

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.

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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				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
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				
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	2019 Amount recorded in consolidated financial statements (Note 2)
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				
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	2019 Amount recorded in consolidated financial statements (Note 2)
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
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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
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Basic earnings per share is based upon the weighted average number of common stock outstanding (excluding treasury shares) during each year.

[CONSOLIDATED SUPPLEMENTARY STATEMENTS]

(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)

Borrowings as of December 31, 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

