liability	9,205	8,999	82,145
Total net defined benefit liability and asset	¥ 9,205	¥ 8,999	\$ 82,145

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

(e) Components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Service costs	¥ 2,536	¥ 2,553	\$ 23,307
Interest costs	105	56	512
Amortization of actuarial differences	181	351	3,204
Amortization of prior service costs	(107)	(107)	(981)
Retirement benefit expenses calculated by simplified methods	77	83	757
Additional benefits for employees' retirement	15	12	115
Retirement benefit expenses	¥ 2,809	¥ 2,948	\$ 26,916

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

Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Prior service cost	¥ (107)	¥ (107)	\$ (981)
Actuarial difference	(271)	910	8,312
Total	¥ (378)	¥ 803	\$ 7,331

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

Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Unrecognized prior service costs	¥ (431)	¥ (323)	\$ (2,953)
Unrecognized actuarial differences	(1,048)	(1,958)	(17,878)
Total	¥ (1,479)	¥ (2,282)	\$ (20,832)

(h) Items for plan assets

1. Components of the major plan assets

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

	2018	2019
Cash and deposits	86%	86%
Life insurance company general accounts	14%	14%
Total	100%	100%

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

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

(i) Items related to actuarial assumptions

The major actuarial assumptions

	2018	2019
Discount rate	0.1%	0.1%
Long-term expected rate of return on plan assets	0.0%	0.0%
Salary increasing rate	7.5%	7.4%

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

(3) Defined contribution pension plans

Required contributions to defined contribution pension plans of the Companies for the years ended December 31, 2018 and 2019 were ¥805 million and ¥810 million (\$7,394 thousand), respectively.

(4) Multi-employer pension plan

Required contributions to the multi-employer pension plan which was treated the same as the defined contribution plans for the years ended December 31, 2018 and 2019 were ¥22 million and ¥23 million (\$212 thousand), respectively.

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

	Millions of yen		Thousands of U.S. dollars
	March 31, 2018	March 31, 2019	March 31, 2019
Plan assets	¥ 28,441	¥ 49,969	\$ 456,130
Actuarial liability based on pension plan finance calculation and minimum actuarial reserve	27,649	47,438	433,033
Difference	¥ 792	¥ 2,530	\$ 23,097

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

Fiscal year ended December 31, 2018. 1.2% (As of March 31, 2018)

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

(c) Supplementary information:

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
General reserve	¥ 562	¥ 792	\$ 7,230
Surplus	229	1,738	15,866
Total	¥ 792	¥ 2,530	\$ 23,097

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

(DEFERRED TAX)

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

	Millions of yen		Thousands of
	2018	2019	U.S. dollars
Deferred tax assets:			
Allowance for doubtful accounts	¥ 92	¥ 107	\$ 977
Accrued enterprise taxes	635	858	7,840
Provision for bonuses	1,093	1,231	11,240
Net defined benefit liability	2,822	2,759	25,185
Provision for directors' retirement benefits	212	218	1,996
Impairment losses	853	1,202	10,978
Software development costs	1,331	1,449	13,231
Unrealized profit from non-current assets	300	406	3,709
Other	1,812	2,383	21,759
Subtotal	9,154	10,617	96,918
Less: Valuation allowance	(946)	(953)	(8,708)
Total deferred tax assets	8,208	9,663	88,210
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(2,001)	(2,692)	(24,577)
Other	(62)	(75)	(692)
Total deferred tax liabilities	(2,063)	(2,768)	(25,269)
Net deferred tax assets	¥ 6,144	¥ 6,895	\$ 62,941

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

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

(ASSET RETIREMENT OBLIGATIONS)

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

(INVESTMENT AND RENTAL PROPERTIES)

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

(SEGMENT INFORMATION)

【Segment Information】

(1) Overview of reportable segments

The reportable segments of the Companies are periodically examined by the Board of Directors for the purpose of deciding the allocation of business resources and evaluating the operating results.

The Companies' main businesses are "System Integration", whose business fields encompass the construction of information systems and their cutover, and "Service and Support", which has support following the cutover of systems as its business field.

Therefore, the Companies are composed of two reportable segments, "System Integration business" and "Service and Support business."

The details of the two segments are as follows. The "System Integration business" provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. The "Service and Support business" provides customers with services such as distributing supplies, hardware and software maintenance, telephone support and outsourcing to support the installed systems and their business operations, totally.

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

The accounting method for the Companies' reported business segments is substantially the same as "FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS".

Also, segment profit or loss is equivalent to operating profit.

The prices of inter-segment transactions are determined by price after taking market conditions into account.

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

	Reportable segments			Millions of yen	
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	2018 Amount recorded in consolidated financial statements (Note 2)
Net sales					
Outside customers sales	¥ 463,293	¥ 296,577	¥ 759,871	-	¥ 759,871
Inter-segment sales/transfers	124	429	553	(553)	-
Total	¥ 463,417	¥ 297,007	¥ 760,424	¥ (553)	¥ 759,871
Segment profit	¥ 41,645	¥ 14,670	¥ 56,315	¥ (8,257)	¥ 48,058
Segment assets	¥ 145,708	¥ 104,958	¥ 250,666	¥ 156,065	¥ 406,732
Other items					
Depreciation (Note 3)	¥ 2,956	¥ 2,727	¥ 5,684	¥ 754	¥ 6,438
Investments in affiliates accounted for using equity method	791	4,891	5,682	-	5,682
Increase in property, plant and equipment and intangible assets	3,356	4,188	7,544	755	8,300

Millions of yen					
	Reportable segments			Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	System Integration business	Service and Support business	Total		
Net sales					
Outside customers sales	¥ 578,698	¥ 307,837	¥ 886,536	-	¥ 886,536
Inter-segment sales/transfers	95	549	644	(644)	-
Total	¥ 578,794	¥ 308,387	¥ 887,181	¥ (644)	¥ 886,536
Segment profit	¥ 55,265	¥ 15,746	¥ 71,012	¥ (8,819)	¥ 62,192
Segment assets	¥ 172,739	¥ 111,205	¥ 283,944	¥ 177,867	¥ 461,812
Other items					
Depreciation (Note 3)	¥ 3,452	¥ 2,870	¥ 6,322	¥ 905	¥ 7,228
Investments in affiliates accounted for using equity method	908	5,263	6,172	-	6,172
Increase in property, plant and equipment and intangible assets	3,448	4,341	7,790	70	7,860

Thousands of U.S. dollars					
	Reportable segments			Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	System Integration business	Service and Support business	Total		
Net sales					
Outside customers sales	\$ 5,282,508	\$ 2,810,019	\$ 8,092,527	-	\$ 8,092,527
Inter-segment sales/transfers	870	5,015	5,885	(5,885)	-
Total	\$ 5,283,378	\$ 2,815,034	\$ 8,098,412	\$ (5,885)	\$ 8,092,527
Segment profit	\$ 504,479	\$ 143,738	\$ 648,218	\$ (80,508)	\$ 567,709
Segment assets	\$ 1,576,809	\$ 1,015,111	\$ 2,591,921	\$ 1,623,615	\$ 4,215,536
Other items					
Depreciation (Note 3)	\$ 31,512	\$ 26,202	\$ 57,715	\$ 8,268	\$ 65,983
Investments in affiliates accounted for using equity method	8,294	48,049	56,344	-	56,344
Increase in property, plant and equipment and intangible assets	31,481	39,627	71,109	639	71,749

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

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Segment profit adjustment			
companywide expenses (not allocated to the reportable segments) consisting mainly of expenses related to administrative operations	¥ (8,270)	¥ (8,821)	\$ (80,526)
Segment assets adjustment			
companywide assets (not allocated to the reportable segments) consisting mainly of assets not belonging to the reportable segments (cash on hands and in bank, investments in securities) and assets related to administrative operations	¥ 156,743	¥ 178,789	\$ 1,632,032
Depreciation adjustment			
depreciation expenses related to companywide assets	¥ 754	¥ 905	\$ 8,268
Increase in property, plant and equipment and intangible assets adjustment			
increase related to companywide assets	755	70	639

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

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

【Related Information】

(1) Products and services

The disclosure is omitted because similar information is disclosed in segment information for the years ended December 31, 2018 and 2019.

(2) Geographical area

1. Net Sales

The disclosure is omitted because outside customers sales in Japan constituted more than 90% of total net sales for the years ended December 31, 2018 and 2019.

2. Property, plant and equipment

Not applicable because all property, plant and equipment are located in Japan as of December 31, 2018 and 2019.

(3) Major customer

The disclosure is omitted because there was no outside customer whose net sales amount was 10% or more of net sales in the consolidated statements of income for the years ended December 31, 2018 and 2019.

【Impairment loss on fixed assets by reportable segment】

The disclosure is omitted because impairment loss on fixed assets by reportable segment is immaterial in the consolidated financial statements for the years ended December 31, 2018 and 2019.

【Amortization and unamortized balance of goodwill by reportable segment】

For the years ended December 31, 2018 and 2019, not applicable.

【Gain on negative goodwill by reportable segment】

For the years ended December 31, 2018 and 2019, not applicable.

【Related Party Transactions】

For the years ended December 31, 2018 and 2019, not applicable.

(PER SHARE INFORMATION)

Net assets per share as of December 31, 2018 and 2019 and basic earnings per share for the years ended December 31, 2018 and 2019 were summarized as follows:

	Yen		U.S. dollars
	2018	2019	2019
Net assets per share	¥ 1,211.63	¥ 1,367.76	\$ 12.49
Basic earnings per share	177.22	229.42	2.09

Notes 1. Diluted earnings per share for the years ended December 31, 2018 and 2019 are omitted, because the Companies have no dilutive shares.

2. The Company implemented a two-for-one stock split of its common stock with an effective date of April 1, 2018.

Accordingly, net assets per share and basic earnings per share stated above are calculated on the assumption that the stock split was implemented at the beginning of the previous year (the year ended December 31, 2018).

3. Basis for calculation of net assets per share as of December 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Numerator:			
Net assets	¥ 231,664	¥ 261,622	\$ 2,388,151
Non-controlling interests in consolidated subsidiaries	1,938	2,293	20,932
Net assets attributable to common stock	¥ 229,726	¥ 259,328	\$ 2,367,219

Thousands of shares

Denominator:

Number of shares of common stock outstanding	189,601	189,601
--	---------	----------------

Net assets per share is based upon the number of common stock outstanding (excluding treasury shares) each year end.

4. Basis for calculation of basic earnings per share for the years ended December 31, 2018 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2019	2019
Numerator:			
Profit attributable to owners of parent	¥ 33,601	¥ 43,497	\$ 397,057
Amount not attributable to common shareholders	-	-	-
Profit attributable to owners of parent related to common stock	¥ 33,601	¥ 43,497	\$ 397,057

Thousands of shares

Denominator:

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

Basic earnings per share is based upon the weighted average number of common stock outstanding (excluding treasury shares) during each year.

[CONSOLIDATED SUPPLEMENTARY STATEMENTS]

(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 2019 consisted of the following:

	Millions of yen	
	2019	
	Balance at the beginning of the year	Balance as of the end of the year
Short-term loans payable at the average interest rate of 0.74%	¥4,800	¥4,800
Current portion of long-term loans payable	-	-
Current portion of lease obligations	698	724
Long-term loans payable due in 2023 at the average interest rate of 0.66%	1,700	1,700
Lease obligations due in 2021-2024	1,058	1,583
Other interest-bearing debt	-	-
Total	¥8,256	¥8,807

	Thousands of U.S. dollars	
	2019	
	Balance at the beginning of the year	Balance as of the end of the year
Short-term loans payable at the average interest rate of 0.74%	\$ 43,815	\$ 43,815
Current portion of long-term loans payable	-	-
Current portion of lease obligations	6,374	6,609
Long-term loans payable due in 2023 at the average interest rate of 0.66%	15,518	15,518
Lease obligations due in 2021-2024	9,663	14,452
Other interest-bearing debt	-	-
Total	\$ 75,371	\$ 80,394

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

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

3. The contractual maturities of long-term loans payable and lease obligations as of December 31, 2019 were as follows:

	Millions of yen			
	2019			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	-	-	¥1,700	-
Lease obligations	656	490	332	103

	Thousands of U.S. dollars			
	2019			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	-	-	\$15,518	-
Lease obligations	5,997	4,474	3,036	944

Independent Auditor's Report

Independent Auditor's Report

The Board of Directors
OTSUKA CORPORATION

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and notes to consolidated financial statements, all expressed in Japanese yen.

Management's Responsibility 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

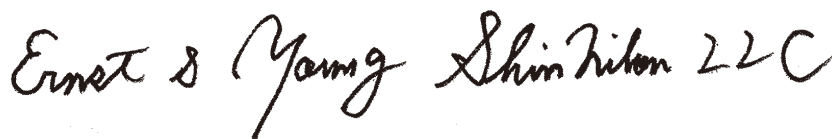
Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OTSUKA CORPORATION and its consolidated subsidiaries as at December 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

March 27, 2020
Tokyo, Japan



Corporate Data (As of December 31, 2019)

Name	OTSUKA CORPORATION
Founded	July 17, 1961 (registered as joint-stock company on December 13, 1961)
Capital Stock	¥10,374,851,000
Number of Employees	7,272 (with consolidated subsidiaries: 8,912)
Business	System Integration business: Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities Service and Support business: Supplies, maintenance and educational support, other activities
Main Banks	The Bank of Yokohama, Ltd. MUFG Bank, Ltd. Mizuho Bank, Ltd.

Bases (As of December 31, 2019)

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

Principal Group Companies (As of December 31, 2019)

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

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

Stock Information (As of December 31, 2019)

Authorized Common Stock	677,160,000 shares
Issued Common Stock	190,002,120 shares
Number of Shares of Unit Stock	100 shares
Number of Shareholders	6,107

Major Shareholders

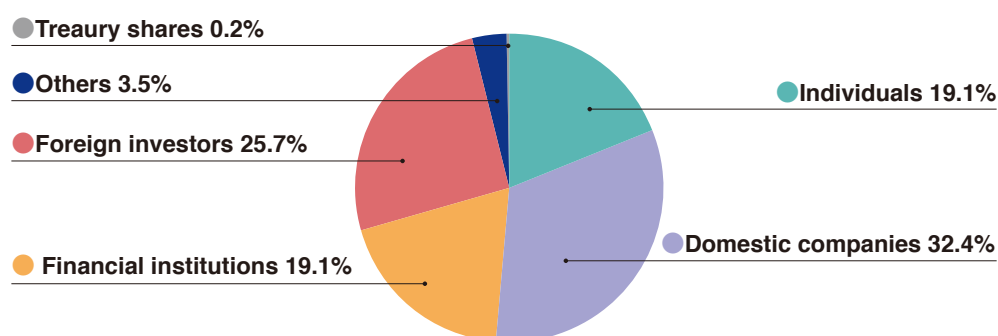
Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	58,729,980	30.97	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,667,400	4.57	—	—
Japan Trustee Services Bank, Ltd. (Trust Account)	7,785,000	4.10	—	—
Yuji Otsuka	5,681,880	2.99	—	—
Minoru Otsuka	5,672,940	2.99	—	—
Atsushi Otsuka	5,095,700	2.68	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	5,014,220	2.64	—	—
Terue Otsuka	3,873,000	2.04	—	—
Japan Trustee Services Bank, Ltd. (Trust Account 9)	3,639,300	1.91	—	—
SMBC Nikko Securities Inc.	3,034,900	1.60	—	—

Notes:

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

2) Mr. Minoru Otsuka passed away on September 7, 2019. However, his name is listed in the shareholder register because the change of shareholders in the register had yet to be completed.

Breakdown of Shareholders (Based on total shares)



OTSUKA CORPORATION WEBSITE

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

Otsuka Corporation

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