

# **ANNUAL REPORT 2021**

For the fiscal year ended December 31, 2021

***Otsuka Corporation***

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## Mission Statement

### Mission

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

### Goals

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

### Principles

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

***Otsuka Corporation***

#### Forward-looking Statements

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

# Consolidated Financial Highlights

OTSUKA CORPORATION and Consolidated Subsidiaries Years ended December 31, 2019, 2020 and 2021			Millions of yen	Thousands of U.S. dollars	%
	2019	2020	2021	2021	Change
Net sales	¥886,536	¥836,323	<b>¥851,894</b>	<b>\$7,406,486</b>	+1.9
System Integration business	578,698	526,613	<b>523,609</b>	<b>4,552,338</b>	-0.6
Service and Support business	307,837	309,710	<b>328,284</b>	<b>2,854,148</b>	+6.0
Operating profit	62,192	56,309	<b>55,827</b>	<b>485,376</b>	-0.9
Ordinary profit	63,706	57,550	<b>57,567</b>	<b>500,497</b>	+0.0
Profit before income taxes	62,668	57,584	<b>58,190</b>	<b>505,912</b>	+1.1
Profit attributable to owners of parent	43,497	39,309	<b>39,927</b>	<b>347,138</b>	+1.6
Total assets	461,812	471,292	<b>486,254</b>	<b>4,227,566</b>	+3.2
Interest-bearing debt	8,807	8,895	<b>8,851</b>	<b>76,952</b>	-0.5
Equity	259,328	277,348	<b>298,743</b>	<b>2,597,317</b>	+7.7
Earnings per share (EPS) (Yen and U.S. dollars)	229.42	207.33	<b>210.59</b>	<b>1.83</b>	+1.6
Dividend per share of common stock (Yen and U.S. dollars)	110.00	115.00	<b>120.00</b>	<b>1.04</b>	+4.3
Cash flows from operating activities per share (Yen and U.S. dollars)	257.18	171.39	<b>305.24</b>	<b>2.65</b>	+78.1
Operating profit to Net sales ratio (%)	7.02	6.73	<b>6.55</b>	—	
Profit to Net sales ratio* (%)	4.91	4.70	<b>4.69</b>	—	
Interest-bearing debt ratio (%)	1.91	1.89	<b>1.82</b>	—	
Equity ratio (%)	56.15	58.85	<b>61.44</b>	—	
Return on equity (ROE) (%)	17.79	14.65	<b>13.86</b>	—	

Notes:

\* Profit stands for Profit attributable to owners of parent

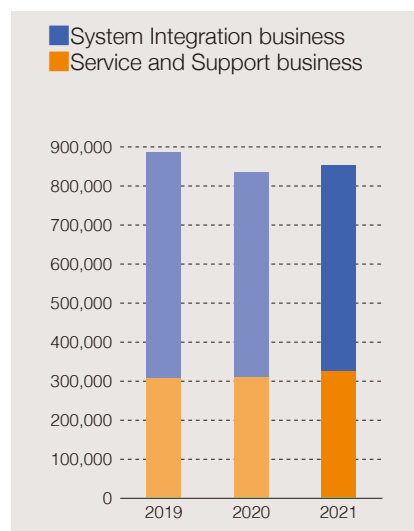
Equity = Total net assets - Share subscription rights - Non-controlling interests

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2021 exchange rate of ¥115.02 = US\$1.

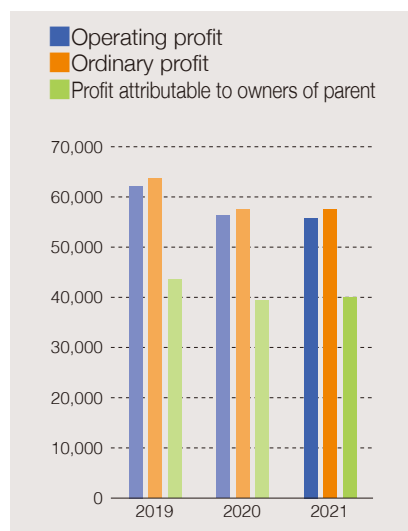
## Net sales

(Millions of yen)



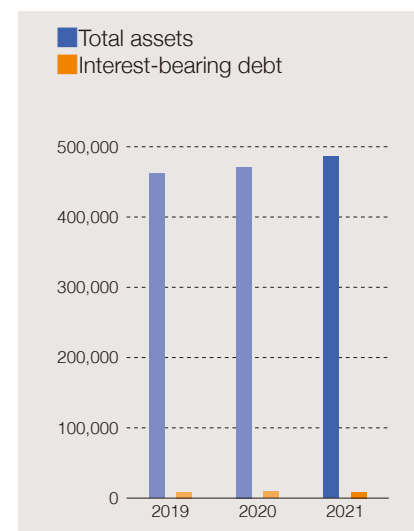
## Operating profit, Ordinary profit, Profit attributable to owners of parent

(Millions of yen)



## Total assets, Interest-bearing debt

(Millions of yen)



Note:

Sums of less than a million yen are rounded down.

## To Our Shareholders and Investors



I am pleased to announce the results for the fiscal year ended December 31, 2021 and to thank our shareholders and investors for their loyal support.

During the fiscal year, the future of the Japanese economy remained uncertain as the spread of COVID-19 severely constrained economic activities while limitations of supplies of some products led to supply chain disruptions. The OTSUKA Group secured points of contact with customers mainly through online activities and supported customers' digitization.

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

Management has resolved to pay year-end dividends per share of ¥120, which includes an ordinary dividend of ¥115 and a 60th anniversary commemorative dividend of ¥5, in line with our efforts to return profits to shareholders, who have given us their support. This also marked the 12th consecutive year of an increase in dividends.

In the coming fiscal year, despite a sense of uncertainty about the future, a moderate recovery of the economy is expected.

Under these conditions, we will get close to our customers and support the utilization of IT by customers to help them resolve their problems.

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

Yuji Otsuka, President & Chief Executive Officer

March 2022

# Overview of Consolidated Operations

## ■ Major Constraints on Economic Activities due to COVID-19

During the fiscal year under review (January 1, 2021 to December 31, 2021), the Japanese economy was affected by large constraints on economic activities as the spread of COVID-19 (novel coronavirus) led to the repeated implementation of priority measures such as the declaration of a state of emergency and measures to prevent the further spread of the novel coronavirus. Subsequently, economic activities gradually began to normalize along with the lifting of the state of emergency for the fifth wave of the novel coronavirus and a decrease in the number of infected persons. Nonetheless, the outlook for the Japanese economy remained uncertain due to the emergence of new mutant strains and the disruption of supply chains owing to restrictions on the supplies of some products.

Under these economic conditions in the IT investment field, IT investment demand, such as for responding to corporate digitization, trended firmly. Nevertheless, a cautious stance could be seen amid ongoing uncertainty about the future of the domestic economy.

## ■ Working to Secure Online Customer Contact Points

Within this environment, in keeping with the fiscal 2021 slogan “Get close to and grow together with customers in DX and document solutions,” the OTSUKA Group worked to secure customer contact points by utilizing online meetings, demonstrations and seminars in addition to combining customer visit activities while given due consideration to the prevention of infections. However, due to the prolonged impact of COVID-19, besides having to postpone and extend business discussions centered on solution proposals, our endeavors for securing new customers were also affected.

Under such circumstances, in undertaking sales activities we provided venues for spurring awareness of issues and needs related to promoting DX while making concrete and easy-to-understand proposals for transitioning to digitization in offices and working to uncover demand for digitization of documents and contracts, as we continued to support customers’ digitization with the aim of improving productivity, strengthening competitiveness and reducing costs.

**Supply Chain Disruptions  
Continued Uncertainty about  
the Future of the Economy**

**Postponing and  
Extending Business Discussions  
Support for Customers’ Digitization**

## ■ Increase in Net Sales, Ordinary Profit and Profit Attributable to Owners of Parent

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

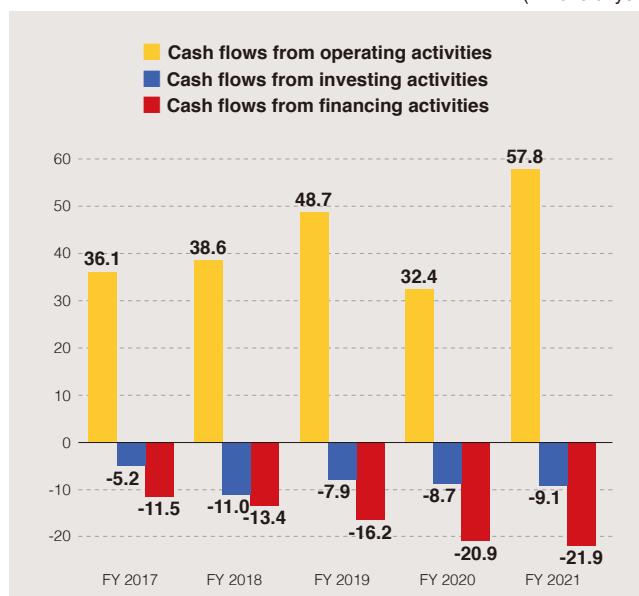
(Millions of yen)

	FY 2020	FY 2021	
	Amount	Amount	Change to Last Year
Net sales	836,323	<b>851,894</b>	+1.9%
Operating profit	56,309	<b>55,827</b>	-0.9%
Ordinary profit	57,550	<b>57,567</b>	+0.0%
Profit*	39,309	<b>39,927</b>	+1.6%

\*Profit attributable to owners of parent

## ■ Cash Flows

(Billions of yen)



Net cash provided by operating activities amounted to ¥57,873 million, an increase of ¥25,377 million from the previous fiscal year due to a decrease in inventories.

Net cash used in investing activities amounted to ¥9,160 million, an increase of ¥443 million from the previous fiscal year due to an increase in the purchase of property, plant and equipment.

Net cash used in financing activities increased ¥968 million to ¥21,957 million due to an increase in cash dividends paid.

## Overview of Results by Quarter

### ■ Net Sales

Net sales increased in the first quarter (January-March) and the second quarter (April-June), but decreased from the third quarter (July-September) onward.

Net sales in the first quarter (January-March) of 2021 amounted to ¥239,350 million, a 6.7% increase from the previous first quarter. Net sales in the second quarter (April-June) of 2021 amounted to ¥227,274 million, an 8.9% increase from the previous second quarter. Net sales in the third quarter (July-September) of 2021 amounted to ¥185,521 million, a 1.5% decrease from the previous third quarter. Net sales in the fourth quarter (October-December) of 2021 amounted to ¥199,747 million, a 7.1% decrease from the previous fourth quarter.

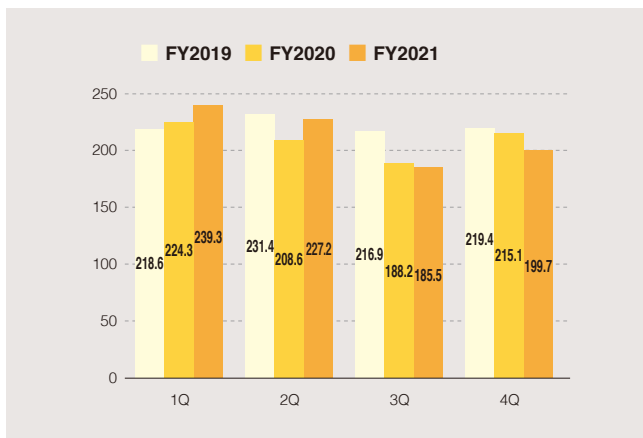
### ■ Ordinary Profit

Ordinary profit also increased in the first quarter (January-March) and the second quarter (April-June), but decreased from the third quarter (July-September) onward.

Ordinary profit in the first quarter (January-March) of 2021 amounted to ¥17,238 million, an increase of 4.6% from the previous first quarter. Ordinary profit in the second quarter (April-June) of 2021 amounted to ¥17,007 million, an increase of 17.5% from the previous second quarter. Ordinary profit in the third quarter (July-September) of 2021 amounted to ¥9,245 million, a decrease of 17.8% from the previous third quarter. Ordinary profit in the fourth quarter (October-December) of 2021 amounted to ¥14,075 million, down 8.2% from the previous fourth quarter.

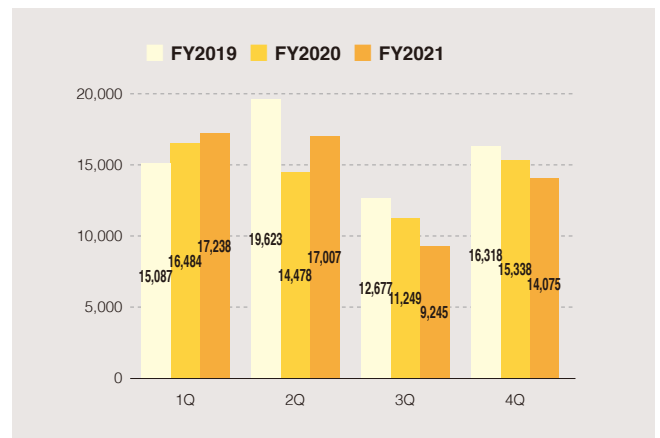
#### Quarterly Net Sales

(Billions of yen)



#### Quarterly Ordinary Profit

(Millions of yen)



## Overview of Business Segments

### ■ System Integration Business

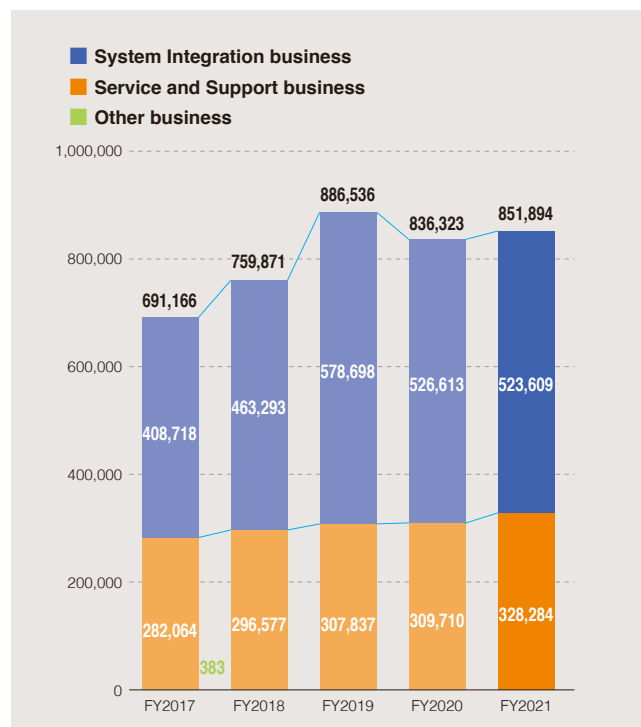
The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. Net sales declined 0.6% to ¥523,609 million due to the impact of a decrease in PC unit sales and shortages of supplies of some products.

### ■ Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. In our “tanomail” office supply mail-order service business, sales increased steadily compared with the same period in fiscal 2019, when there was no impact from the novel coronavirus. Additionally, in the “tayoreru” support service business, overall sales from maintenance services grew from the previous year as maintenance services such as MNS\* trended firmly. As a result, overall net sales of this business increased 6.0% to ¥328,284 million.

Net Sales by Segments

(Millions of yen)



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

\*MNS (Managed Network Service): This is a service that operates and manages office IT environments such as servers, communication equipment, security and backup across a network on behalf of customers.



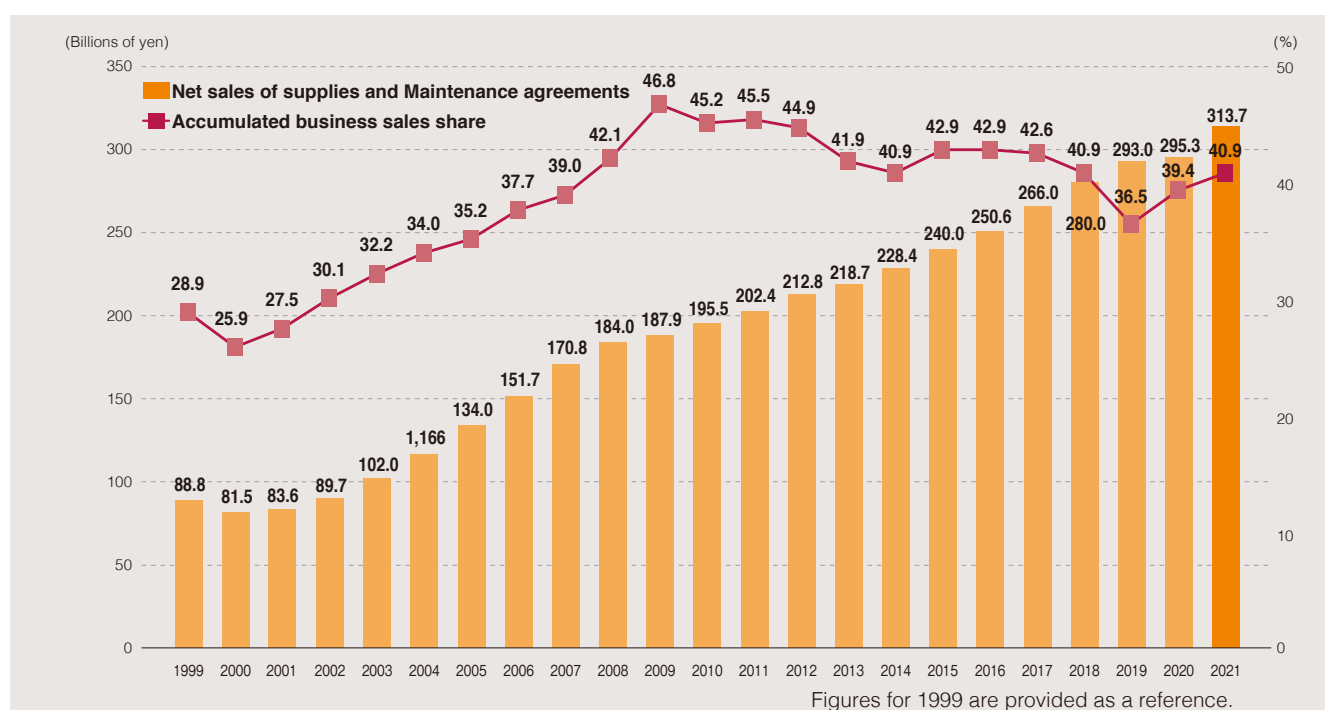
# Focusing Efforts on the Accumulated Business

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

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

In fiscal 2021, sales of the accumulated business on a non-consolidated basis grew steadily, increasing ¥18.3 billion, or 6.2%, to ¥313.7 billion. As a result, the accumulated business achieved growth for the 21st consecutive year, which includes in 2009 following the Lehman Shock and in 2020 during the COVID-19 pandemic. The proportion of net sales accounted for by the accumulated business rose to 40.9% of net sales (non-consolidated basis). The accumulated business serves as the foundation of OTSUKA CORPORATION’s stable growth, and in the future we will focus on continuing to build up this business.

## Accumulated Business (Non-consolidated)



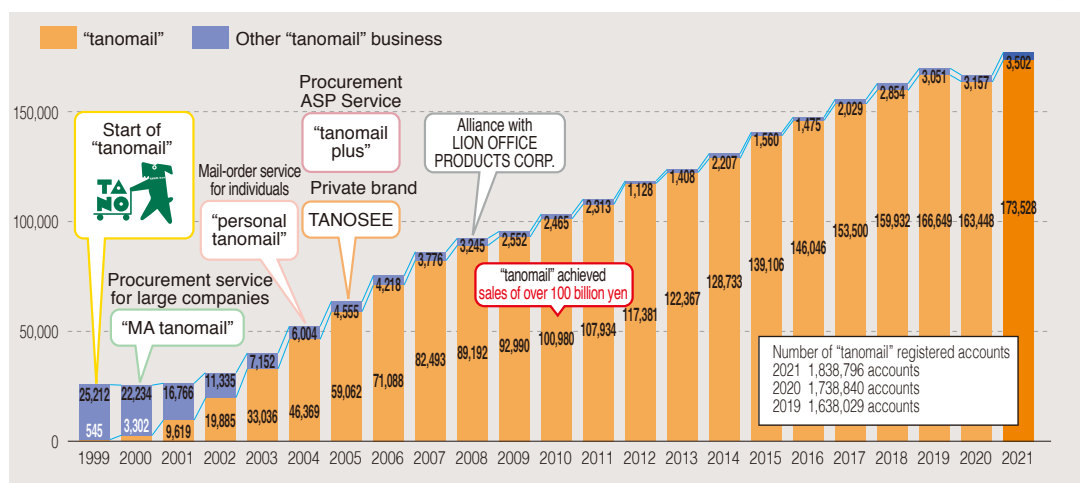
“tanomail” and “tayoreru” are the core pillars of the accumulated business.

# たのめーる “tanomail”

In fiscal 2021, net sales in our “tanomail” office supply mail-order service business increased more than ¥10 billion, or 6.2%, to ¥173.5 billion.

Annual Sales of “tanomail”

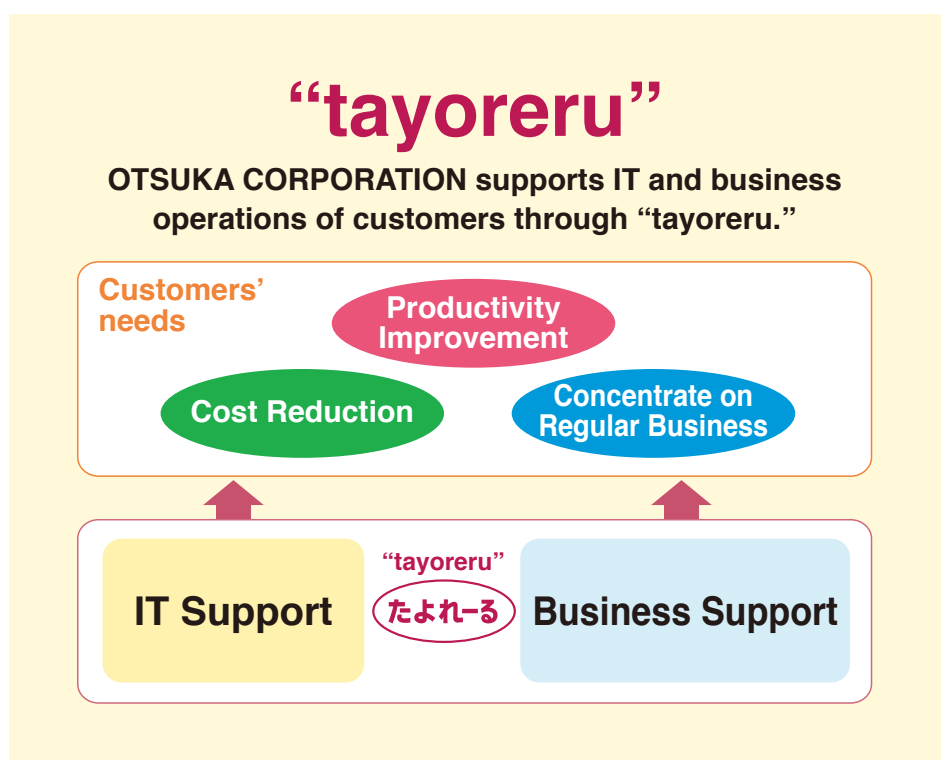
(Millions of yen)



# たよれーる “tayoreru”

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

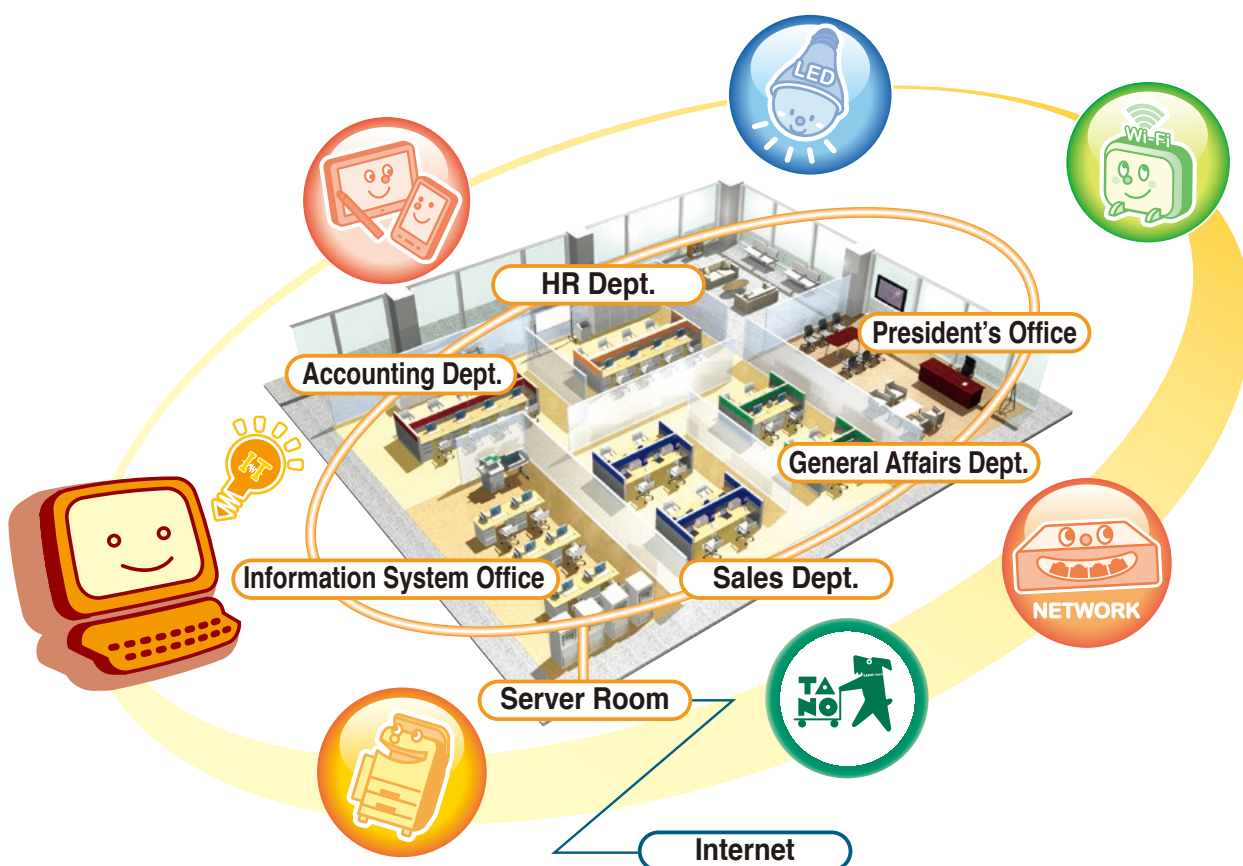
OTSUKA CORPORATION aims to be an indispensable presence in customers’ business infrastructure.



# OTSUKA CORPORATION—A Partner to Our Customers

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

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

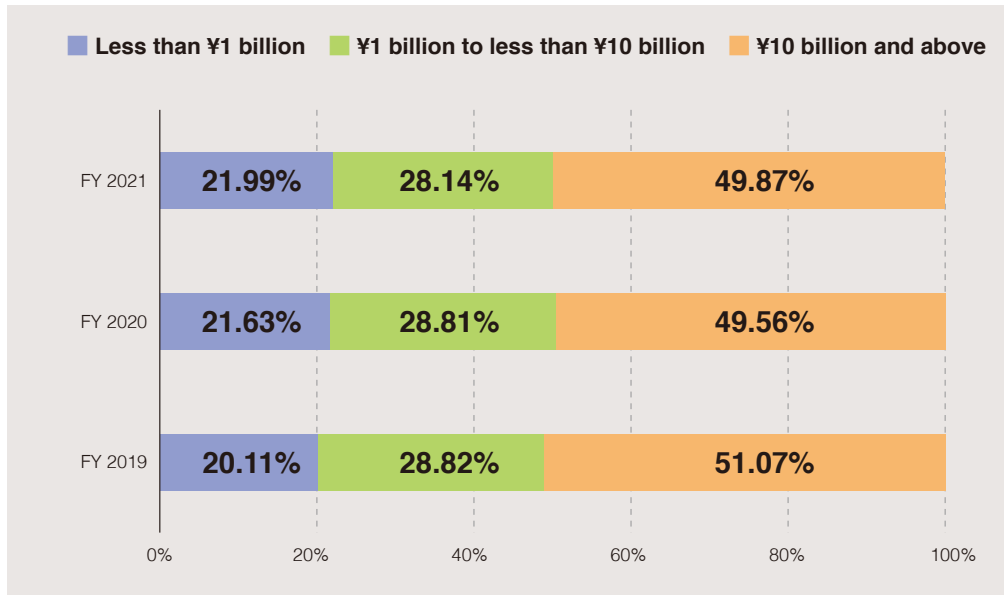


# OTSUKA CORPORATION—Backed by a Diverse Range of Customers

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

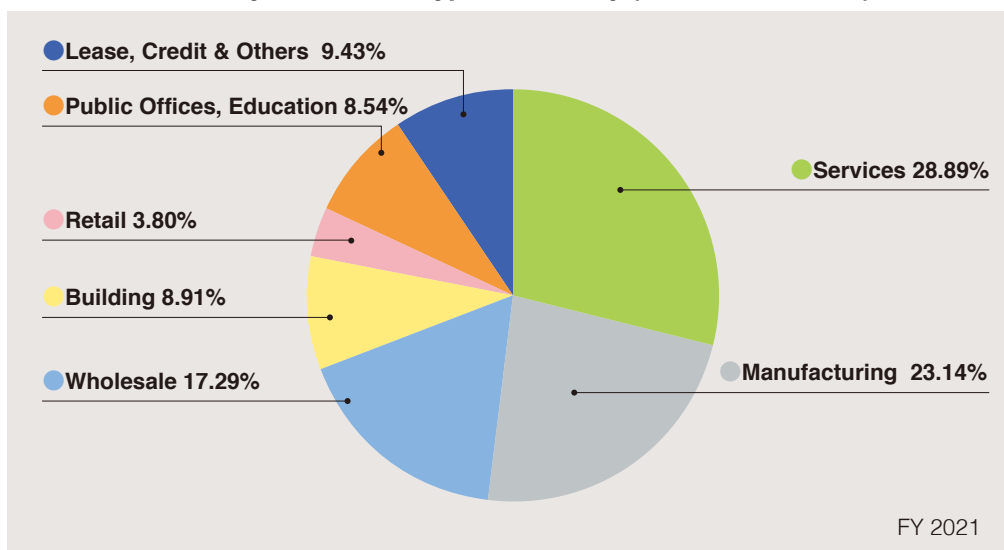
In terms of annual net sales, in fiscal 2021 the ratio of companies with sales of less than ¥1 billion and companies with sales of ¥10 billion and above increased while the ratio of companies with sales of ¥1 billion to less than ¥10 billion decreased.

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



We also have a well-balanced customer base by customers' type of industry. In fiscal 2021, there was no major change in the sales breakdown of customers by type of industry.

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



# Overview of Key Strategic Businesses (Non-consolidated)

## <Amount of Sales>

(Millions of yen)

	FY 2019	FY 2020		FY 2021	
	Amount	Amount	Change to Last Year	Amount	Change to Last Year
“tanomail”	166,649	163,448	-1.9%	<b>173,528</b>	<b>+6.2%</b>
SMILE	13,241	11,568	-12.6%	<b>11,345</b>	<b>-1.9%</b>
ODS	55,798	52,117	-6.6%	<b>55,084</b>	<b>+5.7%</b>
OSM	77,535	81,847	+5.6%	<b>85,769</b>	<b>+4.8%</b>

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

## <Reference: Number of Units Sold>

(Units)

	Units	Units	Change to Last Year	Units	Change to Last Year
Copiers	37,930	36,619	-3.5%	<b>37,039</b>	<b>+1.1%</b>
(of which color copiers)	36,648	35,690	-2.6%	<b>36,249</b>	<b>+1.6%</b>
Servers	32,063	25,507	-20.4%	<b>24,606</b>	<b>-3.5%</b>
Personal computers	1,789,884	1,537,963	-14.1%	<b>1,449,698</b>	<b>-5.7%</b>
Client Total	1,830,498	1,638,051	-10.5%	<b>1,624,893</b>	<b>-0.8%</b>

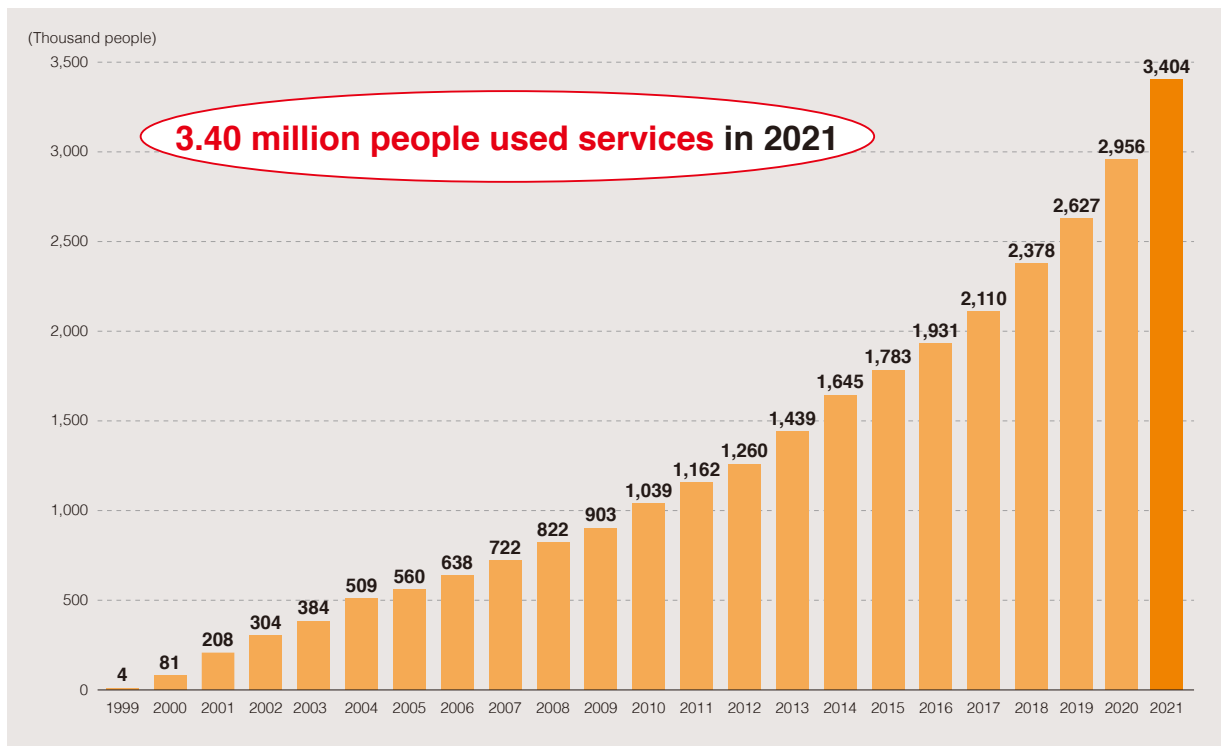
In 2021 as well, despite the difficult environment caused by the COVID-19 pandemic, OTSUKA CORPORATION achieved growth in “tanomail”, document solutions, security management and unit sales of copiers.

# OTSUKA CORPORATION's Web Services (ASP)

## ■ The number of users reached 3.40 million in 2021.

In 2021 as well the number of users increased steadily with the number reaching 3.40 million due in part to teleworking becoming well-established.

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



# Outlook for Fiscal 2022

## ■ Corporate IT Investment Expected to Trend Firmly

There is a sense of uncertainty about the future amid concerns in Japan of a sixth wave of the novel coronavirus in addition to the impact of high resource prices and supply restrictions on some products due to semiconductor shortages, while overseas there are various geopolitical risks. Nevertheless, the economy is expected to recover modestly as economic activities gradually head toward normalization.

Under these economic conditions, corporate IT investment is expected to trend firmly as companies need to respond to digitization and utilize technologies such as AI/IT and 5G with the aim of improving operational efficiency and strengthening competitiveness.

## ■ Supporting Customers' Initiatives to Promote DX

On the premise of the above economic situation and outlook for domestic IT investment trends, in addition to Web-based online sales activities and customer visits that consider customer safety, the OTSUKA Group will strengthen customer contact points by combining diverse channels such as each center function that assists with sales activities and support activities and its Customer Personalized Pages\*.

Specifically, based on the policy “Get close to our customers and grow together through DX (digital transformation) and all our products,” which is our fiscal 2022 slogan, OTSUKA CORPORATION will leverage the know-how and experience cultivated to the present and will support customers' efforts to promote DX. Among these efforts, for small and medium-sized customers that are lagging behind in digitization, besides supporting digitization, we will combine our wide range of products and services as part of efforts to resolve management issues faced by each customer by proposing solutions that improve productivity, strengthen competitiveness and reduce costs. In addition to these, we will strengthen our accumulated business and enhance our earnings base by developing an array of office supply products and a maintenance service lineup. We will also contribute to society by providing services and solutions that utilize IT to address social issues such as environmental, social and governance (ESG) elements and the Sustainable Development Goals (SDGs). From fiscal 2022, we will also implement various measures for the purpose of fortifying human capital.

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



## Strategies by Segment

In the System Integration business, OTSUKA CORPORATION will undertake safe and efficient sales activities and work to identify needs, such as for the digitization of documents, improving productivity, strengthening competitiveness and reducing costs. In addition, to promote the digitization of our customers' business operations, we will get close to our customers and continue to propose high value-added solutions that utilize our extensive range of products, which is one of the OTSUKA Group's strengths.

In the Service and Support business, we will work to strengthen our competitiveness and expand markets in the "tanomail" business. In the "tayoreru" business we will raise convenience, work to develop services that enable customers to continue their business activities safely and with a sense of security as well as services that can supplement the shortage of customers' IT human resources and ensure that these efforts lead to a steady increase in sales.

## Forecast for Fiscal 2022

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

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

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

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

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

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

	Fiscal 2021	Fiscal 2022 (Forecast)	
	Amount	Amount	Change to Last Year
Net sales	851,894	828,000	-2.8%
Operating profit	55,827	53,600	-4.0%
Ordinary profit	57,567	54,500	-5.3%
Profit*	39,927	36,650	-8.2%

\*Profit attributable to owners of parent

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

	Fiscal 2021	Fiscal 2022 (Forecast)	
	Amount	Amount	Change to Last Year
System Integration business	523,609	514,000	-1.8%
Service and Support business	328,284	314,000	-4.4%

## Social Contribution and Environmental Protection Activities

We undertake social contribution activities and environmental protection activities in aiming “to demonstrate harmonious coexistence and growth with nature and society,” which is one of the goals prescribed in our Mission Statement. Here we introduce noteworthy topics in 2021.

### ■ Supporting Recovery and Reconstruction for the Izusan Mudslide Disaster in Atami City

OTSUKA CORPORATION donated ¥50 million to Atami City to support victims and the recovery and reconstruction of the devastated areas in the Atami City Izusan mudslide disaster that occurred on July 3, 2021. The OTSUKA Group has a deep relationship with Atami City.

Since 1985, OTSUKA CORPORATION has been operating the Hotel New Sagamiya on the Izusan coast in Atami City. In addition, the late Minoru Otsuka, the founder of OTSUKA CORPORATION, had supported the revitalization of Atami over long years by cooperating with the establishment of Atami Plum Garden (Atami Baien), Itokawa Promenade and Jacaranda Promenade in Atami City.

We sincerely pray for the earliest possible recovery of the disaster area and will continue to provide support in the future.



Presentation ceremony at Atami City Hall  
(Left: Mr. Sakae Saito, Mayor of Atami City)

## ■ OTSUKA CORPORATION Donates Disaster Response Equipment as a Project to Commemorate the 60th Anniversary of the Company's Founding

As a project commemorating the 60th anniversary of our founding, we donated disaster response equipment handled by OTSUKA CORPORATION to local governments. Specifically, we donated an LP gas emergency generator to Shimanto Town, Kochi Prefecture, and an autonomous decentralized water circulation system and shower facility to Izumiotsu City, Osaka Prefecture.



Presentation ceremony in Shimanto Town, Kochi Prefecture  
(Left: Mr. Hironori Nakao, Mayor of Shimanto Town)

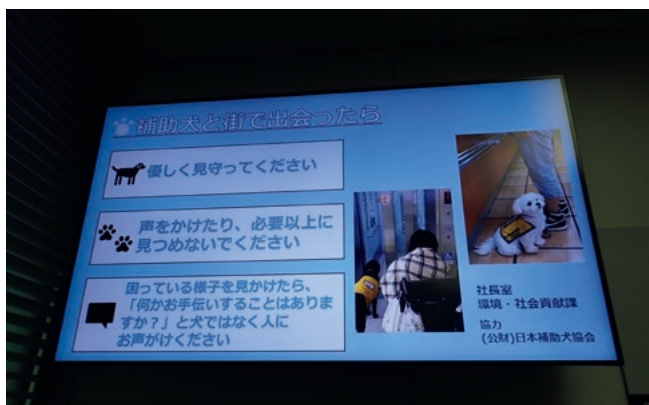


Presentation ceremony in Izumiotsu City, Osaka Prefecture  
(Right: Mr. Kenichi Minamide, Mayor of Izumiotsu City)

## ■ Barrier-Free Promotion Activities for the Heart

With the cooperation of the Guide Dog & Service Dog & Hearing Dog Association of Japan, since 2020 the service dog Kei-kun has been active as a special employee serving as the Barrier-Free Ambassador for the Heart. In 2021, when COVID-19 infections had subsided, Kei-kun arrived at work at the head office and offices in Tokyo for a demonstration and to interact with employees. Employees could be seen explaining barrier-free hearts and assistance dogs to customers who visited the company and it could be seen that these activities are gradually taking root.

In addition to Kei-kun's activities, we are utilizing digital signage installed in offices nationwide and are promoting initiatives such as disseminating information on barrier-free hearts and distributing videos.



# Corporate Governance

## Corporate Governance

### 1. Basic Stance Regarding Corporate Governance

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

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

#### A. Overview of the Corporate Governance System

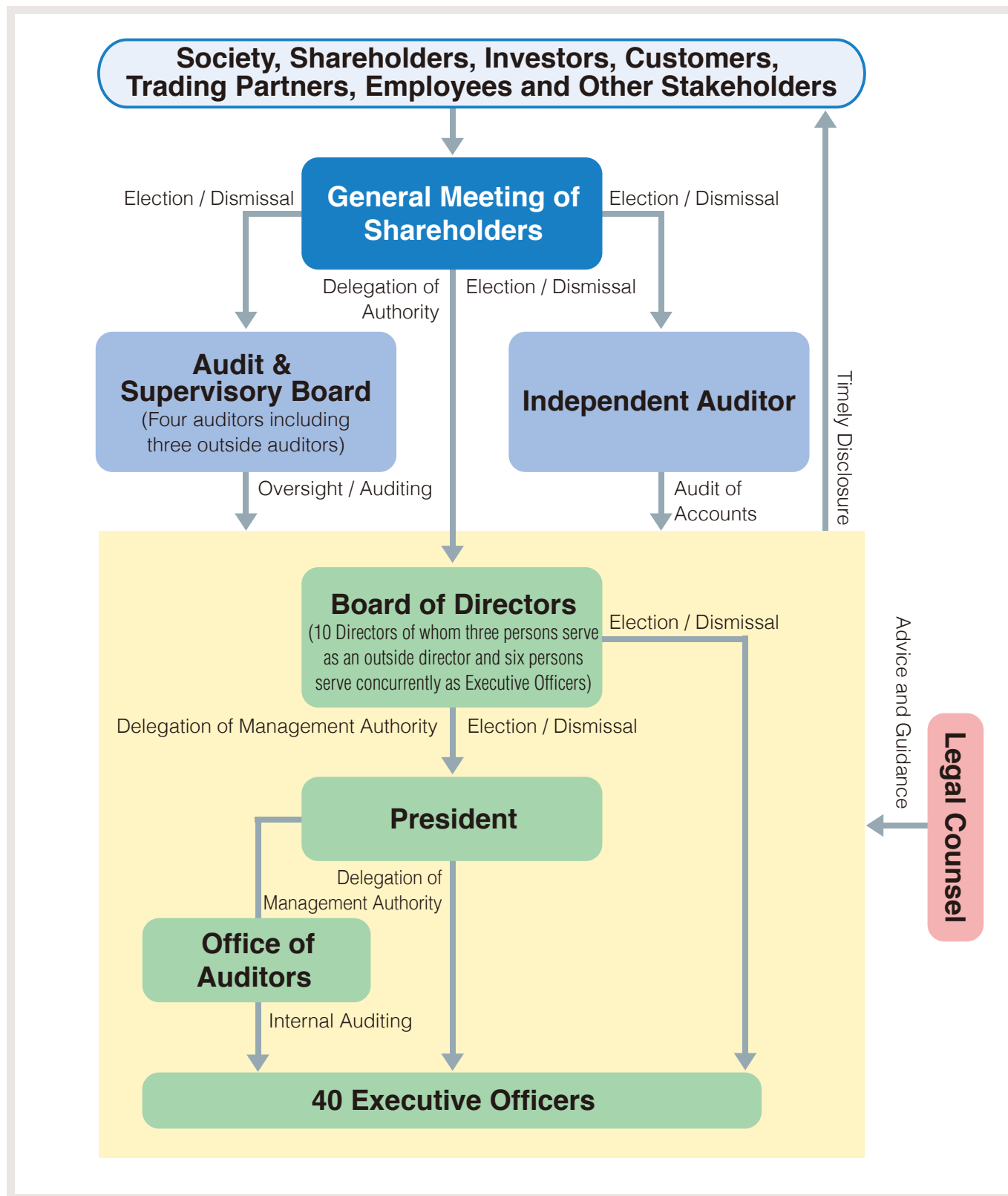
OTSUKA CORPORATION consists of various statutory bodies such as the General Meeting of Shareholders, Directors and Board of Directors, Audit & Supervisory Board Members and Audit & Supervisory Board and Independent Auditor. An Audit & Supervisory Board Members System has therefore been adopted. Additionally,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

The Board of Directors is chaired by Yuji Otsuka, President & Chief Executive Officer, and consists of 10 persons, including three outside directors, and the Board of Directors meets regularly once a month in principle to discuss and make decisions on critical management issues requiring resolution based on relevant laws and the Articles of Incorporation, and monitors the execution of duties by directors. The introduction of the Executive Officer System aims to separate the functions of business execution and supervision in order to realize more rapid decision-making on operational matters and strengthen the oversight of the Board of Directors. To this end, Executive Officers elected by the Board of Directors are responsible for the execution of business operations while the Board of Directors and Audit & Supervisory Board Members handle the oversight of business execution. There are 40 Executive Officers, including six with a concurrent post of Director.

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

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

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



## **B. Reason for Adopting Present Corporate Governance System**

Because the Company's business domains are diverse, Standing Audit & Supervisory Board Members who are familiar with the Company's business and can concentrate on the duties of auditor are appointed. The Company has also adopted an Audit & Supervisory Board Members System that allows it to appoint outside Audit & Supervisory Board Members who have considerable insight and experience in law or finance and accounting and that possesses an independent responsibility system.

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

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

## **3. Other Matters Concerning Corporate Governance**

### **A. State of Internal Control Systems**

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

#### • Basic policies for internal control systems

- a) System for ensuring compliance with laws and the Articles of Incorporation in the execution of duties by directors and employees  
Directors shall take the lead and set an example in complying with and promoting the Mission Statement as the basis of our compliance structure.

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

- b) System for storing and managing information concerning the execution of duties by directors  
Information concerning the execution of duties by Directors (paper or electronically recorded) as well as other important information shall be properly stored and managed in accordance with laws and internal regulations.
- c) Regulations and other systems concerning management of risk of losses  
Based on internal regulations, we shall establish a risk management system, identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

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

- d) System for ensuring the efficient execution of duties by directors  
The Board of Directors shall in principle convene once per month to discuss and decide important matters concerning management and supervise the state of execution of business duties.

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

- e) System for ensuring proper operations of the Group consisting of the Company and its subsidiaries  
1) System for reporting to the Company matters concerning the execution of duties by Directors of subsidiaries  
Group Management Meetings are held and these clarify operational conditions at consolidated subsidiaries and progress in achieving profit plans.

The Special Executive Officer System has also been established, with the presidents of consolidated subsidiaries selected to serve as Special Executive Officers, to promote thorough compliance and strengthen governance at consolidated subsidiaries. When the need arises, the Special Executive Officers shall be asked to report to the Company's Board of Directors or President & Chief Executive Officer on the state of the execution of duties.

- 2) Regulations and other systems concerning management of risk of losses at subsidiaries  
The Board of Directors of consolidated subsidiaries shall identify, analyze and evaluate any risk that could affect business results, financial condition or other areas and respond appropriately.

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

i) System for ensuring that persons reporting matters described in the previous item are not treated unfavorably as a result of such reports

In accordance with employment regulations, persons reporting matters to the Audit & Supervisory Board Members shall not be treated unfavorably as a result of such reports.

j) Matters related to the treatment of expenses and liabilities incurred in business execution by Audit & Supervisory Board Members

In the case Audit & Supervisory Board Members request prepayment of expenses from the Company for their execution of duties, based on Article 388 of the Companies Act, the Company shall upon deliberation with the Compliance Office process these requested expenses except in the case these are determined to be unnecessary for the execution of duties by such Audit & Supervisory Board Members.

k) Other systems for ensuring effective audits by Audit & Supervisory Board Members

Representative Directors shall exchange opinions with Audit & Supervisory Board Members on a timely basis. The Company's Office of Auditors shall maintain close relations with the Audit & Supervisory Board Members and undertake inspections in accordance with the requests of Audit & Supervisory Board Members.

#### **B. Basic Thinking on the Elimination of Antisocial Forces and Establishment of Measures**

a) Basic thinking

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

b) Establishment of measures

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

#### **C. State of Establishment of Risk Management Structure**

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

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

#### **D. Summary of Details of Contract of Limited Liability**

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

#### **E. Summary of the Contents of the Liability Insurance Contracts for Officers**

The Company concludes liability insurance contracts with insurance companies for officers as stipulated in Article 430-3-1 of the Companies Act. The Directors, Audit & Supervisory Board Members, Executive Officers and outside dispatched officers of the Company and its subsidiaries shall be the insured persons and the relevant insurance contracts shall indemnify against damages and dispute costs incurred due to claims for damages arising from the execution of duties (including omissions) by the insured persons. However, as a reason for exemption, indemnity shall not be provided for matters arising from criminal acts such as bribery and willful illegal acts.

The insured persons bear approximately 7.5% of the premium fees of the relevant insurance contracts and the Company and its subsidiaries bear the other costs of insurance premiums.

#### **F. Number of Directors**

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

#### **G. Resolutions for Appointment of Director**

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

#### **H. Requirements for Special Resolution of the General Meeting of Shareholders**

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



### **I. Interim Dividend**

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

### **J. Purchase of Own Shares**

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

## **Status of Directors and Auditors**

### **1. Status of Outside Directors and Auditors**

The Company has three outside directors and three outside auditors.

Although Outside Director Jiro Makino has been appointed as an outside director because of his knowledge and experience as a lawyer and long years of involvement in the actual practice of legal affairs. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE.

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

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

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

Makiko Hamabe has been appointed as an outside director because of her high level of knowledge about ESG and IR. She makes reports to the Tokyo Stock Exchange (TSE) as an independent Director, as provided by the TSE. Additionally, there are no special interests or otherwise relationship between the Company and Makiko Hamabe Office and SoldOut, Inc., in which Outside Director Makiko Hamabe currently has a key position.

Although Outside Auditor Kazuhiko Nakai has been appointed as an outside director because of his knowledge and experience as a certified public accountant and tax accountant and long years of involvement in the actual practice of corporate accounting. He makes reports to the Tokyo Stock Exchange (TSE) as an independent Auditor, as provided by the TSE.

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

Mr. Nakai joined Ernst & Young ShinNihon (currently, Ernst & Young ShinNihon LLC) as a representative employee in 2007 and resigned from the firm in 2010. Although OTSUKA CORPORATION and Ernst & Young ShinNihon LLC have concluded an agreement and OTSUKA CORPORATION receives accounting audits from the firm, there are no special interests or otherwise relationship with the Company and this firm.

Although Outside Auditor Etsuo Hada has been appointed as an outside auditor because of his knowledge and experience as a Certified Public Accountant (CPA), licensed tax accountant, judicial scrivener and administrative scrivener, as well as his long years of involvement in the actual practice of corporate accounting and legal affairs. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

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

Although Outside Auditor Katsumasa Minagawa has been appointed as an outside auditor because of his knowledge and experience as a lawyer as well as his long years of involvement the actual practice of corporate law. He makes reports to the TSE as an independent Auditor, as provided by the TSE.

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

OTSUKA CORPORATION does not stipulate standards and other criteria regarding independence in terms of the selection and appointment of outside directors and outside auditors. However, the Company selects and appoints individuals who are able to ensure

independence from the Company by making a decision on an individual basis according to the background and relationship with the Company based on various regulations and other relevant matters concerning independence including regulations of the Tokyo Stock Exchange (TSE). The outside directors and outside auditors each attend Board of Directors meetings to provide insights and impart opinions based on their extensive experience. This strengthens the function of overseeing business execution by the Board of Directors and decision-making by the Board of Directors.

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

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

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

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

## Status of Audits

### 1. Status of Audits by Audit & Supervisory Board Members

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

The Audit & Supervisory Board is chaired by a full-time auditor in accordance with a resolution.

The Audit & Supervisory Board shall in principle convene once per month during the fiscal year and the state of attendance by each Audit & Supervisory Board Member is as follows.

Class	Name	Number of times convened	Number of times attended (attendance rate)
Standing Audit & Supervisory Board Member	Naoto Minai Note 1	4 times	4 times (100%)
Standing Audit & Supervisory Board Member	Tatsumi Murata Note 2	10 times	10 times (100%)
Audit & Supervisory Board Member	Kazuhiko Nakai	14 times	14 times (100%)
Audit & Supervisory Board Member	Etsuo Hada	14 times	14 times (100%)
Audit & Supervisory Board Member	Katsumasa Minagawa	14 times	14 times (100%)

Notes:

- Naoto Minai, Standing Audit & Supervisory Board Member, retired at the conclusion of the General Meeting of Shareholders held on March 26, 2021, and thus the number of meetings convened and number of times attended is only for those members of the Audit & Supervisory Board who are serving.
- Tatsumi Murata, Standing Audit & Supervisory Board Member, was appointed at the General Meeting of Shareholders held on March 26, 2021, and therefore the number of meetings convened and number of times attended is for the Audit & Supervisory Board convened after assuming position.

The main items considered and the status of activities by the Audit & Supervisory Board are as follows.

Items considered	Status of activities		
	Full-time auditor (Note) 1	Part-time auditor	Activity details
Formulation of audit policy and annual plan	○	○	After discussion, formulated the audit policy and annual plan.
Agreement with the proposal for appointment of Audit & Supervisory Board Members	○	○	Discussed and agreed to the proposal for appointment of Audit & Supervisory Board Members
Selection of persons convening the Audit & Supervisory Board and the chairperson	○	○	After discussion, the person convening and the chairperson of the Audit & Supervisory Board were selected.
Selection of Standing Audit & Supervisory Board Member	○	○	After discussion, Standing Audit & Supervisory Board Member was selected.
Determination of a specified Audit & Supervisory Board Member	○	○	After discussions, a specified Audit & Supervisory Board Member was decided.

Items considered	Status of activities		
	Full-time auditor (Note) 1	Part-time auditor	Activity details
Determination of monthly remuneration for Audit & Supervisory Board Members	○	○	After discussion, the monthly remuneration for Audit & Supervisory Board Members was decided.
Exchange of opinions with the President and Representative Director	○	○	Opinions exchanged with the President and Representative Director.
Attendance and expressing opinions at the Board of Directors meetings	○	○	Each Audit & Supervisory Board Member attended all Board of Directors meetings and expressed opinions as appropriate.
Attendance and expressing opinions at important meetings	○	—	Attended important meetings (Executive Board Meeting, Otsuka Corporation Group Management Meeting, IT Control Committee, etc.) and expressed opinions as appropriate. (Note) 2
Listening to reports from directors and employees	○	○	Received reports from directors who also serve as executive officers and department heads and requested explanations.
Monitoring and verification of status of establishment and operation of internal control system, including financial reporting	○	○	Monitored and verified status of establishment and operation of the internal control system, including financial reporting.
Confirmation of status of accounts receivable collection	○	—	Confirmed the status of accounts receivable collection and requested explanations. (Note) 2
Viewing financial results documents	○	○	Examined financial results documents and requested explanations.
Viewing important documents	○	—	Examined important documents (approval documents, etc.) and requested explanation. (Note) 2
Report on the status of execution of duties by standing Audit & Supervisory Board Member	○	○	Standing Audit & Supervisory Board Member reported to the non-standing Audit & Supervisory Board Members on the status of execution of duties by the standing Audit & Supervisory Board Member.
Attending inventory counts	○	○	Attended inventory counts and requested an explanation.
Cooperation and exchange of opinions among three audits (accounting auditor and Audit Office)	○	○	Received reports on the audit plan and audit implementation status from the accounting auditor and the Audit Office and exchanged opinions.
Exchange of opinions with the presidents and representative directors of consolidated subsidiaries	○	○	Exchanged opinions with the presidents and representative directors of consolidated subsidiaries.
Hearing reports and exchanging opinions with Audit & Supervisory Board Members of consolidated subsidiaries	○	○	Received reports from Audit & Supervisory Board Members of consolidated subsidiaries and exchanged opinions.
Hearing reports from internal whistleblowing independent of management	○	○	Received internal reports from a whistleblowing hotline independent of management and requested explanations.
Adequate evaluation of the accounting auditor's audit method and results	○	○	Evaluated audit method and the appropriateness of the results of the accounting auditor and decided to reappoint the accounting auditor.
Agreement of accounting auditor's compensation	○	○	Discussed and agreed with the accounting auditor's compensation plan.
Creation of audit report	○	○	Audited business reports, financial statements, etc., and created an audit report.

Notes:

1. Naoto Minai, Standing Audit & Supervisory Board Member, retired at the conclusion of the General Meeting of Shareholders held on March 26, 2021 and thus the Board of Directors meetings convened during his tenure are covered. Tatsumi Murata, Standing Audit & Supervisory Board Member, was appointed at the General Meeting of Shareholders held on March 26, 2021, and therefore the Board of Directors meetings convened after he assumed his position are recorded.
2. Important matters are also shared with non-standing Audit & Supervisory Board Members in a timely manner.

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

## 2. Status of Internal Audits

The Office of Auditors (15 persons) under the direction of the President has been established to conduct periodic and on-demand internal audits of all operations across the Group and assess the adequacy of policies, plans and procedures, the effectiveness of their implementation and compliance with laws, as well as to offer concrete advice and recommendations for improving operations and raising awareness.

The Office of Auditors regularly exchanges opinions with the accounting auditor regarding audit plans, the state of audit implementation and results, and strives for mutual collaboration. In this fiscal year, the Office of Auditors held opinion exchanges in January, April, May, July, August and November. Additionally, the Office of Auditors strives for mutual cooperation with Audit & Supervisory Board Members and exchanged opinions 10 times during this fiscal year.

## 3. Accounting Audits

### a) Name of Corporate Auditor

Ernst & Young ShinNihon LLC

### b) Continuous audit period

Since 1992

\* From 1992 to 2007, the Company concluded an audit contract with MISUZU Audit Corporation (then Chuo Shinko Audit Corporation). Subsequently, with the dissolution of MISUZU Audit Corporation, since 2007 the Company entered into an audit contract with EY Shinnihon LLC (then Ernst & Young ShinNihon). On this occasion, the certified public accountant who was executing the Company's auditing work was also transferred to Ernst & Young ShinNihon LLC (then Ernst & Young ShinNihon) and continued to execute the Company's auditing work even after this transfer. As such, the Company considers the same corporate auditor as continuing to execute the Company's auditing work and lists this in conjunction with the audit period of the corporate auditor prior to the transfer of the relevant certified public accountant.

### c) Certified public accountants involved in auditing-related operations

Seiji Yamamoto, Designated Employee with Limited Liability and Managing Partner

Tomo Ito, Designated Employee with Limited Liability, and Managing Partner

Hideaki Keyaki, Designated Employee with Limited Liability and Managing Partner

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

### d) Composition of staff assisting in auditing-related operations

CPAs 11

Other individuals 29

### e) Corporate Auditor Selection Policy and Reasons

(Accounting auditor selection policy)

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

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

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

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

(Reason for reappointment of accounting auditor)

The Audit & Supervisory Board evaluated the accounting auditor in accordance with the policy for selecting the accounting auditor and determined that reappointing Ernst & Young ShinNihon LLC as the accounting auditor would be appropriate.

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

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

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

#### 4. Details of Auditors' Remuneration, etc.

##### a) Remuneration for Auditing Certified Public Accountants

Class	Previous Fiscal Year		Current Fiscal Year	
	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)	For auditing and certification services (Millions of yen)	Non-auditing services (Millions of yen)
Otsuka Corporation	70	6	73	—
Consolidated Subsidiaries	15	—	17	—
Total	85	6	90	—

(Previous Fiscal Year)

The contents of non-auditing work at the Company consist of providing information, consultation, advice and support for accounting standards pertaining to revenue recognition, which is work other than that prescribed by Article 2, Paragraph 1 of the Certified Public Accountants Act.

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

Not applicable

##### c) Details of remuneration for other important audit certification services

Not applicable

##### d) Audit Remuneration Policy

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

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

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

## Directors (Officers) Remuneration

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

#### Policy for Determining Remuneration for Directors

Remuneration for Directors (excluding outside directors) shall be monetary compensation within the range approved by a resolution of the General Meeting of Shareholders that comprises basic remuneration, bonus, annual performance-based pay, retirement bonuses for Directors (accumulation-type remuneration at the time of resignation) and corporate-type defined contribution pension (full-time directors under 60 years of age). For Directors who concurrently serve as Executive Officers, position and performance as an Executive Officer shall also be elements in determining director remuneration. Remuneration levels as well as the percentages of each of the following types of remuneration as individual remuneration for Directors are set according to job responsibilities and contributions, etc., giving reference to survey data from external specialist organizations.

- A. For basic remuneration, the President and Representative Director, who is appointed by the Board of Directors, shall determine the payment amounts to be paid monthly giving comprehensive consideration to such factors as the evaluation of the performance of the supervised department in past years taking into account levels of other companies and a balance with employee salaries.
- B. In order to link contribution to business performance, bonuses are determined based on the target achievement rate for operating profit, which is strongly correlated to stock price. The President and Representative Director, who is appointed by the Board of Directors, shall determine the amount of bonuses to be paid annually in July and December based on the performance of the entire company during the bonus payment period, the performance of the supervised department and the degree of contribution to performance of the individual officer upon assuring transparency of the link with performance.
- C. Annual performance-based bonus is paid annually around February and August after amounts are decided by the Board of Directors in accordance with the annual and semi-annual operating profit achievement rate based on the annual and semi-annual plan for employees.
- D. Retirement benefits for directors are set aside in accordance with the rules for retirement benefits for directors, with the annual basic amount being set aside for full-time directors (each position), and the cumulative amount is calculated at retirement and

paid in an amount determined by the President and Representative Director, who is appointed by the Board of Directors based on a resolution of the General Meeting of Shareholders.

- E. The company-type defined contribution pension for full-time directors who have not reached the age of 60 is contributed to monthly in an amount equal to the maximum amount for employees in accordance with the provisions of the defined contribution (DC) pension regulations established by a resolution of the Board of Directors.

Outside directors shall receive monetary remuneration that is only fixed basic remuneration from the perspective of maintaining independence. Basic remuneration shall be within a range approved by a resolution of the General Meeting of Shareholders and paid monthly in an amount determined by the President and Representative Director, who is appointed by the Board of Directors, based on the levels of other companies and the remuneration levels of full-time directors of the Company.

The Company resolved its policy for determining the details of individual remuneration for directors at the meeting of the Board of Directors.

The Board of Directors delegates the authority to determine the amount of remuneration for each director to Yuji Otsuka, President & Chief Executive Officer. The reason for this delegation is that the president is the most suitable person for evaluating the performance of the respective department of which each director is in charge as well as the degree of contribution by these directors while taking into consideration the performance of the entire company.

In addition, regarding individual remuneration of directors for this fiscal year, the Board of Directors shall confirm that the method of determining the content of remuneration as well as the content of the determined remuneration are consistent with the policy for determining remuneration resolved by the Board of Directors and shall deem this is in line with that policy.

#### Reference

##### Annual Basic Amount for Each Position Stipulated in the Rules for Retirement Benefits for Directors

Position	Fixed amount by each position (Millions of yen)
President & Chief Executive Officer	12.0
Managing Director & Senior Executive Operating Officer	4.0
Managing Director & Executive Operating Officer	3.7
Managing Director & Senior Operating Officer	3.0
Managing Director & Operating Officer	2.8
Managing Director & Senior Executive Officer	2.0

##### Policy for Determining Remuneration for Audit & Supervisory Board Members

The remuneration of Audit & Supervisory Board Members (excluding outside auditors) shall be monetary remuneration and basic remuneration and shall be paid within the range approved by a resolution at the General Meeting of Shareholders.

Basic remuneration is paid monthly in an amount determined through discussions with Audit & Supervisory Board Members.

Retirement benefits for Audit & Supervisory Board Members were applied only to Standing Audit & Supervisory Board Members. However, at the meeting of the Board of Directors held on February 21, 2022 and the General Meeting of Shareholders held on March 29, 2022, it was resolved that the retirement benefit system for Standing Audit & Supervisory Board Members shall be abolished upon the conclusion of the General Meeting of Shareholders. For Standing Audit & Supervisory Board Members currently in office, to remunerate their achievements during their term of office until the end of the General Meeting of Shareholders, the above Board of Directors and General Meeting of Shareholders resolved that the retirement benefits shall be paid as a lump sum within a range of an equivalent amount according to a certain standards prescribed by the Company and that the timing of payments shall be when the Audit & Supervisory Board Members retire and the specific amount and method shall be left to discussions by the Audit & Supervisory Board Members.

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



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

Class	Total Remuneration (Millions of yen)	Breakdown of Remuneration (Millions of yen)			Number of Officers (Persons)
		Fixed Remuneration	Performance-linked Remuneration	Retirement Benefits	
Directors (excluding outside directors)	338	229	71	37	10
Audit & Supervisory Board Members (except outside auditors)	22	20	—	1	2
Outside Directors	35	35	—	—	3
Outside Auditors	21	21	—	—	3

### Notes:

- The above include three Directors and one Auditor who retired at the conclusion of the 60th General Meeting of Shareholders held on March 26, 2021.
- Remuneration to Directors does not include compensation for services rendered outside the realm of their directorships.
- The maximum amount of remuneration for directors is set at ¥650 million or less per year (however, employee salary portions are not included) based on a resolution at the General Meeting of Shareholders held on March 13, 1990. The number of directors at the end of the said General Meeting of Shareholders is 18.
- The amount of remuneration for Audit & Supervisory Board Members is ¥50 million or less per year based on a resolution at the General Meeting of Shareholders held on March 30, 2005. The number of Audit & Supervisory Board Members at the end of the said General Meeting of Shareholders is four.
- The above amount of retirement benefits includes an increase in the allowance for directors' retirement benefits for the current fiscal year.
- The actual results of performance indicators used to calculate the amount of performance-linked remuneration for the current fiscal year are operating income of ¥49,958 million (target value ¥53,597 million, achievement rate 93.2%) for the eligible bonus period and annual operating income of ¥48,654 million (target value ¥51,400 million, achievement rate 94.7%).  
The settlement allowance was not applicable because the achievement rate was less than 100%.

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

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

## Principal Stockholdings by the Company

### 1. Criteria and Concept for Classification of Investment Stocks

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

### 2. Stocks Held for Purposes Other than Pure Investment

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

##### Regarding the Suitability of Holding Individual Stocks

One of the Company's management objectives is to continuously improve corporate value through business expansion even within a harsh economic environment and the Company recognizes that securing a wide-ranging sales network, the stable procurement of products and services and continuing to secure smooth financial transactions into the future are essential in executing its management strategy. Based on this need, the Company adheres to a policy of holding policy stocks for the purpose of strengthening relationships and alliances with partner companies and does not hold policy stocks otherwise.

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

At the Board of Directors meeting for the current fiscal year, the Company pursued a return on investment of all strategically held shares that is calculated from dividends and business profits obtained from the company as well as the acquisition price of the shares and compared and verified the return on investment with the Company's cost of capital. As a result, the Company deliberated on the suitability of holding stocks for which return on investment was lower than the Company's cost of capital. As a result of this deliberation, although some of these stocks have a low direct relation to business profits, the Company has confirmed the benefits of maintaining cooperative relationships in undertaking its business operations that include alliances in financing and fund settlement fields and has determined the appropriateness of holding these stocks. On the other hand, the Company has resolved to proceed with

the sale of stocks for which the appropriateness of these holdings has not been recognized.

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

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

c) Number of issues and balance sheet amount

	Number of issues	Total balance sheet amount (millions of yen)
Unlisted stocks	23	443
Stocks other than unlisted stocks	29	13,771

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

	Number of issues	Total amount of acquisition price for the increase in the number of shares (millions of yen)	Reason for increase in number of shares
Unlisted stocks	2	174	New investment for developing services in the document solution and IoT fields
Stocks other than unlisted stocks*	2	18	Regular purchases by business partner holding company

\* In addition to the above, the number of shares increased for two issues due to the new listing of Cybertrust Japan Co., Ltd. and the change of classification from affiliated company of SIOS Corporation.

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

	Number of issues	Total amount of sales price for the decrease in the number of shares (millions of yen)
Unlisted stocks*	—	—
Stocks other than unlisted stocks	5	33

\* In addition to the above, the number of shares decreased for one issue due to the new listing of Cybertrust Japan Co., Ltd.

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

Specified investment stocks

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares	Number of shares		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
PERSOL HOLDINGS CO., LTD.	3,000,000	3,000,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 4
	10,020	5,583		
SIOS Corporation	1,593,300	*	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to the change of classification from affiliated company shares to specified investment shares.	No
	928	*		
Uchida Esco Co., Ltd.	180,000	180,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	742	531		



Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares	Number of shares		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
GiG Works Inc.	1,080,000	360,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to a stock split.	Yes
	548	1,177		
Ricoh Company, Ltd.	398,877	381,938	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	Yes
	427	258		
Daiwa House Industry Co., Ltd.	100,000	100,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	330	306		
Daito Trust Construction Co., Ltd.	13,100	13,100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	172	126		
Concordia Financial Group, Ltd.	382,204	382,204	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	159	138		
Cybertrust Japan Co., Ltd.	32,000	*	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to the new listing of unlisted shares held.	No
	101	*		
NAMUCO BANDAI Holdings Inc.	9,504	9,504	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	85	84		
Credit Saison Co., Ltd.	50,000	50,000	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	60	59		
Zeon Corporation	35,200	35,172	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares. The increase in the number of shares is due to fixed-amount purchases by the business partner holding company for the purpose of strengthening relationships.	No
	46	52		
Meiko Network Japan Co., Ltd.	60,000	60,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	34	33		
Kyowa Kirin Co., Ltd.	8,000	8,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	25	22		
Nippon Kayaku Co., Ltd.	20,000	20,062	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	23	19		
Mitsubishi UFJ Financial Group, Inc.	29,110	29,110	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 5
	18	13		
HYPER Inc.	24,000	24,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	12	13		
Dai-ichi Life Holdings, Inc.	4,300	4,300	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 6
	9	6		
Rengo Co., Ltd.	7,600	7,600	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	6	6		
Maruzen Co., Ltd.	2,000	2,000	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	4	3		
Mizuho Financial Group, Inc.	2,152	2,152	The purpose of holding the company's shares is to enhance financial transactions and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No Note 7
	3	2		

Name	Current business year	Previous business year	Purpose of holding, quantitative holding effect and reason number of shares increased	Holds Company stock
	Number of shares	Number of shares		
	Balance sheet amount (millions of yen)	Balance sheet amount (millions of yen)		
Canon Marketing Japan Inc.	1,155	1,155	The purpose of holding the company's shares is to ensure stable supplies of products and services and to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	Yes
	2	2		
Tsuchiya Holdings Co., Ltd.	13,600	13,689	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		
Autobacs Seven Co., Ltd.	1,500	1,500	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	2	2		
LIXIL Corporation.	331	331	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	1	0		
KOIKE SANSEI KOGYO Co., LTD.	133	133	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
TOKYO THEATRES COMPANY Inc.	200	245	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
Kurimoto, Ltd.	100	100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
NIPPON KINZOKU CO., LTD.	100	100	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company uses the method described in a) above and confirmed the rationality of its holdings of the company's shares.	No
	0	0		
Iino Kaiun Kaisha, Ltd.	—	37,682	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	—	16		
Morinaga & Co., Ltd.	—	3,284	The purpose of holding the company's shares is to strengthen the sales cooperation systems. The Company has comprehensively considered the items described in a) above and sold the company's shares in the current fiscal year.	No
	—	12		

Notes:

- All stocks, including stocks with recorded balance sheet amounts of 1/100 or less of their capital amounts, are listed.
- The - symbol indicates the Company does not hold that stock.
- The symbol (\*) indicates that the listing is omitted because it was not a specified investment stock in the previous fiscal year.
- Although PERSOL HOLDINGS CO., LTD. does not hold Company shares, its subsidiary, PERSOL TEMPSTAFF CO., LTD., holds Company shares.
- Although Mitsubishi UFJ Financial Group, Inc. does not hold Company shares, its subsidiaries, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. and au Kabucom Securities Co., Ltd., hold Company shares.
- Although Dai-ichi Life Holdings, Inc. does not hold Company shares, its subsidiary, The Dai-ichi Life Insurance Company, Limited, holds Company shares.
- Although Mizuho Financial Group, Inc. does not hold Company shares, its subsidiaries, Mizuho Bank, Ltd. and Mizuho Securities Co., Ltd., hold Company shares.

Deemed stocks

Not applicable

3. Investment Stocks Held for the Purpose of Pure Investment

Not applicable

## Directors and Audit & Supervisory Board Members (As of March 29, 2022)



President & Chief Executive  
Officer

Yuji Otsuka



Managing Director  
& Senior Executive Operating Officer

Kazuyuki Katakura



Managing Director  
& Senior Executive Operating Officer

Toshiyasu Takahashi



Managing Director  
& Executive Operating Officer

Hironobu Tsurumi



Managing Director  
& Executive Operating Officer

Hironobu Saito



Managing Director  
& Operating Officer

Katsuhiro Yano



Managing Director  
& Operating Officer

Minoru Sakurai

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### Directors

Jiro Makino  
Tetsuo Saito  
Makiko Hamabe

### Standing Audit & Supervisory Board Member

Tatsumi Murata

### Audit & Supervisory Board Members

Kazuhiko Nakai  
Etsuo Hada  
Katsumasa Minagawa

# Business Risks

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

The items covered herein are possible future occurrences determined by the OTSUKA Group as of March 29, 2022.

## ■ Customer-related Risks

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

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

## ■ Supplier-related Risks

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

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

## ■ Information Leakage Risks

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

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

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

## ■ Risks Related to the Spread of Infectious Diseases

In preparation for the spread of infectious diseases, besides measures to prevent the infection of its employees, the OTSUKA Group has established an environment that enables online activities not involving customer visits or face-to-face discussions to ensure that sales and service activities can be undertaken in addition to strengthening sales activities through call centers and websites.

However, despite these measures, in the event of an infectious disease that significantly affects overall socio-economic activities, depending on the state of infection, the Group's operations could be impacted by restrictions on the Group's sales and service activities, reductions in office supply consumption and copy usage, and a shortage of products due to a rapid increase in demand for specific products such PCs and tablets and infection-prevention products.

# Financial Section

## Three-year Financial Data

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

Notes:

\* Profit stands for Profit attributable to owners of parent

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

Figures for ROE are calculated using average equity.

U.S. dollar amounts are computed using the December 31, 2021 exchange rate of ¥115.02 = US\$1.

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

### Summary of Sales and Profits

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

#### Sales Summary

In the fiscal year under review, the OTSUKA Group recorded net sales of ¥851,894 million, an increase of ¥15,570 million (1.9%) from the previous fiscal year.

#### System Integration Business

The System Integration business provides optimized system services ranging from consulting to system design and development, transport and installation work and network construction. Net sales declined 0.6% to ¥523,609 million due to the impact of a decrease in PC unit sales and shortages of supplies of some products.

#### Service and Support Business

The Service and Support business provides customers with total service and support for their business operations and installed systems encompassing supplies, hardware and software maintenance, telephone support and outsourcing. In our "tanomail" office supply mail-order service business, sales increased steadily compared with the same period in fiscal 2019, when there was no impact from the novel coronavirus. Additionally, in the "tayoreru" support service business, overall sales from maintenance services grew from the previous year as maintenance services such as MNS (Managed Network Service) trended firmly. As a result, overall net sales of this business increased 6.0% to ¥328,284 million.

#### Summary of Income and Expenses

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

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

## Financial Position

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

### Assets

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

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

### Liabilities

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

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

### Net Assets

Net assets at fiscal year-end increased ¥21,738 million from the previous fiscal year-end to ¥301,774 million due to an increase in retained earnings.

As a result, the equity ratio increased 2.6 percentage points from the previous fiscal year-end to 61.4%.

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

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

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

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

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

## Cash Flows

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

Cash and cash equivalents at end of year totaled ¥205,746 million, an increase of ¥26,758 million from the end of the previous fiscal year.

Factors relating to each cash flow category were as follows.

### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥57,873 million, an increase of ¥25,377 million from the previous fiscal year due to a decrease in inventories.

### Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥9,160 million, an increase of ¥443 million from the previous fiscal year due to an increase in the purchase of property, plant and equipment.

### Cash Flows from Financing Activities

Net cash used in financing activities increased ¥968 million to ¥21,957 million due to an increase in cash dividends paid.

As a result, free cash flows, the sum of cash flows from operating activities and cash flows from investing activities, increased ¥24,933 million to ¥48,713 million.

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

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

### Significant Accounting Policies and Estimates

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

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

#### Revenue Recognition

##### a. Products

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

##### b. Services

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



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## Forecast for Fiscal 2022

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

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

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

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

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

## Consolidated Balance Sheets

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

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

The accompanying notes are an integral part of these statements.

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

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2020 and 2021

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

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Comprehensive Income

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2020 and 2021

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

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Changes in Equity

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

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

OTSUKA CORPORATION and Consolidated Subsidiaries					Millions of yen
For the year ended December 31, 2021					
	Shareholders' equity				Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares	
Balance as of January 1, 2021	¥ 10,374	¥ 16,254	¥254,997	¥(139)	¥281,487
Dividends of surplus			(21,804)		(21,804)
Profit attributable to owners of parent			39,927		39,927
Reversal of revaluation reserve for land			(287)		(287)
Purchase of treasury shares				(0)	(0)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	17,836	(0)	17,836
Balance as of December 31, 2021	¥ 10,374	¥ 16,254	¥272,834	¥(139)	¥299,323

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

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

Thousands of U.S. dollars

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

Thousands of U.S. dollars

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

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Cash Flows

OTSUKA CORPORATION and Consolidated Subsidiaries  
For the years ended December 31, 2020 and 2021

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

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

OTSUKA CORPORATION and Consolidated Subsidiaries

## (SIGNIFICANT ITEMS FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS)

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

#### Accounting Principles

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

### 2. Summary of Significant Accounting Policies

#### (1) Scope of consolidation

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

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

The 4 subsidiaries which were consolidated in the year ended December 31, 2021 are listed below:

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

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

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

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

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

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

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

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

The 3 investments in affiliates accounted for using equity method as of December 31, 2021 are listed below:

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

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

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

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

Securities held by the Companies are as follows:

- Available-for-sale securities

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

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

Regarding investments in limited partnerships and similar nature (investments deemed to be securities prescribed under article 2-2 of "Financial Instruments and Exchange Act"), the net amount equivalent to the Company's partnership investment gain or loss under the equity method, with such a gain or loss being based on the latest available financial statements of the corresponding limited partnerships, was recognized.

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

Derivatives are recognized at fair value.

### **(4) Inventories**

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

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

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

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

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

Estimated useful lives of assets are principally as follows:

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

Normal repairs and maintenance are charged to the consolidated statements of income as incurred.

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

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

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

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

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

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

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

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

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

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

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

**(11) Accounting methods for retirement benefits****(a) The method to attribute expected benefit to periods of service**

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

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

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

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

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

Revenues and costs of the make-to-order software contracts whose outcome for the progress made by the end of the current fiscal year deemed certain, are recognized by the percentage-of-completion method. The Companies estimate the percentage of completion mainly based on construction cost-percentage method.

The completed-contract method is applied for other contracts.

**(13) Significant Foreign currency translation**

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

**(14) Significant Hedge accounting****(a) Hedge accounting method**

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

**(b) Hedging instruments and hedged items**

## 1. Hedging instruments: Forward foreign exchange contracts

Hedged items: Forecasted transactions denominated in foreign currencies

## 2. Hedging instruments: Interest rate swaps

Hedged items: Borrowings

**(c) Hedge policy**

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

**(d) Evaluation of hedging effectiveness**

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

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

**(15) Cash and cash equivalents**

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

**(16) Accounting for income taxes**

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

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

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

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

**(18) Significant Accounting Estimates**

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

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

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

—Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30 on March 26, 2021)

**(a) Overview**

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

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

**(b) Scheduled date of adoption**

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

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

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

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

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

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

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

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

**(a) Overview**

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

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

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

**(b) Scheduled date of adoption**

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

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

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

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

(a) Overview

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

(b) Scheduled date of adoption

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

(c) Impact of the adoption of implementation guidance

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

**(20) Changes in presentation**

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

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

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

**(21) Additional Information**

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

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

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

**(22) Rounding of amounts**

Amounts of less than a million yen have been omitted.

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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 ¥115.02 = US\$1, exchange rates on December 31, 2021, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this rate.

## (CONSOLIDATED BALANCE SHEETS)

### \*1. Investment securities

As of December 31, 2020 and 2021, principal items related to unconsolidated subsidiaries and affiliates were as follows:

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

## \*2. Land Revaluation

Pursuant to the "Act on Revaluation of Land" (No.34 on March 31, 1998), and "Act on Partial Amendment to the Act on Revaluation of Land" (No.19 on March 31, 2001), the Company revalued land used for business activities.

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

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

The Company revalued land using the price of land which is determined based on article 2-4 of "Order for Enforcement of Act on Revaluation on Land" (No.119 on March 31, 1998) and assessed value of fixed assets provided in article 2-3 for land without price of land after making reasonable adjustments for land shape and so on.

The date of Land Revaluation: December 31, 2001

As of December 31, 2020 and 2021, the differences between fair value and carrying value after revaluation were as follows:

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

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

December 31, 2020 and 2021 were a bank holiday, and notes matured at the balance sheet date were accounted for as if they were settled on the maturity dates.

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

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

## (CONSOLIDATED STATEMENTS OF INCOME)

### \*1. Research and development expenses

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

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

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

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

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

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

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

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



## (CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME)

### \*1. Other comprehensive income

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

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

## (CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY)

### 1. Shareholders' Equity

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

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

### 2. Dividends of surplus, etc.

#### (1) Number of shares issued

	Thousands of shares	
	2020	2021
Number of shares at the beginning of the fiscal year	190,002	<b>190,002</b>
Increase	-	-
Decrease	-	-
Number of shares at the end of the fiscal year	190,002	<b>190,002</b>

Type of all shares issued is common stock.

#### (2) Number of treasury shares

	Thousands of shares	
	2020	2021
Number of shares at the beginning of the fiscal year	400	<b>400</b>
Increase	-	(*) <b>0</b>
Decrease	-	-
Number of shares at the end of the fiscal year	400	<b>400</b>

Type of all treasury shares is common stock.

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

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

None.

#### (4) Items related to dividends

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

Resolution date	Dividends paid		Dividend per share		Record date	Effective date
	(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
2020/03/27	¥20,856	\$ 181,326	¥ 110.00	\$ 0.95	2019/12/31	2020/03/30
2021/03/26	<b>¥21,804</b>	<b>\$ 189,568</b>	<b>¥ 115.00</b>	<b>\$ 1.00</b>	2020/12/31	2021/03/29
2022/03/29	<b>¥22,752</b>	<b>\$ 197,810</b>	<b>¥ 120.00</b>	<b>\$ 1.04</b>	2021/12/31	2022/03/30

Type of all shares issued is common stock.

Source of dividends is Retained earnings.

## (CONSOLIDATED STATEMENTS OF CASH FLOWS)

### \*1. Supplementary Cash Flow Information

Cash and cash equivalents as of December 31, 2020 and 2021 consisted of:

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

## (LEASE TRANSACTIONS)

### 1. Finance Lease Transactions (lessee)

The disclosure is omitted because finance lease transactions were immaterial in the consolidated financial statements as of December 31, 2020 and 2021.

### 2. Operating Lease Transactions (lessee)

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

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

## (FINANCIAL INSTRUMENTS)

### 1. Financial Instruments

#### (1) Policy for financial instruments

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

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

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

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

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

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

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

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

## 2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheets as of December 31, 2020 and 2021 and estimated fair value and their difference were as follows:

	Millions of yen		
	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			
Available-for-sale securities	9,429	9,429	-
Investments in affiliates	1,373	2,881	1,507
<b>Total assets</b>	<b>¥ 333,909</b>	<b>¥ 335,416</b>	<b>¥ 1,507</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	¥ 96,437	¥ 96,437	-
5) Electronically recorded obligations - operating	18,822	18,822	-
6) Short-term borrowings	4,800	4,800	-
7) Income taxes payable	9,367	9,367	-
8) Long-term borrowings	1,700	1,700	0
<b>Total liabilities</b>	<b>¥ 131,126</b>	<b>¥ 131,127</b>	<b>¥ 0</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	¥ (9)	¥ (9)	-
Derivative transactions to which hedge accounting is applied	(9)	(9)	-
<b>Total derivative transactions</b>	<b>¥ (19)</b>	<b>¥ (19)</b>	<b>-</b>

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

	Millions of yen		
	2021		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	¥ 204,701	¥ 204,701	-
2) Notes and accounts receivable - trade	135,786	135,786	-
3) Investment securities			
Available-for-sale securities	14,390	14,390	-
Investments in affiliates	1,193	2,116	923
<b>Total assets</b>	<b>¥ 356,072</b>	<b>¥ 356,995</b>	<b>¥ 923</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	¥ 91,938	¥ 91,938	-
5) Electronically recorded obligations - operating	17,901	17,901	-
6) Short-term borrowings	4,800	4,800	-
7) Income taxes payable	8,769	8,769	-
8) Long-term borrowings	1,700	1,700	0
<b>Total liabilities</b>	<b>¥ 125,109</b>	<b>¥ 125,110</b>	<b>¥ 0</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	¥ 13	¥ 13	-
Derivative transactions to which hedge accounting is applied	15	15	-
<b>Total derivative transactions</b>	<b>¥ 29</b>	<b>¥ 29</b>	<b>-</b>

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

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Difference
<b>Assets</b>			
1) Cash and deposits	\$1,779,703	\$1,779,703	-
2) Notes and accounts receivable - trade	1,180,545	1,180,545	-
3) Investment securities			
Available-for-sale securities	125,114	125,114	-
Investments in affiliates	10,376	18,401	8,025
<b>Total assets</b>	<b>\$3,095,740</b>	<b>\$3,103,765</b>	<b>\$ 8,025</b>
<b>Liabilities</b>			
4) Notes and accounts payable – trade	\$ 799,327	\$ 799,327	-
5) Electronically recorded obligations - operating	155,639	155,639	-
6) Short-term borrowings	41,731	41,731	-
7) Income taxes payable	76,241	76,241	-
8) Long-term borrowings	14,780	14,785	5
<b>Total liabilities</b>	<b>\$1,087,720</b>	<b>\$1,087,725</b>	<b>\$ 5</b>
<b>Derivative transactions (*)</b>			
Derivative transactions to which hedge accounting is not applied	\$ 117	\$ 117	-
Derivative transactions to which hedge accounting is applied	137	137	-
<b>Total derivative transactions</b>	<b>\$ 254</b>	<b>\$ 254</b>	<b>-</b>

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

#### Notes:

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

##### Assets

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

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

3) Investment securities

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

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

##### Liabilities

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

7) Income taxes payable

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

8) Long-term borrowings

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

##### Derivative transactions

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

#### 2. As of December 31, 2020 and 2021, financial instruments for which it is extremely difficult to determine the fair value were as follows:

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

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

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

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

Millions of yen				
2021				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	<b>¥ 204,701</b>	-	-	-
Notes and accounts receivable - trade	<b>135,786</b>	-	-	-
<b>Total</b>	<b>¥ 340,487</b>	-	-	-

Thousands of U.S. dollars				
2021				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	<b>\$ 1,779,703</b>	-	-	-
Notes and accounts receivable - trade	<b>1,180,545</b>	-	-	-
<b>Total</b>	<b>\$ 2,960,248</b>	-	-	-

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

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

Millions of yen				
2021				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	<b>¥ 4,800</b>	-	-	-
Long-term borrowings	-	<b>1,700</b>	-	-

Thousands of U.S. dollars				
2021				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Short-term borrowings	<b>\$ 41,731</b>	-	-	-
Long-term borrowings	-	<b>14,780</b>	-	-

**(SECURITIES)**

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
	Carrying value	Carrying value	Carrying value
Unlisted stocks	¥ 276	¥ 443	\$ 3,852
Investment in limited partnerships, etc.	26	22	198



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

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

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

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

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

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

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

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

## (DERIVATIVES)

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

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

Currency-related transactions (excepting market transactions)

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

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

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

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

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

### (a) Currency-related transactions

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

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

		Thousands of U.S. dollars		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Forward foreign exchange contracts	Forecasted transactions denominated in foreign currencies	\$ 6,428	-	\$ 137
Buy U.S. dollar				

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

### (b) Interest rate-related transactions

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

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

		Thousands of U.S. dollars		
		2021		
		Contractual value or notional principal amount		
		Total	Over one year	Fair value
Long-term borrowings	Interest-rate swaps	\$ 14,780	\$ 14,780	Note
Pay/fixed and receive/floating				

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

## (RETIREMENT BENEFITS)

### (1) Retirement benefit plans

The Companies have defined contribution pension plans, agreement type corporate pension plans and lump-sum plans as retirement benefit plans. Of the Companies as of December 31, 2021, 4 have enrolled in defined contribution pension plans, 3 in agreement type corporate pension plans and 5 in lump-sum plans.

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

1 consolidated subsidiary participates in multi-employer pension plan.

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

The company may pay additional benefits for employees' retirement.

### (2) Defined benefit pension plans

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

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Balance at the beginning of the year	¥ 53,909	¥ 54,878	\$ 477,123
Service costs	2,511	2,519	21,901
Interest costs	52	56	489
Actuarial loss (gain)	42	(540)	(4,696)
Retirement benefits paid	(1,636)	(1,700)	(14,783)
Prior service costs	-	38	333
Balance at the end of the year	¥ 54,878	¥ 55,251	\$ 480,368

#### (b) Changes in plan assets

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

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

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

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

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

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

(e) Components of retirement benefit expenses

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

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

Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Prior service costs	¥ (107)	¥ (145)	\$ (1,263)
Actuarial differences	330	(183)	(1,596)
Total	¥ 223	¥ (328)	\$ (2,859)

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

Components of items (before tax) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2021	2021
Unrecognized prior service costs	¥ (216)	¥ (70)	\$ (615)
Unrecognized actuarial differences	(2,289)	(2,105)	(18,308)
Total	¥ (2,505)	¥ (2,176)	\$ (18,923)

(h) Items for plan assets

1. Major components of the plan assets

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

	2020	2021
Cash and deposits	86%	86%
Life insurance general accounts	14%	14%
Total	100%	100%

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

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

(i) Items related to actuarial assumptions

The major actuarial assumptions (indicated as a weighted average)

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

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

**(3) Defined contribution pension plans**

Required contributions to defined contribution pension plans of the Companies for the years ended December 31, 2020 and 2021 were ¥815 million and ¥821 million (\$7,140 thousand), respectively.

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

Required contributions to the multi-employer pension plan which was treated the same as the defined contribution pension plans for the years ended December 31, 2020 and 2021 were ¥25 million and ¥26 million (\$231 thousand), respectively.

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

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

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

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

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

(c) Supplementary information:

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

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

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

## (TAX EFFECT ACCOUNTING)

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

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

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

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

## (ASSET RETIREMENT OBLIGATIONS)

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

## (INVESTMENT AND RENTAL PROPERTIES)

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

## (SEGMENT INFORMATION)

### 【Segment Information】

#### (1) Overview of reportable segments

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

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

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

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

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

The accounting method for the Companies' reported business segments is substantially the same as "SIGNIFICANT ITEMS FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS". Also, segment profit or loss is equivalent to operating profit.

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

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

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

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

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

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

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

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

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



**【Related Information】**

**(1) Products and services**

The disclosure is omitted because similar information is disclosed in (SEGMENT INFORMATION) for the years ended December 31, 2020 and 2021.

**(2) Geographical area**

1. Net Sales

The disclosure is omitted because outside customers sales in Japan constituted more than 90% of total net sales for the years ended December 31, 2020 and 2021.

2. Property, plant and equipment

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

**(3) Major customer**

The disclosure is omitted because there was no outside customer whose net sales amount was 10% or more of net sales in the consolidated statements of income for the years ended December 31, 2020 and 2021.

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

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

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

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

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

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

**【Related Party Transactions】**

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

## (PER SHARE INFORMATION)

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

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

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

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

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

Denominator:	Thousands of shares	
	2020	2021
Number of shares of common stock outstanding	189,601	189,601

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

3. Basis for calculation of basic earnings per share for the years ended December 31, 2020 and 2021 were as follows:

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

Denominator:	Thousands of shares	
	2020	2021
Weighted-average number of shares of common stock outstanding	189,601	189,601

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

**[CONSOLIDATED SUPPLEMENTARY STATEMENTS]**

**(ANNEXED CONSOLIDATED DETAILED SCHEDULE OF BORROWINGS)**

Borrowings as of December 31, 2021 consisted of the following:

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

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

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

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

3. Repayment schedule of long-term borrowings and lease obligations through five years after December 31, 2021 is as follows:

	Millions of yen			
	2021			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	¥1,700	-	-	-
Lease obligations	682	467	255	80

	Thousands of U.S. dollars			
	2021			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	\$14,780	-	-	-
Lease obligations	5,936	4,061	2,217	701

# Independent Auditor's Report

## Independent Auditor's Report

The Board of Directors  
OTSUKA CORPORATION

### Opinion

We have audited the accompanying consolidated financial statements of OTSUKA CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements, and the related consolidated supplementary schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

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

### Key Audit Matters

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

***Convenience Translation***

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC  
Tokyo, Japan  
March 29, 2022

/s/Seiji Yamamoto  
Designated Engagement Partner  
Certified Public Accountant

/s/Tomo Ito  
Designated Engagement Partner  
Certified Public Accountant

/s/Hideaki Keyaki  
Designated Engagement Partner  
Certified Public Accountant

## Corporate Data (As of December 31, 2021)

<b>Name</b>	OTSUKA CORPORATION
<b>Founded</b>	July 17, 1961 (registered as joint-stock company on December 13, 1961)
<b>Capital Stock</b>	¥10,374,851,000
<b>Number of Employees</b>	7,480 (with consolidated subsidiaries: 9,171)
<b>Business</b>	System Integration business: Sales of computers, copiers, communication equipment and software, and software development of consigned software, other activities Service and Support business: Supplies, maintenance and educational support, other activities
<b>Main Banks</b>	The Bank of Yokohama, Ltd. MUFG Bank, Ltd. Mizuho Bank, Ltd.

### Bases (As of December 31, 2021)

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

## Principal Group Companies (As of December 31, 2021)

The OTSUKA Group (OTSUKA CORPORATION and its subsidiaries) consists of 8 subsidiaries, including 4 consolidated subsidiaries as well as 6 affiliated companies, including 3 affiliates accounted for using equity method that carry out the System Integration business, Service and Support business. The 4 consolidated subsidiaries are listed below.

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

## Stock Information (As of December 31, 2021)

<b>Authorized Common Stock</b>	<b>677,160,000 shares</b>
<b>Issued Common Stock</b>	<b>190,002,120 shares</b>
<b>Number of Shares of Unit Stock</b>	<b>100 shares</b>
<b>Number of Shareholders</b>	<b>6,498</b>

### Major Shareholders

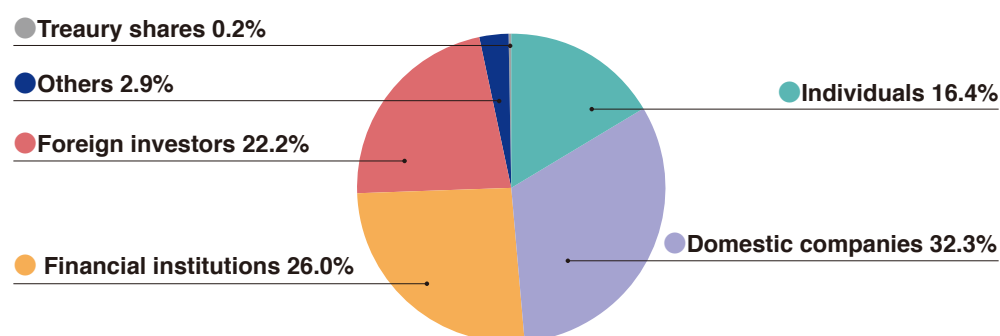
Name	Investment in OTSUKA CORPORATION		Investment in Major Shareholders by OTSUKA CORPORATION	
	Number of Shares Held	Equity Ownership (%)	Number of Shares Held	Equity Ownership (%)
Otsuka Sobi Co., Ltd.	58,729,980	30.97	—	—
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,854,700	10.47	—	—
Custody Bank of Japan, Ltd. (Trust Account)	12,354,000	6.51	—	—
Yuji Otsuka	5,681,880	2.99	—	—
Custody Bank of Japan, Ltd. (Trust Account 9)	5,606,900	2.95	—	—
OTSUKA CORPORATION Employee Stock-Sharing Plan	4,677,220	2.46	—	—
Terue Otsuka	3,873,000	2.04	—	—
Keiko Otsuka	3,481,960	1.83	—	—
SMBC Nikko Securities Inc.	2,828,800	1.49	—	—
STATE STREET BANK WEST CLIENT-TREATY 505234	2,217,182	1.16	—	—

#### Notes:

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

2) Ms. Terue Otsuka passed away on December 11, 2021. However, her name is listed in the shareholder register because the change of shareholders in the register had yet to be completed.

### Breakdown of Shareholders (Based on total shares)





OTSUKA CORPORATION WEBSITE

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

***Otsuka Corporation***

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