

Annual Securities Report

(Report based on Article 24, Paragraph 1 of the Financial
Instruments and Exchange Act of Japan)

Fiscal Year	From January 1, 2021
(28th Business Term)	to December 31, 2021

ELAN Corporation

15-12 Idegawa-machi, Matsumoto-shi, Nagano. 390-0826 Japan

(E30929)

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Part I [Information on the Company]

I. [Overview of the Company]

1. [Key Financial Data]

(1) Consolidated financial data

Business year	24th	25th	26th	27th	28th
Year end	December 2017	December 2018	December 2019	December 2020	December 2021
Net sales (thousands of yen)	15,466,664	18,585,306	21,518,666	26,056,360	31,635,891
Ordinary profit (thousands of yen)	923,597	1,282,455	1,501,385	2,148,379	2,818,548
Profit attributable to owners of parent (thousands of yen)	657,726	865,411	989,595	1,446,372	1,905,925
Comprehensive income (thousands of yen)	657,726	851,471	988,652	1,435,956	1,920,582
Net assets (thousands of yen)	3,497,028	4,262,675	5,021,024	6,184,203	7,483,722
Total assets (thousands of yen)	6,526,975	7,824,440	9,236,452	11,689,074	13,947,800
Net assets per share (yen)	58.48	70.04	82.86	102.05	123.78
Earnings per share (yen)	11.06	14.39	16.33	23.87	31.49
Diluted earnings per share (yen)	10.87	14.28	—	—	—
Equity ratio (%)	53.6	54.2	54.4	52.9	53.7
Return on equity (%)	20.5	22.4	21.4	25.8	27.9
Price-earnings ratio (times)	32.06	46.80	49.30	62.80	35.24
Net cash provided by (used in) operating activities (thousands of yen)	317,905	1,191,027	779,201	1,947,758	2,106,198
Net cash provided by (used in) investing activities (thousands of yen)	(237,838)	(176,349)	(151,900)	(648,329)	(357,677)
Net cash provided by (used in) financing activities (thousands of yen)	(81,989)	(103,919)	(212,625)	(273,824)	(614,149)
Cash and cash equivalents at end of period (thousands of yen)	2,122,349	3,033,107	3,447,783	4,473,388	5,607,760
Number of employees (persons)	232	242	276	290	320
(Average number of temporary employees not included in the above)	(121)	(130)	(155)	(168)	(188)

(Note 1) Consumption taxes, etc. are not included in net sales.

(Note 2) The Company conducted a 2-for-1 split of its common stock, effective October 1, 2017, a 2-for-1 split of its common stock, effective January 1, 2019, and a 2-for-1 split of its common stock, effective January 1, 2021. Net assets per share, earnings per share and diluted earnings per share are calculated on the basis that the concerned stock splits were conducted at the beginning of the 24th business year.

(Note 3) Diluted net income per share for the 26th and subsequent business years is not shown in the above table, as there are no residual shares.

(Note 4) Calculation of net assets per share for the 28th business year includes shares remaining in trust in treasury shares deducted from the number of shares issued.

Moreover, calculation of earnings per share includes shares remaining in trust in treasury shares deducted from the average number of shares during the period.

(2) Key financial data of reporting company

Business year	24th	25th	26th	27th	28th
Year end	December 2017	December 2018	December 2019	December 2020	December 2021
Net sales (thousands of yen)	13,971,712	16,474,458	18,948,340	26,055,807	31,608,553
Ordinary profit (thousands of yen)	798,667	1,134,210	1,264,684	1,987,081	2,588,817
Profit (thousands of yen)	556,540	781,980	852,268	1,641,736	1,767,100
Share capital (thousands of yen)	565,666	573,496	573,496	573,496	573,496
Total number of issued shares (shares)	14,950,000	15,150,000	30,300,000	30,300,000	60,600,000
Net assets (thousands of yen)	3,395,842	4,078,058	4,699,080	6,057,624	7,218,318
Total assets (thousands of yen)	6,067,221	7,241,962	8,643,194	11,622,998	13,618,027
Net assets per share (yen)	56.79	67.00	77.54	99.96	119.39
Total dividends per share (yen)	8.00	14.00	9.00	14.00	9.00
(interim dividends per share)	(—)	(—)	(—)	(—)	(—)
Earnings per share (yen)	9.36	13.00	14.06	27.09	29.20
Diluted earnings per share (yen)	9.19	12.90	—	—	—
Equity ratio (%)	56.0	56.1	54.4	52.1	53.0
Return on equity (%)	17.6	21.0	19.5	30.5	26.6
Price-earnings ratio (times)	37.88	51.79	57.23	55.33	38.01
Dividend payout ratio (%)	21.4	26.9	32.0	25.8	30.8
Number of employees (persons)	185	198	196	235	262
(Average number of temporary employees not included in the above)	(98)	(113)	(42)	(55)	(65)
Total shareholder return (%)	218.9	416.9	500.4	930.7	697.4
(Benchmark: TOPIX [incl. dividends]) (%)	(122.2)	(102.7)	(121.3)	(130.3)	(146.9)
Highest share price (yen)	1,739	1,419	2,111	1,552	1,736
	(3,450)	(3,545)		(3,260)	
Lowest share price (yen)	1,219	1,257	1,161	1,485	1,028
	(1,239)	(1,242)		(999)	

(Note 1) Consumption taxes, etc. are not included in net sales.

(Note 2) The Company conducted a 2-for-1 split of its common stock, effective October 1, 2017, a 2-for-1 split of its common stock, effective January 1, 2019, and a 2-for-1 split of its common stock, effective January 1, 2021. Net assets per share, earnings per share and diluted earnings per share are calculated on the basis that the concerned stock splits were conducted at the beginning of the 24th business year.

(Note 3) Diluted net income per share for the 26th and subsequent business years is not shown in the above table, as there are no residual shares.

(Note 4) Calculation of net assets per share for the 28th business year includes shares remaining in trust in treasury shares deducted from the number of shares -issued.

Moreover, calculation of earnings per share includes shares remaining in trust in treasury shares that deducted from the average number of shares during the period.

(Note 5) Highest share price and lowest share price are those on the Tokyo Stock Exchange (First Section).

(Note 6) The Company conducted a 2-for-1 split of its common stock, effective October 1, 2017, a 2-for-1 split of its common stock, effective January 1, 2019, and a 2-for-1 split of its common stock, effective January 1, 2021. The highest and lowest share prices for the 24th, 25th and 27th business years are shown after the stock split, with the highest and lowest share prices before the stock split are shown in parentheses.

2. [Company History]

Month/Year	Events
February 1995	Limited Company Elan established for bedding sales in Sagamihara City, Kanagawa Prefecture
September 1997	Head Office relocated to Zama City, Kanagawa Prefecture, for business expansion
October 1997	Organization changed to ELAN Corporation
November 1998	Matsumoto Branch opened in Matsumoto City, Nagano Prefecture (Minamihara) Launched bedding renewal business
June 2001	Head Office relocated to Matsumoto City, Nagano Prefecture (Minamihara), to expand the bedding renewal business
August 2001	Nagano Branch opened in Nagano City, Nagano Prefecture, to expand the bedding renewal business
May 2003	Sagamihara Branch opened in Chuo Ward, Sagamihara City, Kanagawa Prefecture Launched nursing- and medical-care-related business Launched CS Set services in Sagamihara Branch
January 2006	Launched CS Set services in Matsumoto Head Office
December 2006	Nagano Branch closed (integrated into Matsumoto Head Office) Reduced the scales of the bedding sales and bedding renewal businesses to concentrate management resources into the nursing- and medical-care-related business
September 2008	Head Office relocated to Matsumoto City, Nagano Prefecture (Takamiya-higashi)
October 2008	Kanazawa Branch opened in Kanazawa City, Ishikawa Prefecture
April 2009	Nagoya Branch opened in Naka Ward, Nagoya City, Aichi Prefecture
February 2010	Hiroshima Branch opened in Naka Ward, Hiroshima City, Hiroshima Prefecture
March 2011	Osaka Branch opened in Suita City, Osaka Prefecture
March 2012	Shikoku Branch opened in Takamatsu City, Kagawa Prefecture
September 2012	Head Office relocated to Matsumoto City, Nagano Prefecture (Idegawa Town)
January 2013	Launched education and recreation set services in Sagamihara Branch
March 2013	Fukuoka Branch opened in Hakata Ward, Fukuoka City, Fukuoka Prefecture
April 2014	Sapporo Branch opened in Shiroishi Ward, Sapporo City, Hokkaido
November 2014	Listed on the Tokyo Stock Exchange Mothers Market
March 2015	Saitama Branch opened in Omiya Ward, Saitama City, Saitama Prefecture
November 2015	Listed market changed to the Tokyo Stock Exchange First Section
July 2016	Tokyo Office opened in Minato Ward, Tokyo
February 2017	LTASK Corporation made into a subsidiary
July 2017	Niigata Branch opened in Niigata City, Niigata Prefecture
November 2017	Okayama Branch opened in Okayama City, Okayama Prefecture
July 2018	Tokyo Branch opened in Minato Ward, Tokyo
September 2018	ELAN Service Corporation established as a wholly owned subsidiary to diversify individual invoices and the customer support unit
November 2018	Minamikyushu Sales Office of the Fukuoka Branch opened in Kumamoto City, Kumamoto Prefecture
July 2019	Hakodate Sales Office of LTASK Corporation's Hirosaki Branch opened in Hakodate City, Hokkaido
August 2019	Shizuoka Branch opened in Shizuoka City, Shizuoka Prefecture
January 2020	LTASK Corporation absorbed through a merger
June 2020	Distribution Center opened in Yokohama City, Kanagawa Prefecture
November 2020	Okinawa Branch opened in Naha City, Okinawa Prefecture
April 2021	Ryukyu ELAN Corporation established as a wholly owned subsidiary
November 2021	Chiba Branch opened in Chiba City, Chiba Prefecture

3. [Business Description]

The following descriptions relate to the main businesses operated by the Company and its subsidiaries and affiliates as of the end of the fiscal year under review.

The Company provides services for rental with laundry service of clothes, towels, etc. combined with supply of daily necessities as a set called the “CS (Care Support) Set” (hereinafter, the “CS Set”) to persons admitted to hospitals and persons admitted to long-term care health facilities for the elderly, intensive care homes for the elderly, fee-based homes for the elderly, group homes, care houses and other nursing care facilities (hereinafter, “nursing facilities for the elderly and other such facilities”).

More specifically, CS Set is the name of the service combining the lending of clothing and towels with the sale of daily necessities instead of the actual users providing their own clothing, towels, and daily necessities during hospitalization or residential care. This eliminates the need for the patient and their family members to worry about washing or changing clothes and towels or replenishing daily necessities during hospitalization or residential care, allowing the patient to be admitted to a hospital or care facility “empty handed” and leave “empty handed.” Another important feature is that fees are calculated based on the number of days of hospitalization or residential care, rather than on how much a customer used what items. By utilizing a fixed daily fee system, patients can be relieved of concerns about how often they should wash or change clothes and towels or how much they use daily necessities during their hospitalization or residential care. We also believe that it offers advantages for users, including the ease of calculating costs for living in a hospital or residential care facility.

Users enter into a contract with the Group when they are hospitalized or admitted, with a portion of the CS Set service operation provided by the hospital, nursing care facility for the elderly, or other such facility, as well as the linen suppliers (businesses that supply linen products such as clothing, towels, sheets, and pillowcases) and daily necessities distributors (collectively “linen and other suppliers”).

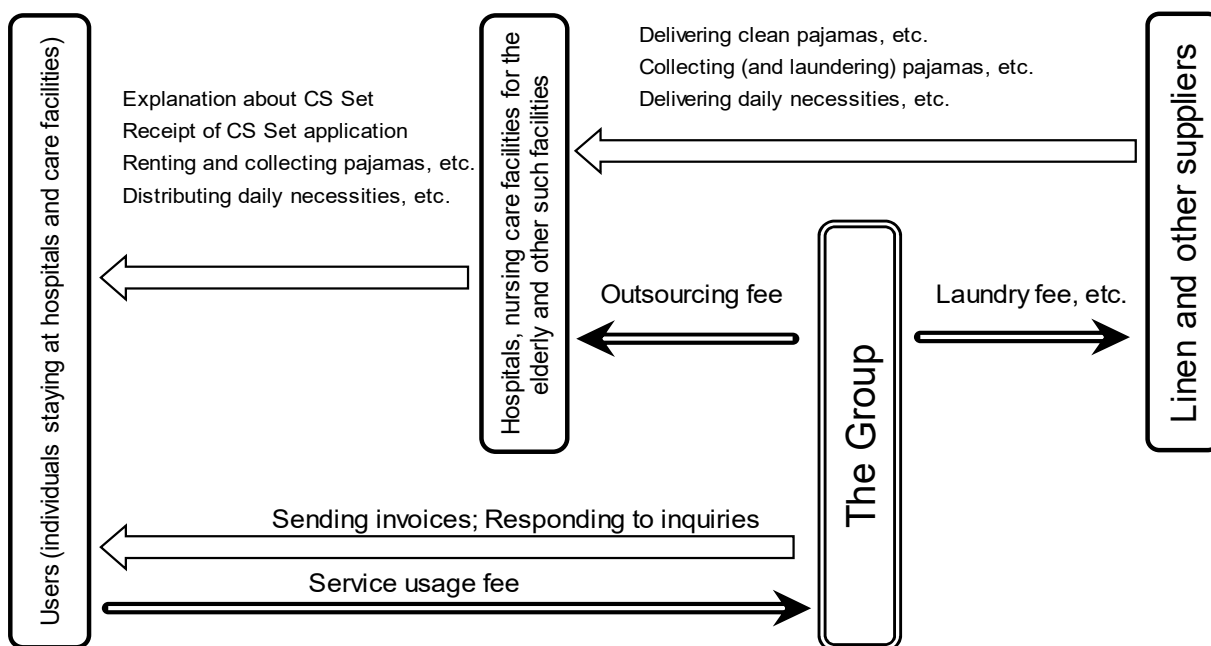
When introducing a CS Set, the Group designs a plan for its component items and other elements, provides operational support to the hospital, nursing care facility for the elderly or other such facility, and arranges for the delivery of pajamas, etc. to linen and other suppliers. After introduction, the Group collects usage fees from users and responds to inquiries and conducts other tasks

The hospital, nursing care facility for the elderly or other such facility provides a place to store the CS Set’s component items, explains the CS Set to users, accepts their application, rents/collects pajamas, etc., and distributes daily necessities, etc. The Group pays an outsourcing fee as consideration for these tasks to the hospital, nursing care facility for the elderly or other such facility.

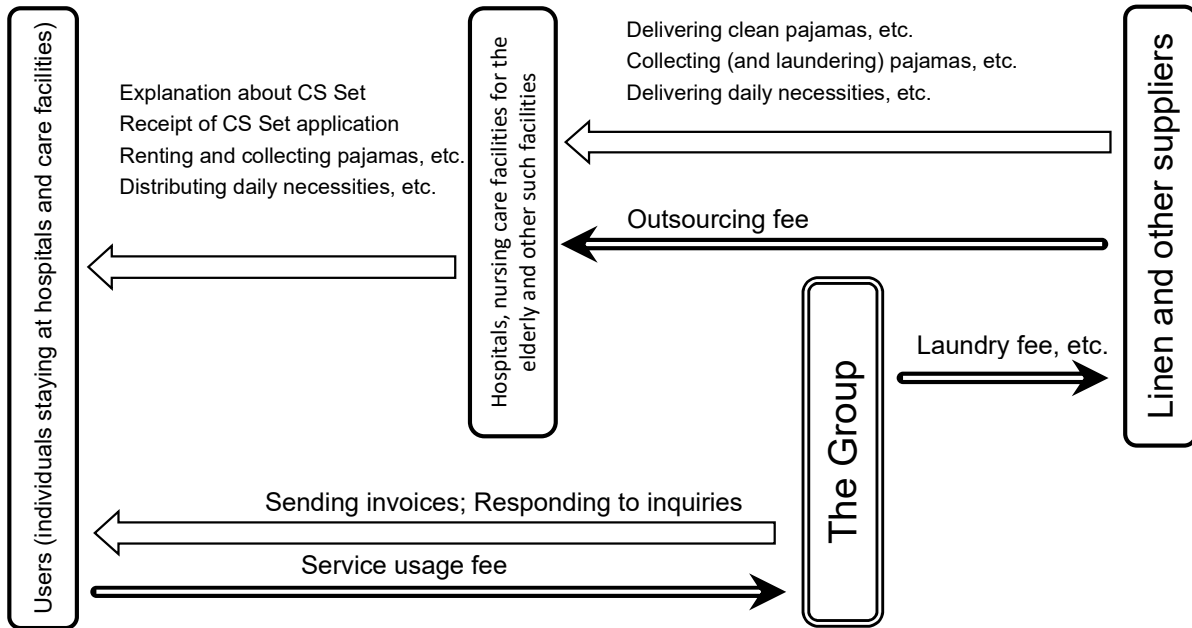
Linen and other suppliers deliver laundered pajamas, daily necessities, etc., to locations designated by the hospital, nursing care facility for the elderly or other such facility, and collect and launder pajamas, etc., after use. The Group pays a laundry fee, etc. as consideration for these tasks to the linen and other suppliers.

The following charts outline the business.

(In the case of ELAN as the contractor)



(In the case of supplier as the contractor)



(About ELAN as the contractor or supplier as the contractor)

Commercial distribution of the CS Set is broadly divided into two forms of transaction according to the different forms of agreement with hospitals, nursing care facilities for the elderly and other facilities and with linen and other suppliers.

- i. Form where the ELAN Group directly contracts with hospitals, nursing care facilities for the elderly and other such facilities (ELAN as the contractor)
- ii. Form where linen and other suppliers are the parties contracting with hospitals, nursing care facilities for the elderly and other such facilities, and the ELAN Group has no direct contractual relationship with the hospitals, nursing care facilities for the elderly and other such facilities (supplier as the contractor)

The above forms of transaction have differences, such as in the way of contact with the hospitals, nursing care facilities for the elderly and other such facilities, but there is no difference in the roles of each of the relevant parties in terms of the CS Set management.

We believe that this business is notable in that we can provide benefits not only to CS Set users and their families but also to hospitals, nursing care facilities for the elderly and other such facilities, as well as linen and other suppliers, and that the Group can play a central role in building win-win relationships.

i. Benefits for hospitals, nursing care facilities for the elderly and other such facilities

When hospitals, nursing care facilities for the elderly and other such facilities charge persons admitted to their hospital or facility for services that are not covered by insurance, they are required to take strict measures in accordance with administrative guidance from the Ministry of Health, Labour and Welfare. The Group provides this service in a format that conforms to the aforementioned administrative guidance. By adopting this service, hospitals and facilities can mitigate workloads on their nurses, caregivers and others related to on-site laundry, replenishment of daily necessities, etc. In addition, the ELAN Group outsources the explanation about this service to persons admitted to the hospital or facility, reception of applications for the service from the same, and the storage of goods to hospitals, nursing care facilities for the elderly and other such facilities. The contractor then receives an outsourcing fee, thus contributing to the profitability of the hospitals, nursing facilities for the elderly and other such facilities adopting the service.

ii. Benefits for linen and other suppliers

Linen and other suppliers are contracted by hospitals, nursing care facilities for the elderly and other such facilities to deliver and launder bedding covered by medical insurance and long-term care insurance (futon, comforters, sheets, pillows, and pillowcases). This service provides linen and other suppliers with new opportunities previously unavailable to them to earn revenue through the lease of daily-use towels and clothes, laundry services, and sale of daily necessities included in CS Sets.

4. [Information on Subsidiaries and Affiliates]

Name	Address	Share capital (thousands of yen)	Main business	Ownership of voting rights (%)	Relationship
(Consolidated subsidiaries) ELAN Service Corporation	Matsumoto City, Nagano Prefecture	10,000	Nursing- and medical-care- related business	100	Concurrent Directors
(Consolidated subsidiaries) Ryukyu ELAN Corporation	Naha City, Okinawa Prefecture	30,000	Same as above	100	Concurrent Directors

(Note) The “Main business” presented is the name of the business segment.

5. [Employees]

(1) Consolidated Companies

As of December 31, 2021

Name of business segment	Number of employees	
Nursing- and medical-care-related business	320	(188)
Total	320	(188)

(Note 1) “Number of employees” represents full-time employees only. An additional figure for the average number of temporary employees (including part-time employees and those dispatched from personnel dispatch companies) employed during the fiscal year is provided in parentheses.

(Note 2) The main reason for the increase in the number of full-time employees and temporary employees compared with the previous fiscal year is due to the hiring of new graduates and temporary employees as a result of business expansion.

(2) Non-consolidated (Reporting Company Data)

As of December 31, 2021

Number of employees	Average age	Average length of service (year)	Average annual pay (yen)
262 (65)	33.0	5.3	5,574,361

Since segment information is not presented, the following table shows employees by department.

Department name	Number of employees	
Sales Department	176	(43)
Management Department	86	(22)
Total	262	(65)

(Note 1) “Number of employees” represents full-time employees only. An additional figure for the average number of temporary employees (including part-time employees and those dispatched from personnel dispatch companies) employed during the fiscal year is provided in parentheses.

(Note 2) Segment information is omitted, because the Company has a single segment—the nursing-and medical-care-related business.

(Note 3) “Average annual pay” includes bonuses and non-regular wages.

(Note 4) The main reason for the increase in the number of full-time employees and temporary employees compared with the previous fiscal year is due to the hiring of new graduates and temporary employees as a result of business expansion.

(3) Labor Unions

Labor relations are stable, though a labor union has not been formed.

II. [Business Overview]

1. [Management Policy, Business Environment, Issues to Be Addressed, Etc.]

Forward-looking statements in this document reflect the judgment of the Group as of the date of this document's filing.

(1) Management Policy

The Group's management philosophy is that we seek to provide the best products and services that satisfy our customers, and we focus our passion on contributing to the realization of a society in which people live fulfilling lives. With this, the Group focuses its business activities on provision of CS Sets, its mainstay product. The Group's basic policy is to maximize corporate value by providing products and services that meet the needs of its customers, thereby further strengthening its competitiveness and meeting the expectations of shareholders, employees, and other stakeholders.

(2) Management Strategy, Etc.

The ELAN Group is engaged in the nursing- and medical care-related business (CS Set) to realize a society in which people live fulfilling lives as stated in its management philosophy, and the Group believes it is essential to take appropriate action going forward in response to a range of business risks, which can include future changes in government policies, revision of law, and the emergence of new market entrants.

In its medium- to long-term management strategy, the Company will, for the time being, focus on expanding the market share of its CS Sets across Japan. It will continue to make improvements to this service, adding to its appeal for CS Set users, hospitals, and other stakeholders, and build greater sales so as to make CS Sets available to as many people as possible. Another important issue is the development of new value-added products. While expenses for personnel and other areas are increasing in accordance with the Group's expanding business and growing sales, it will also strive to improve productivity, including systemization. The Group will also promote entry into new businesses, including via business alliances and M&A, harnessing the personal information of CS Set users and strong relationships with hospitals and other stakeholders.

(3) Business Environment

During the fiscal year under review, the Japanese economy experienced significant restrictions on social and economic activities due to the spread of COVID-19, including a series of states of emergency and priority measures applied to prevent the spread of the disease in areas where the virus had become prevalent. On the other hand, social and economic activities showed gradual recovery as the number of new cases continued to decline, thanks to the gradual progress of vaccination against COVID-19 and other infection control measures. However, outlooks remain uncertain after January 2022 amid concerns about a resurgence in cases due to a new mutant strain.

In the medical care and nursing care industry in which the Group operates, with steady progress in the aging of the population as evidenced by such factors as the population aged 65 years and over of 36.22 million accounting for 28.9% of the total population as of January 1, 2022 (January 2022 Monthly Report of Population Estimates by the Statistics Bureau of the Ministry of Internal Affairs and Communications), the market size for services that concern the Group is likely to increasingly expand.

(4) Priority Business and Financial Issues to Be Addressed

With regard to the future business environment, although the growth in Japan's elderly population is expected to result in continued and more rapid expansion in the overall market for the medical care and nursing care industry, the Group does not believe this is a situation that can be viewed with optimism. Future changes in government policies or revision of laws may have a significant impact on business, or competition may intensify with the emergence of new entrants with a similar business format. Even in the midst of such changes in the external environment, the Group will focus its efforts on the following points in order to promote further growth in its business scale.

i. Establishment of a nationwide sales and service network

In April 2021, the Group established Ryukyu ELAN Corporation, a subsidiary of the Company, in Naha City, Okinawa Prefecture, and in November 2021, opened the Chiba Branch in Chiba City, Chiba Prefecture. These have facilitated the Group's provision of more tailored, prompt community-based services within Okinawa Prefecture, the 23 wards of Tokyo, and Chiba Prefecture.

As a result of the planned opening of new branches and the splitting of large branches ongoing for a number of years, the Group had 24 locations in Japan as of December 31, 2021, and with the split of the Kanazawa Branch in January 2022, the Group now has a nationwide network of 25 branches, including its head office. These locations are working toward the sales of CS Sets to hospitals, nursing facilities for the elderly and other such facilities across Japan. Going forward, the Group will continue to open new branches and sales offices to shorten the distance between its sales offices and facilities served, building a structure where it can provide more prompt, tailored services.

ii. Improving profitability

The CS Set is a made-to-order service in which various specifications are determined separately for each facility to be served. The contents of the plans available to users (daily unit price, specific clothing and towels and their quality, specific daily necessities, etc.) and methods for operation (how to accept orders, deliver and manage inventory, etc.) are determined on a case-by-case basis upon consultation with the facility, vendors, and others. The Group ensures profitability by sharing the expertise it has accumulated in its business during human resources education. However, diversification in needs for CS Sets has led to the assignment of permanent reception staff to facilities, outsourcing of the delivery of daily necessities, and more. These, alongside the impact of rising labor costs and higher purchase prices due to soaring oil and other energy prices, tend to push up the cost of sales ratio and/or the ratio of selling, general and administrative expenses to sales. Therefore, in order to transform itself into a highly productive organization and further improve profitability, the Group will mainly “develop human resources” and “promote systemization,” as described below.

iii. Developing human resources

The Group recognizes that there is no corporate growth without the growth of its employees and that employee growth through employee education and development is an essential and important issue for the lasting growth of the Group. In addition to practical human resources education (on-the-job training, or OJT) in which employees receive direct guidance from senior employees, the Group has established a mentor system as an educational program for new graduates, as well as various training programs for mid-level and executive employees in order to cultivate superior human resources over a shorter period of time. Furthermore, the Group is also taking measures such as incorporating online training in place of group training so as to hold personnel training sessions even during an outbreak of infectious disease, as seen with COVID-19. Going forward, the Group will also put efforts into hiring and developing global human resources with an eye to future overseas expansion.

iv. Promoting systemization

The Group uses various information systems in the operation of its CS Sets. Billing and purchasing management operations are especially labor-intensive, and both work volumes and the number of employees engaged in these tend to increase as the number of facilities with CS Set contracts increases. To address these, the Group has been focusing on promoting systemization for several years and will continue to do so with increasing speed. Going forward, the Company will also seek to achieve systemization in operational areas other than billing and purchasing management to increase productivity and explore the potential for new businesses using AI and IT technologies.

v. Increasing added value, improving name recognition and brand power

The Group provides services for rental with laundry service of clothes, towels, etc. combined with supply of daily necessities as the “CS Set,” a service that has become nationally recognized as a result of the Company's public stock listing and expansion of its business. The Company continuously strives to improve its name recognition and brand power with measures such as the development of original products through OEM contracts with supplier manufacturers and sponsorship with local communities. However, at present, recognition has not reached a sufficient level for the Group and its CS Set services. In addition to the aforementioned measures to improve name recognition and brand power, the Group will further enhance its brand power as a leading provider of hospital and care facility residence set services by developing new services to resolve the problems faced by its customers, further increasing added value.

vi. Improving customer satisfaction and usage fee collection ability

The Group's customers are individuals who are inpatients at hospitals and residents of nursing facilities for the elderly and other such facilities. As it is impractical to conduct credit checks on individual customers at the time of application or to refuse applications from individuals with limited financial resources, these practices are not in place. Therefore, the Group recognizes the importance of increasing the level of customer satisfaction of these individuals, as well as improving the Group's ability to collect usage fees.

As examples of actions taken to increase customer satisfaction, the Group now offers multilingual telephone support at ELAN Service Corporation for inquiries from non-Japanese individuals and accepts a greater diversity of credit cards and other payment methods. The Group is also actively working to increase customer satisfaction by further extending the operating hours of its customer support centers to be available 24 hours a day.

With regard to the collection of usage fees, the Company's credit management department works closely with ELAN Service Corporation to conduct assured collection activities, both in writing and via telephone.

The Group will continue to take actions for improving its ability to collect usage fees while enhancing customer satisfaction among CS Set users, who are its customers.

vii. Responding to operational risks in Company businesses during outbreaks of infectious diseases, disasters, and other events

The Group provides services for rental with laundry service of clothes, towels, etc. combined with supply of daily necessities as the "CS Set." This service is provided at hospitals, nursing facilities for the elderly and other such facilities.

Going forward, in the event of a society-wide outbreak of an infectious disease for which a cure has not yet been established, or in the event of a large-scale disaster such as a widespread earthquake, typhoon, or torrential rain, facilities may become unable to fulfill their duties as agreed upon with the Company. This may inhibit CS Set service operations within the facilities in question, resulting in decreased sales for the Company.

The Company will work to streamline operations of the CS Set service within these facilities, including adopting digital technologies in its operations, and will explore measures to ensure smooth on-site operations even during emergency situations such as outbreaks of infectious disease and large-scale disasters.

viii. Contribution to developing a sustainable society through businesses

In recent years, amid the emergence of environmental issues and various other social concerns, sustainability management has been called for as an element of corporate social responsibility, and society has come to focus and have expectations on the role that companies can play in efforts to solve social issues, as represented by the Sustainable Development Goals (SDGs).

In order to promote sustainable corporate growth and contribute to the sustainability of society through its business activities, the Group will strive to help realize a sustainable society while appropriately addressing environmental, social, and governance (ESG) issues.

(5) Objective indicators for determining achievement status of management goals

The Group places emphasis on the ratio of operating profit to net sales and cash flows from operating activities. The Group will strive to increase net sales while thoroughly controlling costs, provide high value-added products and services, establish and maintain a system to ensure the collection of trade receivables, and work to improve the ratio of operating income to net sales and secure cash flow from operating activities.

2. [Business and Other Risks]

Of the matters presented in the business overview and financial information of this annual securities report, the following are major risks the Company's management recognizes as having the potential to materially affect the consolidated financial position, operating results, and/or cash flows.

Matters discussed here that are not historical fact reflect the judgment of the Group as of the date of this document's filing.

Please note that the following does not constitute an exhaustive list of all risks that may influence investment decisions.

(1) Competition with other companies

The Group recognizes that, in its nursing- and medical care-related business, the market is becoming more active. This is because the Group's services have gained greater recognition with its public stock listing and business expansion, driving higher needs for hospital and care facility residence sets. Furthermore, this is because other businesses with the main business of hospital and care facility residence sets, like the Group, and other businesses related to hospitals and care facilities are offering services similar to the Group's.

The Group will continue to strive to improve quality for users of CS Set services and to maintain and improve good relationships with linen suppliers and other suppliers, as well as daily necessities vendors, etc. However, in the event of intensified competition with other companies, such as new entrants with superior capital capabilities, name recognition, and/or customer bases compared with the Group, the Group may lose existing customers or experience a decline in profitability, which may affect its financial position and operating results.

(2) Product safety

The Group rents pajamas, towels, and other goods, and sells diapers and personal items to CS Set users. The Group pays ample attention to linen suppliers' safety by checking whether or not they have obtained a healthcare-related service mark (Note) and by verifying hygiene in the laundering process. However, if for some reason a serious problem were to occur with the aforementioned goods and items provided, claims for damages against the Group or loss of trust could occur, which may affect its financial position and operating results.

(Note) Refers to those certified as high-quality healthcare services by the Japan Health Enterprise Foundation.

(3) Transactions with specific business partners

For laundry items such as towels and clothing, as well as other supplies provided as consumables in CS Set services, the Company receives laundry services and provision of merchandise from linen suppliers and other suppliers. The Group's CS Set services are founded in partnerships with existing linen suppliers and other suppliers that already provide leasing of bedding and other items, as well as laundry services, to hospitals, nursing facilities for the elderly and other such facilities. Therefore, transactions with linen suppliers and other suppliers with a high market share tend to occupy a large proportion of all transactions. While the Group has mutually cooperative relationships with these linen suppliers and other suppliers and strives to maintain good relations, changes in these suppliers' business policies or in their relationship with the Group may affect the Group's financial position and operating results.

In addition, the Group outsources part of its logistics operations, such as transportation, delivery work, and inventory management of consumables (daily necessities) provided in the CS Set service, to specific contractors using the Group's operational expertise. However, changes in the business policies of the outsourced contractor or in its relationship with the Group may affect the Group's financial position and operating results.

(4) Risks associated with service introductions to new client facilities not proceeding as planned

Since it began offering its CS Set services in May 2003, the Group has been providing these services to hospitals, nursing facilities for the elderly and other such facilities. In developing sales areas, the Group has established new sales offices, centering its sales pitch and introduction work to new facilities on these locations.

The Group will continue its efforts to acquire new contracted facilities through its own sales activities as well as through cooperation with partner linen suppliers and other suppliers. However, in the event of personnel, logistics, or other problems or changes in relationships with the Group's business partners, or if the Group is forced to refrain from sales activities to hospitals, nursing facilities for the elderly and other such facilities due to events such as a prolonged outbreak of infectious diseases, the introduction of the aforementioned services to new facilities may not proceed as planned, which may affect the Group's financial position and operating results.

(5) Risks related to bad debts of trade receivables

The users of Group-provided CS Sets are individuals who are inpatients at hospitals and residents of nursing facilities for the elderly and other such facilities. As a general rule, CS Set usage fees are paid after use of the service. However, not all of these fees are necessarily collectible, and a portion may become overdue and bad debts may occur. Applications for the CS Set service are made via contact points at hospitals, nursing facilities for the elderly and other such facilities. However, as it is impractical to assess the creditworthiness of individual users at the time of application or to refuse applications from individuals with limited financial resources, these practices are not in place. In addition, the user's financial condition may deteriorate or the user may die during use of the service or after discharge/departure from the facility in question.

The Group strives to build a debt collection system that can withstand future increases in the number of claims and to improve its collection ability, and has set aside an allowance for doubtful accounts to cover losses from bad debts. However, changes in economic conditions among users, delays in the establishment of the Group's debt collection system, and other events could result in a large amount of bad debts, which may affect the Group's financial position and operating results.

(6) Laws and regulations

The Group provides CS Sets to hospital inpatients and residents of nursing facilities for the elderly and other such facilities as a unique service that is not covered by medical insurance or long-term care insurance systems. There are no permits, licenses, registrations, administrative guidance, or other regulatory requirements to conduct this business. However, hospitals, nursing facilities for the elderly and other such facilities, which is where the Group's services are provided, are operated under the provisions of the Medical Care Act, Health Insurance Act, Long-Term Care Insurance Act, and other laws, as well as the guidance and regulations of administrative and competent authorities such as the Ministry of Health, Labour and Welfare. Therefore, the Group pays special attention to various laws and regulations.

However, if the Group is forced to take any action due to revision of laws and regulations such as the Medical Care Act, Health Insurance Act, or Long-Term Care Insurance Act, or a review of administrative guidance enforcement, or if the Group is unable to address these changes, it may affect the Group's financial position and operating results.

(7) Management of personal information

The Group obtains personal information of users in its nursing- and medical care-related business and faces duties as a personal information handling business operator as stipulated by the Act on the Protection of Personal Information. The Group takes the utmost care in handling and managing personal information and has established internal rules and clear, thoroughly enforced procedures. In March 2009, the Company was granted PrivacyMark certification issued by the Japan Information Processing and Development Center (now JIPDEC). This certification was renewed in March 2021.

However, it is difficult to completely eliminate all risks associated with the management of personal information, and there is undeniable possibility of issues such as leakage of personal information. In the event of such a situation, the Group could face claims for damages, loss of credibility, or other problems, which may affect the Group's financial position and operating results.

(8) Future business development

In order to expand its business base, stabilize earnings, and accelerate growth, the Group plans to aggressively expand into related and adjacent businesses where it can leverage the expertise it has accumulated in the nursing- and medical care-related business. However, while new business development will be undertaken with great care in consideration, if these businesses do not produce the results initially planned due to changes in the business environment or other factors, it may affect the Group's financial position and operating results.

(9) Securing and developing human resources

In order for the Group to further expand its business and sustain growth going forward, securing excellent human resources is an important issue. Failure to secure these human resources as planned, or failure to develop human resources as planned resulting in attrition of key personnel, could harm competitiveness and restrict business expansion, which may affect the Group's financial position and operating results.

(10) Risks related to climate change

The international community recognizes climate change as an important social issue that requires urgent solutions, and efforts are underway around the world toward decarbonization. Japan is also experiencing specific impact from climate change, such as an increase in extremely hot days and frequent torrential rains. The impact of climate change and measures against the phenomenon on corporate management is expected to increase further, with accelerated ESG investment, discussions of full-scale introduction of a carbon tax, and more.

In light of this business environment, the Group considers compliance with environmental regulations and related laws and regulations to be a matter of course, as well as addressing environmental issues such as climate change as an important issue. With this, the Group plans to launch initiatives to mitigate risks, such as information disclosure efforts in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and activities to protect the environment and reduce its environmental load. However, climate change is becoming more severe year by year, and future unforeseen events primarily caused by climate change or events making it extremely difficult to adapt to environmental regulations may affect the Group's financial position and operating results.

3. [Analysis of Financial Position, Operating Results, and Cash Flows by Management]

(1) Overview of operating results, etc.

The following is an overview of the financial position, operating results, and cash flows (hereinafter referred to as “operating results, etc.”) of the Group (the Company and its consolidated subsidiaries) for the fiscal year under review.

i. Financial position and operating results

a. Operating results

During the fiscal year under review, the Japanese economy experienced significant restrictions on social and economic activities due to the spread of COVID-19, including a series of states of emergency and priority measures applied to prevent the spread of the disease in areas where the virus had become prevalent. On the other hand, social and economic activities showed gradual recovery as the number of new cases continued to decline, thanks to the gradual progress of vaccination against COVID-19 and other infection control measures. However, outlooks remain uncertain after January 2022 amid concerns about a resurgence in cases due to a new mutant strain.

In the medical care and nursing care industry in which the Group operates, with steady progress in aging of the population as evidenced by such factors as the population aged 65 years and over of 36.22 million accounting for 28.9% of the total population as of January 1, 2022 (January 2022 Monthly Report of Population Estimates by the Statistics Bureau of the Ministry of Internal Affairs and Communications), the market size for services that concern the Group is likely to increasingly expand.

Under such circumstances, the Group engaged in sales to facilities (hospitals, nursing facilities for the elderly and other such facilities) from its 24 branches (including the head office) across Japan, including the Chiba Branch Office (Chiba City, Chiba Prefecture) that commenced operations in fiscal 2021, to increasingly spread and expand the “CS (Care Support) Set,” which are the core services in the nursing- and medical care-related business of the Group.

As a result, the Group had 264 facilities with which agreements were newly entered and 64 facilities with which agreements ended in fiscal 2021, increasing the combined total of the number of facilities that have introduced the CS Set by 200 facilities from the end of fiscal 2020 to 1,814 facilities at the end of fiscal 2021.

The above resulted in net sales for fiscal 2021 of 31,635,891 thousand yen (up 21.4% year-on-year), operating profit of 2,798,670 thousand yen (up 35.3% year-on-year), ordinary profit of 2,818,548 thousand yen (up 31.2% year-on-year) and profit attributable to owners of parent of 1,905,925 thousand yen (up 31.8% year-on-year).

Moreover, the Company conducted a 2-for-1 split of its common stock, with January 1, 2021, as the effective date. This was conducted with the aim of lowering the amount per unit of investment and also increasing the number of shares, enhancing the liquidity of shares and thereby establishing an environment that makes it easier for investors to invest as well as further broadening the investor base for the Company’s shares.

b. Financial position

(Assets)

Total assets at the end of fiscal 2021 increased by 2,258,725 thousand yen compared with the end of fiscal 2020 to 13,947,800 thousand yen.

Of this, current assets increased by 1,949,859 thousand yen compared with the end of fiscal 2020 to 12,129,983 thousand yen. This was mainly attributable to cash and deposits increasing by 1,134,373 thousand yen, trade accounts receivable increasing by 611,790 thousand yen, accounts receivable - other increasing by 191,918 thousand yen, and merchandise increasing by 86,285 thousand yen despite allowance for doubtful accounts increasing by 45,843 thousand yen (allowance translates to decrease in balance of current assets).

Meanwhile, non-current assets increased by 308,866 thousand yen compared with the end of fiscal 2020 to 1,817,816 thousand yen. This was attributable to property, plant and equipment increasing by 24,309 thousand yen and investments and other assets increasing by 341,427 thousand yen despite intangible assets decreasing by 56,870 thousand yen.

(Liabilities)

Total liabilities at the end of fiscal 2021 increased by 959,205 thousand yen compared with the end of fiscal 2020 to 6,464,077 thousand yen. Of this, current liabilities increased by 915,232 thousand yen compared with the end of fiscal 2020 to 6,417,063 thousand yen. This was mainly attributable to accounts payable - trade increasing by 710,546 thousand yen, accounts payable - other increasing by 43,363 thousand yen, income taxes payable increasing by 52,650 thousand yen, and accrued consumption taxes increasing by 81,932 thousand yen.

Non-current liabilities increased by 43,973 thousand yen compared with the end of fiscal 2020 to 47,013 thousand yen.

(Net assets)

Total net assets at the end of fiscal 2021 increased by 1,299,519 thousand yen compared with the end of fiscal 2020 to 7,483,722 thousand yen. Equity ratio was 53.7%, up 0.8% compared with the end of fiscal 2020.

The increase in total net assets was mainly due to an increase in retained earnings of 1,481,732 thousand yen, itself mainly attributable to posting of profit attributable to owners of parent of 1,905,925 thousand yen, despite payment of dividends to shareholders of 424,193 thousand yen.

ii. Cash flows

Cash and cash equivalents (“net cash”) at the end of fiscal 2021 increased by 1,134,371 thousand yen compared with the end of fiscal 2020 to 5,607,760 thousand yen.

The following outlines the status and underlying factors of each classification of cash flows for fiscal 2021.

(Cash flows from operating activities)

Cash flows from operating activities for fiscal 2021 amounted to net cash of 2,106,198 thousand yen (inflow increase of 158,440 thousand yen year-on-year). While there was decrease in net cash due to payment of income taxes of 916,265 thousand yen, there was increase in net cash from operating activities throughout the year of 3,022,409 thousand yen.

(Cash flows from investing activities)

Cash flows from investing activities for fiscal 2021 amounted to net cash of 357,677 thousand yen (outflow decrease of 290,651 thousand yen year-on-year). This was mainly attributable to purchase of investment securities of 267,891 thousand yen, purchase of property, plant and equipment of 56,644 thousand yen, and purchase of intangible assets of 21,344 thousand yen.

(Cash flows from financing activities)

Cash flows from financing activities for fiscal 2021 amounted to net cash of 614,149 thousand yen (outflow increase of 340,324 thousand yen year-on-year). This was mainly attributable to payment of dividends to shareholders of 415,976 thousand yen and purchase of treasury shares of 196,869 thousand yen.

iii. Production, orders, and sales results

Segment information is omitted, because the Group has a single business segment—the nursing- and medical care-related business.

(1) Production results

Not applicable, as the Group is not engaged in production activities.

(2) Order results

Information is omitted due to the short period of time between the receipt of orders and the start of service provision.

(3) Sales results

Sales results for fiscal 2021 are as follows.

Name of business segment	Fiscal 2021 (From Jan. 1, 2021 to Dec. 31, 2021)	
	Sales (thousands of yen)	Year-on-year change (%)
Nursing- and medical care-related business	31,635,891	121.4
Total	31,635,891	121.4

(Note) Consumption taxes, etc. are not included in the above amounts.

(2) Analysis and discussion on operating results, etc. from the management’s perspective

The following is a summary of the Group’s awareness, analysis, and discussion on its operating results, etc. from the management's perspective.

Forward-looking statements in this document reflect the judgment of the Group as of the date of fiscal 2021.

i. Awareness, analysis, and discussion on financial position and operating results

The financial position and operating results of the Group for fiscal 2021 are as follows.

a. Financial position

(Assets and liabilities)

The following table shows year-on-year changes in cash and deposits, accounts receivable - trade, accounts receivable - other, allowance for doubtful accounts, and accounts payable - trade, which account for the majority of the Company's assets and liabilities.

(Thousands of yen)

Business term	24th	25th	26th	27th	28th
Year end	December 2017	December 2018	December 2019	December 2020	December 2021
Accounts receivable – trade	2,114,530	2,477,293	2,779,071	3,279,413	3,891,204
Accounts receivable – other	1,294,357	1,180,556	1,697,463	1,765,497	1,957,416
Allowance for doubtful accounts	(271,153)	(357,801)	(431,490)	(441,059)	(486,903)
Subtotal	3,137,734	3,300,049	4,045,043	4,603,851	5,361,717
Accounts payable – trade	2,340,491	2,745,825	3,340,056	4,157,946	4,868,493
Net	797,243	554,223	704,987	445,904	493,223
Cash and deposits	2,146,632	3,057,392	3,472,071	4,497,677	5,632,051
Total	2,943,876	3,611,616	4,177,058	4,943,582	6,125,275

The steady increase in the number of facilities introducing CS Set, the Company's mainstay service, as well as the increase in the number of users, has led to an upward trend in period-end balances of accounts receivable - trade, accounts receivable - other, and accounts payable - other. The balance of allowance for doubtful accounts is also on the rise due to the increasing trend in accounts receivable - trade.

On the other hand, continued operational improvements in billing and collections have resulted in shorter collection periods for accounts receivable - trade and accounts receivable - other, and cash and deposits are on an increasing trend. The Group therefore believes its ability to obtain cash flows is improving year by year.

(Net assets)

Total net assets at the end of fiscal 2021 increased by 1,299,519 thousand yen compared with the end of fiscal 2020 to 7,483,722 thousand yen. Equity ratio was 53.7%, up 0.8% compared with the end of fiscal 2020.

Return on equity was 27.9%, up 2.1% compared with fiscal 2020, due to an increase in the utilization rate of CS Set and an increase in the number of users, as well as the effect of reductions in selling, general and administrative expenses, despite ongoing constraints in sales activities due to impact from COVID-19. The Group therefore believes its profitability and capital efficiency is improving.

In fiscal 2021, the spread of COVID-19 also led to increased profit margins due to the suppression of activity expenses, and the Group will operate its business so as to continuously increase these margins over the medium to long term.

b. Operating results

(Net sales)

Net sales in fiscal 2021 increased by 21.4% compared with fiscal 2020 to 31,635,891 thousand yen. This was attributable to a steady increase in the number of facilities (hospitals, nursing facilities for the elderly and other such facilities) introducing the CS Set service from 1,614 facilities to 1,814 facilities as a result of sales activities to spread and expand the use of the Group mainstay CS Set service. These sales activities were conducted across Japan from the Group's 24 branches (including the head office) nationwide, including the Chiba Branch Office (Chiba City, Chiba) that commenced operations in fiscal 2021.

(Cost of sales, gross profit)

Cost of sales in fiscal 2021 increased by 21.9% compared with fiscal 2020 to 23,758,949 thousand yen. This was mainly attributable to increases in purchased goods as a result of expanding net sales.

The gross profit margin for fiscal 2021 decreased by 0.3% compared with fiscal 2020 to 24.9% due to higher purchase prices resulting from the spread of COVID-19 and rising crude oil prices.

As a result, gross profit in fiscal 2021 increased by 20.0% compared with fiscal 2020 to 7,876,942 thousand yen.

(Selling, general and administrative expenses, operating profit)

Selling, general and administrative expenses in fiscal 2021 increased by 13.0% compared with fiscal 2020 to 5,078,271 thousand yen. The SG&A ratio decreased by 1.2% compared with fiscal 2020 to 16.1%. This was attributable to impact of COVID-19 and internal cost-cutting efforts, despite factors such as increases in payroll and allowances and legal welfare expenses due to an increase in the number of employees, as well as an increase in communications expenses, commission expenses, and outsourcing expenses due to an increase in the number of claims, etc.

As a result, operating profit margin in fiscal 2021 increased by 0.9% compared with fiscal 2020 to 8.8%, and operating profit similarly increased by 35.3% to 2,798,670 thousand yen.

(Non-operating income and expenses, ordinary profit)

Non-operating income and expenses for fiscal 2021 were non-operating income of 25,851 thousand yen and non-operating expenses of 5,974 thousand yen.

As a result, ordinary profit in fiscal 2021 increased by 31.2% compared with fiscal 2020 to 2,818,548 thousand yen.

(Extraordinary income and expenses, profit attributable to owners of parent)

No extraordinary income or expenses occurred in fiscal 2021.

Total income taxes in fiscal 2021 were 912,622 thousand yen.

As a result, profit attributable to owners of parent in fiscal 2021 increased by 31.8% compared with fiscal 2020 to 1,905,925 thousand yen.

c. Management strategy status and outlook

From the Company's listing on the Tokyo Stock Exchange Mothers market in November 2014 through fiscal 2020 (ended December 31, 2020), the Company focused on strengthening and expanding its sales network for nationwide expansion, as well as strengthening its internal management systems and developing new businesses. As a result, the Company was able to achieve a degree of results in developing its sales network for nationwide expansion and strengthening its internal management systems, and successfully built the foundations for exploring new businesses.

In fiscal 2021 (ended December 31, 2021), the Company steadily implemented new initiatives for further growth under the management strategies of "Nationwide expansion," "Reinforcing the capabilities of the ELAN Group," and "Development of new businesses." Although the Group was unable to achieve its initial plan for the number of new contracted facilities in fiscal 2021 partly due to restrictions on sales activities arising from the spread of COVID-19, it was able to achieve its initial target for net sales, operating profit, ordinary profit, and profit attributable to owners of parent. Looking back at the Group's activities and operating results, etc. in fiscal 2021, the Group believes that it achieved a certain level of success as a result of diligent efforts to address management issues we recognized in fiscal 2020, despite some remaining issues for improvement.

As medium-term actions in the interest of further expanding its business, the Group will seek to achieve differentiation in its CS Set by adding value while simultaneously developing several new businesses in the healthcare domain and expanding overseas as new earnings pillars in its medium-term growth strategy.

ii. Analysis and discussion on cash flows and information on capital resources and liquidity of funds

a. Analysis of cash flows

Cash flows for fiscal 2021 are as presented in "ii. Cash flows" under "(1) Overview of operating results, etc."

b. Information on capital resources and liquidity of funds

The Group's main capital needs include investment in human resources, systems, and new businesses.

Regarding investment in human resources, the Group plans to continue hiring employees in anticipation of greater numbers of contracted facilities going forward, and expects an increase in personnel expenses as a result. Regarding investment in systems, the Group will work to promote systemization so as to adopt more efficient business operations as the scale of its business expands. For investment in new businesses, the Company will also actively explore new businesses as a tool for building new earnings pillars.

For the time being, the Group's position is for cash on hand from operating cash flows to be the financial resource used for each of the above capital needs.

iii. Significant accounting estimates and assumptions used therein

The Group's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Japan. The significant accounting policies adopted in the preparation of these consolidated financial statements are described in the "V. Financial Information, 1. Consolidated Financial Statements, Etc., (1) Notes to the consolidated financial statements (Significant matters serving as basis for preparation of the consolidated financial statements). Please refer to these as necessary.

The preparation of the Group's consolidated financial statements requires management to make estimates that affect the selection and application of accounting policies and the reporting and disclosure of assets, liabilities, income, and expenses. These estimates are made in consideration of various factors that are considered reasonable based on past performance and information available at the time. However, actual results may differ from these estimates due to inherent uncertainties.

Note that in determining the impairment loss on non-current assets and in estimating future operating results and future cash flows in determining the recoverability of deferred tax assets, accounting estimates are based on the assumption that the impact of COVID-19 will maintain similar levels as in fiscal 2021 going forward.

4. [Material Business Agreements, Etc.]

Not applicable.

5. [Research and Development Activities]

Not applicable.

III. [Equipment and Facilities]

1. [Capital Expenditures]

The total amount of capital investment made by the Group during fiscal 2021 was 83,906 thousand yen.

The main items were 20,899 thousand yen for the purchase of vehicles for vehicle replacement, 8,751 thousand yen for tablets required for the introduction of CS Set, 9,249 thousand yen for interior work and other expenses associated with the opening of the Chiba Branch, 8,208 thousand yen for interior work and other expenses associated with the expansion of the Distribution Center, and 11,890 thousand yen for interior work associated with the relocation of the Hiroshima Branch of subsidiary ELAN Service Corporation.

There were no disposal or sale of significant facilities in the fiscal year under review.

2. [Principal Facilities]

The following is a breakdown of the Group's facilities and employee assignments by business location.

The Group does business from its 24 locations in Japan (including its head office).

Note that no segment information is provided, because the Group has a single reporting segment—the nursing- and medical care-related business.

(1) Non-consolidated (Reporting Company)

As of December 31, 2021

Business location name (Location)	Facility type	Book value (thousands of yen)							Number of employees (persons)
		Buildings and structures	Vehicles	Tools, furniture and fixtures	Leased assets	Land (area, m ²)	Other	Total	
Head Office (Matsumoto City, Nagano)	Head Office Sales office	79,451	24,782	4,396	2,763	114,018 (3,564.58)	73,066	298,478	73(16)
Matsumoto Murai Office (Matsumoto City, Nagano)	Office	10,552	-	9,732	-	-	-	20,284	9(3)
Sagamihara Branch (Chuo Ward, Sagamihara City, Kanagawa)	Sales office	3,180	826	2,506	-	-	-	6,512	10(1)
Kanazawa Branch (Kanazawa City, Ishikawa)	Sales office	523	219	0	-	-	-	743	9(12)
Nagoya Branch (Naka Ward, Nagoya City, Aichi)	Sales office	3,744	0	181	-	-	-	3,926	19(1)
Hiroshima Branch (Naka Ward, Hiroshima City, Hiroshima)	Sales office	1,029	-	374	-	-	-	1,404	11(1)
Osaka Branch (Suita City, Osaka)	Sales office	779	189	0	-	-	-	969	14(2)
Shikoku Branch (Takamatsu City, Kagawa)	Sales office	4,885	-	378	-	-	-	5,263	9(1)
Fukuoka Branch (Hakata Ward, Fukuoka City, Fukuoka)	Sales office	277	-	-	-	-	-	277	10(1)
Sapporo Branch (Shiroishi Ward, Sapporo City, Hokkaido)	Sales office	551	1,898	47	-	-	-	2,498	8(1)
Saitama Branch (Omiya Ward, Saitama City, Saitama)	Sales office	584	275	47	-	-	-	908	8(-)
Tokyo Office, Tokyo Branch (Minato Ward, Tokyo)	Office Sales office	2,177	-	1,200	-	-	-	3,377	17(1)
Niigata Branch (Chuo Ward, Niigata City, Niigata)	Sales office	1,735	-	180	-	-	-	1,915	6(1)
Okayama Branch (Kita Ward, Okayama City, Okayama)	Sales office	3,288	-	-	-	-	-	3,288	6(1)
Minamikyushu Branch (Chuo Ward, Kumamoto City, Kumamoto)	Sales office	1,329	-	288	-	-	-	1,617	6(1)
Shizuoka Branch (Aoi Ward, Shizuoka City, Shizuoka)	Sales office	3,677	-	1,288	-	-	-	4,965	5(-)

Business location name (Location)	Facility type	Book value (thousands of yen)							Number of employees (persons)
		Buildings and structures	Vehicles	Tools, furniture and fixtures	Leased assets	Land (area, m ²)	Other	Total	
Morioka Branch (Morioka City, Iwate)	Sales office	3,129	1,891	6,787	-	-	-	11,808	8(2)
Aomori Branch (Aomori City, Aomori)	Sales office	2,410	-	838	-	-	-	3,248	6(1)
Akita Branch (Akita City, Akita)	Sales office	-	-	162	-	-	-	162	4(6)
Sendai Branch (Aoba Ward, Sendai City, Miyagi)	Sales office	3,922	-	591	-	-	-	4,514	8(8)
Hakodate Sales Office (Hakodate City, Hokkaido)	Sales office	4,487	-	443	-	-	-	4,930	4(1)
Distribution Center (Kanagawa Ward, Yokohama City, Kanagawa)	Distribution center	1,294	4,673	1,231	-	-	-	7,199	4(3)
Okinawa Branch (Naha City, Okinawa)	Sales office	4,480	-	632	-	-	-	5,112	-(-)
Chiba Branch (Chuo Ward, Chiba City, Chiba)	Sales office	6,975	-	2,107	-	-	-	9,082	8(1)

(Note 1) There are no principal facilities currently inactive.

(Note 2) Consumption taxes, etc. are not included in the above amounts.

(Note 3) “Other” under “Book value” represents intangible assets such as software.

(Note 4) “Number of employees” represents full-time employees only. An additional figure for the average number of temporary employees (including part-time employees and those dispatched from personnel dispatch companies) employed during the fiscal year is provided in parentheses.

(Note 5) In addition to the book values listed above, the Company rents buildings for its sales offices, offices, and distribution centers, excluding its head office. The annual rent for these is 179,257 thousand yen.

(2) Domestic subsidiaries

As of December 31, 2021

Subsidiary name	Business location name (Location)	Facility type	Book value (thousands of yen)					Number of employees (persons)	
			Buildings and structures	Vehicles	Tools, furniture and fixtures	Land (area, m ²)	Other		Total
ELAN Service Corporation	Head Office (Matsumoto City, Nagano)	Head Office	-	-	-	-	-	-	24(60)
	Sagamihara Branch (Chuo Ward, Sagamihara City, Kanagawa)	Office	-	-	-	-	-	-	15(37)
	Hiroshima Branch (Naka Ward, Hiroshima City, Hiroshima)	Office	9,239	-	2,418	-	-	11,658	6(9)
	Morioka Branch (Morioka City, Iwate)	Office	-	-	-	-	-	-	9(16)

(Note 1) There are no principal facilities currently inactive.

(Note 2) Consumption taxes, etc. are not included in the above amounts.

(Note 3) "Number of employees" represents full-time employees only. An additional figure for the average number of temporary employees (including part-time employees and contract employees) employed during the fiscal year is provided in parentheses.

(Note 4) In addition to the book values listed above, the subsidiary rents buildings for its head office and offices. The annual rent for these is 31,575 thousand yen.

As of December 31, 2021

Subsidiary name	Business location name (Location)	Facility type	Book value (thousands of yen)					Number of employees (persons)	
			Buildings and structures	Vehicles	Tools, furniture and fixtures	Land (area, m ²)	Other		Total
Ryukyu ELAN Corporation	Head Office (Naha City, Okinawa)	Head Office	-	-	-	-	-	-	4(1)

(Note 1) "Number of employees" represents full-time employees only. An additional figure for the average number of temporary employees (including part-time employees and contract employees) employed during the fiscal year is provided in parentheses.

(Note 2) In addition to the book values listed above, the subsidiary rents buildings for its head office. The annual rent for these is 5,238 thousand yen.

3. [Plans for Additions and Disposals of Facilities]

Additions of major facilities as of the end of fiscal 2021 are listed below.

(1) Additions of major new facilities

Business location name (Location)	Facility type	Planned investment amount		Funding method	Month/year of construction start	Month/year of planned construction end	Additional capacity after completion
		Total amount (thousands of yen)	Already paid amount (thousands of yen)				
Head Office (Matsumoto City, Nagano)	Core systems (Procurement management/logistics management)	15,000	13,715	Cash on hand	Jan 2020	Apr 2022	—

(Note) Additional capacity after completion is unreasonably difficult to estimate and is omitted.

(2) Disposals of major new facilities

Not applicable.

IV. [Information on the Company]

1. [Information on the Company's Shares]

(1) [Total number of shares, etc.]

i. [Total number of shares]

Class	Total number of shares authorized to be issued
Common shares	192,000,000
Total	192,000,000

(Note) The total number of authorized shares increased by 96,000,000 shares due to a stock split (two-for-one stock split) executed on January 1, 2021, bringing the total number of authorized shares to 192,000,000.

ii. [Number of shares issued]

Class	Number of shares issued as of end of fiscal year (December 31, 2021)	Number of shares issued as of filing date (March 24, 2022)	Stock exchange on which the Company is listed or financial instruments association where the Company is licensed	Description
Common shares	60,600,000	60,600,000	Tokyo Stock Exchange First Section	Standard Company shares with full voting rights and no restricted rights; 100 shares constitute one unit.
Total	60,600,000	60,600,000	—	—

(2) [Information on share acquisition rights, etc.]

i. [Details of stock option program]

Not applicable.

ii. [Details of rights plan]

Not applicable.

iii. [Information on other share acquisition rights, etc.]

Not applicable.

(3) [Information on exercise of moving strike convertible bonds with stock acquisition rights, etc.]

Not applicable.

(4) [Changes in the total number of issued shares, share capital, etc.]

Date	Increase/decrease in total number of issued shares (shares)	Total number of outstanding shares (shares)	Increase/decrease in share capital (thousands of yen)	Balance of share capital (thousands of yen)	Increase/decrease in legal capital surplus (thousands of yen)	Balance of legal capital surplus (thousands of yen)
Jan. 1, 2017 to Sep. 30, 2017 (Note 2)	25,000	7,445,000	1,100	563,196	1,100	533,196
October 1, 2017 (Note 1)	7,445,000	14,890,000	—	563,196	—	533,196
Oct. 1, 2017 to Dec. 31, 2017 (Note 2)	60,000	14,950,000	2,470	565,666	2,470	535,666
Jan. 1, 2018 to Dec. 31, 2018 (Note 2)	200,000	15,150,000	7,830	573,496	7,830	543,496
January 1, 2019 (Note 1)	15,150,000	30,300,000	—	573,496	—	543,496
January 1, 2021 (Note 1)	30,300,000	60,600,000	—	573,496	—	543,496

(Note 1) Due to a two-for-one stock split.

(Note 2) Increase due to exercise of share acquisition rights.

(5) [Composition of issued shares by type of shareholders]

As of December 31, 2021

Category	Status of shares (one unit of stock: 100 shares)							Number of shares less than one unit (shares)	
	Governments and municipalities	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others		Total
					Non-individuals	Individuals			
Number of shareholders (persons)	—	22	36	54	139	9	8,316	8,576	—
Shares held (units)	—	143,379	5,639	92,882	56,802	23	307,006	605,731	26,900
Ownership as a percentage of total shares (%)	—	23.67	0.93	15.34	9.38	0.00	50.68	100.00	—

(Note 1) 969 shares of treasury stock are included in the 9 units in “Individuals and others” and 69 shares in “Number of shares less than one unit.”

(Note 2) The 1,400 units of the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the “Board Benefit Trust (BBT)” and the “Employee Stock Ownership Plan (J-ESOP)” are included in “Financial institutions.”

(6) [Major shareholders]

As of December 31, 2021

Name	Address	Shares held (shares)	Ownership as a percentage of total issued shares (excluding treasury shares) (%)
Hideharu Sakurai	Yamagata-mura, Higashichikuma-gun, Nagano	12,000,000	19.80
Nobuhiro Nakajima	Matsumoto-shi, Nagano	9,240,000	15.25
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	5,373,500	8.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsu-cho, Minato-ku, Tokyo	4,449,200	7.34
SAKURA Corporation	2558-3 Yamagata-mura, Higashichikuma-gun, Nagano	3,760,000	6.20
N-Style Co., Ltd.	1-5-6 Kudanminami, Chiyoda-ku, Tokyo	3,160,000	5.21
ES Co., Ltd.	2605 Yamagata-mura, Higashichikuma-gun, Nagano PLAISIRB103	1,960,000	3.23
Custody Bank of Japan, Ltd. (Trust Account 9)	1-8-12 Harumi, Chuo-ku, Tokyo	1,668,300	2.75
Custody Bank of Japan, Ltd. (Securities Investment Trust Account)	1-8-12 Harumi, Chuo-ku, Tokyo	1,646,700	2.72
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC SECURITIES/UCITS ASSETS (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch)	60, AVENUE J.F. KENNEDY L-1855 LUXEMBOURG (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	710,500	1.17
Total	—	43,968,200	72.54

(Note) Of the above number of shares held by Custody Bank of Japan, Ltd. (Trust Account), The Master Trust Bank of Japan, Ltd. (Trust Account), Custody Bank of Japan, Ltd. (Trust Account 9), and Custody Bank of Japan, Ltd. (Securities Investment Trust Account), the amount of shares pertaining to trust services are 5,373,500 shares, 4,449,200 shares, 1,668,300 shares, and 1,646,700 shares, respectively.

(7) [Information on voting rights]

i. [Issued shares]

As of December 31, 2021

Category	Number of shares (shares)	Number of voting rights	Description
Shares without voting rights	—	—	—
Shares with restricted voting rights (treasury shares, etc.)	—	—	—
Shares with restricted voting rights (others)	—	—	—
Shares with full voting rights (treasury shares, etc.)	Common shares 900	—	—
Shares with full voting rights (others)	Common shares 60,572,200	605,722	—
Shares less than one unit	Common shares 26,900	—	—
Total number of issued shares	60,600,000	—	—
Total number of voting rights held by all shareholders	—	605,722	—

(Note 1) “Shares with full voting rights (treasury stock, etc.)” are all treasury shares held by the Company.

(Note 2) The 140,000 shares (1,400 voting rights) of the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the “Board Benefit Trust (BBT)” and the “Employee Stock Ownership Plan (J-ESOP)” are included in the common shares in “Shares with full voting rights (others).”

ii. [Treasury shares, etc.]

As of December 31, 2021

Shareholder	Shareholder address	Number of shares held under own name (shares)	Number of shares held under another name (shares)	Total number of shares held (shares)	Ownership as a percentage of total issued shares (%)
ELAN Corporation	15-12 Idegawa-machi, Matsumoto-shi, Nagano 390-0826 Japan	900	—	900	0.00
Total	—	900	—	900	0.00

(Note 1) The 140,000 shares of the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the “Board Benefit Trust (BBT)” and the “Employee Stock Ownership Plan (J-ESOP)” are not included in the above.

(Note 2) The Company holds 69 shares of treasury stock less than one unit.

(8) [Details of stock ownership plan for officers and employees]

i. Performance-linked share-based remuneration plan for directors

At a meeting of the Board of Directors held on February 19, 2021, the Company resolved to introduce a new performance-linked share-based remuneration plan for the Company's directors (excluding directors who serve as Audit & Supervisory Committee members, and those directors who are outside directors) and executive officers (hereinafter, "Directors, etc.") called "Board Benefit Trust (BBT)" (hereinafter, the "Plan"). The Plan is for the purpose of further clarifying the linkage between remuneration for Directors, etc. and the Company's business performance and stock value as well as having Directors, etc. share not only the benefits of rises in stock prices but also the risks of falls in stock prices with shareholders, and thereby motivating Directors, etc. to contribute to enhancing business performance and boosting corporate value in the medium to long term. The proposal regarding this Plan was resolved at the 27th Annual General Meeting of Shareholders held on March 23, 2021.

(1) Summary of the plan

The Plan is a performance-linked share-based remuneration plan for the Company shares to be acquired through a trust by using monies contributed by the Company as the source of funds, and for the Company's shares and monies equivalent to the amount of the Company's shares converted into market value (hereinafter, "Company Shares, etc.") to be awarded through the trust to Directors, etc. in accordance with the Rules on Share Awards for Directors and Other Officers provided by the Company. The timing that Company Shares, etc. are awarded to Directors, etc. shall be upon their retirement from office as Directors, etc. as a rule.

(2) Total number of shares expected to be acquired by officers

As of the end of fiscal 2021, 100,000 shares of the Company's stock are held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets under the Plan.

(3) Scope of individuals entitled to beneficiary rights, etc. under the subject officer stock ownership plan

Retired Directors, etc. who satisfy the requirements for beneficiaries as stipulated in the Rules on Share Awards for Directors and Other Officers.

ii. Stock benefit trust plan for employees

At a meeting of the Board of Directors held on February 19, 2021, the Company resolved to introduce an "Employee Stock Ownership Plan (J-ESOP)" (hereinafter, the "Plan"), an incentive plan for employees of the Group (hereinafter, the "Employees"). The Plan is for the purpose of enhancing the benefit programs for Employees and to improve their sense of participation in management.

(1) Summary of the plan

Under the Plan, shares of the Company's stock are provided to Employees when they acquire the right to receive these shares in accordance with the Company's pre-established Rules on Share Awards.

The Company grants points to Employees in accordance with their years of service and other individual contribution levels and grants shares of the Company's stock equivalent to the points granted to those Employees who satisfy the requirements to receive benefits. The shares to be provided to Employees, including those to be provided in the future, will be acquired by the trust bank using money placed in trust by the Company in advance, and will be managed separately as trust assets.

(2) Total number of shares expected to be acquired by employees

As of the end of fiscal 2021, 40,000 shares of the Company's stock are held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets under the Plan.

(3) Scope of individuals entitled to beneficiary rights, etc. under the subject employee stock ownership plan

Employees who satisfy the requirements for beneficiaries as stipulated in the Rules on Share Awards.

2. [Information on Acquisition of Treasury Shares, Etc.]

[Class of shares] Acquisition of common stock under Article 155, Item 7 of the Companies Act

(1) [Acquisition by resolution of General Meeting of Shareholders]

Not applicable.

(2) [Acquisition by resolution of Board of Directors]

Not applicable.

(3) [Acquisition not based on resolution of the General Meeting of Shareholders or of the Board of Directors]

Category	Number of shares (shares)	Total amount (yen)
Treasury shares acquired during the fiscal year under review	500	38,285
Treasury shares acquired during the current period	—	—

(Note 1) The Company conducted a 2-for-1 stock split of common shares, effective January 1, 2021. The number of shares of treasury stock acquired during the fiscal year under review includes 469 shares increased via stock split and 31 shares acquired after stock split.

(Note 2) Treasury stock acquired during the current period does not include shares less than one unit purchased from March 1, 2022, to the filing date of this Annual Securities Report.

(Note 3) Treasury shares acquired do not include the 140,000 shares of the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the "Board Benefit Trust (BBT)" and the "Employee Stock Ownership Plan (J-ESOP)."

(4) [Status of the disposition and holding of acquired treasury shares]

Category	Fiscal 2021		Current period	
	Number of shares (shares)	Total amount disposed (yen)	Number of shares (shares)	Total amount disposed (yen)
Acquired treasury shares for which subscribers were solicited	—	—	—	—
Acquired treasury shares that were canceled	—	—	—	—
Acquired treasury shares transferred due to merger, share exchange, share delivery, or demerger	—	—	—	—
Other	—	—	—	—
Total number of treasury shares held	969	—	969	—

(Note 1) Treasury shares held during fiscal 2021 and the current period do not include the 140,000 shares of the Company's shares held by Custody Bank of Japan, Ltd. (Trust Account E) as trust assets for the "Board Benefit Trust (BBT)" and the "Employee Stock Ownership Plan (J-ESOP)."

(Note 2) Treasury stock disposed of during the current period does not include shares less than one unit sold from March 1, 2022, to the filing date of this Annual Securities Report.

(Note 3) Treasury stock held during the current period does not include shares less than one unit purchased or sold from March 1, 2022, to the filing date of this Annual Securities Report.

3. [Dividend Policy]

Recognizing appropriate return of profit to shareholders as an important management task, ELAN's policy is to keep distributing profit to shareholders by taking the status of internal reserves, the profit level of each fiscal year, the earnings and fund demand outlook for the next fiscal year onward and other factors into consideration in a comprehensive manner.

The Company's basic policy is to pay dividends from surplus once a year as a year-end dividend.

In addition, internal reserves will be used for capital investment for expansion of the Company's network of sales offices, human resource investment for business scale expansion, investment in information systems related to billing and purchasing operations, and new business development, etc., in efforts to stabilize the Company's business base and improve its corporate value.

The Company's Articles of Incorporation stipulate that "the Company may pay dividends from surplus, etc. by a resolution of the Board of Directors pursuant to Article 459, paragraph 1 of the Companies Act."

Based on the above policy, the Company decided to pay a year-end dividend of 9 yen per share for fiscal 2021, comprehensively taking into account its business performance, financial position, and other factors.

Dividends from surplus for fiscal 2021 are as follows.

Date of resolution	Total dividend amount (thousands of yen)	Total dividends per share (yen)
March 23, 2022 Annual General Meeting of Shareholders	545,391	9

4. [Corporate Governance, Etc.]

(1) [Overview of corporate governance]

i. Basic stance on corporate governance

The Company's management philosophy is, "We seek to provide the best products and services that satisfy our customers, and we focus our passion on contributing to the realization of a society in which people live fulfilling lives." With this in mind, the Company respects the interests of all our stakeholders, including CS Set users, and is aware that establishing corporate governance is an important management issue for the long-term, ongoing improvement of its corporate value.

Based on this awareness, the Company's directors, executive officers, and employees understand their roles and continuously work to improve their awareness of laws and regulations, social norms, and ethics, while also developing and operating an appropriate management structure. In addition, the Company will effect revisions as necessary to reflect changes in its growth stage and other factors going forward.

ii. Overview and reason for adoption of corporate governance structure

a. Overview of corporate governance structure

Many of the important decisions regarding business execution at the Company are made through the Board of Directors and the Management Meeting.

The Company's Board of Directors makes decisions on the Company's management policies, management strategies, business plans, acquisition and disposal of important assets, and important organizations and personnel. The Board of Directors is made up of six directors (including one outside director) who do not serve on the Audit & Supervisory Committee and four directors (including three outside directors) who also serve on the Audit & Supervisory Committee. In addition to regular monthly meetings, the Board of Directors holds extraordinary meetings whenever important matters arise.

The Board of Directors decides the duties of executive directors and appoints and decides the duties of executive officers. If necessary, the Board of Directors notifies management decisions to executive officers at the meetings of the Board of Directors and has executive directors and executive officers execute their duties promptly.

The Management Meeting is an advisory body to the Chairman, consisting of executive directors and executive officers, other persons appointed by the Chairman, and the full-time Audit & Supervisory Committee member, and its meetings are convened twice a month. The purpose of the Management Meeting is to deliberate on important matters related to business execution and matters requiring prior discussion among those that will be discussed at meetings of the Board of Directors. The meeting is also a forum for reports on operations related to the duties of each executive director and executive officer. The Company's Chairman makes decisions, following deliberation by the Management Meeting, on important business execution matters delegated to the Chairman by a resolution of the Board of Directors.

The Audit & Supervisory Committee is made up of four directors who also serve as Audit & Supervisory Committee members (one full-time Audit & Supervisory Committee member and three outside Audit & Supervisory Committee members) and its meetings are convened once a month. The Audit & Supervisory Committee strives to ascertain directors' compliance with laws and regulations and the Company's Articles of Incorporation and to ensure the effective implementation of operating audits and accounting audits.

In addition to the Board of Directors, the Company has established the Nomination & Compensation Committee as an arbitrary advisory body to the Board of Directors, whose members are mostly independent outside directors, with the aim of further strengthening the Company's corporate governance structure by enhancing the independence, objectivity, transparency and accountability of the functions of the Board of Directors. The Nomination & Compensation Committee deliberates on matters relating to the nomination of candidates for director and executive officer positions, and compensation, etc. for directors and executive officers, and reports the outcome of deliberations to the Board of Directors. The Nomination & Compensation Committee is made up of members selected by a resolution of the Board of Directors. The majority of members are selected from among independent outside directors.

The Company's Board of Directors, the Management Meeting, the Audit & Supervisory Committee, and the Nomination & Compensation Committee consist of the following members (◎ denotes the chairperson of the organization).

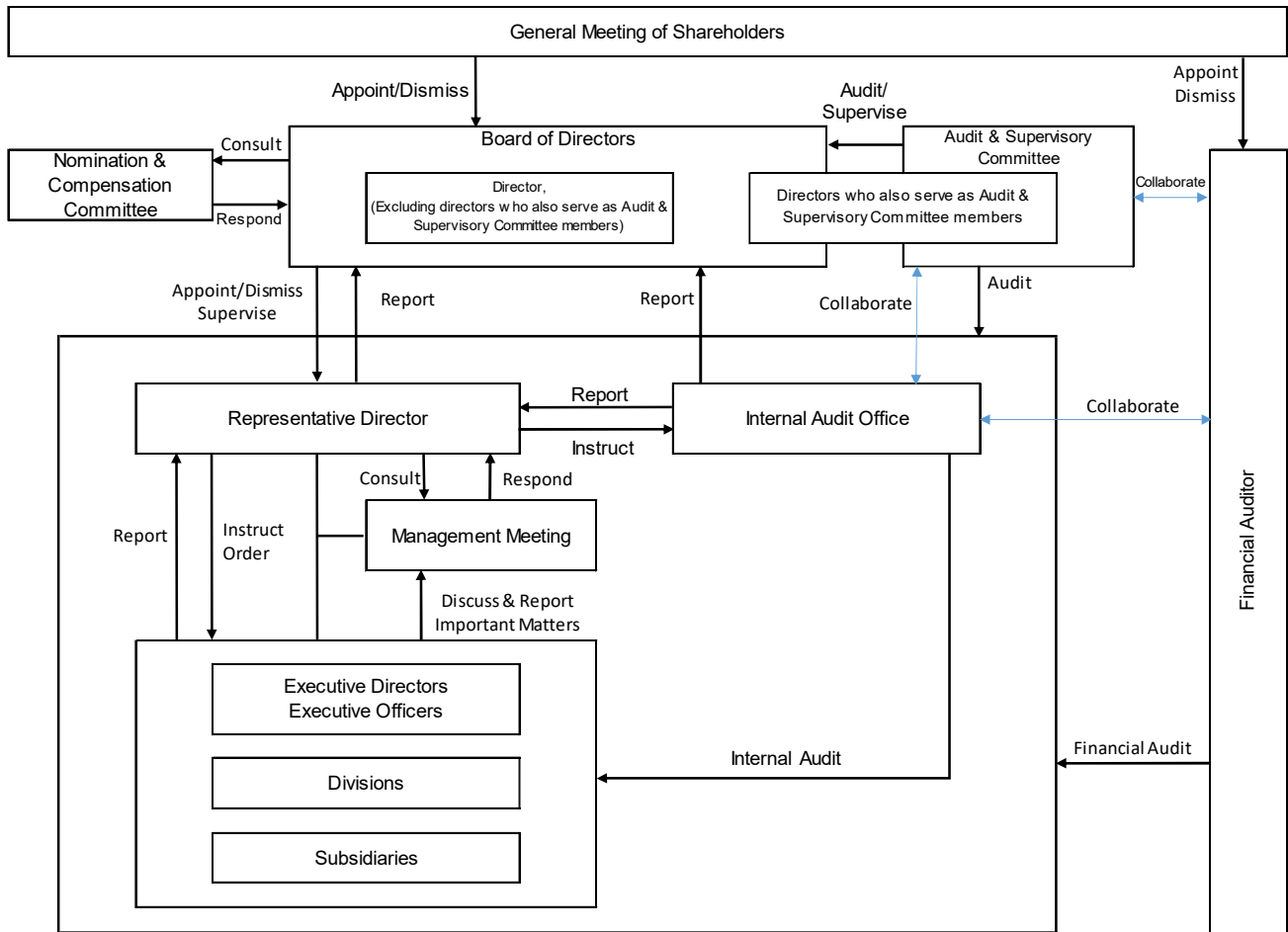
Category	Title	Name	Board of Directors (Note 3)	Management Meeting (Note 2)	Audit & Supervisory Committee	Nomination & Compensation Committee
Executive Officer	Representative Director, Chairman and CEO	Hideharu Sakurai	○	○	—	○
	Representative Director, President and COO, General Manager of Operational Management Department	Tomohiro Minezaki	◎	◎	—	—
	Director, CFO, General Manager of Administration Department	Daiki Akiyama	○	○	—	○
	Director, CMO, General Manager of Sales Department	Takao Sakurai	○	○	—	—
	Director, CSO, General Manager of Corporate Strategy Department	Akira Ishizuka	○	○	—	—
	General Manager of IR Office	Hideo Hara	—	○	—	—
	General Manager of Business Development Department	Masamichi Handa	—	○	—	—
	General Manager of Operations Department	Ryuji Suzuki	—	○	—	—
	Deputy General Manager of Sales Department	Yusuke Kano	—	○	—	—
Non-Executive Officer	Director (Note 1)	Naomi Emori	○	—	—	—
	Director, Full-time Audit & Supervisory Committee member	Hiroshi Eyama	○	○	◎	—
	Director, Audit & Supervisory Committee member (Note 1)	Koji Fujita	○	—	○	◎
	Director, Audit & Supervisory Committee member (Note 1)	Nobuyuki Takagi	○	—	○	○
	Director, Audit & Supervisory Committee member (Note 1)	Naohide Aikawa	○	—	○	○

(Note 1) Indicates outside directors.

(Note 2) In addition to the members listed in the table above, the Management Meeting includes employees (division heads) appointed by the Chairman.

(Note 3) The Articles of Incorporation stipulate, "Meetings of the Board of Directors shall be convened and chaired by one of the Representative Directors, unless otherwise stipulated by law." Therefore, meetings of the Board of Directors operate based on resolutions of the Board of Directors that determine the order of chairpersonship.

The Company's corporate governance framework is shown in the chart below.



b. Reason for adoption of corporate governance structure

The Company has adopted a corporate system with Audit & Supervisory Committee. This is intended to further strengthen corporate governance by granting voting rights at Board of Directors meetings to directors who are members of the Audit & Supervisory Committee and by enhancing the supervisory function of the Board of Directors through the Audit & Supervisory Committee, the majority of whose members are outside directors. In addition, this action was taken with the aim of further enhancing corporate value by enabling the Board of Directors to broadly delegate business execution decisions to directors, thereby speeding up management decision-making related to business execution and allowing the Board of Directors to engage in more broad-based and strategic discussions.

The Management Committee has been established as an advisory body to the Chairman, who has been delegated decision-making on important business execution matters by the Board of Directors. This committee's purpose is to share information and for its members to deliberate on matters related to important business execution matters, and to ensure appropriate and prompt decision-making by the Chairman.

In addition to a Board of Directors, the Company has established the Nomination & Compensation Committee, whose members are mostly independent outside directors, as an arbitrary advisory body to the Board of Directors with the aim of strengthening the independence, objectivity, and accountability of the functions of the Board of Directors.

By adopting these systems, the Company believes that it can strengthen corporate governance and enhance corporate value by strengthening supervisory functions for business execution and accelerating management decision-making related to business execution, as well as by having strategic discussions at the Board of Directors meetings.

iii. Other matters related to corporate governance

a. Internal control system and status

As for the Company's internal control system, the Board of Directors has established the Basic Policy Regarding Establishment of Internal Control Systems. Based on this policy, the Company ensures that its businesses are carried out efficiently in compliance with laws and regulations and the Articles of Incorporation via the Board of Directors and other important meetings. Audit & Supervisory Committee members and the Internal Audit Office monitor other execution of duties by officers and employees, and perform necessary audit procedures as needed.

In addition, as a compliance system for directors, executive officers, and employees, the Company has established the Compliance Manual to ensure that corporate activities are managed in compliance with laws and regulations while contributing to the benefit of society.

b. Status of risk management system

The Company's Administration Department serves as the lead department as information is shared between departments and the Company strives to detect risks early and prevent their occurrence. In addition, the Rules on Group Internal Reporting stipulate that when an officer or employee becomes aware of a violation of laws and regulations, an act in violation of internal regulations, or misconduct by another officer or employee, he or she should report it to specified contact points comprised of persons designated by the President, full-time Audit & Supervisory Committee members, or attorneys-at-law who have no conflicts of interest with the Company. With this, the Company has established a system to prevent fraudulent behavior and other misconduct, as well as to detect these early, by stipulating a system for proper handling.

In addition, the Company has established the Rules on Crisis Management, which stipulate how to respond when the Company is faced with a business crisis.

In addition, the directors and executive officers in charge of the Sales Department, Operational Management Department, Operations Department, Corporate Strategy Department, Business Development Department, and Administration Department share information on the progress of day-to-day sales, operations, etc. with the heads, assistants heads and managers of respective departments (by sales area, unit, and section) as needed. This information is promptly reported via the directors and executive officers to the Chairman and President. Information is shared horizontally across the organization and appropriate actions are taken for risk management, including reporting to the Management Meeting and the Board of Directors as necessary.

c. Status of systems for ensuring appropriate operations at subsidiaries

In order to ensure the appropriateness of operations of the Company's subsidiaries, the Company ensures the management function of important operations at subsidiaries in accordance with its Rules on Management of Subsidiaries and Affiliates, and appoints members of the Company as officers at subsidiaries who lead the management and guidance of the subsidiaries' operations while respecting their autonomy. In addition, regular meetings of subsidiaries' boards of directors are held once a month, and the status of subsidiaries is reported in a timely manner at the meetings of the Company's Management Meeting and Board of Directors to ensure proper operations of the subsidiaries.

iv. Overview of content of limited liability contracts

Based on Article 427, Paragraph 1 of the Companies Act, the Company has concluded contracts with its directors (excluding those who are executive directors, etc.) to limit the compensation for damages by the directors stipulated in Article 423 Paragraph 1 of said act. The amount of limit of the liability for damages based on the contracts is the amount provided by laws and regulations. These contracts cover only instances where the directors in question (excluding those who are executive directors, etc.) have performed their duties in good faith and without gross negligence.

v. Overview of the liability insurance contract of directors and officers

The Company has concluded a directors and officers liability insurance contract provided for in Article 430-3, Paragraph 1 of the Companies Act with an insurance company. The insurance policy covers damages, legal fees, etc. the insured may incur from performance of their duties in the capacity of their office. The policy covers all of the directors (including directors who also serve as Audit & Supervisory Committee members), corporate auditors and executive officers of the Company and its subsidiaries. Insurance premiums are fully borne by the Company. However, for the purpose of guaranteeing the appropriateness of the directors' and officers' execution of duties, it is stipulated that insurance shall not cover the insured's damages incurred from the breach of the duty of loyalty, criminal acts, fraudulent acts or willful violation of laws and regulations, etc.

vi. Number of directors

As stipulated in the Company's Articles of Incorporation, the number of Directors (excluding directors who also serve as Audit & Supervisory Committee members) shall not exceed 8, and the number of directors who also serve as Audit & Supervisory Committee members shall not exceed 4.

vii. Requirements for resolution of director appointment

The Company's Articles of Incorporation stipulate that resolutions for the appointment of directors shall be approved by a majority of the voting rights of shareholders present at the meeting with attendance of shareholders holding at least one-third of eligible voting rights, and that cumulative voting shall not be used.

viii. Requirements for special resolution of the General Meeting of Shareholders

The Company's Articles of Incorporation stipulate that special resolutions of the General Meeting of Shareholders as provided for in Article 309, Paragraph 2 of the Companies Act shall be approved by a majority of two-thirds present at the meeting with attendance of shareholders holding at least one-third of eligible voting rights. This is intended to facilitate the smooth operation of the General Meeting of Shareholders by relaxing the quorum for special resolutions of the General Meeting of Shareholders.

ix. Matters for resolution of the General Meeting of Shareholders that may be resolved by the Board of Directors

a. Dividends of surplus, etc.

In order to enable the flexible return of profits to shareholders, the Company's Articles of Incorporation stipulate that matters provided in each item of Article 459, Paragraph 1 of the Companies Act, such as dividends of surplus, may be determined by a resolution of the Board of Directors unless otherwise provided for by law.

b. Acquisition of treasury shares

The Company's Articles of Incorporation stipulate that the Company may acquire its own shares by a resolution of the Board of Directors pursuant to Article 165, Paragraph 2 of the Companies Act. The purpose of this acquisition is to acquire treasury shares through market transactions and other means in order to facilitate the Company's implementation of a flexible capital policy in adaptation to changes in the business environment.

c. Exemption of directors from liability

The Company's Articles of Incorporation stipulate that the Company may exempt the directors (including former directors) of liability for acts stipulated in Article 423, Paragraph 1 of the Companies Act to the extent permitted by laws and regulations by a resolution of the Board of Directors, pursuant to Article 426, Paragraph 1 of the same act. This is intended to create an environment in which directors can fully demonstrate their abilities and fulfill their expected roles in performing their duties.

(2) [Directors]

i. List of directors

Male: 9, Female: 1

(Percentage of female directors: 10.0%)

Title	Name	Date of birth	Career summary	Term of office	Shares held (shares)
Representative Director, Chairman and CEO	Hideharu Sakurai	March 28, 1970	<p>Apr. 1988 Joined K.K. Honda Clio Sagamihara (now, K.K. Honda Cars Kanagawanishi)</p> <p>Jan. 1990 Joined Nippon Columbia DCS Hanbai K.K.</p> <p>Feb. 1991 Joined Y.K. Yoshitoyo (now, K.K. People)</p> <p>Feb. 1995 Established ELAN Corporation, Representative Director, ELAN Corporation</p> <p>Nov. 2008 Representative Director, LTASK Corporation</p> <p>Oct. 2016 Representative Director & President and General Manager of Sales Department, ELAN Corporation</p> <p>Feb. 2017 Representative Director & Chairperson, LTASK Corporation</p> <p>Jan. 2018 Representative Director & President, ELAN Corporation</p> <p>Mar. 2020 Representative Executive Officer, ELAN Corporation</p> <p>Apr. 2021 Representative Director & President, Ryukyu ELAN Corporation (current position)</p> <p>Mar. 2022 Representative Director & Chairman, ELAN Corporation (current position)</p> <p>Mar. 2022 Representative Director, Chairman & CEO, ELAN Corporation (current position)</p>	(Note 2)	12,000,000
Representative Director, President & COO, General Manager of Operational Management Department	Tomohiro Minezaki	September 7, 1972	<p>Apr. 1997 Joined Nakajima Yuzo Zeirishi Jimusho</p> <p>Dec. 1999 Joined Y.K. ISO</p> <p>Aug. 2003 Joined ELAN Corporation</p> <p>Jan. 2009 Head of Sales Division, ELAN Corporation</p> <p>July 2011 Director, Head of Sales Division, ELAN Corporation</p> <p>Oct. 2012 Director and Head of East Japan Area Sales Division, ELAN Corporation</p> <p>Mar. 2014 Director (in charge of sales), ELAN Corporation</p> <p>Feb. 2016 Director and Head of Sales Division, ELAN Corporation</p> <p>Oct. 2016 Director and Assistant General Manager of Sales Department, ELAN Corporation</p> <p>Feb. 2017 Director, LTASK Corporation</p> <p>Jan. 2018 Director and General Manager of Operations Department, ELAN Corporation</p> <p>Sep. 2018 Director, ELAN Service Corporation</p> <p>Jan. 2019 Director and Assistant General Manager of Sales Department, ELAN Corporation</p> <p>Jan. 2020 Director and General Manager of Sales Department, ELAN Corporation</p> <p>Mar. 2020 Executive Officer, ELAN Corporation</p> <p>Jan. 2021 Director in Charge of Sales, ELAN Corporation</p> <p>Mar. 2021 Managing Director, General Manager of Operational Management Department, ELAN Corporation</p> <p>Mar. 2021 Managing Executive Officer, ELAN Corporation</p> <p>Mar. 2022 Representative Director & President, ELAN Corporation (current position)</p> <p>Mar. 2022 Representative Director, President & COO, General Manager of Operational Management Department, ELAN Corporation (current position)</p>	(Note 2)	480,000
Director, CFO & General Manager of Administration Department	Daiki Akiyama	September 17, 1978	<p>Nov. 2003 Joined Grant Thornton Yamada & Partners</p> <p>Mar. 2012 Joined ELAN Corporation</p> <p>Feb. 2017 Director, LTASK Corporation</p> <p>Apr. 2017 Head of Corporate Management Division, Administration Department, ELAN Corporation</p> <p>Jan. 2019 General Manager of Administration Department and Head of Corporate Management Division, ELAN Corporation</p> <p>Auditor, LTASK Corporation</p> <p>Mar. 2019 Director, General Manager of Administration Department and Head of Corporate Management Division, ELAN Corporation</p> <p>Jan. 2020 Director and General Manager of Administration Department, ELAN Corporation</p> <p>Mar. 2020 Executive Officer, ELAN Corporation</p> <p>Mar. 2020 Director, ELAN Service Corporation</p> <p>Mar. 2022 Director, CFO & General Manager of Administration Department, ELAN Corporation (current position)</p>	(Note 2)	40,000

Title	Name	Date of birth	Career summary	Term of office	Shares held (shares)
Director, CMO & General Manager of Sales Department	Takao Sakurai	June 9, 1973	Nov. 2000 Apr. 2014 Jan. 2019 Jan. 2020 Mar. 2020 Jan. 2021 Mar. 2021 Mar. 2022 Joined ELAN Corporation Head of East Japan Area Sales Division, ELAN Corporation Head of Sales Department, ELAN Corporation Assistant General Manager of Sales Department, ELAN Corporation Executive Officer, ELAN Corporation General Manager of Sales Department, ELAN Corporation Director, General Manager of Sales Department, ELAN Corporation Director, CMO & General Manager of Sales Department, ELAN Corporation (current position)	(Note 2)	172,285
Director, CSO & General Manager of Corporate Strategy Department	Akira Ishizuka	August 8, 1970	Aug. 2005 Mar. 2010 Mar. 2016 Oct. 2016 Apr. 2017 Dec. 2017 Apr. 2019 July 2019 Jan. 2020 Mar. 2020 Dec. 2021 Mar. 2022 Mar. 2022 Director, Medical Care Service Co., Inc. Managing Director, Medical Care Service Co., Inc. Managing Director, Sanko Soflan Co., Ltd. Executive Officer, REALWORLD, Inc. Executive Officer and CFO, REALWORLD, Inc. Director and CFO, REALWORLD, Inc. Joined ELAN Corporation General Manager of General Affairs & Human Resources Department and Head of Human Resources Division, ELAN Corporation General Manager of Corporate Strategy Department and Head of Corporate Planning Division, ELAN Corporation Executive Officer, ELAN Corporation Outside Director, Classico Inc. (current position) Director and General Manager of Corporate Strategy Department, ELAN Corporation (current position) Director, CSO & General Manager of Corporate Strategy Department, ELAN Corporation (current position)	(Note 2)	-
Director	Naomi Emori	February 21, 1959	Apr. 1980 Apr. 1983 Apr. 1989 Apr. 1991 Apr. 2013 Apr. 2015 June 2019 Mar. 2020 Joined Japanese Red Cross Kyoto Daiichi Hospital Joined Fukui Medical School Hospital Seconded to Toyama Medical and Pharmaceutical University Hospital Deputy Nursing Officer, Fukui Medical School Hospital Chief Nursing Officer, Fukui Medical School Hospital Deputy Director of Nursing Department, University of Fukui Hospital Director of Nursing Department and Deputy Hospital Director, University of Fukui Hospital Regional Director, Japanese Nursing Association (current position) President, Fukui Nursing Association (current position) Outside Director, ELAN Corporation (current position)	(Note 2)	-
Director, Full-time Audit & Supervisory Committee member	Hiroshi Eyama	February 2, 1970	Nov. 2007 Apr. 2012 Nov. 2014 Oct. 2016 Jan. 2018 Jan. 2019 Mar. 2019 Mar. 2019 Mar. 2020 Apr. 2021 Joined ELAN Corporation Joined K.K. Sogo Kaikei Joined Tax Accountancy Corporation Sogo Kaikei Joined ELAN Corporation Head of Internal Audit Office, ELAN Corporation Assistant Head to Senior Managing Director, ELAN Corporation Auditor, LTASK Corporation Auditor, ELAN Service Corporation (current position) Full-Time Auditor, ELAN Corporation Director (Full-time Audit & Supervisory Committee member), ELAN Corporation (current position) Auditor, Ryukyu ELAN Corporation (current position)	(Note 3)	2,000
Director, Audit & Supervisory Committee member	Koji Fujita	January 29, 1953	Apr. 1976 June 2006 June 2009 June 2013 Mar. 2017 Mar. 2020 Joined Daiichi Chuo Kisen Kaisha Director, Daiichi Chuo Kisen Kaisha Director and Managing Executive Officer, Daiichi Chuo Kisen Kaisha Representative Director and Senior Managing Executive Officer, Daiichi Chuo Kisen Kaisha Outside Director, ELAN Corporation Outside Director (Audit & Supervisory Committee member), ELAN Corporation (current position)	(Note 3)	-

Title	Name	Date of birth	Career summary	Term of office	Shares held (shares)
Director, Audit & Supervisory Committee member	Nobuyuki Takagi	February 25, 1953	<p>Apr. 1977 June 1997</p> <p>Joined Nomura Securities Co., Ltd. General Manager of Corporate Research Department, Financial Research Center, Nomura Securities Co., Ltd.</p> <p>Dec. 1998</p> <p>General Manager of Underwriting Credit Evaluation Department, Nomura Securities Co., Ltd.</p> <p>July 2004</p> <p>General Manager of Corporate Research Department, Financial & Economic Research Center, Nomura Securities Co., Ltd.</p> <p>July 2007</p> <p>Director of Financial & Economic Research Center and General Manager of Investment Research Department, Nomura Securities Co., Ltd.</p> <p>Feb. 2009</p> <p>Research Managing Director, Global Research Division, Nomura Securities Co., Ltd.</p> <p>Mar. 2009</p> <p>Visiting Professor, Center for Risk Research, Faculty of Economics, Shiga University</p> <p>Apr. 2009</p> <p>Part-Time Lecturer, Graduate School of Engineering Management, Shibaura Institute of Technology</p> <p>Mar. 2013</p> <p>Outside Auditor, ELAN Corporation</p> <p>June 2013</p> <p>Outside Auditor, Meito Transportation Co., Ltd</p> <p>Oct. 2015</p> <p>Outside Auditor, Chilled & Frozen Logistics Holdings Co., Ltd.</p> <p>Feb. 2016</p> <p>Outside Director, Lacto Japan Co., Ltd.</p> <p>May 2017</p> <p>Part-Time Adviser, LOTTE CO., LTD. (current position)</p> <p>Mar. 2019</p> <p>Outside Director, Nakano Refrigerators Co., Ltd. (current position)</p> <p>June 2019</p> <p>Outside Director (Audit & Supervisory Committee member), Chilled & Frozen Logistics Holdings Co., Ltd. (current position)</p> <p>Mar. 2020</p> <p>Outside Director (Audit & Supervisory Committee member), ELAN Corporation (current position)</p>	(Note 3)	-
Director, Audit & Supervisory Committee member	Naohide Aikawa	September 17, 1977	<p>Oct. 2004</p> <p>Joined Miura Law Office</p> <p>Sep. 2007</p> <p>Opened Aikawa Law Office</p> <p>Director, Aikawa Law Office (current position)</p> <p>Oct. 2007</p> <p>Part-Time Lecturer, Faculty of Education, Shinshu University</p> <p>Apr. 2011</p> <p>Specially Appointed Associate Professor, School of Law, Shinshu University</p> <p>Mar. 2014</p> <p>Outside Auditor, ELAN Corporation</p> <p>Mar. 2020</p> <p>Outside Director (Audit & Supervisory Committee member), ELAN Corporation (current position)</p>	(Note 3)	-
Total					12,694,285

(Note 1) Director Naomi Emori and directors who also serve as Audit & Supervisory Committee members Koji Fujita, Nobuyuki Takagi, and Naohide Aikawa are outside directors.

(Note 2) “Term of office” for directors (excluding those who also serve as Audit & Supervisory Committee members) refers to their terms during the period from the conclusion of the General Meeting of Shareholders held on March 23, 2022, to the conclusion of the General Meeting of Shareholders related to the year ending December 31, 2022.

(Note 3) Term of office for directors who also serve as Audit & Supervisory Committee members shall be from the conclusion of the Annual General Meeting of Shareholders held on March 23, 2022 to the conclusion of the Annual General Meeting of Shareholders related to the year ending December 31, 2023.

(Note 4) The Company has introduced an executive officer system for the following purposes.

- i. To realize speedy management decision-making and flexible business execution by separating the management supervisory function from business execution.
- ii. To strengthen the Company's governance structure by reducing the number of directors in charge of business execution and increasing the ratio of outside directors on the Board of Directors, thereby enhancing the supervisory function of the Board of Directors.
- iii. To expand opportunities for human resource promotion and develop the next generation of management.

There are four executive officers who are not executive directors, consisting of Hideo Hara, General Manager of IR Office, Masamichi Handa, General Manager of the Business Development Department, Ryuji Suzuki, General Manager of the Operations Department, and Yusuke Kano, Assistant General Manager of the Sales Department.

(Note 5) Takao Sakurai, director, is the younger brother of Hideharu Sakurai, Chairman and CEO.

ii. Outside directors

The Company has four (4) outside directors. There are no personal, capital, business or other relationships of interest between any of the outside directors and the Company, and since it has been deemed that there is no risk of conflicts of interest with general shareholders, the Company has notified Tokyo Stock Exchange, Inc. of their status as independent officers.

Naomi Emori, an outside director, has no direct experience in corporate management. However, she has long been engaged in nursing operations at a large acute care hospital and has been active in a wide range of fields, including nursing practice, nursing management, nursing education, research activities, and academic and social activities, and has broad insight and experience in nursing and healthcare. She provides advice and guidance from the perspective of nursing and healthcare, utilizing this background and experience.

Koji Fujita, an outside director who also serves as an Audit & Supervisory Committee member, has been involved in management for many years in his position as director of a listed company. His many years of management experience enable him to appropriately perform his duties supervising the Company's business execution from an outside perspective.

Nobuyuki Takagi, an outside director who also serves as an Audit & Supervisory Committee member, has broad knowledge of capital markets. He provides appropriate guidance and auditing, utilizing his background and experience, and is appropriately performing his duties supervising the Company's business execution from an outside perspective.

Naohide Aikawa, an outside director who also serves as an Audit & Supervisory Committee member, has a wealth of experience and expertise as an attorney-at-law. He provides appropriate guidance and auditing utilizing his background and experience, and is appropriately performing his duties supervising the Company's business execution from an outside perspective.

In principle, outside directors attend regular monthly meetings of the Board of Directors, participate in decision-making, and provide advice and recommendations to ensure the appropriateness and legality of the process. Outside directors who also serve as Audit & Supervisory Committee members attend monthly meetings of the Audit & Supervisory Committee as well as meetings of the Board of Directors to audit and supervise the Company's management situation and business decisions.

Although the Company has no clearly defined criteria or policy regarding independence for appointing outside directors, the Company appoints individuals who are considered suitable for the management of the Company, taking into consideration their experience, knowledge, and abilities.

iii. Cooperation between supervision or audits by outside directors and audits by Internal Audit, Audit & Supervisory Committee and Financial Auditor, and relationship between outside directors and internal control units

Outside directors attend meetings of the Board of Directors, while outside directors who also serve as Audit & Supervisory Committee members attend meetings of the Audit & Supervisory Committee in addition to meetings of the Board of Directors. At the meetings, these officers receive reports from the internal control units on the status of the maintenance and operation of the Company's internal control system, reports on the internal audit plan and its implementation status, and reports on the results of internal control assessments related to financial statements and financial reports.

Through these deliberations, the outside directors appropriately fulfill their supervisory and auditing functions by making suggestions based on their respective insights.

In addition, outside directors regularly exchange opinions with the financial auditor and receive reports on the status of the execution of its duties.

(3) [Status of Audits]

i. Status of Audit & Supervisory Committee audits

The Company transitioned from being a company with an audit and supervisory board to being a company with an audit & supervisory committee based on a resolution of the 26th Annual General Meeting of Shareholders held on March 25, 2020.

The Company's Audit & Supervisory Committee meets once a month to ascertain the status of compliance by the directors (excluding those who also serve as Audit & Supervisory Committee members) with laws, regulations, and the Articles of Incorporation, striving to ensure that operational audits and financial audits are conducted effectively.

The Company's Audit & Supervisory Committee consists of four directors who also serve as Audit & Supervisory Committee members, including three outside directors. The Audit & Supervisory Committee appoints one full-time Audit & Supervisory Committee member who actively attends meetings of the Board of Directors and the Management Meeting, as well as other important meetings to enhance auditing and sufficiently monitor the execution of business by directors.

Hiroshi Eyama, the full-time Audit & Supervisory Committee member, has considerable knowledge of taxation and accounting, having devoted himself to building the infrastructure of the Accounting Department before the Company's listing and having engaged in professional tax and accounting-related work at a certified public tax accounting firm.

The Audit & Supervisory Committee held twelve (12) meetings during fiscal 2021, and the attendance of individual Audit & Supervisory Committee members was as follows.

Name	Attendance status
Hiroshi Eyama	Attended all twelve (12) meetings of the Audit & Supervisory Committee held during fiscal 2021
Koji Fujita	Attended all twelve (12) meetings of the Audit & Supervisory Committee held during fiscal 2021
Nobuyuki Takagi	Attended all twelve (12) meetings of the Audit & Supervisory Committee held during fiscal 2021
Naohide Aikawa	Attended all twelve (12) meetings of the Audit & Supervisory Committee held during fiscal 2021

Main matters for consideration at the Audit & Supervisory Committee include the formulation of audit plans, preparation of audit reports, assessment for reappointment of the financial auditor, consent to remuneration, etc. for the financial auditor, evaluation, etc. of internal control systems, as well as confirmation of the Group's operating results and financial position, and exchange of opinions with the financial auditor.

In addition, the full-time Audit & Supervisory Committee member mainly attends meetings of the Board of Directors, the Management Meeting, and other important meetings, reviews important internal documents, collects reports from business execution divisions, and conducts other activities such as gathering information on the status of business execution at the Group.

ii. Status of internal audits

The Company's internal audits are conducted by the Internal Audit Office, which directly reports to the President and consists of two (2) members. The Internal Audit Office conducts internal audits based on the internal audit plan approved by the President for the purpose of ensuring the effectiveness and efficiency of the operations of each department. The office also instructs audited departments to make improvements and reports the results of these improvements, maintaining and improving internal controls.

The Internal Audit Office, the Audit & Supervisory Committee, and the financial auditor hold regular discussions and exchange necessary information to ensure mutual cooperation between each party.

iii. Status of financial audits

The Company has entered into an audit contract with Deloitte Touche Tohmatsu LLC to audit financial statements and internal controls on financial reporting. In this audit process, internal control units provide necessary information to the financial auditor.

a. Name of auditing firm

Deloitte Touche Tohmatsu LLC

b. Continuous audit period

Ten (10) years

c. Certified public accountants performing audit work

Masahiko Mutsuda, Designated Limited Liability Partner, Engagement Partner

Shuji Shimojo, Designated Limited Liability Partner, Engagement Partner

There are no special interests between the Company and Deloitte Touche Tohmatsu LLC or the Engagement Partners engaged in the audit of the Company.

d. Composition of assistants involved in audit work

There are three (3) certified public accountants and four (4) others serving as assistants involved in financial audit work for the Company.

e. Financial auditor selection policy and reason

Financial auditor is selected with consideration to the status and results of the audit, the audit implementation system and capabilities, audit fees, independence, etc. In addition, the Audit & Supervisory Committee determines the content of proposals for dismissal or non-reappointment of the financial auditor to be submitted to the General Meeting of Shareholders when it is necessary to do so, such as when the financial auditor is impeded from performing its duties, or when the auditing firm is found to fall under any of the items of Article 340, Paragraph 1 of the Companies Act.

The current financial auditor, Deloitte Touche Tohmatsu LLC, was selected based on a comprehensive review of factors such as past audit performance, audit quality control, independence, and communication with management.

f. Evaluation of the auditing firm by the Audit & Supervisory Committee and its members

The Audit & Supervisory Committee monitored and verified whether the financial auditor had maintained an independent position and conducted adequate audits, received from the financial auditor reports on the state of performance of its duties, and requested explanations as necessary.

iv. Details of audit fees, etc.

a. Fees to auditing certified public accountants, etc.

Category	Fiscal 2020		Fiscal 2021	
	Fees for audit certification (thousands of yen)	Fees for non-audit services (thousands of yen)	Fees for audit certification (thousands of yen)	Fees for non-audit services (thousands of yen)
Filing company	19,800	—	20,000	—
Consolidated subsidiaries	—	—	—	—
Total	19,800	—	20,000	—

There are no non-audit services for which the Company pays fees to the auditing certified public accountants, etc.

There are no fees paid by consolidated subsidiaries to the auditing certified public accountants, etc.

b. Fees paid to member firms in the same network as the auditing certified public accountants, etc.

(Deloitte Touche Tohmatsu Limited) (excluding fees from a.)

Category	Fiscal 2020		Fiscal 2021	
	Fees for audit certification (thousands of yen)	Fees for non-audit services (thousands of yen)	Fees for audit certification (thousands of yen)	Fees for non-audit services (thousands of yen)
Filing company	—	1,800	—	1,830
Consolidated subsidiaries	—	650	—	1,110
Total	—	2,450	—	2,940

Non-audit services in fiscal 2020 and fiscal 2021 for the Company consisted of tax return review service, etc. for Deloitte Tohmatsu Tax Corporation.

c. Details of fees for other significant audit certification services

Not applicable.

d. Policy for determining audit fees

Audit fees paid by the Company to auditing certified public accountants, etc. are determined by the Board of Directors with the consent of the Audit & Supervisory Committee, based on quotations provided by the auditing certified public accountants, etc., and after discussion by relevant Company departments. This determination takes into consideration the number of personnel and the number of audit days required for audit certification services.

e. Reasons for the Audit & Supervisory Committee's consent to fees, etc. for the financial auditor

The reason for the consent of the Audit & Supervisory Committee of the Company to the fees, etc. for the financial auditor proposed by the Board of Directors as stipulated in Article 399, Paragraph 1 of the Companies Act is that the Audit & Supervisory Committee conducted the necessary verification as to the appropriateness of the content of the financial auditor's audit plan, the performance of financial audit duties, and the basis for calculating fee estimates, etc. As a result, the Audit & Supervisory Committee determined that the proposed fees, etc. are appropriate.

(4) [Directors' remuneration]

i. Regarding policies for amount and calculation of the directors' remuneration

The maximum total amount of remuneration for directors (excluding those who also serve as Audit & Supervisory Committee members) is limited to 460 million yen per year (not including employee salaries of directors who also serve as employees and remuneration for outside directors shall be no more than 20 million yen) per resolution at the 26th Annual General Meeting of Shareholders held on March 25, 2020. As of the filing date of this document, six (6) directors (excluding directors who also serve as Audit & Supervisory Committee members) are eligible for this remuneration. The maximum amount of remuneration for directors (Audit & Supervisory Committee members) is limited to 40 million yen per year per resolution at the 26th Annual General Meeting of Shareholders held on March 25, 2020. As of the filing date of this document, four (4) directors who also serve as Audit & Supervisory Committee members are eligible for this remuneration.

The share-based remuneration portion of performance-linked remuneration (director bonuses) was resolved at the 27th Annual General Meeting of Shareholders held on March 23, 2021. The maximum number of points per fiscal year to be granted to directors under the "Board Benefit Trust (BBT)", a performance-linked share-based remuneration plan for directors (excluding outside directors and directors who also serve as Audit & Supervisory Committee members) and executive officers, is appropriately determined within the limit of 120,000 points per fiscal year. As of the filing date of this document, five (5) directors (excluding outside directors and directors who also serve as Audit & Supervisory Committee members) are eligible for this remuneration.

Policy for directors' remuneration

The Company's Board of Directors has resolved a policy for individual director remuneration. The Board of Directors has confirmed that the calculation method and amount of remuneration of each director for fiscal 2021 are consistent with said policy and that the recommendation of the Nomination & Compensation Committee has been respected in the calculation, and judged that the remuneration of each director for fiscal 2021 was in line with said policy

The details of the policy for directors' remuneration are as follows.

a. Types of directors' remuneration and philosophy

Remuneration for executive directors of the Company (directors other than outside directors and those who also serve as Audit & Supervisory Committee members) is paid in the form of fixed remuneration (monthly remuneration) set according to title and performance-linked remuneration (director bonuses) that adjusts in accordance with business performance. In addition, performance-linked remuneration (director bonuses) is paid in the form of monetary remuneration and share-based remuneration. On the other hand, outside directors and directors who also serve as Audit & Supervisory Committee members, who are responsible for supervisory functions, receive only fixed remuneration (monthly remuneration) in consideration of their roles and independence.

b. Policy on the amount of fixed remuneration (monthly remuneration) for individual director (including the policy regarding the timing and conditions of the remuneration)

The Company stipulates a table for each position, serving as the basis for determining fixed remuneration (monthly remuneration) for directors. Monetary amounts are determined with reference to survey data from an external third-party organization and other sources, as well as by taking into consideration the opinions of the outside director members of the Nomination & Compensation Committee, an arbitrary advisory body to the Board of Directors and whose main members are independent outside directors.

- c. Policy on the amount of performance-linked remuneration (director bonuses) for individual directors (including the policy regarding the timing and conditions of the remuneration)

The total amount of performance-linked remuneration (director bonuses) paid to individual executive directors is determined based on the achievement rate of consolidated operating profit and each individual's role and contributions to the Company. Consolidated operating profit was chosen as an indicator because it more accurately reflects contributions to enhancing corporate value for the Company, which is in a growth stage, and because it is an objective and transparent indicator which the Company has determined will enhance the objectivity and transparency of performance-linked remuneration. Performance-linked remuneration (director bonuses) consists of monetary remuneration and share-based remuneration. For share-based remuneration, each director is granted a certain number of points in consideration of his or her position, contribution, and achievement of business performance in each fiscal year. The amount of share-based remuneration is in correspondence to the number of points granted. On the other hand, monetary remuneration is paid as the amount remaining after deducting the relevant share-based remuneration amount from the total amount of performance-linked remuneration (director bonuses) paid to each individual. The points awarded in relation to share-based remuneration will be determined by adjusting with the degree of achievement of the Medium-Term Management Vision. In principle, eligible officers will receive share awards after retirement in proportion to the points they have earned.

- d. Policy on share of performance-linked remuneration (director bonuses) for individual directors

The ratio of fixed remuneration (monthly remuneration) to performance-linked remuneration (director bonuses) will be determined by the Chairman as delegated by the Board of Directors, based on the report of the Nomination & Compensation Committee to ensure that the ratio is appropriate.

- e. Policy determination of individual director remuneration.

Remuneration for executive directors is determined by the Chairman as delegated by the Board of Directors based on the report of the Nomination & Compensation Committee, taking into consideration each individual's role and contributions to the Company. In determining remuneration amounts per individual executive director, the Chairman will respect the recommendation of the Nomination & Compensation Committee.

- f. Activities of the Nomination & Compensation Committee

The Nomination & Compensation Committee is an advisory body under the Board of Directors. A majority of the committee's members are independent outside directors, and the committee's role is to deliberate on matters related to the nomination, remuneration, etc. of directors and executive officers and report the results of these deliberations to the Board of Directors.

ii. Total remuneration by director category, remuneration amount by type, and number of eligible officers

Director category	Amount of remuneration, etc. (thousands of yen)	Total remuneration, etc. amount by type (thousands of yen)			Number of eligible officers (persons)
		Basic remuneration (fixed remuneration)	Performance-linked remuneration (monetary remuneration)	Of left figure, non-monetary remuneration, etc.	
Directors (excluding directors who also serve as Audit & Supervisory Committee members and outside directors)	190,600	109,800	55,697	25,102	5
Audit & Supervisory Committee members (excluding outside directors)	12,000	12,000	-	-	1
Outside directors	24,000	24,000	-	-	4

(Note 1) The above table includes one director who retired at the conclusion of the 27th Annual General Meeting of Shareholders held on March 23, 2021.

(Note 2) The performance indicator for performance-linked remuneration (director bonuses) is consolidated operating profit, which amounted to 2,798,670 thousand yen. The reasons for the selection of this indicator are as described above.

(Note 3) The breakdown of the total amount of non-monetary remuneration to directors (excluding directors who also serve as Audit & Supervisory Committee members and outside directors) is 25,102 thousand yen in performance-linked remuneration (share-based remuneration). This amount was recorded as an expense based on the performance-linked share-based remuneration plan.

(Note 4) Remuneration for directors is determined by Hideharu Sakurai, President of the Company (currently Chairman) as delegated by the meeting of the Board of Directors meeting held on March 23, 2021, and after deliberation by the Nomination & Compensation Committee, taking into consideration the role of each director and his or her contributions to the Company. The Board of Directors delegated this responsibility to the President because it was deemed that the President was the most appropriate person to evaluate the duties of each director, as the evaluator must be in control of the state of the Company as a whole and of the execution of each director's duties.

iii. Total consolidated remuneration, etc. per director

Omitted because there are no persons whose total amount of remuneration, etc. exceeds 100 million yen.

iv. Significant employee salaries of officers who also serve as employees

Not applicable.

(5) [Information on shareholdings]

1) Criteria for shareholding classification and rationale

The Company classifies and manages its shareholdings into shares held for purely investment purposes and shares held for purposes other than pure investment, as follows.

a. Shares held for purely investment purposes

The purpose of holding these shares is to benefit from changes in the value of the shares or from dividends on the shares.

b. Shares held for purposes other than pure investment

The purpose of holding these shares is to enhance the Group's corporate value by strengthening business and other relationships with the companies in which the Group invests.

2) Investment shares held for purposes other than pure investment

a. Methods for verifying consistency of holdings and holding policies, and details of verifications by the Board of Directors, etc. regarding the appropriateness of holding individual issues

The Company's policy is to engage in strategic shareholdings, etc. when it is deemed contributory to enhancing the Group's medium- to long-term corporate value, taking into consideration the overall importance of the shares from a business strategy perspective. In addition, the director in charge will conduct an annual review to determine whether the holding purpose is appropriate. At that time, the Company's policy is to dispose of any shares that are determined to have no recognizable effect after consulting with the Board of Directors and taking into consideration impact on business aspects.

b. Number of issues and carrying values on the balance sheet

	Number of issues (Issues)	Total carrying value on the balance sheet (thousands of yen)
Unlisted stocks	2	508,379
Stocks other than unlisted stocks	—	—

(Stocks whose number of shares increased in fiscal 2021)

	Number of issues (Issues)	Total acquisition cost related to increase in number of shares (thousands of yen)	Reason for increase in the number of shares
Unlisted stocks	—	—	—
Stocks other than unlisted stocks	—	—	—

(Stocks whose number of shares decreased in fiscal 2021)

	Number of issues (Issues)	Total amount of sale price related to decrease in number of shares (thousands of yen)
Unlisted stocks	—	—
Stocks other than unlisted stocks	—	—

c. Information on number of shares, carrying value on the balance, etc. of specified investment shares and deemed shares by issue

Not applicable.

iii. Investment shares held for purely investment purposes

Not applicable.

V. [Financial Information]

1. Basis of presentation for consolidated and non-consolidated financial statements

- (1) The Company's consolidated financial statements are prepared in conformity with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).
- (2) The Company's financial statements are prepared in conformity with the Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ministry of Finance Regulation No. 59 of 1963, hereinafter the "Regulations on Nonconsolidated Financial Statements"). As a company designated for the submission of non-consolidated financial statements prepared in accordance with special provision, the Company prepares its non-consolidated financial statements pursuant to Article 127 of the Regulations on Nonconsolidated Financial Statements.

2. Audit certification

Pursuant to the provisions of Article 193-2, Paragraph 1, of the Financial Instruments and Exchange Act, the Company arranged for the auditing firm Deloitte Touche Tohmatsu LLC to audit the consolidated financial statements of the Company for the fiscal year under review (January 1, 2021, to December 31, 2021), and non-consolidated financial statements of the Company for the fiscal year under review (January 1, 2021, to December 31, 2021).

3. Particular efforts to secure the appropriateness of the consolidated financial statements, etc.

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements, etc. Specifically, in order to accurately ascertain the content of the latest accounting standards and prepare appropriate consolidated financial statements, etc. in response to changes in these standards, the Company maintains membership in the Financial Accounting Standards Foundation, obtaining information from the foundation, and participates in training programs, seminars, and other programs held by audit firms and various organizations with specialized information, striving to ensure appropriateness of its consolidated financial statements.

1. [Consolidated Financial Statements, Etc.]

(1) [Consolidated Financial Statements]

i. [Consolidated Balance Sheet]

(Unit: thousand yen)

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Assets		
Current assets		
Cash and deposits	4,497,677	5,632,051
Accounts receivable – trade	3,279,413	3,891,204
Merchandise	982,361	1,068,647
Supplies	12,992	11,640
Accounts receivable – other	1,765,497	1,957,416
Other	83,241	55,927
Allowance for doubtful accounts	(441,059)	(486,903)
Total current assets	10,180,124	12,129,983
Non-current assets		
Property, plant and equipment		
Buildings and structures	234,833	252,102
Accumulated depreciation	(87,550)	(98,393)
Buildings and structures, net	147,283	153,708
Machinery, equipment and vehicles	45,409	60,905
Accumulated depreciation	(29,297)	(26,148)
Machinery, equipment and vehicles, net	16,112	34,756
Land	114,018	114,018
Other	98,228	113,420
Accumulated depreciation	(58,866)	(74,819)
Other, net	39,361	38,600
Total property, plant and equipment	316,775	341,085
Intangible assets		
Software	109,363	73,066
Goodwill	48,856	9,771
Other	4,072	22,583
Total intangible assets	162,291	105,421
Investments and other assets		
Investment securities	* 662,964	* 941,920
Deferred tax assets	290,221	350,189
Other	136,952	168,518
Allowance for doubtful accounts	(60,255)	(89,318)
Total investments and other assets	1,029,882	1,371,309
Total non-current assets	1,508,950	1,817,816
Total assets	11,689,074	13,947,800

(Unit: thousand yen)

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable – trade	4,157,946	4,868,493
Accounts payable - other	504,063	547,426
Accrued expenses	59,585	69,437
Income taxes payable	557,417	610,067
Accrued consumption taxes	154,932	236,865
Other	67,887	84,773
Total current liabilities	5,501,831	6,417,063
Non-current liabilities		
Provision for share awards	—	13,858
Provision for share awards for directors (and other officers)	—	31,417
Other	3,039	1,737
Total non-current liabilities	3,039	47,013
Total liabilities	5,504,871	6,464,077
Net assets		
Shareholders' equity		
Share capital	573,496	573,496
Capital surplus	543,496	543,496
Retained earnings	5,092,828	6,574,561
Treasury shares	(320)	(197,189)
Total shareholders' equity	6,209,500	7,494,363
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(25,297)	(10,640)
Total accumulated other comprehensive income	(25,297)	(10,640)
Total net assets	6,184,203	7,483,722
Total liabilities and net assets	11,689,074	13,947,800

ii. [Consolidated Statements of Income and Consolidated Statements of Comprehensive Income]
[Consolidated Statements of Income]

(Unit: thousand yen)

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Net sales	26,056,360	31,635,891
Cost of sales	19,492,746	23,758,949
Gross profit	6,563,613	7,876,942
Selling, general and administrative expenses	* 4,495,382	* 5,078,271
Operating profit	2,068,230	2,798,670
Non-operating income		
Gain on sales of non-current assets	467	1,595
Subsidy income	291	3,155
Late charges income	16,980	15,868
Consumption tax exemption gain	59,814	—
Other	4,737	5,231
Total non-operating income	82,292	25,851
Non-operating expenses		
Loss on retirement of non-current assets	—	1,447
Loss on sale of non-current assets	124	—
Commitment fee	2,000	—
Loss on investments in investment partnerships	—	3,159
Other	19	1,367
Total non-operating expenses	2,143	5,974
Ordinary profit	2,148,379	2,818,548
Profit before income taxes	2,148,379	2,818,548
Income taxes – current	778,195	972,590
Income taxes – deferred	(76,188)	(59,967)
Total income taxes	702,007	912,622
Profit	1,446,372	1,905,925
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	1,446,372	1,905,925

[Consolidated Statements of Comprehensive Income]

(Unit: thousand yen)

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Profit	1,446,372	1,905,925
Other comprehensive income		
Valuation difference on available-for-sale securities	(10,415)	14,657
Total other comprehensive income	* (10,415)	* 14,657
Comprehensive income	1,435,956	1,920,582
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,435,956	1,920,582
Comprehensive income attributable to non-controlling interests	—	—

iii. [Consolidated Statements of Changes in Equity]

Fiscal year ended December 31, 2020

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	573,496	543,496	3,919,152	(238)	5,035,906
Changes in items during period					
Dividends of surplus			(272,696)		(272,696)
Profit attributable to owners of parent			1,446,372		1,446,372
Purchase of treasury shares				(81)	(81)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	—	1,173,675	(81)	1,173,594
Balance at end of period	573,496	543,496	5,092,828	(320)	6,209,500

(Unit: thousand yen)

	Accumulated other comprehensive income		Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	(14,882)	(14,882)	5,021,024
Changes in items during period			
Dividends of surplus			(272,696)
Profit attributable to owners of parent			1,446,372
Purchase of treasury shares			(81)
Net changes in items other than shareholders' equity	(10,415)	(10,415)	(10,415)
Total changes in items during period	(10,415)	(10,415)	1,163,178
Balance at end of period	(25,297)	(25,297)	6,184,203

Fiscal year ended December 31, 2021

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	573,496	543,496	5,092,828	(320)	6,209,500
Changes in items during period					
Dividends of surplus			(424,193)		(424,193)
Profit attributable to owners of parent			1,905,925		1,905,925
Purchase of treasury shares				(196,869)	(196,869)
Net changes in items other than shareholders' equity					
Total changes in items during period	—	—	1,481,732	(196,869)	1,284,862
Balance at end of period	573,496	543,496	6,574,561	(197,189)	7,494,363

(Unit: thousand yen)

	Accumulated other comprehensive income		Total net assets
	Valuation difference on available-for-sale securities	Total accumulated other comprehensive income	
Balance at beginning of period	(25,297)	(25,297)	6,184,203
Changes in items during period			
Dividends of surplus			(424,193)
Profit attributable to owners of parent			1,905,925
Purchase of treasury shares			(196,869)
Net changes in items other than shareholders' equity	14,657	14,657	14,657
Total changes in items during period	14,657	14,657	1,299,519
Balance at end of period	(10,640)	(10,640)	7,483,722

iv. [Consolidated Statements of Cash Flows]

(Unit: thousand yen)

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	2,148,379	2,818,548
Depreciation	78,399	80,703
Amortization of goodwill	39,085	39,085
Increase (decrease) in allowance for doubtful accounts	23,999	74,906
Increase (decrease) in provision for share awards	—	13,858
Increase (decrease) in provision for share awards for directors (and other officers)	—	31,417
Interest and dividend income	(46)	(53)
Loss (gain) on investments in investment partnerships	—	3,159
Loss (gain) on sale of non-current assets	(343)	(1,595)
Loss on retirement of non-current assets	—	1,447
Decrease (increase) in trade receivables	(575,891)	(787,274)
Decrease (increase) in inventories	(228,801)	(84,933)
Decrease (increase) in other current assets	(47,443)	(19,714)
Increase (decrease) in trade payables	817,889	710,546
Increase (decrease) in accounts payable – other	239,747	40,242
Increase (decrease) in other current liabilities	15,702	100,454
Other	(52)	1,609
Subtotal	2,510,624	3,022,409
Interest and dividends received	46	54
Income taxes paid	(562,912)	(916,265)
Net cash provided by (used in) operating activities	1,947,758	2,106,198
Cash flows from investing activities		
Payments into time deposits	(24,289)	(24,291)
Proceeds from withdrawal of time deposits	24,287	24,289
Purchase of property, plant and equipment	(43,490)	(56,644)
Proceeds from sale of property, plant and equipment	2,518	1,967
Purchase of investment securities	(550,000)	(267,891)
Purchase of intangible assets	(43,910)	(21,344)
Payments of leasehold deposits	(14,369)	(12,116)
Proceeds from refund of leasehold deposits	419	660
Other	504	(2,306)
Net cash provided by (used in) investing activities	(648,329)	(357,677)
Cash flows from financing activities		
Purchase of treasury shares	(81)	(196,869)
Dividends paid	(272,440)	(415,976)
Repayments of lease obligations	(1,302)	(1,302)
Net cash provided by (used in) financing activities	(273,824)	(614,149)
Net increase (decrease) in cash and cash equivalents	1,025,604	1,134,371
Cash and cash equivalents at beginning of period	3,447,783	4,473,388
Cash and cash equivalents at end of period	* 4,473,388	* 5,607,760

[Notes]

(Significant Matters Serving as Basis for Preparation of the Consolidated Financial Statements)

1. Matters concerning scope of consolidation

Number of consolidated subsidiaries: 2 companies

Name of consolidated subsidiaries

ELAN Service Corporation

Ryukyu ELAN Corporation

Ryukyu ELAN Corporation was included in the scope of consolidation from fiscal 2021.

This was due to the new establishment of Ryukyu ELAN Corporation in fiscal 2021.

2. Matters concerning the application of the equity method

(1) Non-consolidated subsidiaries and affiliates accounted for by the equity method
Not applicable.

(2) Non-consolidated subsidiaries for which the equity method is not applied (QUICK SMART WASH PRIVATE LIMITED), when considering indicators such as net profit or loss (commensurate with equity holdings) and retained earnings (commensurate with equity holdings), would have minimal impact on consolidated financial statements if excluded from application of the equity method and, further, are not important overall. Therefore, they have been excluded from the scope of application of the equity method.

3. Matters concerning fiscal year, etc. of consolidated subsidiaries

The account closing date of consolidated subsidiaries is the same as the consolidated account closing date.

4. Matters concerning accounting policies

(1) Valuation standards and valuation methods for significant assets

i. Securities

Available-for-sale securities

Non-marketable available-for-sale securities

Stated at cost determined by the moving average method. However, foreign-currency-denominated available-for-sale securities are translated into Japanese yen at the spot exchange rate on the consolidated account closing date and the translation adjustment is recognized as a valuation difference. In addition, the valuation difference is entirely posted directly to net assets.

ii. Inventories

Merchandise

Stated at cost determined by the weighted average method (the balance sheet amount is by the method of writing down book value based on decline in profitability).

(2) Method of depreciation and amortization of significant depreciable assets

i. Property, plant and equipment (excluding leased assets)

The declining-balance method is adopted. However, the straight-line method is adopted for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives are mainly as follows:

Buildings	8-38 years
Structures	10-45 years
Vehicles	5-6 years
Tools, furniture and fixtures	2-15 years

ii. Intangible assets (excluding leased assets)

The straight-line method is adopted.

Software for internal use is amortized using the straight-line method over the estimated internal useful life (5 years).

iii. Leased assets

Leased assets for lease transaction other than lease transaction of transfer of ownership rights
The straight-line method with useful life set as the leasing term and the remaining value set at zero.

(3) Standards for recognition of significant allowances and provisions

i. Allowance for doubtful accounts

The estimated irrecoverable amount based on historical default rates for general receivables and individual assessments of recoverability for doubtful and other specific receivables is posted to provide for losses on default of receivables.

ii. Provision for share awards

To provide for the award of Company shares to employees of the Company and its subsidiaries in accordance with the Company's Rules on Share Awards, the Company records an amount based on the estimated share award obligation as of the end of fiscal 2021.

iii. Provision for share awards for directors (and other officers)

To provide for the award of Company shares to directors (excluding directors who also serve as Audit & Supervisory Committee members and other directors who are outside directors) and executive officers in accordance with the Rules on Share Awards for Directors and Other Officers, the Company records an amount based on the estimated share award obligation as of the end of fiscal 2021.

(4) Method and period of amortization of goodwill

Goodwill is amortized using the straight-line method over a period of 5 years.

(5) Scope of cash and cash equivalents on the consolidated statement of cash flows

Cash and cash equivalents comprise cash on hand and demand deposits, and short-term investments with a maturity of 3 months or less from the date of acquisition that are readily convertible to cash and that are subject to an insignificant risk of changes in value.

(6) Other significant matters for preparation of the consolidated financial statements

Accounting for consumption tax, etc.

The accounting for consumption tax and local consumption tax is by the method of exclusion of the taxes.

(Significant accounting estimates)

(Impairment losses on non-current assets)

(1) Amounts recorded in the consolidated financial statements for fiscal 2021

Property, plant and equipment: 341,085 thousand yen

Intangible assets: 105,421 thousand yen

(2) Details regarding significant accounting estimates for the identified item

i. Calculation method

The Group groups its assets according to the smallest internally managed unit that generates cash flows that are generally independent of the cash flows of other assets or asset groups for which income and expenditures are monitored on an ongoing basis. For an asset group for which there are signs of impairment, if the total amount of undiscounted future cash flows to be derived from the group is less than its book value, the book value of the fixed asset is reduced to its recoverable amount and the amount of the reduction is recognized as an impairment loss.

ii. Major underlying assumptions

Major underlying assumptions used in the calculation of undiscounted future cash flows include historical data, statistics and future market data, and operating income forecasts that incorporate industry trends.

iii. Impact on the consolidated financial statements for fiscal 2022

The above estimates and assumptions are subject to uncertainties, and changes in business plans or market conditions could have a significant impact on the consolidated financial statements in the fiscal 2022 or later in the event of changes in the conditions or assumptions on which the estimates are based.

(Unapplied accounting standards, etc.)

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the U.S. jointly developed comprehensive accounting standards for revenue recognition, and in May 2014 published “Revenue from Contracts with Customers” (IFRS 15 at IASB, Topic 606 at FASB). Given that IFRS 15 was applicable to fiscal years beginning on or after January 1, 2018, and Topic 606 to fiscal years beginning after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) developed its comprehensive accounting standards for revenue recognition and published them along with the Implementation Guidance.

The basic policy of the ASBJ in developing accounting standards for revenue recognition was to establish accounting standards incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which has been one of the benefits of ensuring consistency with IFRS 15. Where there are items that should be considered to reflect business practices, etc. in Japan, alternative accounting treatments are to be added to the extent that comparability is not materially impaired.

(2) Scheduled date of application

Scheduled to be applied from the start of the fiscal year ending December 31, 2022.

(3) Effect of application of the aforementioned accounting standards, etc.

The Company is currently evaluating the effect of applying the Accounting Standard for Revenue Recognition, etc. on its consolidated financial statements.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standards for Measurement of Inventories (ASBJ Statement No. 9, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States provide similar detailed guidance on fair value measurement (IFRS 13 “Fair Value Measurement” under IFRS and Topic 820 “Fair Value Measurement” of the Accounting Standards Codification under U.S. accounting standards). Given this situation, the Accounting Standards Board of Japan (ASBJ) has announced the Accounting Standards for Fair Value Measurement, etc., after working to ensure consistency between Japanese and international accounting standards, mainly regarding guidance and disclosure concerning the fair value of financial instruments.

The basic objective of the ASBJ in developing the accounting standards for fair value measurement was to enhance comparability between financial statements of companies in Japan and abroad, through a unified measurement method. Accordingly, the accounting standard fundamentally incorporates all basic policies of IFRS 13. Further, where there are items that should be considered to reflect business practices, etc. in Japan, exceptional treatments are to be established for certain items to the extent that comparability is not materially impaired.

(2) Scheduled date of application

Scheduled to be applied from the start of the fiscal year ending December 31, 2022.

(3) Effect of application of the aforementioned accounting standards, etc.

The Company is currently evaluating the effect of applying the Accounting Standard for Fair Value Measurement, etc. on its consolidated financial statements.

(Changes in presentation methods)

(Application of Accounting Standard for Disclosure of Accounting Estimates)

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) has been applied beginning from the consolidated financial statements for fiscal 2021, and notes regarding significant accounting estimates are included in the consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso to Paragraph 11 of said accounting standard, the contents related to fiscal 2020 are not described in these notes.

(Additional information)

(Impact of COVID-19)

Although COVID-19 is a phenomenon with broad impact on the economy and corporate activities and it is difficult to predict how it will spread and when it will subside, the Company makes accounting estimates, including the determination of impairment losses on assets and the determination of the recoverability of deferred tax assets, based on information from external sources and other factors with the assumption that future impact will continue to be at the same level as in fiscal 2021.

(About the Board Benefit Trust (BBT))

(1) Outline of transactions

The Company introduced a performance-linked share-based remuneration plan for the Company's directors (excluding directors who serve as Audit & Supervisory Committee members and those directors who are outside directors) and executive officers (hereinafter, "Directors, etc.") called the "Board Benefit Trust (BBT)" (hereinafter, the "BBT"). The BBT is for the purpose of further clarifying the linkage between remuneration for Directors, etc. and the Company's business performance and stock value as well as having Directors, etc. share not only the benefits of rises in stock prices but also the risks of falls in stock prices with shareholders, and thereby motivating Directors, etc. to contribute to enhancing business performance and boosting corporate value in the medium to long term.

The BBT is a performance-linked share-based remuneration plan for the Company shares to be acquired through a trust by using monies contributed by the Company as the source of funds, and for the Company's shares and monies equivalent to the amount of the Company's shares converted into market value (hereinafter, "Company Shares, etc.") to be awarded through the trust to Directors, etc. in accordance with the Rules on Share Awards for Directors and Other Officers provided by the Company. The timing that Company Shares, etc. are awarded to Directors, etc. shall be upon their retirement from office as Directors, etc. as a rule.

(2) Shares of the Company remaining in trust

Company shares remaining in trust are recorded as treasury shares under net assets at the carrying value in trust (excluding the amount of incidental expenses). The book value and number of these treasury shares amounted to 140,590 thousand yen and 100,000 shares at the end of fiscal 2021.

(3) Method for accounting treatment

The gross method is applied in accordance with the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, Etc. Through Trusts (Practical Issues Task Force No. 30, March 26, 2015). Expenses and corresponding provisions are recorded based on the number of points granted to directors and other officers in accordance with the regulations.

(About the Employee Stock Ownership Plan (J-ESOP))

(1) Outline of transactions

The Company introduced the "Employee Stock Ownership Plan (J-ESOP)" (hereinafter, the "J-ESOP"), an incentive plan for employees of the Company and its subsidiaries (hereinafter, the "Employees"). The J-ESOP is for the purpose of enhancing the benefit programs for Employees and to improve their sense of participation in management.

Under the J-ESOP, shares of the Company's stock are provided to Employees when they acquire the right to receive these shares in accordance with the Company's pre-established Rules on Share Awards.

The Company grants points to Employees in accordance with their years of service and other individual contribution levels and grants shares of the Company's stock equivalent to the points granted to those Employees who satisfy the requirements to receive benefits. The shares to be provided to Employees, including those to be provided in the future, will be acquired by the trust bank using money placed in trust by the Company in advance, and will be managed separately as trust assets.

(2) Shares of the Company remaining in trust

Company shares remaining in trust are recorded as treasury shares under net assets at the carrying value in trust (excluding the amount of incidental expenses). The book value and number of these treasury shares amounted to 56,239 thousand yen and 40,000 shares at the end of fiscal 2021.

(3) Method for accounting treatment

The gross method is applied based on the Practical Solution on Transactions of Delivering the Company's Own Stock to Employees, Etc. Through Trusts (Practical Issues Task Force No. 30, March 26, 2015). Expenses and corresponding provisions are recorded based on the number of points granted to employees in accordance with the regulations.

(On the consolidated balance sheet)

* Items pertaining to affiliates are as follows.

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Investment securities (shares)	—	216,623 thousand yen

(On the consolidated statements of income)

* Significant items and amounts of selling, general and administrative expenses are as follows.

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Payroll and allowances	1,815,798 thousand yen	2,016,852 thousand yen
Provision of allowance for doubtful accounts	114,522 thousand yen	173,776 thousand yen
Provision for share awards	—	13,858 thousand yen
Provision for share awards for directors (and other officers)	—	31,417 thousand yen

(On the consolidated statements of comprehensive income)

* Reclassification adjustments for other comprehensive income

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Valuation difference on available-for-sale securities:		
Incurred during fiscal 2021	(10,415 thousand yen)	14,657 thousand yen
Reclassification adjustments	—	—
Valuation difference on available-for-sale securities	(10,415 thousand yen)	14,657 thousand yen
Total other comprehensive income	(10,415 thousand yen)	14,657 thousand yen

(On the consolidated statements of changes in equity)

Fiscal year ended December 31, 2020

1. Type and number of shares issued and treasury shares

	Number of shares at the beginning of fiscal 2020 (shares)	Increase in shares during fiscal 2020 (shares)	Decrease in shares during fiscal 2020 (shares)	Number of shares at the end of fiscal 2020 (shares)
Issued shares				
Common shares	30,300,000	—	—	30,300,000
Total	30,300,000	—	—	30,300,000
Treasury shares				
Common shares (Note 1)	440	29	—	469
Total	440	29	—	469

(Note 1) The increase of 29 common shares in treasury shares is due to the purchase of shares less than one unit.

(Note 2) On January 1, 2021, the Company conducted a 2-for-1 stock split of its common stock, and the above figures represent the number of shares prior to the stock split.

2. Matters concerning dividends

(1) Dividends paid

(Resolution)	Class of shares	Total dividend amount (thousand yen)	Total dividends per share (yen)	Record date	Effective date
March 25, 2020 Annual General Meeting of Shareholders	Common shares	272,696	9	December 31, 2019	March 26, 2020

(2) Dividends with a record date during fiscal 2020, but an effective date subsequent to fiscal 2021

(Resolution)	Class of shares	Total dividend amount (thousand yen)	Dividend funds	Total dividends per share (yen)	Record date	Effective date
March 23, 2021 Annual General Meeting of Shareholders	Common shares	424,193	Retained earnings	14	December 31, 2020	March 24, 2021

Fiscal year ended December 31, 2021

1. Type and number of shares issued and treasury shares

	Number of shares at the beginning of fiscal 2021 (shares)	Increase in shares during fiscal 2021 (shares)	Decrease in shares during fiscal 2021 (shares)	Number of shares at the end of fiscal 2021 (shares)
Issued shares				
Common shares (Note 1) (Note 2)	30,300,000	30,300,000	—	60,600,000
Total	30,300,000	30,300,000	—	60,600,000
Treasury shares				
Common shares (Note 1) (Note 3) (Note 4)	469	140,500	—	140,969
Total	469	140,500	—	140,969

(Note 1) The Company conducted a 2-for-1 stock split of common shares, effective January 1, 2021.

(Note 2) The increase of 30,300,000 shares in the total number of common shares issued and outstanding was due to stock split.

(Note 3) The increase of 140,500 common shares in treasury shares is 140,000 due to acquisition by the BBT and J-ESOP, 469 shares due to stock split and 31 shares due to purchase of shares less than one unit.

(Note 4) The number of treasury shares at the end of fiscal 2021 includes 140,000 shares of treasury stock held by the BBT and J-ESOP.

2. Matters concerning dividends

(1) Dividends paid

(Resolution)	Class of shares	Total dividend amount (thousand yen)	Total dividends per share (yen)	Record date	Effective date
March 23, 2021 Annual General Meeting of Shareholders	Common shares	424,193	14	December 31, 2020	March 24, 2021

(2) Dividends with a record date during fiscal 2021, but an effective date subsequent to fiscal 2022

(Resolution)	Class of shares	Total dividend amount (thousand yen)	Dividend funds	Total dividends per share (yen)	Record date	Effective date
March 23, 2022 Annual General Meeting of Shareholders	Common shares	545,391	Retained earnings	9	December 31, 2021	March 24, 2022

(Note) The total dividend amount includes dividends of 1,260 thousand yen for the Company's shares held by the BBT and J-ESOP.

(On the consolidated statements of cash flows)

* Relationship between cash and cash equivalents at end of period and the amount of cash and deposits shown on the consolidated balance sheets

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Cash and deposits account	4,497,677 thousand yen	5,632,051 thousand yen
Time deposits with maturities longer than three months	(24,289 thousand yen)	(24,291 thousand yen)
Cash and cash equivalents	4,473,388 thousand yen	5,607,760 thousand yen

(Financial instruments)

1. Status of financial instruments

(1) Policy for handling financial instruments

The Group's policy is to invest temporary surplus funds only in short-term deposits and not to engage in speculative transactions.

(2) Details and risks of financial instruments

Accounts receivable – other and accounts receivable – trade, which are trade receivables, are exposed to credit risk from customers.

Accounts payable – other and accounts payable – trade, which are trade payables, are almost entirely due within one (1) year.

(3) Risk management system for financial instruments

i. Management of credit risk (risks related to non-performance by counterparties)

With respect to trade receivables, the Company's Corporate Management Division regularly monitors the balance of receivables for each customer (CS Set user) and manages due dates and balances for each customer in order to rapidly identify and mitigate concerns about collection due to deterioration of financial conditions and other factors. Consolidated subsidiaries also manage this at the same level.

ii. Management of liquidity risk (risk of being unable to make payments on due dates) related to funds procurement

The Company manages liquidity risk by the Corporate Management Division regularly preparing and updating cash management plans based on reports from each department. Consolidated subsidiaries also manage this at the same level.

(4) Supplementary explanation of matters relating to fair value of financial instruments, etc.

Fair values of financial instruments include values based on market prices, and values obtained by a reasonable estimate when financial instruments do not have market prices. The fair value calculation reflects variable factors, and is therefore subject to change depending on different assumptions used.

2. Fair value of financial instruments, etc.

The amounts recorded on the consolidated balance sheets, fair values, and the differences between them are shown below. Items for which it is extremely difficult to determine market values are not included.

As of December 31, 2020

	Amount on the consolidated balance sheets (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	4,497,677	4,497,677	—
(2) Accounts receivable – trade and accounts receivable – other Allowance for doubtful accounts *	5,044,911 (441,059)		
	4,603,851	4,603,851	—
Assets, total	9,101,529	9,101,529	—
(1) Accounts payable – trade	4,157,946	4,157,946	—
(2) Accounts payable – other	504,063	504,063	—
(3) Accrued expenses	59,585	59,585	—
(4) Income taxes payable	557,417	557,417	—
(5) Accrued consumption taxes	154,932	154,932	—
Liabilities, total	5,433,944	5,433,944	—

* Deducts allowance for doubtful accounts recorded for accounts receivable – trade and accounts receivable – other.

As of December 31, 2021

	Amount on the consolidated balance sheets (thousand yen)	Fair value (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	5,632,051	5,632,051	—
(2) Accounts receivable – trade and accounts receivable – other Allowance for doubtful accounts *	5,848,620 (486,903)		
	5,361,717	5,361,717	—
Assets, total	10,993,768	10,993,768	—
(1) Accounts payable – trade	4,868,493	4,868,493	—
(2) Accounts payable – other	547,426	547,426	—
(3) Accrued expenses	69,437	69,437	—
(4) Income taxes payable	610,067	610,067	—
(5) Accrued consumption taxes	236,865	236,865	—
Liabilities, total	6,332,290	6,332,290	—

* Deducts allowance for doubtful accounts recorded for accounts receivable – trade and accounts receivable – other.

(Note 1) Calculation of fair value of financial instruments

Assets

(1) Cash and deposits, (2) Accounts receivable – trade and accounts receivable – other

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

Liabilities

(1) Accounts payable – trade, (2) Accounts payable – other, (3) Accrued expenses, (4) Income taxes payable, (5) Accrued consumption taxes

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(Note 2) Financial instruments for which fair value is extremely difficult to determine

(Unit: thousand yen)

Category	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Unlisted stocks (*1)	497,964	725,002
Convertible bond-type bonds with share acquisition rights (*1)	165,000	165,000
Investments in investment partnerships (*2)	—	51,918

(*1) Unlisted stocks and convertible bond-type bonds with share acquisition rights have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not eligible for fair value disclosure.

(*2) Investments in investment partnerships consist of items with no market prices, e.g., due to partnership assets consisting of unlisted stocks, and it is deemed extremely difficult to determine their fair value. Accordingly, they are not eligible for fair value disclosure.

(Securities)

1. Available-for-sale securities

As of December 31, 2020

	Class	Amount on the consolidated balance sheets (thousand yen)	Acquisition cost (thousand yen)	Difference (thousand yen)
Securities whose carrying values on the consolidated balance sheets exceed acquisition cost	(1) Shares	–	–	–
	(2) Bonds			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Securities whose carrying values on the consolidated balance sheets do not exceed acquisition cost	(1) Shares	497,964	523,262	(25,297)
	(2) Bonds			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	165,000	165,000	–
	(3) Other	–	–	–
	Subtotal	662,964	688,262	(25,297)
Total		662,964	688,262	(25,297)

As of December 31, 2021

	Class	Amount on the consolidated balance sheets (thousand yen)	Acquisition cost (thousand yen)	Difference (thousand yen)
Securities whose carrying values on the consolidated balance sheets exceed acquisition cost	(1) Shares	–	–	–
	(2) Bonds			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	–	–	–
	(3) Other	–	–	–
	Subtotal	–	–	–
Securities whose carrying values on the consolidated balance sheets do not exceed acquisition cost	(1) Shares	508,379	523,262	(14,882)
	(2) Bonds			
	i. Government bonds, municipal bonds, etc.	–	–	–
	ii. Corporate bonds	–	–	–
	iii. Other	165,000	165,000	–
	(3) Other	51,918	55,490	(3,571)
	Subtotal	725,297	743,752	(18,454)
Total		725,297	743,752	(18,454)

(Derivative transactions)

Not applicable.

(Retirement benefits)

Not applicable, as the Group does not have a retirement benefits plan.

(Tax effect accounting)

1. Deferred tax assets and deferred tax liabilities by major classification

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Deferred tax assets		
Accrued enterprise tax	31,314 thousand yen	33,427 thousand yen
Allowance for doubtful accounts	152,700 thousand yen	175,546 thousand yen
Accrued bonuses, etc.	41,015 thousand yen	45,556 thousand yen
Accrued director bonuses	8,339 thousand yen	7,546 thousand yen
Accounts payable - other	9,608 thousand yen	1,784 thousand yen
Accounts receivable – trade	9,436 thousand yen	17,233 thousand yen
Loss on valuation of merchandise	9,525 thousand yen	8,582 thousand yen
Excess amortization of deferred assets	5,396 thousand yen	4,162 thousand yen
Lump-sum depreciable assets	3,451 thousand yen	6,819 thousand yen
Depreciation	16,461 thousand yen	25,824 thousand yen
Provision for share awards	—	13,791 thousand yen
Amount of loss carried forward	—	6,840 thousand yen
Other	2,970 thousand yen	3,074 thousand yen
Total deferred tax assets	290,221 thousand yen	350,189 thousand yen

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate after application of tax effect accounting

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Effective statutory tax rate	30.5%	30.5%
(Adjustments)		
Non-deductible permanent differences such as entertainment expenses	0.2%	0.1%
Inhabitant tax on per capita basis	1.0%	0.8%
Non-deductible bonuses to directors	1.0%	0.4%
Amortization of goodwill	0.6%	0.4%
Special deduction for income taxes	(0.6%)	0.0%
Non-deductible amount of dividends received	(0.0%)	(0.3%)
Other	(0.0%)	0.5%
Effective income tax rate after application of tax effect accounting	32.7%	32.4%

(Corporate integration, etc.)

Not applicable.

(Segment information, etc.)

[Segment information]

Fiscal year ended December 31, 2020

The information is omitted because the Group has a single segment, the nursing- and medical care-related business.

Fiscal year ended December 31, 2021

The information is omitted because the Group has a single segment, the nursing- and medical care-related business.

[Related information]

Fiscal year ended December 31, 2020

1. Information by product and service

The information is omitted because net sales to external customers for a single group of products and services exceed 90% of net sales on the statement of income.

2. Information by geographic area

(1) Net sales

Not applicable because there is no net sales to external customers outside of Japan.

(2) Property, plant and equipment

Not applicable because there is no property, plant and equipment located outside of Japan.

3. Information by major customer

The information is omitted because out of net sales to external customers, no party accounts for 10% or more of net sales on the statements of income.

Fiscal year ended December 31, 2021

1. Information by product and service

The information is omitted because net sales to external customers for a single group of products and services exceed 90% of net sales on the statement of income.

2. Information by geographic area

(1) Net sales

Not applicable because there is no net sales to external customers outside of Japan.

(2) Property, plant and equipment

Not applicable because there is no property, plant and equipment located outside of Japan.

3. Information by major customer

The information is omitted because out of net sales to external customers, no party accounts for 10% or more of net sales on the statements of income.

[Information about impairment loss on non-current assets by reportable segment]

Not applicable.

[Information about amortization and unamortized balance of goodwill by reportable segment]

Fiscal year ended December 31, 2020

(Unit: thousand yen)

	Nursing- and medical care-related business	Total	Corporate or elimination	Amount on consolidated financial statements
Amortization for period	39,085	39,085	—	39,085
Balance at end of period	48,856	48,856	—	48,856

Fiscal year ended December 31, 2021

(Unit: thousand yen)

	Nursing- and medical care-related business	Total	Corporate or elimination	Amount on consolidated financial statements
Amortization for period	39,085	39,085	—	39,085
Balance at end of period	9,771	9,771	—	9,771

[Information about gain on bargain purchase by reportable segment]

Not applicable.

[Information on related parties]

1. Transactions with related parties

(1) Transactions between the filing company and related parties

Not applicable.

(2) Transactions between consolidated subsidiaries of the filing company and related parties

Not applicable.

(Per share information)

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Net assets per share	102.05 yen	123.78 yen
Earnings per share	23.87 yen	31.49 yen

(Note 1) The Company conducted a 2-for-1 stock split of common shares, effective January 1, 2021. Net assets per share and earnings per share have been calculated as if this stock split had taken place at the beginning of the previous fiscal year.

(Note 2) Diluted earnings per share is not shown in the above table, as there are no residual shares.

(Note 3) Treasury shares deducted from the average number of shares during the period as well as shares in trust are used in the calculation of earnings per share.

The average number of these treasury shares deducted in the calculation of earnings per share is 82,959 shares for fiscal 2021.

In addition, treasury shares deducted from total shares issued and outstanding as well as shares in trust are used in the calculation of net assets per share.

The number of these treasury shares at the end of the period deducted in the calculation of net assets per share is 140,000 shares for fiscal 2021.

(Note 4) The basis for calculation of net assets per share is as follows:

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Total net assets (thousand yen)	6,184,203	7,483,722
Amount deducted from total net assets (thousand yen)	—	—
Net assets at end of period attributable to common shares (thousand yen)	6,184,203	7,483,722
Number of common shares used in calculation of net assets per share (shares)	60,599,062	60,459,031

5. The basis for calculation of earnings per share is as follows:

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Earnings per share		
Profit attributable to owners of parent (thousand yen)	1,446,372	1,905,925
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent concerning common shares (thousand yen)	1,446,372	1,905,925
Average number of common shares during period (shares)	60,599,113	60,516,098

(Significant subsequent events)

Not applicable.

v. [Consolidated Supplementary Financial Schedules]

[Schedule of corporate bonds]

Not applicable.

[Schedule of borrowings, etc.]

Not applicable.

[Schedule of asset retirement obligations]

The asset retirement obligation amounts at the beginning and end of fiscal 2021 are below 1% of the total liabilities and net assets at the beginning and end of fiscal 2021. The information is therefore omitted in accordance with the provisions in Article 92, Paragraph 2 of the Consolidated Financial Statement Regulations.

(2) [Other]

Quarterly information for fiscal 2021

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal 2021
Net sales (thousand yen)	7,523,869	15,218,053	23,279,940	31,635,891
Profit before income taxes (thousand yen)	739,479	1,414,661	2,175,129	2,818,548
Profit attributable to owners of parent (thousand yen)	507,470	956,131	1,482,095	1,905,925
Earnings per share (yen)	8.37	15.78	24.48	31.49

(Quarterly period)	First quarter	Second quarter	Third quarter	Fourth quarter
Earnings per share (yen)	8.37	7.41	8.70	7.01

(Note) The Company conducted a 2-for-1 stock split, effective January 1, 2021. Earnings per share have been calculated as if this stock split had taken place at the beginning of the fiscal year under review.

2. [Non-consolidated Financial Statements, Etc.]

(1) [Non-consolidated Financial Statements]

i. [Non-consolidated Balance Sheet]

(Unit: thousand yen)

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Assets		
Current assets		
Cash and deposits	4,317,177	5,212,430
Accounts receivable – trade	3,279,413	3,891,204
Merchandise	982,361	1,068,647
Prepaid expenses	38,013	34,469
Accounts receivable – other	* 1,879,786	* 2,042,755
Other	58,220	32,007
Allowance for doubtful accounts	(441,055)	(486,099)
Total current assets	10,113,916	11,795,414
Non-current assets		
Property, plant and equipment		
Buildings	233,174	241,099
Accumulated depreciation	(86,928)	(97,570)
Buildings, net	146,245	143,529
Structures	1,659	1,659
Accumulated depreciation	(621)	(719)
Structures, net	1,037	939
Vehicles	45,409	60,905
Accumulated depreciation	(29,297)	(26,148)
Vehicles, net	16,112	34,756
Tools, furniture and fixtures	92,306	104,951
Accumulated depreciation	(56,892)	(71,533)
Tools, furniture and fixtures, net	35,413	33,418
Land	114,018	114,018
Leased assets	5,922	5,922
Accumulated depreciation	(1,974)	(3,158)
Leased assets, net	3,948	2,763
Total property, plant and equipment	316,775	329,426
Intangible assets		
Software	109,363	73,066
Goodwill	48,856	9,771
Other	4,072	22,583
Total intangible assets	162,291	105,421
Investments and other assets		
Investment securities	662,964	725,297
Shares of subsidiaries and associates	10,000	256,623
Leasehold deposits	63,077	60,375
Deferred tax assets	280,352	332,924
Other	73,875	101,862
Allowance for doubtful accounts	(60,255)	(89,318)
Total investments and other assets	1,030,014	1,387,764
Total non-current assets	1,509,081	1,822,613
Total assets	11,622,998	13,618,027

(Unit: thousand yen)

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable – trade	4,117,056	* 4,815,948
Lease obligations	1,302	1,302
Accounts payable - other	* 664,047	* 685,848
Accrued expenses	59,267	68,702
Income taxes payable	499,143	543,839
Accrued consumption taxes	154,932	154,209
Deposits received from employees	31,202	33,555
Other	35,381	49,289
Total current liabilities	5,562,334	6,352,695
Non-current liabilities		
Lease obligations	3,039	1,737
Provision for share awards	—	13,858
Provision for share awards for directors (and other officers)	—	31,417
Total non-current liabilities	3,039	47,013
Total liabilities	5,565,374	6,399,709
Net assets		
Shareholders' equity		
Share capital	573,496	573,496
Capital surplus		
Legal capital surplus	543,496	543,496
Total capital surplus	543,496	543,496
Retained earnings		
Legal retained earnings	7,500	7,500
Other retained earnings		
General reserve	12,500	12,500
Retained earnings brought forward	4,946,249	6,289,156
Total retained earnings	4,966,249	6,309,156
Treasury shares	(320)	(197,189)
Total shareholders' equity	6,082,921	7,228,959
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(25,297)	(10,640)
Total valuation and translation adjustments	(25,297)	(10,640)
Total net assets	6,057,624	7,218,318
Total liabilities and net assets	11,622,998	13,618,027

ii. [Non-consolidated Statements of Income]

(Unit: thousand yen)

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Net sales	26,055,807	31,608,553
Cost of sales		
Beginning merchandise inventory	656,797	982,361
Transfer of goods by merger	96,993	—
Cost of purchased goods	16,823,533	*1 20,570,616
Total	17,577,325	21,552,978
Ending merchandise inventory	982,361	1,068,647
Cost of goods sold	16,594,963	20,484,331
Outsourcing fee	2,897,701	3,259,477
Total cost of sales	19,492,664	23,743,809
Gross profit	6,563,142	7,864,743
Selling, general and administrative expenses	*1,*2 5,218,585	*1,*2 6,063,344
Operating profit	1,344,557	1,801,399
Non-operating income		
Interest income	44	50
Dividend income	1	*1 31,801
Rental income from buildings	545	545
Subsidy income	291	3,155
Gain on sales of non-current assets	467	1,595
Business advisory fee income	*1 24,000	*1 35,740
Temporary assignment fee income	*1 470,883	*1 524,765
Outsourcing service income	*1 78,000	*1 109,860
Other	*1 70,433	*1 85,877
Total non-operating income	644,668	793,392
Non-operating expenses		
Loss on retirement of non-current assets	—	1,447
Loss on sale of non-current assets	124	—
Commitment fee	2,000	—
Loss on investments in investment partnerships	—	3,159
Other	19	1,367
Total non-operating expenses	2,143	5,974
Ordinary profit	1,987,081	2,588,817
Extraordinary income		
Gain on extinguishment of tie-in shares	301,444	—
Total extraordinary income	301,444	—
Profit before income taxes	2,288,525	2,588,817
Income taxes – current	714,140	874,288
Income taxes – deferred	(67,351)	(52,571)
Total income taxes	646,788	821,717
Profit	1,641,736	1,767,100

iii. [Non-consolidated Statements of Changes in Equity]

Fiscal year ended December 31, 2020

(Unit: thousand yen)

	Shareholders' equity						
	Share capital	Capital surplus		Retained earnings			
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward	
Balance at beginning of period	573,496	543,496	543,496	7,500	12,500	3,577,209	3,597,209
Changes in items during period							
Dividends of surplus						(272,696)	(272,696)
Profit						1,641,736	1,641,736
Purchase of treasury shares							
Net changes in items other than shareholders' equity							
Total changes in items during period	—	—	—	—	—	1,369,040	1,369,040
Balance at end of period	573,496	543,496	543,496	7,500	12,500	4,946,249	4,966,249

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(238)	4,713,963	(14,882)	(14,882)	4,699,080
Changes in items during period					
Dividends of surplus		(272,696)			(272,696)
Profit		1,641,736			1,641,736
Purchase of treasury shares	(81)	(81)			(81)
Net changes in items other than shareholders' equity			(10,415)	(10,415)	(10,415)
Total changes in items during period	(81)	1,368,958	(10,415)	(10,415)	1,358,543
Balance at end of period	(320)	6,082,921	(25,297)	(25,297)	6,057,624

Fiscal year ended December 31, 2021

(Unit: thousand yen)

	Shareholders' equity						
	Share capital	Capital surplus		Legal retained earnings	Retained earnings		Total retained earnings
		Legal capital surplus	Total capital surplus		General reserve	Retained earnings brought forward	
Balance at beginning of period	573,496	543,496	543,496	7,500	12,500	4,946,249	4,966,249
Changes in items during period							
Dividends of surplus						(424,193)	(424,193)
Profit						1,767,100	1,767,100
Purchase of treasury shares							
Net changes in items other than shareholders' equity							
Total changes in items during period	—	—	—	—	—	1,342,906	1,342,906
Balance at end of period	573,496	543,496	543,496	7,500	12,500	6,289,156	6,309,156

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(320)	6,082,921	(25,297)	(25,297)	6,057,624
Changes in items during period					
Dividends of surplus		(424,193)			(424,193)
Profit		1,767,100			1,767,100
Purchase of treasury shares	(196,869)	(196,869)			(196,869)
Net changes in items other than shareholders' equity			14,657	14,657	14,657
Total changes in items during period	(196,869)	1,146,037	14,657	14,657	1,160,694
Balance at end of period	(197,189)	7,228,959	(10,640)	(10,640)	7,218,318

[Notes]

(Significant accounting policies)

1. Valuation standards and valuation methods for assets

(1) Valuation standards and valuation methods for securities

i. Shares of subsidiaries and associates

Stated at cost determined by the moving average method.

ii. Available-for-sale securities

Non-marketable available-for-sale securities

Stated at cost determined by the moving average method. However, foreign-currency-denominated available-for-sale securities are translated into Japanese yen at the spot exchange rate on the account closing date and the translation adjustment is recognized as a valuation difference. In addition, the valuation difference is entirely posted directly to net assets.

(2) Valuation standards and valuation methods for inventories

Merchandise

Stated at cost determined by the weighted average method (the balance sheet amount is by the method of writing down book value based on decline in profitability).

2. Depreciation method for non-current assets

(1) Property, plant and equipment (excluding leased assets)

The declining-balance method is adopted. However, the straight-line method is adopted for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016.

The estimated useful lives are mainly as follows:

Buildings	8-38 years
Structures	10-45 years
Vehicles	5-6 years
Tools, furniture and fixtures	2-15 years

(2) Intangible assets (excluding leased assets)

The straight-line method is adopted.

Software for internal use is amortized using the straight-line method over the estimated internal useful life (5 years).

(3) Leased assets

Leased assets for lease transaction other than lease transaction of transfer of ownership rights

The straight-line method with useful life set as the leasing term and the remaining value set at zero.

3. Standards for recognition of allowances and provisions

i. Allowance for doubtful accounts

The estimated irrecoverable amount based on historical default rates for general receivables and individual assessments of recoverability for doubtful and other specific receivables is posted to provide for losses on default of receivables.

ii. Provision for share awards

To provide for the award of Company shares to employees of the Company and its subsidiaries in accordance with the Company's Rules on Share Awards, the Company records an amount based on the estimated share award obligation as of the end of fiscal 2021.

iii. Provision for share awards for directors (and other officers)

To provide for the award of Company shares to directors (excluding directors who also serve as Audit & Supervisory Committee members and other directors who are outside directors) and executive officers in accordance with the Rules on Share Awards for Directors and Other Officers, the Company records an amount based on the estimated share award obligation as of the end of fiscal 2021.

4. Method and period of amortization of goodwill

Goodwill is amortized using the straight-line method over a period of 5 years.

5. Other significant matters serving as basis for preparation of the non-consolidated financial statements

Accounting for consumption tax, etc.

The accounting for consumption tax and local consumption tax is by the method of exclusion of the taxes.

(Significant accounting estimates)

(Impairment losses on non-current assets)

(1) Amounts recorded in the non-consolidated financial statements for fiscal 2021

Property, plant and equipment: 329,426 thousand yen

Intangible assets: 105,421 thousand yen

(2) Details regarding significant accounting estimates for the identified item

Information is omitted because it is identical to “[Consolidated Financial Statements] Notes (Significant accounting estimates).”

(Changes in presentation methods)

(Non-consolidated statements of income)

“Dividend income,” which was included in “Other” under “Non-operating income” in fiscal 2020, is presented separately starting from fiscal 2021 due to greater quantitative materiality. The non-consolidated financial statements for fiscal 2020 have been reclassified to reflect this change in presentation method.

As a result, on the non-consolidated statement of income for fiscal 2020, the 70,435 thousand yen that was presented in “Other” under “Non-operating income” is reclassified as “Dividend income” in the amount of 1 thousand yen and “Other” in the amount of 70,433 thousand yen.

(Application of Accounting Standard for Disclosure of Accounting Estimates)

The Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) has been applied beginning from the non-consolidated financial statements for fiscal 2021, and notes regarding significant accounting estimates are included in the non-consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso to Paragraph 11 of said accounting standard, the contents related to fiscal 2020 are not described in these notes.

(Additional information)

(Impact of COVID-19)

Although COVID-19 is a phenomenon with broad impact on the economy and corporate activities and it is difficult to predict how it will spread and when it will end, the Company makes accounting estimates, including the determination of impairment losses on assets and the determination of the recoverability of deferred tax assets, based on information from external sources and other factors with the assumption that future impact will continue to be at the same level as in fiscal 2021.

(About the Board Benefit Trust (BBT) and Employee Stock Ownership Plan (J-ESOP))

Information is omitted because it is identical to “[Consolidated Financial Statements] Notes (Additional information).”

(On the non-consolidated balance sheet)

* Monetary receivables and payables from and to subsidiaries and affiliates

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Short-term monetary receivables	121,963 thousand yen	140,041 thousand yen
Short-term monetary payables	175,363 thousand yen	230,801 thousand yen

(On the non-consolidated statements of income)

*1 The following items related to transactions with subsidiaries and affiliates are included.

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Transaction volume from business transactions		
Purchase of goods	—	40,693 thousand yen
Selling, general and administrative expenses from transactions with subsidiaries and affiliates	1,597,050 thousand yen	2,065,499 thousand yen
Transaction volume from non-business transactions		
Business advisory fee income from transactions with subsidiaries and affiliates	24,000 thousand yen	35,040 thousand yen
Dividend income from transactions with subsidiaries and affiliates	—	31,800 thousand yen
Temporary assignment fee income from transactions with subsidiaries and affiliates	470,883 thousand yen	524,765 thousand yen
Rental income from transactions with subsidiaries and affiliates	49,307 thousand yen	66,098 thousand yen
Outsourcing service income from transactions with subsidiaries and affiliates	78,000 thousand yen	109,860 thousand yen

*2 The approximate percentage of expenses attributable to selling expenses was 57.97% for fiscal 2020 and 61.44% for fiscal 2021, and the approximate percentage of expenses attributable to general and administrative expenses was 42.03% for fiscal 2020 and 38.56% for fiscal 2021.

Significant items and amounts of selling, general and administrative expenses are as follows.

	Fiscal 2020 (From January 1, 2020 to December 31, 2020)	Fiscal 2021 (From January 1, 2021 to December 31, 2021)
Remuneration for directors (and other officers)	219,200 thousand yen	201,497 thousand yen
Payroll and allowances	1,629,647 thousand yen	1,833,343 thousand yen
Legal welfare expenses	262,000 thousand yen	295,786 thousand yen
Outsourcing expenses	1,597,050 thousand yen	2,065,499 thousand yen
Depreciation	78,399 thousand yen	80,331 thousand yen
Amortization of goodwill	39,085 thousand yen	39,085 thousand yen
Provision of allowance for doubtful accounts	114,518 thousand yen	172,977 thousand yen
Outsourcing expenses	64,639 thousand yen	93,467 thousand yen
Provision for share awards	—	13,858 thousand yen
Provision for share awards for directors (and other officers)	—	31,417 thousand yen

(Securities)

Fiscal 2020 (December 31, 2020)

Shares of subsidiaries (carrying value of 10,000 thousand yen on the non-consolidated balance sheet) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented.

Fiscal 2021 (December 31, 2021)

Shares of subsidiaries (carrying value of 40,000 thousand yen on the non-consolidated balance sheet) and shares of affiliates (carrying value of 216,623 thousand yen on the non-consolidated balance sheet) have no market prices and it is deemed extremely difficult to determine their fair value. Accordingly, they are not presented.

(Tax effect accounting)

1. Deferred tax assets and deferred tax liabilities by major classification

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Deferred tax assets		
Accrued enterprise tax	26,177 thousand yen	27,589 thousand yen
Allowance for doubtful accounts	152,699 thousand yen	175,272 thousand yen
Accrued bonuses, etc.	36,303 thousand yen	41,859 thousand yen
Accrued director bonuses	8,339 thousand yen	7,188 thousand yen
Accounts payable – other	9,608 thousand yen	1,784 thousand yen
Accounts receivable – trade	9,436 thousand yen	17,233 thousand yen
Loss on valuation of merchandise	9,525 thousand yen	8,582 thousand yen
Excess amortization of deferred assets	5,396 thousand yen	4,162 thousand yen
Lump-sum depreciable assets	3,433 thousand yen	6,609 thousand yen
Depreciation	16,461 thousand yen	25,776 thousand yen
Provision for share awards	—	13,791 thousand yen
Other	2,970 thousand yen	3,074 thousand yen
Total deferred tax assets	280,352 thousand yen	332,924 thousand yen

2. Major components of significant differences arising between the effective statutory tax rate and effective income tax rate after application of tax effect accounting

	Fiscal 2020 (December 31, 2020)	Fiscal 2021 (December 31, 2021)
Effective statutory tax rate	30.5%	30.5%
(Adjustments)		
Non-deductible permanent differences such as entertainment expenses	0.1%	0.1%
Inhabitant tax on per capita basis	1.0%	0.9%
Non-deductible bonuses to directors	1.0%	0.4%
Amortization of goodwill	0.5%	0.5%
Gain on extinguishment of tie-in shares	(4.0%)	—
Special deduction for income taxes	(0.5%)	0.0%
Non-deductible amount of dividends received	(0.0%)	(0.4%)
Other	(0.3%)	(0.2%)
Effective income tax rate after application of tax effect accounting	28.3%	31.8%

(Significant subsequent events)

Not applicable.

iv. [Supplementary Schedule]

[Schedule for property, plant and equipment]

Asset type	Balance at beginning of period (thousand yen)	Increase during the period (thousand yen)	Decrease during the period (thousand yen)	Balance at end of period (thousand yen)	Accumulated depreciation at end of period (thousand yen)	Amortization for period (thousand yen)	Adjusted balance at end of period (thousand yen)
Property, plant and equipment							
Buildings	233,174	8,379	454	241,099	97,570	10,735	143,529
Structures	1,659	-	-	1,659	719	98	939
Vehicles	45,409	26,849	11,353	60,905	26,148	7,833	34,756
Tools, furniture and fixtures	92,306	12,645	-	104,951	71,533	14,640	33,418
Land	114,018	-	-	114,018	-	-	114,018
Leased assets	5,922	-	-	5,922	3,158	1,184	2,763
Total property, plant and equipment	492,489	47,874	11,807	528,557	199,130	34,492	329,426
Intangible assets							
Software	241,643	2,775	5,577	238,842	165,775	37,861	73,066
Goodwill	195,425	-	-	195,425	185,654	39,085	9,771
Other	4,072	20,862	2,293	22,640	57	57	22,583
Total intangible assets	441,140	23,638	7,870	456,908	351,486	77,004	105,421

(Note 1) Major increases and decreases in property, plant and equipment during the period are as follows.

The increase in buildings during the period is the amount of increase related to the construction of interior facilities in connection with the opening of the Chiba Branch and the construction of interior facilities in connection with the expansion of the Distribution Center.

The increase in vehicles during the period is the amount of increase related to the replacement of vehicles.

The increase in tools, furniture and fixtures during the period is the amount of increase related to the addition of tablets for CS Set applications, fixtures for the opening of the Chiba Branch, and fixtures for the expansion of the Distribution Center.

(Note 2) The increase in software during the period is the amount of increase related to investments in system development, etc.

(Note 3) Other increases during the period is the amount of increase related to software in progress related to system development investment.

[Schedule for provisions]

Category	Balance at beginning of period (thousand yen)	Increase during the period (thousand yen)	Decrease during the period (Purpose of use) (thousand yen)	Decrease during the period (Other) (thousand yen)	Balance at end of period (thousand yen)
Allowance for doubtful accounts	501,310	172,977	98,869	—	575,418
Provision for share awards	—	13,858	—	—	13,858
Provision for share awards for directors (and other officers)	—	31,417	—	—	31,417

(2) [Major Assets and Liabilities]

Notes are omitted as consolidated financial statements were prepared.

(3) [Others]

Not applicable.

VI. [Stock-related Administration for the Company]

Fiscal Year	From January 1 to December 31
Annual General Meeting of Shareholders	Within three (3) months of the close of each fiscal year
Record date	December 31
Record date for dividends of surplus	June 30, December 31
Number of shares constituting one unit	100 shares
Purchase of shares less than one unit	
Handling office	1-3-3 Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd.
Transfer agent	1-3-3 Marunouchi, Chiyoda-ku, Tokyo Mizuho Trust & Banking Co., Ltd.
Forward office	—
Purchase fee	An amount separately determined as an amount equivalent to the commission fee for entrustment of the sale and purchase of shares
Method of public notice	Public notice of the Company is given by electronic means. However, in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be made by publication in The Nihon Keizai Shimbun. The Company's URL for public notice is as follows. https://www.kkelan.com/
Special benefit for shareholders	Not applicable.

(Note) The Company's Articles of Incorporation stipulate that shareholders of the Company may not exercise any rights other than the following rights with respect to shares less than one unit held.

- (1) Rights listed in each item of Article 189, Paragraph 2 of the Companies Act
- (2) Right to make requests pursuant to the provisions of Article 166, Paragraph 1 of the Companies Act
- (3) Right to receive allotment of offered shares and of offered stock acquisition rights in accordance to the number of shares held by the shareholder

VII. [Reference Information on the Company]

1. [Information on the Parent Company, Etc. of the Filing Company]

The Company has no parent company, etc. as defined in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. [Other Reference Information]

The Company filed the following documents between the start of fiscal 2021 and the submittal of the Japanese version of this Annual Securities Report.

(1) Annual Securities Report and documents attached thereto, and Confirmation Letter thereof

For fiscal 2020 (27th fiscal year) (from January 1, 2020 to December 31, 2020) Submitted to Director, Kanto Local Finance Bureau on March 24, 2021

(2) Internal Control Report and documents attached thereto

Submitted to Director, Kanto Local Finance Bureau on March 24, 2021

(3) Quarterly Securities Report and Confirmation Letter thereof

For the first quarter of fiscal 2021 (28th fiscal year) (from January 1, 2021 to March 31, 2021) Submitted to Director, Kanto Local Finance Bureau on May 14, 2021

For the second quarter of fiscal 2021 (28th fiscal year) (from April 1, 2021 to June 30, 2021) Submitted to Director, Kanto Local Finance Bureau on August 13, 2021

For the third quarter of fiscal 2021 (28th fiscal year) (from July 1, 2021 to September 30, 2021) Submitted to Director, Kanto Local Finance Bureau on November 12, 2021

(4) Correction Report for the Annual Securities Report, and Confirmation Letter thereof

Submitted to Director, Kanto Local Finance Bureau on March 24, 2021

This is the Correction Report and Confirmation Letter thereof for the Annual Securities Report for fiscal 2019 (26th fiscal year) (from January 1, 2019 to December 31, 2019).

(5) Extraordinary Report

Submitted to Director, Kanto Local Finance Bureau on March 25, 2021

This is an Extraordinary Report based on Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Ordinance on Disclosure of Corporate Affairs (Results of Exercise of Voting Rights at the General Meeting of Shareholders).

Part II [Information on Guarantors, Etc. for the Company]

Not applicable.

Independent Auditor's Report and Internal Control Audit Report

March 22, 2022

To the Board of Directors of ELAN Corporation

Deloitte Touche Tohmatsu LLC

Nagano Office

Designated Limited Liability Partner and Engagement Partner	Certified Public Accountant	Masahiko Mutsuda	(seal)
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Designated Limited Liability Partner and Engagement Partner	Certified Public Accountant	Shuji Shimojo	(seal)
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[Audit of Financial Statements]

Opinion

Pursuant to paragraph 1 of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements of ELAN Corporation and its subsidiaries included in the “Financial Information” section of the annual securities report for the fiscal year from January 1, 2021, to December 31, 2021, which is comprised of the consolidated balance sheet, the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows, significant matters that serve as the basis for preparation of the consolidated financial statements, other notes, and consolidated supplementary financial schedules.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ELAN Corporation (the “Company”) and its consolidated subsidiaries (collectively referred to as the “Group”) as of December 31, 2021, and the consolidated results of their operations and their cash flows for the fiscal year then ended in conformity with accounting standards 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 Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our 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 fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sales related to CS Set services ([Notes] Segment information, etc.)	
The key audit matter and reason for its selection	How the matter was addressed in our audit
<p>As presented in [Notes] (Segment information, etc.) in the consolidated financial statements, the Group has a single segment, the nursing- and medical care-related business, and its net sales on the consolidated statements of income were 31,635,891 thousand yen.</p> <p>CS Set services, the core services of the Group's nursing- and medical care-related business, combines the lending of clothing and towels with the sale of daily necessities to users of hospitals, nursing care facilities for the elderly and other such facilities, instead of the users providing their own clothing, towels, and daily necessities. In CS Set services, sales are recorded as the unit price of the set plan multiplied by the service usage period, and consist of numerous small transactions.</p> <p>The major business processes and related internal controls over the recording of sales for CS Set services are described below.</p> <ul style="list-style-type: none"> The person in charge registers the set plan unit price and service usage period for CS Set services in the billing management system. The results of this registration are checked against the source documents and system input results by person other than the person who entered this data. Based on the set plan unit price and service usage period entered into the billing management system, sales are automatically calculated using the system's pre-determined logic. Based on sales data from the billing management system, sales of CS Set services are registered in the accounting system. The balance of accounts receivable in the billing management system and the balance of accounts receivable — trade in the accounting system are reconciled monthly by the person in charge in order to examine the reasonableness of the difference between the two. <p>Therefore, since sales are automatically calculated based on the set plan unit price and service usage period information, errors in registration to the billing management system or in the logic used to calculate billing amounts could have a significant impact on financial reporting.</p> <p>In addition, since net sales are considered to be an indicator of the scale of a company's business activities and a particularly important indicator for management and investors in measuring the achievement of the Group's performance, we determined that sales related to CS Set services in the nursing- and medical care-related business segment were a key audit matter.</p>	<p>We primarily performed the following audit procedures with regard to the key audit matter described at left.</p> <p>(Evaluation of internal controls)</p> <ul style="list-style-type: none"> We evaluated the status of internal controls and their operation to ensure the accuracy of the registration of set plan unit prices and service usage periods in the billing management system. In conjunction with our internal IT specialists, we evaluated the status and operation of IT operational processing controls related to the automatic calculation of sales. Specifically, we asked those in charge about the logic of the automatic calculation of sales data in the billing management system and evaluated implementation status by reviewing the system documentation and confirming the specifications of the subject programs. In addition, we evaluated the system's operational status through recalculations for each major sales calculation pattern, including daily and monthly calculations. <p>In conducting the assessment of IT operational processing controls, we used observation and review of documents to evaluate the effectiveness of general IT controls over access security, program changes, and data center and network operations related to the billing management system.</p> <p>(Verification procedures)</p> <ul style="list-style-type: none"> In implementing the verification procedures, we conducted a trend analysis of sales by branch, a trend analysis of sales per facility, and an analysis of the average monthly billing amount per user at each facility as part of the risk assessment procedures to determine if there were any unusual increases or decreases in sales. We also reconciled the balances of accounts receivable between the billing management system and the accounting system. We examined the accuracy of the sales data in the billing management system and the appropriateness of period attribution by performing sampling-based voucher matching and recalculations. Service usage fees from each user are paid by bank transfer to the Group after a certain level of consolidation, mainly by a collection agency. For this reason, in order to corroborate sales for each month, we verified the status of payments received from the following month onward.

Responsibilities of Management and the Audit & Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan. The Audit & Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design and operation of the Group's financial reporting process.

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

Our responsibilities 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.

In accordance with auditing standards generally accepted in Japan, auditors exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and perform audit procedures responsive to the risks of material misstatement. The selection and application of audit procedures is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for opinion.
- In making risk assessments, we consider internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate that the consolidated financial statements are to be prepared based on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the consolidated financial statements, including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. We are responsible for instructing, supervising, and implementing the audit of the consolidated financial statements. We are solely responsible for the audit opinion.

We report to the Audit & Supervisory Committee 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 process, and other matters required by auditing standards.

We report to the Audit & Supervisory Committee regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on our independence and any safeguards that are in place to reduce or eliminate obstacles.

From the matters communicated with the Audit & Supervisory Committee, We determine those matters that were of most significance in the audit of the consolidated financial statements of the current fiscal year 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.

[Audit of Internal Controls]

Opinion

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the Internal Control Report of ELAN Corporation as of December 31, 2021 (the “Management’s Report”) for the purpose of audit certification.

In our opinion, the Internal Control Report referred to above, which represents that the internal control over financial reporting as of December 31, 2021, of ELAN Corporation is effective, presents fairly, in all material respects, the result of management’s assessment on internal control over financial reporting in conformity with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Internal Control Audit” section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Management and the Audit & Supervisory Committee for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting, and for the preparation and fair presentation of the Internal Control Report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit & Supervisory Committee is responsible for overseeing and verifying the design and operation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect financial reporting misstatements.

Auditor’s Responsibilities for the Internal Control Audit

Our responsibilities are to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement, and to express our opinion on the Internal Control Report from an independent perspective, based on our internal control audit.

In accordance with internal control auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Perform procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the Internal Control Report. The procedures for the internal control audit are selected and performed, depending on the auditor’s judgment, based on significance of effect on the reliability of financial reporting.
- Examine the overall presentation of the Internal Control Report in terms of scope, evaluation procedures, and conclusions of the evaluation of internal control over financial reporting, including the statements by management.
- Obtain sufficient and appropriate audit evidence related to the conclusions of the evaluation of internal controls over financial reporting in the Internal Control Report. We are responsible for the direction and supervision of the audit of the Management’s Report. We remain solely responsible for our audit opinion.

We report to the Audit & Supervisory Committee regarding, among other matters, the planned scope and timing of their audit of internal control, the results thereof, material weaknesses in internal control identified during their audit of internal control, and those that were remediated, and other matters required by internal control auditing standards.

We report to the Audit & Supervisory Committee regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on our independence and any safeguards that are in place to reduce or eliminate obstacles.

Conflicts of Interest

There are no conflicts of interest between the Company including the consolidated subsidiaries and Deloitte Touche Tohmatsu LLC or its Engagement Partners that should be disclosed in compliance with the Certified Public Accountants Act.

END

(Note 1) The above is a courtesy translation of a digitization of the text contained in the original copy of the Audit Report, which is in custody of the Company. In the event of any discrepancy between this translation and the original Japanese, the original Japanese shall prevail.

(Note 2) XBRL data is excluded from the scope of the audit.

Independent Auditor's Report

March 22, 2022

To the Board of Directors of ELAN Corporation

Deloitte Touche Tohmatsu LLC

Nagano Office

Designated Limited Liability Partner and Engagement Partner	Certified Public Accountant	Masahiko Mutsuda	(seal)
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Designated Limited Liability Partner and Engagement Partner	Certified Public Accountant	Shuji Shimojo	(seal)
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Opinion

Pursuant to paragraph 1 of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the accompanying non-consolidated financial statements of ELAN Corporation included in the “Financial Information” section of the annual securities report for the 28th fiscal year from January 1, 2021, to December 31, 2021, comprised of the non-consolidated balance sheet, the non-consolidated statements of income, the non-consolidated statements of changes in equity, significant accounting policies, other notes, and supplementary schedules.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of ELAN Corporation as of December 31, 2021, and the results of its operations for the fiscal year then ended in conformity with accounting standards generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Non-consolidated Financial Statements” section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our 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 non-consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the non-consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Sales related to CS Set services

ELAN Corporation’s net sales of 31,608,553 thousand yen, recorded in the statements of income, consist primarily of sales of CS Set services.

The details of the key audit matter, the reason for its selection, and how the matter was addressed in our audit are the same as in the key audit matters (sales related to CS Set services) included in the audit report of the consolidated financial statements, and therefore have been omitted.

Responsibilities of Management and the Audit & Supervisory Committee for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-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 non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit & Supervisory Committee is responsible for overseeing the directors' performance of their duties with regard to the design and operation of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements

Our responsibilities are to obtain reasonable assurance about whether the non-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 non-consolidated financial statements.

In accordance with auditing standards generally accepted in Japan, auditors exercise professional judgment and maintain professional skepticism throughout the audit process to perform the following:

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and perform audit procedures responsive to the risks of material misstatement. The selection and application of audit procedures is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for opinion.
- In making risk assessments, we consider internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate that the non-consolidated financial statements are to be prepared based on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the non-consolidated financial statements in the audit report, or if the notes to the non-consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the non-consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the non-consolidated financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the non-consolidated financial statements including related notes, and whether the non-consolidated financial statements fairly present the transactions and accounting events on which they are based.

We report to the Audit & Supervisory Committee 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 process, and other matters required by auditing standards.

We report to the Audit & Supervisory Committee regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on our independence and any safeguards that are in place to reduce or eliminate obstacles.

From the matters communicated with the Audit & Supervisory Committee, We determine those matters that were of most significance in the audit of the non-consolidated financial statements of the current fiscal year 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.

Conflicts of Interest

There are no conflicts of interest between the Company and Deloitte Touche Tohmatsu LLC or its Engagement Partners that should be disclosed in compliance with the Certified Public Accountants Act.

END

(Note 1) The above is a courtesy translation of a digitization of the text contained in the original copy of the Audit Report, which is in custody of the Company. In the event of any discrepancy between this translation and the original Japanese, the original Japanese shall prevail.

(Note 2) XBRL data is excluded from the scope of the audit.

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[Document Filed]	Internal Control Report
[Article of Applicable Law Requiring Filing of This Document]	Article 24-4-4, Paragraph 1 of the Financial Instruments and Exchange Act
[Filed With]	Director, Kanto Local Finance Bureau
[Filing Date]	March 24, 2022
[Company Name]	Kabushiki Kaisha ELAN
[Company Name in English]	ELAN Corporation
[Title and Name of Representative]	Hideharu Sakurai, Representative Director, Chairman, Executive Officer and CEO
[Title and Name of Chief Financial Officer]	Daiki Akiyama, Director, Executive Officer and CFO, General Manager of Administration Department
[Location of Head Office]	15-12 Idegawa-machi, Matsumoto-shi, Nagano. 390-0826 Japan
[Place Where the Filed Document Is Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo. 103-8220 Japan)

1. [Matters relating to the basic framework for internal control over financial reporting]

Hideharu Sakurai, Representative Director, Chairman, Executive Officer and CEO, Daiki Akiyama, Director, Executive Officer and CFO, General Manager of Administration Department are responsible for designing and operating effective internal control over financial reporting of ELAN Corporation and have designed and operated internal control over financial reporting in accordance with the basic framework for internal control set forth in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council.

The internal control is designed to achieve its objectives to the extent reasonable through the effective function and organic combination of its basic elements. Therefore, there is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

2. [Matters relating to the scope of assessment, the basis date of assessment and the assessment procedures]

The assessment of internal control over financial reporting was performed as of December 31, 2021, which is the end of fiscal 2021. The assessment was performed in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

In conducting this assessment, we evaluated internal controls which may have a material effect on our entire financial reporting on a consolidation basis (“entity-level controls”) and based on the results of this assessment, we selected business processes to be tested. We analyzed these selected business processes, identified key controls that may have a material impact on the reliability of our financial reporting, and assessed the design and operation of these key controls. These procedures have allowed us to evaluate the effectiveness of our internal controls.

We determined the necessary scope for assessment of internal control over financial reporting for the Company and its consolidated subsidiaries from the perspective of the materiality that may affect the reliability of their financial reporting. The materiality that may affect the reliability of the financial reporting is determined taking into account the materiality of quantitative and qualitative impacts. In light of the results of assessment of entity-level internal controls, which covered ELAN Corporation, we reasonably determined the scope of assessment of internal controls over business processes.

Regarding the scope of assessment of internal control over business processes, we accumulated business locations to be tested in descending order of revenue (after elimination of inter-company transactions) for fiscal 2021, and those 10 locations whose combined revenue reaches two-thirds of the total amount on a consolidation basis were selected as “significant locations.” We included in the scope of assessment, at the selected significant business locations, business processes leading to net sales, purchase of goods and inventories as significant accounts that may have a material impact on the business objectives of the Company. Further, in addition to selected significant business locations, we also selected for testing, as business processes having greater materiality, business processes relating to (i) greater likelihood of material misstatements and/or (ii) significant accounts involving estimates and forecasts and/or (iii) a business or operation dealing with high-risk transactions, taking into account their impact on the financial reporting.

3. [Matters relating to the results of the assessment]

As a result of the assessment described above, as of the end of fiscal 2021, we concluded that ELAN Corporation’s internal control over financial reporting was effectively maintained.

4. [Additional notes]

No material items to report.

5. [Special notes]

No material items to report.

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[Document Filed]	Confirmation Letter
[Article of Applicable Law Requiring Filing of This Document]	Article 24-4-2, Paragraph 1 of the Financial Instruments and Exchange Act
[Filed With]	Director, Kanto Local Finance Bureau
[Filing Date]	March 24, 2022
[Company Name]	Kabushiki Kaisha ELAN
[Company Name in English]	ELAN Corporation
[Title and Name of Representative]	Hideharu Sakurai, Representative Director, Chairman, Executive Officer and CEO
[Title and Name of Chief Financial Officer]	Daiki Akiyama, Director, Executive Officer and CFO, General Manager of Administration Department
[Location of Head Office]	15-12 Idegawa-machi, Matsumoto-shi, Nagano. 390-0826 Japan
[Place Where the Filed Document Is Available for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1 Nihonbashi Kabutocho, Chuo-ku, Tokyo. 103-8220 Japan)

1. [Matters related to the appropriateness of the content presented in the Annual Securities Report]

Hideharu Sakurai, Representative Director, Chairman and CEO, Daiki Akiyama, Director, Executive Officer and CFO, General Manager of Administration Department of the Company have confirmed that the contents of the Annual Securities Report for the 28th fiscal year (from January 1, 2021, to December 31, 2021) of the Company are properly presented in accordance with the Financial Instruments and Exchange Act.

2. [Special notes]

No material items to report.