

# Financial Section

## Three-year Financial Data

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

Notes:

\* Profit stands for Profit attributable to owners of parent

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

Figures for ROE are calculated using average equity.

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

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

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

### Summary of Sales and Profits

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

#### Sales Summary

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

#### System Integration Business

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

#### Service and Support Business

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

#### Summary of Income and Expenses

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

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

## Financial Position

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

### Assets

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

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

### Liabilities

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

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

### Net Assets

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

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

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

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

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

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

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

## Cash Flows

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

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

Factors relating to each cash flow category were as follows.

### Cash Flows from Operating Activities

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

### Cash Flows from Investing Activities

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

### Cash Flows from Financing Activities

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

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

## Forecast for Fiscal 2021

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

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

## Consolidated Balance Sheets

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

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

The accompanying notes are an integral part of these statements.

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

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

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

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

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

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

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

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Changes in Net Assets

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

OTSUKA CORPORATION and Consolidated Subsidiaries									Millions of yen
For the year ended December 31, 2019									
	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	¥ 4,544	¥(23)	¥ (11,650)	¥ 3	¥ 1,027	¥ (6,098)	¥ 1,938	¥231,664	
Dividends of surplus								(16,116)	
Profit attributable to owners of parent								43,497	
Reversal of revaluation reserve for land								(172)	
Purchase of treasury shares								(0)	
Net changes in items other than shareholders' equity	1,573	25	248	4	542	2,393	355	2,748	
Total changes during period	1,573	25	248	4	542	2,393	355	29,957	
Balance as of December 31, 2019	¥ 6,117	¥ 2	¥ (11,402)	¥ 7	¥ 1,569	¥ (3,705)	¥ 2,293	¥261,622	

OTSUKA CORPORATION and Consolidated Subsidiaries					Millions of yen
For the year ended December 31, 2020					
	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance as of January 1, 2020	¥ 10,374	¥ 16,254	¥236,544	¥(139)	¥263,034
Dividends of surplus			(20,856)		(20,856)
Profit attributable to owners of parent			39,309		39,309
Net changes in items other than shareholders' equity					
Total changes during period	-	-	18,453	-	18,453
Balance as of December 31, 2020	¥ 10,374	¥ 16,254	¥254,997	¥(139)	¥281,487

OTSUKA CORPORATION and Consolidated Subsidiaries									Millions of yen
For the year ended December 31, 2020									
	Accumulated other comprehensive income						Non-controlling interests	Total net assets	
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance as of January 1, 2020	¥ 6,117	¥ 2	¥(11,402)	¥ 7	¥ 1,569	¥ (3,705)	¥ 2,293	¥261,622	
Dividends of surplus								(20,856)	
Profit attributable to owners of parent								39,309	
Net changes in items other than shareholders' equity	(590)	(7)	-	8	155	(434)	394	(39)	
Total changes during period	(590)	(7)	-	8	155	(434)	394	18,413	
Balance as of December 31, 2020	¥ 5,527	¥ (5)	¥(11,402)	¥15	¥1,725	¥(4,139)	¥2,687	¥280,035	

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

Thousands of U.S. dollars

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

Thousands of U.S. dollars

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of January 1, 2020	\$ 59,097	\$ 19	\$(110,143)	\$ 71	\$15,163	\$(35,791)	\$22,151	\$2,527,260
Dividends of surplus								(201,469)
Profit attributable to owners of parent								379,730
Net changes in items other than shareholders' equity	(5,705)	(71)	-	79	1,501	(4,195)	3,812	(383)
Total changes during period	(5,705)	(71)	-	79	1,501	(4,195)	3,812	177,876
Balance as of December 31, 2020	\$ 53,392	\$ (51)	\$(110,143)	\$151	\$16,664	\$(39,987)	\$25,963	\$2,705,137

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

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

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

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

## (FRAMEWORK FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS)

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

#### Accounting Principles

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

### 2. Summary of Significant Accounting Policies

#### (1) Scope of consolidation

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

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

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

	A ratio of voting rights held by the Company
OSK Co., LTD.	100.0%
Alpha Techno Co., LTD.	100.0%
Alpha Net Co., LTD.	100.0%
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, 2019 and 2020 the numbers of unconsolidated subsidiaries and affiliates were as follows:

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

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

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

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

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

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

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

Securities held by the Companies are as follows:

- Available-for-sale securities

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

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

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

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

Derivatives are recognized at fair value.

### **(4) Inventories**

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

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

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

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

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

Estimated useful lives of assets are principally as follows:

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

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

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

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

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

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

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

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

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

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

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

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

The Companies have retirement benefits for directors.

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

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

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

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

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

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

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

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

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

**(13) Foreign currency translation**

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

**(14) Hedge accounting**

(a) Hedge accounting method

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

(b) Hedging instruments and hedged items

1. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

2. Hedging instruments: Interest rate swaps

Hedged items: Borrowings

(c) Hedge policy

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

(d) Evaluation of hedging effectiveness

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

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

**(15) Cash and cash equivalents**

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

**(16) Accounting for income taxes**

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

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

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

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

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

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

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

**(a) Overview**

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

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

**(b) Scheduled date of adoption**

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

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

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

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

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

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

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

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

**(a) Overview**

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

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

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

**(b) Scheduled date of adoption**

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

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

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

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

(a) Overview

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

(b) Scheduled date of adoption

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

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

(a) Overview

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

(b) Scheduled date of adoption

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

**(19) Additional Information**

Effects of COVID-19 Pandemic When Making Accounting Estimates

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

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

**(20) Rounding of amounts**

Amounts of less than a million yen have been omitted.

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### 3. U.S. Dollar Amounts

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



## (CONSOLIDATED BALANCE SHEETS)

### \*1. Investment securities

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

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Investment securities (stock)	¥6,704	¥6,946	\$ 67,098
Investment securities (capital)	217	217	2,098

### \*2. Land Revaluation

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

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

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

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

The date of Land Revaluation: December 31, 2001

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

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

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

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

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

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Notes receivable	¥ 450	¥ 300	\$ 2,906
Notes payable	0	-	-

## (CONSOLIDATED STATEMENTS OF INCOME)

### \*1. Research and development expenses

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

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

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

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

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

## (CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

### \*1. Other comprehensive income

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

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

## (CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS)

### 1. Shareholders' Equity

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

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

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

### 2. Dividends from surplus, etc.

#### (1) Number of shares issued

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

Type of all shares issued is common stock.

#### (2) Number of treasury shares

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

Type of all treasury shares is common stock.

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

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

None.

#### (4) Items related to dividends

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

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

Type of all shares issued is common stock.

Source of dividends is Retained earnings.

## (CONSOLIDATED STATEMENTS OF CASH FLOWS)

### \*1. Supplementary Cash Flow Information

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

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

## (LEASE TRANSACTIONS)

### 1. Finance Lease Transactions (lessee)

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

### 2. Operating Lease Transactions (lessee)

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

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

## (FINANCIAL INSTRUMENTS)

### 1. Financial Instruments

#### (1) Policy for financial instruments

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

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

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

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

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

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

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

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

## 2. Estimated fair value of financial instruments

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

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

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

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

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

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

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

#### Notes:

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

##### Assets

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

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

3) Investment securities

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

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

##### Liabilities

4) Notes and accounts payable – trade, 5) Electronically recorded obligations – operating, 6) Short-term borrowings, 7) Income taxes payable

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

8) Long-term borrowings

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

##### Derivative transactions

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

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

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

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

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

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

  

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

  

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

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

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

  

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

  

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

## (SECURITIES)

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

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

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

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

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

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

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

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

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

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



**(DERIVATIVES)**

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

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

Currency-related transactions (excepting market transactions)

	Millions of yen			
	2019			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts Buy U.S. dollar	¥ 522	-	¥ 4	¥ 4

  

	Millions of yen			
	2020			
	Contractual value or notional principal amount		Fair value	Valuation gain (loss)
Total	Over one year			
Forward foreign exchange contracts Buy U.S. dollar	¥ 739	-	¥ (9)	¥ (9)

  

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

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

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

### (a) Currency-related transactions

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

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

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

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

### (b) Interest rate-related transactions

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

		Millions of yen		
		2020		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term borrowings	Interest-rate swaps	¥ 1,700	¥ 1,700	Note
	Pay/fixed and receive/floating			

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

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

## (RETIREMENT BENEFITS)

### (1) Retirement benefit plans

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

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

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

The company may pay additional benefits for employees' retirement.

### (2) Defined benefit pension plans

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

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥ 53,619	¥ 53,909	\$ 520,760
Service costs	2,553	2,511	24,260
Interest costs	56	52	508
Actuarial loss (gain)	(546)	42	409
Retirement benefits paid	(1,772)	(1,636)	(15,811)
Balance at the end of the year	¥ 53,909	¥ 54,878	\$ 530,127

#### (b) Changes in plan assets

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥ 45,054	¥ 45,538	\$ 439,904
Actuarial loss (gain)	12	5	52
Contribution paid by the employer	2,189	2,164	20,913
Retirement benefits paid	(1,717)	(1,559)	(15,066)
Balance at the end of the year	¥ 45,538	¥ 46,149	\$ 445,803

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

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Balance at the beginning of the year	¥ 640	¥ 628	\$ 6,073
Retirement benefit expenses	83	86	836
Retirement benefits paid	(95)	(108)	(1,047)
Balance at the end of the year	¥ 628	¥ 606	\$ 5,862

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

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

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

(e) Components of retirement benefit expenses

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

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

Components of items (before tax) were as follows:

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

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

Components of items (before tax) were as follows:

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

(h) Items for plan assets

1. Major components of the plan assets

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

	2019	2020
Cash and deposits	86%	<b>86%</b>
Life insurance company general accounts	14%	<b>14%</b>
Total	100%	<b>100%</b>

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

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

(i) Items related to actuarial assumptions

The major actuarial assumptions

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

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

**(3) Defined contribution pension plans**

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

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

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

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

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

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

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

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

(c) Supplementary information:

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

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

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

## (DEFERRED TAX)

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

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

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

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

## (ASSET RETIREMENT OBLIGATIONS)

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

## (INVESTMENT AND RENTAL PROPERTIES)

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

## (SEGMENT INFORMATION)

### 【Segment Information】

#### (1) Overview of reportable segments

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

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

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

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

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

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

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

	Reportable segments				Millions of yen	
	System Integration business	Service and Support business	Total	Adjustment (Note 1)	2019	
					Amount recorded in consolidated financial statements (Note 2)	
<b>Net sales</b>						
Outside customers sales	¥ 578,698	¥ 307,837	¥ 886,536	-	¥ 886,536	
Inter-segment sales/transfers	95	549	644	(644)	-	
<b>Total</b>	<b>¥ 578,794</b>	<b>¥ 308,387</b>	<b>¥ 887,181</b>	<b>¥ (644)</b>	<b>¥ 886,536</b>	
<b>Segment profit</b>	<b>¥ 55,265</b>	<b>¥ 15,746</b>	<b>¥ 71,012</b>	<b>¥ (8,819)</b>	<b>¥ 62,192</b>	
<b>Segment assets</b>	<b>¥ 172,739</b>	<b>¥ 111,205</b>	<b>¥ 283,944</b>	<b>¥ 177,867</b>	<b>¥ 461,812</b>	
<b>Other items</b>						
Depreciation (Note 3)	¥ 3,452	¥ 2,870	¥ 6,322	¥ 905	¥ 7,228	
Investments in affiliates accounted for using equity method	908	5,263	6,172	-	6,172	
Increase in property, plant and equipment and intangible assets	3,448	4,341	7,790	70	7,860	

Millions of yen					
	Reportable segments			Adjustment (Note 1)	Amount recorded in consolidated financial statements (Note 2)
	System Integration business	Service and Support business	Total		
<b>2020</b>					
<b>Net sales</b>					
Outside customers sales	¥ 526,613	¥ 309,710	¥ 836,323	-	¥ 836,323
Inter-segment sales/transfers	271	774	1,046	(1,046)	-
<b>Total</b>	<b>¥ 526,885</b>	<b>¥ 310,484</b>	<b>¥ 837,370</b>	<b>¥ (1,046)</b>	<b>¥ 836,323</b>
<b>Segment profit</b>	<b>¥ 50,965</b>	<b>¥ 14,443</b>	<b>¥ 65,409</b>	<b>¥ (9,100)</b>	<b>¥ 56,309</b>
<b>Segment assets</b>	<b>¥ 172,178</b>	<b>¥ 116,977</b>	<b>¥ 289,155</b>	<b>¥ 182,136</b>	<b>¥ 471,292</b>
<b>Other items</b>					
Depreciation (Note 3)	¥ 3,524	¥ 3,233	¥ 6,758	¥ 845	¥ 7,603
Investments in affiliates accounted for using equity method	979	5,435	6,414	-	6,414
Increase in property, plant and equipment and intangible assets	4,486	3,811	8,298	566	8,864

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

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

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

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

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



**【Related Information】**

**(1) Products and services**

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

**(2) Geographical area**

1. Net Sales

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

2. Property, plant and equipment

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

**(3) Major customer**

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

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

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

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

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

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

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

**【Related Party Transactions】**

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

## (PER SHARE INFORMATION)

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

	Yen		U.S. dollars
	2019	2020	2020
Net assets per share	¥ 1,367.76	¥ 1,462.80	\$ 14.13
Basic earnings per share	229.42	207.33	2.00

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

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

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

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

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

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

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

	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, 2020 consisted of the following:

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

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

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

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

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

	Millions of yen			
	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
				<b>2020</b>
Long-term borrowings	-	¥1,700	-	-
Lease obligations	695	503	266	54

  

	Thousands of U.S. dollars			
	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
				<b>2020</b>
Long-term borrowings	-	\$16,421	-	-
Lease obligations	6,716	4,863	2,572	525

### Independent Auditor's Report

The Board of Directors  
OTSUKA CORPORATION

#### **Opinion**

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

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

#### **Basis for Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Convenience Translation***

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

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

/s/Seiji Yamamoto  
Designated Engagement Partner  
Certified Public Accountant

/s/Shigeyuki Kano  
Designated Engagement Partner  
Certified Public Accountant

/s/Tomo Ito  
Designated Engagement Partner  
Certified Public Accountant